

# FINAL REPORT

OF THE

NEW ZEALAND CIVIL SERVICE COMMISSION.

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PRESENTED TO BOTH HOUSES OF THE GENERAL ASSEMBLY, BY COMMAND OF  
HIS EXCELLENCY.

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WELLINGTON.

—  
1866.



# FINAL REPORT

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# CIVIL SERVICE COMMISSIONERS.

To His Excellency Sir GEORGE GREY, Knight Commander of the Most Honorable Order of the Bath, Governor and Commander-in-Chief of the Colony of New Zealand, and Vice Admiral of the same, &c., &c., &c.

MAY IT PLEASE YOUR EXCELLENCY,—

We have the honor to present our Report on the second subject referred to us by your Excellency, namely—"the manner in which an Income Tax might be raised, and the most effective and economical mode of raising the same, and especially what proportion the cost of collection would probably bear to the gross amount of tax collected."

The Income Tax Act in the United Kingdom is entitled "An Act for granting to Her Majesty duties on profits arising from Property, Professions, Trades, and Offices."

The several properties, profits, and gains in respect of which taxes are charged are comprised in five Schedules.

Under Schedule A. all real property is assessed, including lands, houses, mines, gas works, &c.

The second branch of property assessed is the profits of occupiers of land, tenements, farmers, &c., under Schedule B.

The third consists of profits from annuities, dividends, &c., paid out of the public revenues under Schedule C.

Under Schedule D. are assessed all profits derived from any kind of property whatever, and all gains arising from any profession, trade, or employment, and all interests of money, annuities, and other profits not charged in any of the other Schedules.

Schedule E. includes incomes from public offices, pensions, or stipends payable out of the public revenues.

In this Report we assume that the term "Income Tax," used in our Commission, is identical in meaning with the "Income Tax" in the United Kingdom.

The consideration of the mode of raising an Income Tax, and of the cost of its collection, necessarily involved as searching an inquiry into the whole statistical condition of the Colony as the very limited means at our disposal would permit.

The Statistics of the Colony are not framed with that elaborateness of detail which, in older countries, enables the financial calculations of the political economist to be made with remarkable accuracy.

The number of distinct Governments in this Colony, and the dissimilarity in the Provinces of the social condition and of the industrial occupations of each community greatly add to the difficulty of methodically arranging materials for calculation, and of arriving at a definite deduction therefrom. Much valuable information has, at our request, been furnished by the General Government from its own departments, or by the courtesy of Provincial Governments, but some of the desired information has not yet been fully supplied. We have refrained from asking for a variety of returns indispensable to precise estimates, because we were aware that, in some instances, it would be impossible within any reasonable time to obtain such returns, and that in others they could not be furnished at all.

It must, therefore, be borne in mind, that our calculations are necessarily, in many cases, the nearest approximations which we can make to facts, after a careful examination of the statistics which we have been able to collect.

In the United Kingdom the Property and Income Tax, the Excise and Stamp Duties, and the Assessed and Land Taxes, are managed by the Board of Inland Revenue Commissioners.

That Board has a large permanent staff of officers at its disposal for the assessment and collection of these various taxes, which altogether amounted in 1862 to over £41,000,000. The chief portion of the work, however, of levying and raising the Property and Income Tax is done by the local or parish officers, whose valuations of property and returns of rents are adopted as the bases for the assessment of the Property Tax.

## FINAL REPORT OF THE

Incomes proper, taxed under "Schedule D." of the Imperial Act, 16 and 17 Vic., cap. 34, of 1853, are collected by the officers of the Board, upon returns of Income declared by each person whom the assessor serves with a notice requiring a declaration of income. The collectors and assessors of taxes, and the clerks to the Local Commissioners, are paid a poundage or commission upon the revenue obtained by them. The total cost of the collection of Inland Revenue was for the financial year 1860-1 £3 11s. 9d. per cent., and for the financial year 1850-1 £3 11s. 7½d.

In the United Kingdom the officers intrusted with the Income Tax collection are sworn to secrecy as to the returns of income, and the Board of Commissioners are not permitted even to make known the names of proved defaulters. Opportunity is thus afforded, which the Commissioners know is only too powerful a temptation, to evade taxation in whole or in part, and thus to increase the cost and difficulty of collection.

We append as a note a paragraph in illustration of this taken from the Report of the Inland Revenue Commissioners for 1861-2.

