affairs of life; the necessity of better organisation, both economic and social; the need that the country church shall be energised and shall recognise its social as well as its religious obligations; and the need of developing personal ideals in respect to rural affairs and to local leadership.

Incidentally, the commission suggested a number of minor directions in which some of the deficiencies of country life may probably be corrected. Among these suggestions was one for a thorough-going investigation by experts of the middleman system of handling farm products, coupled with a general inquiry into the farmer's disadvantages in respect to taxation, transportation rates, co-operative organisations, and credit; an inquiry into the control and use of streams of the United States with the object of protecting the people in their ownership and of saving them so far as necessary to agricultural uses; the establishing of a highway engineering service to be at the call of the States in working out a national highway method and system; the establishing of parcels post and postal savings banks; increasing the powers of the national Government in respect to the control of public health; the encouragement of a system of educational extension work in rural communities through all the agricultural colleges; the enlargement of the United States Bureau of Education; careful attention to farmers' interests in legislation on national matters. The report makes a number of other suggestions for subsequent studies and investigations.

The report of the commission was published in a very limited edition for the use of Congress, and is not now available for general distribution. The large amount of material that was collected by the commission has not been studied or digested. The whole enterprise awaits further action by the President and Congress.

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WASTING ASSETS AND INCOME TAX.

THE recent contribution to this subject by Mr. P. D. Leake, F.C.A.,[1] in a plea for reform in the official method of computing taxable profits, expresses in many of its contentions what must be the opinion of the majority of those who consider the time has arrived for a revision of the income tax system. The separate

[1] "Income Tax on Capital." Gee & Co.

subjects of expenditure at present penalised that have to be reviewed as proper deductions from profits are very numerous, and an enunciation of the principles involved may be the best method of dealing concisely with those upon which there is fair agreement. First, the present subtle distinctions between the schedules of the tax should not be prejudicial to a trader, who, owning premises for trade purposes, is said to bear some expenses *quâ* owner and not *quâ* trader, when trade is actually the whole end in view, and the reason for the charges. Under this may perhaps be included some allowance for depreciation of buildings assessed Schedule A. Further anomalies exist because of the distinction between Schedules D and E. Secondly, the numerous expenses which are necessary to a business, not to earn specially the profits of a given or single year, but to improve or give earning power for a number of years, which, at the same time, have not built up a lasting asset, should be favourably considered. Included in these are costs for renewing capital, legal expenses of partnerships, leases, &c., and certain well-defined preliminary expenses—what may be called the "highest common factor" of initial costs for limited companies. Thirdly, the element of capital in terminable annuities and analogous payments should be distinguished. An examination of the argument in judicial decisions, and in the evidence before Lord Ritchie's Departmental Committee in 1905, will show that the position has been greatly altered by the introduction of the principle of differentiation between permanent and precarious incomes in the 1907 Budget. Fourthly, the *whole* expenses of getting minerals—where the wasting *corpus* bears income tax—should be allowed.

Much is made of the fact that accountancy and industry were not fully developed in 1842, and too little of the fact that the tax was regarded as a temporary impost. In a temporary tax the object was to raise a revenue with a rough approximation to equality from all, and great regard could hardly be paid to fine questions involving calculations of long-period effects. In many judicial decisions involving the much-criticised interpretation of the word "capital," the income tax system in expression and intention has been distinguished, almost with regret, from ideal economic conditions, and the lawyers have by no means been under any misapprehension in the matter. Whilst the claim for an amended system has great and growing force, it is only a rough improvement that is possible. An ideal system, taking into account all the fine issues involved in the question of wasting assets and the distinctions between "capital" and "income," is

out of the question when the administration of the tax is considered.