In the United States of America the returns of income are apparently not withheld from the public, as in New York there is an unofficial publication called "The Income Record," giving the taxable "income of every resident in New York." In the preface the author states that "in this country it (fraud on the revenue) will not amount to more than one-tenth, and much of that results from ignorance, rather than from a desire to defraud."

However distasteful this system of collection may be, it doubtless is cheaper and better calculated than the secret system to obtain revenue. The extent of fraud by total or partial evasion practised under Schedule D. in the United Kingdom is enormous. Mr. McCulloch estimates the amount evaded under Schedule D. as at least one-third of what should be received thereunder. Large sums are being constantly paid as "conscience money;" single payments on this account have been as high as £11,000. It is also calculated that many thousand persons evade payment altogether.

These difficulties in collection occur, it should be borne in mind, in a country where incomes are, in comparison with a Colony such as New Zealand, of fixed amounts, and the means of levying are the most complete and efficient that long experience can supply.

The Census of this Colony, of the 1st December 1864, gives a return of the "occupations of the people," as follows:—

Trade, Commerce, and Manufactures	...	...	...	7,625
Agricultural and Pastoral	...	...	...	12,089
Mechanics, Artificers, and Skilled Workers	...	...	...	12,118
Mining	...	...	...	12,527
Professions	...	...	...	1,725
Labourers	...	...	...	12,639
Domestic and General Servants	...	...	...	6,202
Miscellaneous	...	...	...	10,492
Mariners	...	...	...	3,459
No occupation stated, principally women and children	...	...	...	93,282
				172,158

NOTE.—"We think it our duty (say the Commissioners) from time to time to call attention to the deficient returns of profits under Schedule D. We have already reported to your Lordships one remarkable case of recent occurrence, where a trading firm having returned 'nil' as their profits for the year 1861-62, the Surveyor induced the District Commissioners to assess them at £12,000, and upon appeal obtained a close confirmation of his estimate by proof from their own books that the correct charge was rather more than £12,000 as the average of the three preceding years. The penalty of treble duty was inflicted by the District Commissioners, and was paid.

"To take another example from a different part of the Kingdom:—A. B. some years ago returned £15,000 as his assessable income, but the amount was raised by the Commissioners to £20,000, on which he paid. The following year he made no return, and the assessment of the Commissioners was again £20,000, but the Surveyor charged him on £45,000 the duty on which was paid without appeal. Again, the next year he made no return, and again the charge was raised by the Surveyor, who assessed him on £60,000, with the same result as in the former instance.

"£3,000 appear to be a favourite amount for assessments. We have before us four cases in which that sum has been accepted for years by the District Commissioners as the chargeable income. In the one case, in which the party was assessed on his own return, the Surveyor raised the assessment to £3,000, and in the other to £10,000, the duty being paid in both without question. From the first case, however, there has been additional profit to the revenue, the party having made a return of upwards of £17,000 for the following year.

"In one place the assessments of a large trading firm having been found greatly inadequate, inquiries were instituted as to the charges under Schedule D. in the same neighbourhood, and the following were some of the results:—

1. Returned	...	...	£170	Charge fixed on appeal	...	...	£ 350
2. Returned	...	...	400	Charged by Surveyor on	...	...	1,500
				Paid without appeal.	...	...	
3. No return, assessed at	...	...	660	Charge fixed on appeal	...	...	1,250
4. No return, assessed at	...	...	730	Charged by Surveyor on	...	...	1,000
				Paid without appeal.	...	...	
5. Returned	...	...	750	Charge fixed on appeal	...	...	1,600
6. Returned	...	...	800	Charge fixed on appeal	...	...	1,200
7. No return, assessed at	...	...	800	Charged by Surveyor on	...	...	2,000
				Paid without appeal.	...	...	
8. No return, assessed at	...	...	810	Charged by Surveyor on	...	...	2,000
				Paid without appeal.	...	...	
9. Returned	...	...	1,000	Charged by Surveyor on	...	...	3,000
				Paid without appeal.	...	...	
10. No return, assessed at	...	...	1,500	Charge fixed on appeal	...	...	2,250
11. Returned	...	...	1,943	Charge fixed on appeal	...	...	2,253
12. No return, assessed at	...	...	2,000	Charged by Surveyor on	...	...	3,000
				Paid without appeal.	...	...	
13. Returned	...	...	2,200	Charge fixed on appeal	...	...	5,000
14. No return, assessed at	...	...	4,500	Charged by Surveyor on	...	...	10,000
				Paid without appeal.	...	...	
15. Returned	...	...	6,000	Charged by Surveyor on	...	...	10,000
				Paid without appeal."	...	...	

of which total population it may be presumed that all but those of "no occupation stated" were actively engaged in earning incomes. This estimate is supported by an examination of the Census table of ages and sexes, which indicates about 72,000 males as of working ages; whilst the table of occupations shows that 6,419 females were engaged variously in earning incomes. These numbers added together make about 78,400, and a deduction from the above total of 172,158 of the persons of "no occupations" gives 78,800 as persons earning income.

Adopting these figures as a guide in the application of the latest Statistics (chiefly for 1865 and some for 1864) and the further information supplied as already stated (which we regret is not always for like periods) we have endeavored to arrive at the income of the people of this Colony.

In calculating the income from land by Agriculture and Pasture, we have used the return (Table 23, part 1, of Census) of land under crop; have estimated the yield and valued it. We have used the Import and Export returns for 1865; the return of Live Stock for 1864 (Table 26, part 1, Census) and have estimated the consumption of food—flour, butchers' meat, milk and butter—and valued it. The estimate of the produce of land cultivated for wheat, taken together with the Imports, we have checked against the consumption.

For Mining we have adopted the valuation of gold at the Customs, as entered for export during 1865. No returns of the produce of coal mines can be had.

In estimating the profits of Commerce and Trade, we have charged a per centage on exports, except gold and specie, the profits, if any, on which are included in the estimate (below) of the profits of Banking Companies who are almost the only exporters; on imports, except specie; and on the internal trade of the Colony in home produce, which consists of the products of Agriculture and Pasture, and Miscellaneous items, exclusively of Wool, which we have already included in the estimated profits on export.

For Banking Companies' profits we have made an estimate on the published quarterly statements.

The Miscellaneous Produce exported is extracted from Table No. 19 of the Statistics for 1865.

The Interest on Deposits in Banks we have calculated upon the Quarterly returns.

The Interest on Mortgages and Liens we have estimated upon the returns furnished to us, but as they are very incomplete it is only an approximation.

As no statistics of Manufactures can be had, it has been necessary to make an arbitrary estimate of the profits arising from those, as well as from Professional pursuits.

For the incomes of Mechanics, Artificers, and skilled workers we have estimated an amount somewhat in excess of the ordinary rate of wages, in order to include the profits of the persons in these classes who sell their own produce, and thus combine wages and profits.

Mariners, Labourers, Servants, and Miscellaneous we have estimated at wages rates.

The estimates thus formed amount to:—

	£
Agriculture ... ..	2,100,000
Pasture ... ..	2,670,000
Mining ... ..	2,252,000
Trade, Commerce, and Manufacturers ... ..	2,324,000
Banking ... ..	250,000
Miscellaneous Exports of Home produce ... ..	67,000
Interest on deposits in Banks ... ..	40,000
Interest on Mortgages and Liens—4 millions at 10 per cent. ... ..	400,000
Professions ... ..	552,000
Mechanics, Artificers, and skilled workers ... ..	2,100,000
Mariners, Labourers, Servants, and Miscellaneous ... ..	3,000,000
	£15,755,000

Having no returns of Saw Mills, Breweries, Fisheries, Flour Mills, Coal Mines, Shipping, houses and lands let on rent, interest on private loans and investment societies, we have not made any estimate of the profits accruing therefrom. The above amount may therefore be taken as an under rather than an over estimate.

The population is stated in Table No. 1. of Statistics for the year 1865, at 201,712. As the whole of the increase of people during that year was not in the Colony for the full year, the deduction of the odd figures 1,712 may be fairly made. It will then appear that the income per head of the population was about £78 per annum.

Estimating the earners of incomes at about 7,000 more than were indicated by the Census of 1st December, 1864—that is at 85,000—the income for each would average about £185 per annum.

Having made these Estimates as far as practicable on the Statistics for 1865, and having adopted the yield of gold in that year, and bearing in mind that as the increase of population by immigration consisted chiefly of persons employed in obtaining that yield, we make no addition to the other producing interests for increase of population, much of which consisted of births.