The position of mineral properties as wasting assets unfairly treated by the tax, is worthy of further consideration. Mr. Leake founds his argument upon the case of a mine purchased outright, probably because it most clearly shows the subject of criticism. But such a case is not by any means the universal one, and an examination of other cases is essential. A landowner, having discovered minerals, wishes to profit by them. He has, broadly, three courses open to him :—(*a*) To work them himself, and by their produce to realise their "original value"—adopting for a moment terms to suit the idea embodied in the proposed reform—*plus* "profits" (or remuneration for management, enterprise, and capital invested). (*b*) To lease them and receive the "original value" by royalties and dead rent, leaving "profits" to the lessee. (*c*) To sell the "original value" outright for one sum, and leave "profits" to the purchaser. Allowing in each case the working expenses, income tax is paid on the whole produce, both "original value" and "profit." In (*a*) it is borne by the owner. In (*b*) it is borne on the "profits" by the lessee, and on the "original value" by the owner, because tax is deducted by the lessee from royalties and dead rent. In (*c*) it is suggested that tax on "profits" is borne by the purchaser, and *also* that on "original value," because the asset represented by the purchase price is finally worthless, and the purchaser has paid tax on the whole product. But is this view of the incidence in (*c*)—though exceedingly common—the correct one? The mining industry, for most minerals, is subject to free competition. Capital and enterprise in front of any proposed undertaking can take it, or leave it to seek more advantageous openings elsewhere, and so far as their reward is concerned, the industry is, taking the average, fairly in equilibrium with other forms of business. Moreover, the direct purchase method is not the only way of approach, for alternatives (*a*) and (*b*) are available. In short, all the conditions are present for a complete shifting back of any exceptional, calculable burdens on profits. Is it to be understood that the purchase price would be exactly the same whether the purchaser had to pay this tax on the wasting asset or not? If the "original value" is generally so closely ascertainable as Mr. Leake suggests, the total income tax to be paid thereon, apart from that on extra "profits," is also approximately known, and to suggest that the real value of the consideration payable in both cases is the same, and yet that the original owner bears the tax under (*b*)—as he actually does by

deduction—and the purchaser bears it under (*c*) is almost a contradiction in terms. There must be a very strong tendency for the consideration (*c*) to be less than the real consideration (capitalised and discounted gross royalties, &c.) under (*b*) by the lump sum of the tax, which appears to be a special disability to this class of profits. If, however, it be held that the "original value" should not be charged to tax, it would be necessary—to be consistent—for the royalties and dead rent to be exempt under (*b*), and for a special calculation to be made under (*a*) for something which represents "original" value, so that tax should be levied only on the balance of "profits"—in short, to tax such of the profits as are "earned," and to exempt those freely given by nature. But this is surely opposed to the trend of modern opinion, which, so far from specially favouring spontaneous wealth occupying such an exceptional position, is disposed to regard it as capable of bearing an extra burden. It would clearly be possible for minerals to be discovered and wholly worked out in the lifetime of one owner without tax of any kind being paid thereon. There seems to be no valid reason for departing from the old principles by which annual value for rating purposes is determined, nor for altering the existing system under which the burden of income tax really reaches the owner first conscious of the existence of computable mineral wealth.

In his classification, Mr. Leake makes the statement that a leasehold is "not an inherently wasting asset," but this is surely to confuse the right in a subject with the subject itself. A lease for twenty-one years from 1885 is not a brick-and-mortar property, but a right to its use, and quite independent of the ownership of the right, other things being equal, it must be worth less in the market in 1900 than it was in 1890. It is rightly stated that the administrative difficulty of making allowance for its wasting value is against any change, but it is also important that if the allowance were made, the Revenue would get no *quid pro quo* (as against the larger tax received from a freehold of equal *annual value*) unless tax were collected from the owner upon the lump sum paid as premium or part consideration. But the argument that there is then no hardship on the lessee is not valid. A man buys a business for £1,000, and at the end of twenty-one years, on the expiration of his lease, sells it for the same sum. The whole amount paid for the use of the premises is a fair deduction in computing the total profits of the period, but if he paid £1,000 premium he has not recovered tax thereon (by deduction), and has borne the duty himself on a real expense.

It may be urged that the argument as to the shifting back of the total tax in the case of a mine is applicable here, and that the consideration he pays to go in is really *less* than it would have been by the total tax exceptionally suffered. But the cases are quite different. The use of land and buildings is a common requirement of all business, often with urgency as to time and place, and the owner is generally in such a superior position, especially in the renewal of a lease, that the conditions are not favourable for really shifting back the burden to any extent.

The law and practice have been much modified from time to time with regard to their application to the wasting asset, machinery and plant. Mr. Leake, in throwing upon surveyors of taxes the blame of disallowing properly measured "wear and tear" charges and substituting their own calculations "upon an arbitrary percentage off the reducing balance of cost," refers to that method as "altogether wrong in principle," and implies that it is not one generally recognised in the world of commerce and accountancy. But this method of allowing upon the "written down value," and not upon the original cost, is not an official invention, but is very widespread indeed, being almost universal, for instance, in the printed accounts of the cotton industry. Any method is arbitrary to some extent, but that this is "wrong in principle" is debatable. The arbitrary element can be reduced to a minimum by close attention to the facts relating to the *average* "life" of the machinery in question. Neither method gives a true result at any given stage in that life. It is beyond human ingenuity to fix a rate that will, over a wide number of similar assets, always make the balance-sheet value correspond with the facts, and uniformity of practice is essential. The suggestion that the auditors' and valuers' recommendation annually should be accepted, regardless of such uniformity, because it is checked by the shareholders' desire for dividends, is based too much on public company experience, and ignores the wide field of private enterprise where accounts can be submitted for tax purposes, and there would be no limit to claims that could be urged. The "prime cost" method is not inapplicable where the original subject—such as a ship—is not much affected by subsequent addition, for, a record being kept of annual allowances, the allowance ceases when the asset is wiped out. However carefully an average life is determined, some ships must exceed that average, so that we have the anomaly of a vessel written down to nil on paper sailing at an obvious value on sea. Moreover, if at this stage such a