The income of the people of the United Kingdom has been lately estimated at £25 per head. The contrast between these incomes of £25 and £78 does not fairly illustrate the comparative condition of the people, as the purchasing power of £25 in the United Kingdom is much greater than £25 in New Zealand. This difference is to some extent modified, on the one hand or the other, by special circumstances peculiar to each country, and therefore it is not possible to make an accurate estimate of the different values of the income of each population.

We will now divide this income according to the occupations shown by the Census:—

	£
Persons, about 7,600—Trade and Commerce, and Manufac- tures ... ..	about 305 per annum.
„ „ 12,000—Agricultural and Pastoral ... ..	„ 400 „
Carried forward 19,600	

Brought forward	19,600				£
Persons, about	12,000—	Skilled workers	...	...	about 175 per annum.
"	"	19,000—	Miners	...	" 113 "
"	"	1,700—	Professions	...	" 325 "
"	"	32,700—	Mariners, Labourers, Servants, and	...	" 90 "
			miscellaneous	...	" 90 "
					<u>85,000</u>

There then remain to be distributed amongst these classes the proportion of banking profits, and the interest on mortgages and liens, putting out of consideration the interest on bank deposits as owned in common, and the miscellaneous exports as not capable of allocation.

These profits, amounting together to £650,000, may be estimated to belong chiefly to three classes of the "occupations" shown by the Census, viz. :—

1. Trade, Commerce, and Manufactures,
2. Agricultural and Pastoral, and
3. Professions;

or to about 21,000 persons to whose incomes about £30 each may therefore be added.

The means of ascertaining the number of owners of property, of stock and tillage farmers, of merchants, traders, or manufacturers, is not afforded by the information before us, but we estimate that one person in four in these occupations is a master, (servants being separately shown); the remaining three-fourths consist of farm labourers, tradesmen, and clerks. To arrive at the distribution of income amongst these subdivisions of occupations, it is necessary to estimate the earnings of clerks, mechanics, and labourers. Clerks may be stated at an average of £200 per annum; mechanics, being on wages, and probably not always employed, at £150 per annum; labourers, at £90, as before estimated. The number of clerks, mechanics, and labourers to be deducted from the 21,000 above stated will be three-fourths, or about 16,000; of these 2,000 may be taken as clerks, 4,000 as mechanics, and 10,000 as labourers.

2000 Clerks at £200 per annum	...	...	...	...	400,000
4000 Mechanics at £150	...	...	...	...	600,000
10,000 Labourers at £90	...	...	...	...	900,000
					<u>£1,900,000</u>

which sum, if deducted from the aggregate incomes of the 21,000 persons included in the following classes, viz. :—

Trade, Commerce, and Manufactures	...	...	...	...	£ 2,324,000
Agriculture and Pasture	...	...	...	...	4,770,000
Banking and Interest on Mortgages and Liens	...	...	...	...	650,000
Professions	...	...	...	...	552,000
					<u>£8,296,000</u>

leaves £6,396,000 to be divided amongst the remaining 5,000 persons. The number of servants, shown by the Census table of occupations, viz. :—2,165 males and 4,037 females, together 6,202, tends to confirm this estimate of 5,000 persons as about the number of persons gaining incomes sufficient to maintain considerable households.

Doubtless many persons of property or farmers, or others, who by professions or trade, make large incomes, do not maintain separate establishments, but against these may be set off the number of servants employed in hotels, &c.

The number of inhabited houses of five rooms and over was, on the 1st December, 1864, about 8,700, including all stores and buildings not occupied as dwellings, so that, making allowance for these, and for the number of houses occupied by lodging-house keepers and persons with incomes under £200 per annum; this confirms the above estimate of 5,000 persons of considerable means.

This total income of £6,396,000 gives to each of the 5,000 possessors, after paying salaries and wages only, except the wages of domestic servants, an average gross income of £1,280 per annum—which income includes all the sources of a Property and Income Tax we can estimate upon the information at our disposal.

In the United Kingdom incomes below £100 per annum are exempted from taxation, and upon incomes under £150 a reduced rate is levied. We presume that that precedent would be followed in this Colony, and that, taking into account the different value of money or cost of living, the minimum rate for taxation would be fixed at a much higher amount, so as to avoid taxing wages.

We do not enter upon any consideration of the policy of exempting wages or any particular amount of income, as that subject is not referred to us. But we will endeavor to calculate the probable amount that might be realized and the number of persons from whom an Income Tax would have to be gathered on the assumption for the purposes of illustration and calculation that the minimum rate for taxation is fixed at £200, and that a reduced rate only would be levied on incomes of less than £300. It is necessary to make such an assumption to enable us to answer the question in our Commission as to the proportion of cost of collection to taxation.

The limitation of this tax to a minimum is recommended, on the ground of facility of collection, by McCulloch in his Treatise on Taxation and Funding. Upon this subject he says "Under the existing (1863) Income Tax the assessment on all sorts of incomes begins at £100 a year; and this, perhaps is as good a limit as could be selected. To nothing, indeed, is it so much indebted for its comparatively easy working as to the minimum taxable income being fixed at £100."

The amount levied upon real property, funds, salaries, and pensions under Schedules A. B. C. and E. of the then existing Income Tax in the United Kingdom for the year ending 5th April, 1861, was £7,528,000; and from incomes proper under Schedule D. the amount was £3,429,000, rather less than

one-third of the whole yield of the Property and Income Tax, which was for that year £10,957,061. If, however, the full amount of all incomes were returned, it is estimated in England that the yield, under Schedule D, would perhaps form one-half of the whole tax.

It should therefore be calculated that one-half of the £6,400,000 estimated, in round numbers, as taxable in this Colony would be leviable on property and the other half on incomes, if the English proportions were applied; but it is not likely that the amount of floating capital in use, or that the profits of professions, manufactures, and trades, bear as high a proportion to real estate in this Colony as at home. The accumulation of gold and cash is no doubt more rapid in the Colony; but its investment in land, buildings, stock and farming, in mining and the other fixed pursuits, and settlement of the Colony, quite keeps pace with that quick accumulation, and indeed absorbs whatever foreign capital can be had, even at very high rates of interest.

Much of the capital employed in commerce, trade, manufactures, and professions, is fixed in the properties used for carrying on these occupations; and we think that the proportion which incomes proper bear to incomes from property cannot be rated much over one-third of the whole.

This estimate apportions about £4,250,000 to property, and £2,150,000 to income, variously possessed by about 5,000 persons. As many persons doubtless derive income from more than one source it is not possible to divide the 5,000 into classes; nor can the number of actual holders of land be stated, as neither the Census nor the Statistics supply that information.

We have now to consider the means of ascertaining the possessors of these incomes, and of obtaining payments of the proceeds of a tax thereon to the Public Account.

We have obtained returns of local taxation, and of the mode of rating and collecting from the Provinces. These returns show that in two Provinces, Hawke's Bay and Southland, there was no local taxation, and that in the other Provinces municipal taxation amounted to £43,000, on a valuation of £2,134,000, (rejecting odd figures,) and country taxation amounted to £26,300 rated chiefly at a fixed sum per acre irrespectively of value, but in some cases on a valuation, the amount of which cannot be clearly ascertained from the returns. For the purposes of this inquiry, no notice is taken of local revenue arising from fees, licenses, &c., but only of taxation proper.

It may be gathered from these returns that only real estate to the annual value of about £2,580,000 has been brought under valuation for purposes of taxation in the Colony.

This information is however quite sufficient to show that there does not exist any local system throughout the Colony or even throughout any Province capable of adoption as a basis on which to collect an Income Tax. The partial valuations returned show that they are made on values which vary in proportion to real values, and in one of the chief returns it is stated that "owing to the fluctuating value of city property within the last several years, it is impracticable to give even an approximation as to what proportions the valuation bears to the full marketable value of the property." These valuations therefore are for the present purpose inapplicable, either as a basis for the estimation of taxable value or as an assistance in collection.

It is therefore necessary to consider a mode of assessment and collection. In doing this we must bear constantly in mind the axiom laid down in Adam Smith's "Wealth of Nations," and unanimously adopted by later political economists, that "Every tax ought to be so contrived as to take out and to 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."

The expense incurred in the collection of the British Income Tax is, as previously stated, £3 11s. 9d. per centum, but this cost does not include the "Superannuation or other allowances" of the department, which, if added, would raise the proportionate rate of cost chargeable on account of Income Tax to about £4 5s. per cent. This, however, does not show the full cost, as the labours of local authorities, directed to quite other purposes, are most extensively taken advantage of—the whole of the assessments of value throughout the Three Kingdoms being furnished by the rating for the poor, or for other local purposes.