vessel is sold, and still used, the arrangement of wear and tear allowance with the purchaser—who naturally wants one—is a matter of difficulty where the full cost has already been allowed to the vendor. The "written down value" method has at least the merit of never losing the asset entirely, and it can be arranged so that over a vast number of cases the value is written down to a nominal figure in the same time that the machine itself reaches a nominal value. Where there are constant additions it obviates the necessity for a record that would become cumbrous and complicated, for it is only necessary to record the value of the previous year and to add the new expenditure. It may be observed that neither the officials nor the Board of Inland Revenue are the final authority in such matters. In most of the staple industries the rates in force have been approved by the *District* Commissioners, who have usually wide experience themselves of the industry, and against whose decision in the matter of a rate per cent. the officials have no appeal. It is necessary to consider whether a diminished value is value as a saleable asset or as a producing agent—two connected but by no means identical things, in the present state of industry, where producing capacity may be little impaired though saleable value is poor because of recent improvements in type. In any case, with the present method adjusted and the allowance for obsolescence, machinery as a wasting asset has full treatment in the majority of cases. Except in cases of hopelessly declining businesses, the allowance of renewals instead of wear and tear for furniture, &c., meets the case, and could act slightly to the advantage of private traders who had, in renewal, gradually, though almost unconsciously, improved their type of stock out of profits.

Before leaving the subject of depreciation, it is important to note that the allowance is not admitted as an ordinary trading expense deductable before arriving at the balance of profit and striking the average, but is taken off *from* the average. So, in a typical case where, from bad years, an average fell to £500, and the proper allowance for wear and tear was £1,000, the assessment stood £500—£500 wear and tear (duty "nil"), and the balance of £500 was never given credit for (or, if the average was a loss, no part of the £1,000 was ever obtained). This constituted a real grievance, and the Finance Act of 1907, in allowing such unused balances to be carried forward indefinitely to future years, until they were exhausted, gave the first real recognition to the fact that the tax has "come to stay," and that its effects "in the long run" must be considered. But owing to the fact that

"wear and tear" is not a working expense but an allowance, we have a very curious and somewhat anomalous result. Depreciation, though admittedly real, is not susceptible of exact measurement, but is an actuarial calculation, and yet it now stands in a far superior position to ascertained and definite expenses incurred in hard cash. Such expenses may have the effect of giving a definite known loss for a number of years. If such years of loss are isolated, they are duly worked off, in the averages, against years of profit, but if they occur in succession the taxpayer may lose the "benefit" of some of them in his averages. This may be seen by taking a hypothetical case with six years' losses in succession. Whether the aggregate tax over a series of years exceeds tax on the aggregate profit depends upon this isolation or succession, and the anomaly could only be rectified by allowing a *minus* average (or average loss) to be carried forward against future average profits. At present relief is granted only where taxed income is received from other sources, and this is by no means equivalent. Thus depreciation of machinery now stands in a satisfactory and even favoured position, and it is no longer upon this line that the main criticism of the tax can be directed.

J. C. STAMP

AUCTIONEERS AND AUCTIONS.

IT is very easy to become an auctioneer: the man whose ambition it should be to say "Going, going, gone!"—I say "should be" because this popular expression is unknown to auctioneers—has only to pay £10 to Somerset House for his licence and to invest a few shillings in the indispensable tool, and there he is—a full-fledged knight of the hammer! At all events, this is how I commenced business. But I had a fair knowledge of what I intended selling, had attended several hundred auction sales, and had received a good all-round business training.

Soon after I became an auctioneer I joined the Auctioneers' Institute, membership of which is useful and desirable in many ways: it affords a strong presumption of competency and integrity; at the periodical meetings papers on a variety of subjects are read; the Council includes men of wide professional and legal knowledge who are most generous in placing time and labour at the disposal of members in any sort of difficulty. It may be mentioned that the Council is also imbued with a very strict sense of discipline. Woe betide the member who has perhaps been rather easy-going in the interpretation of one of