The charge for collection of the income taxes is for this reason very low, being 14s. 6d. per cent. lower than the charge for the collection of the Customs alone, which for the financial year 1860-1, amounted to £4 19s. 6d. per cent., adding the proportion of superannuation and other allowances.

The cost of assessment and collection of the Income Tax, defrayed by the Inland Revenue Department, is estimated at £4 5s. per cent., to which should be added the sum of £2 2s. 6d. per cent. as representing the probable cost of the proportion of the work done by the Parish officers. As the whole labour of assessing and collecting an Income Tax in this Colony must devolve on the Government, the cost of collection could not be less than the home rate of £6 7s. 6d. per centum.

The sparse occupation of the country, its extent, the nomadic character of a large part of its population, their frequent changes of occupation, the rapid alternations of values of property and prices of produce, and the varying prosperity of localities, may be enumerated as the special difficulties attaching to the collection of such a tax in this Colony, and as such as would enhance the cost of collection.

The uncertain nature of incomes will render frequent assessments of value of property necessary, whilst the same cause will greatly increase the serious difficulties already stated in regard to the ascertainment of incomes proper, and afford additional security against detection to persons inclined to defraud the revenue.

There are but two modes of levying and of collection open to consideration—the system of voluntary returns of income, open to public inspection; and the system of assessments of property, and of returns of income, kept secret.

The first system would need a staff of officers to distribute forms and obtain returns of incomes, and to challenge and obtain inquiry into such as they thought insufficient. The cost, probably, of collecting the tax under such a system would be comparatively low, but we presume that such publicity of private affairs would not be tolerated.

The temptation the public system affords to persons to overstate their incomes is to the advantage of the revenue; but it is open to the same objection, on the ground of morality, as the secret system.

It is now our duty to endeavor to suggest a machinery for putting into operation the valuation and secret return system. To meet the rapid changes of value and of incomes it will be necessary to establish annual valuations and to require annual returns. If possible, these valuations should be made and returns required at a time when the incomes had just accrued, so that the amount could be most readily determined and easily paid. This date will be after the wool season and harvest. The valuers should be required to serve their valuations upon each person owning or occupying property, and notices on persons for returns of incomes proper. Lists of valuations should be sent by the valuator to District Officers, or Commissioners, who might be selected for this duty in some districts from the existing Government Staff.

The valuers should be paid by a poundage or commission on the total valuations, varying according to the special nature of the district assigned to each. Appeals against valuations should be allowed and be heard, as appeals in the United Kingdom are, by Commissioners specially appointed for the purpose, so as to preserve secrecy and avoid the costs and delay consequent upon referring such matters, which are mainly of account, to Courts of Law. Assessments to be levied quarterly, if over a specified limit, and paid direct by the persons taxed to the Public Account at a bank appointed to receive. The bank should be furnished with forms of receipt for payment to be exchanged for an official document showing the amount to be received from the taxpayer, which document the bank should transmit to the Treasury.

The notice of valuation should be the document to be handed to the bank with payment, and a document bearing a number (without name) as a reference to the person taxed for income, should be sent by the District Officers to each taxpayer, stating the amount payable, to accompany payment to the bank. Payment could then be made without occasioning any disclosure of the incomes of the persons taxed.

Assessments appealed against, or returns of incomes not accepted, should be payable at once and before adjustment of the values and incomes. After adjustment such allowances could be repaid or increases collected as might be determined.

This mode of collection by direct payment to the public account at a Bank by the tax-payers might be carried out so simply that the Bank employed for all purposes by the Government would transact this business of receipt without charge. By this means the cost of collection and risk of embezzlement by collectors would, by one operation, be avoided, and accounting and auditing be simplified.

The rate per centum of cost of collection can only be calculated upon an amount of taxation. In order to estimate this cost we will apply the British rates for the financial year 1860-61—the year previously adopted for reference. Those rates were:—Incomes, £150 and upwards, 10d. per pound; Incomes, £100 to £150, 7d. per pound.

For 1860-61 a total number of 278,723 persons were assessed for income under Schedule D.—that is for incomes proper—of this number 150,605 were returned for incomes less than £150 per annum. We have no similar information in reference to incomes from property. As a means of approximation that proportion may be adopted for both classes of income. As accumulation has not centered property in the hands of so limited a proportion of the people of this Colony as in the United Kingdom, the proportion for this Colony may be taken to be one-half instead of 150 to 128.

But it cannot be estimated that the full amount of Income Tax will be obtained. McCulloch estimates the loss by evasion on Schedule D. alone so highly that it may be assumed that 25 per cent. of incomes proper would not be returned. A larger proportion of taxes on property would be recovered, but it may be fairly presumed that from 5 to 10 per cent would not be collected.

These deductions would reduce the estimated amount of six millions gross income by about £1,000,000, leaving as practically taxable £5,400,000.

Calculating one-half at 10d. per pound	...	...	...	£	s.	d.
and the other at 7d. per pound	...	...	...	112,500	0	0
				78,750	0	0
Giving	...	...	...	£191,250	0	0

as the gross proceeds of the tax. The full cost of taxation (local and departmental) at the same rate as in the United Kingdom of £6 7s. 6d. per cent., would require a sum of £12,192 for the assessment, collection, and payment of all expenses to be occasioned in bringing the proceeds of the revenue to the public account.

The cost of valuation will vary with the character of each district: the proportion the larger towns will bear to thinly settled country districts will be low, and as the main value of property is within populous areas, we think the average cost for valuations should not exceed £3 per cent. on the yearly amount assessed for the whole Colony. This estimate, in order to make sure of including all, includes valuations of many properties affording incomes which may be excluded from taxation. Indeed, it might be well to value all properties, to prevent fraudulent favoritism, and to include many small properties in several places owned by one person. This cost might be reduced by adopting local rating where it might be found practicable to do so. If the mode of assessment adopted by any local authorities varied from that required for a property or income tax, in the proportion of value, that difference should be estimated by the Income Tax Department, in such manner as to equalize the local rating with the requirement of the law imposing the tax. If, for instance, a valuation was calculated at three-fourths of the commercial value, and the law required the full value, another fourth should be added. By this means some of the existing municipal and road district valuations might possibly be available, and, as local government extended, the cost of assessment of property for income tax would diminish.

The first attempt to gather such a tax would necessarily be in excess of the cost in after years, when all the preliminary expenditure would be saved; and experience enable the officers of Government entrusted with the management, both to increase the yield of the tax, and reduce the charges for obtaining it.



The assessment of the property tax is merely a matter of administration, and, as such, is capable of being efficiently done; but, for the income tax proper, the reverse is the case. No doubt, close supervision and able management would have effect in securing this tax, but its payment is chiefly a matter of honor resting altogether with each person having an income upon which the law levies a tax. In such a fixed community as that of the United Kingdom, the local officers may gain a knowledge of the private affairs of the inhabitants of their districts, sufficient to enable them to check some returns of income; but in this Colony, such opportunities exist in only a very small degree. Evasion will, therefore, be less under control, and, we fear, that for many years to come, the returns of income would bear a lower ratio to the real income than even in the United Kingdom.

The valuation of property might be advantageously let by public tender, under suitable conditions, and be subject to the approval of the Income Tax department.

It would be necessary to establish an Income Tax department for the management of the Property and Income Tax, together with the supervision, direction, and control of the local officers; and also for the purpose of gathering the experience of the whole Colony into one office, so as to educate it in its duties and enable it to utilize that experience.

A few Commissioners or Inspectors of Taxes would be needed to travel over the districts and supervise the assessment of property and returns of incomes, and the conduct of the local officers, as well as to hear and decide on appeals.

A numerous staff of district officers—Surveyors of Income Tax—selected for the most part from the present service in each locality, would also be needed. These officers should have the immediate supervision of the Assessors, and should be the agents of the Government for levying the tax. They should report on all returns of income and assessments of property to the head office, and represent the department in all cases of appeal.

The Assessors should act under the direction of the District Officers or Surveyors. If employed by contract the conditions thereof should require them to serve forms of returns upon all persons likely to have an income over the limit prescribed by law, and to assess all properties whatsoever, serving notices of the valuation on all owners or occupiers. If paid by salary—which mode of remuneration we do not recommend—in addition to these services their whole time should be at the disposal of the department.

A staff of Clerks would be required for the head office, and clerical assistance for the district offices, as well as in the Treasury and Audit departments.

Sitting in Wellington, and supplied with very meagre topographical information, and without a return of the number of holders of property and of holdings, we are unable to suggest the number of officers required for the various districts; and as upon their number the head office staff would in great measure depend, we cannot estimate for that.

Officers of the General Government are spread over the whole of the Colony, and except in some of the larger centres of population, where the officers (it may be supposed) are fully employed, and where the duties connected with the tax would be sufficient to engage a distinct officer, the present staff could discharge the duties of Surveyors, and in many places of Assessors also, with comparatively slight additional charge.

We therefore, on full consideration, estimate approximately—as it is only possible to do—that an Income Tax may be raised in this Colony at a cost of about £8 per cent. on the rates of taxation adopted by us for illustration, viz., 10d. on incomes of £300 and upwards, and 7d. on incomes from £200 and under £300 a year. We may here state that the cost of the collection only of the Census of 1st December, 1864, amounted to £6,246 10s. 6d., as indicating in some degree the cost of a part of the work of rating collecting and managing an Income Tax.

If those limitations of incomes for taxation were lowered considerably, so as to bring a greatly increased number of persons under survey for taxation, whose incomes would return a less produce of revenue in relation to numbers, we think the per centage cost of collection would not be reduced, although calculable on an increased product, and although it might not be necessary in every case to increase the number of officers.

The management of such a business, being chiefly one of intricate detail, should be regulated for every officer on every point of duty. It would unduly extend and delay this report to enter fully into the establishment of the requisite machinery, nor do we deem it a portion of our duty to report thereon. We may, however, point out that many of the hindrances in the way of simple administration in the United Kingdom, which are special to that country, have no existence here. We allude to the numerous and various causes for altering the incidence of the taxation, and for granting deductions and allowances arising out of peculiar Government or local taxes, rights or customs.

In conclusion, we regret that the absence of necessary information, and that other difficulties have precluded us from ascertaining with certainty and precision the proportion which the cost of collecting an Income Tax would bear to the gross amount of tax collected. These difficulties are unavoidable in a young Colony where direct taxation has not hitherto been imposed, where there is no machinery for the valuation of property and for the assessment of income, where surveys are incomplete, and maps imperfect. Any estimate made, under such circumstances, of the cost of collecting an Income Tax, must necessarily be conjectural.

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#### CONCLUDING GENERAL REMARKS.

We have now, to the best of our ability, fulfilled all the requirements of our Commission, and we beg most respectfully to resign it into your Excellency's hands.

We have to apologise for many imperfections, and to solicit your Excellency's consideration for peculiar difficulties which we have encountered.

Two distinct questions, one relating to the Civil Service, and the other relating to an Income Tax, were submitted to the Commission. Both required careful inquiry and consideration, and rendered it necessary to procure various information from all parts of the Colony, some of which information has only been this day received.

The work of the Commission has been conducted, for the most part, during the Session of the General Assembly, when the usual official duties of three members of the Commission are considerably increased; the other member, who came from Victoria at the invitation of the New Zealand Government, was quite a stranger to the Civil Service here. We were also anxious to transmit our Reports to your Excellency in the course of the Session, in order that any questions referred to therein, which, in the opinion of the Government, required the action of the Legislature, might be dealt with at once, and not postponed to another year.

We sincerely trust that no defects on our part will prejudice or delay the consideration of the Civil Service, the reform of which was the chief object of our inquiry. Setting aside, as a minor consideration, the wisdom of the principles, or of the departmental improvements which we recommend, we think that the importance of some practical action in the matter cannot be over-estimated. It is not a question which merely involves the personal interests of Government Officers, but one which involves the practical administration, day by day, of public business, and the best mode of utilising a large public expenditure. It is a question of vitality, or decay, in the constitution of the Civil Service. Systematic re-organization will produce efficiency and economy as certainly as the want of it produces incompetency and waste. Procrastination only prolongs and increases these evils, and renders their cure more difficult.

We feel assured that the whole subject will receive the serious consideration of the Executive and of the Legislature, and that, as guardians of the public interests, they will be anxious to devise a remedy for any evils which are proved to exist, and we trust that the information and suggestions contained in our Reports, may, to some extent at least, assist them in the attainment of that object.

We respectfully submit to your Excellency this our final Report.

CHARLES KNIGHT, *Chairman*.  
W. GISBORNE,  
WILLIAM SEED,  
J. M. SPENCE.

Wellington, 17th September, 1866.

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