

Lord Vestey: Royal Commission evidence and the ensuing debate

Background note by James Kessler QC

This file contains transcripts of four historical documents of contemporary interest:

- (1) Evidence of Sir William Vestey, given to the Royal Commission on the Income Tax (1920)
- (2) Extract from House of Lords debate: Hansard 29 June 1922
- (3) Letter from George V to Lloyd George dated 3 July 1922 and reply dated 4 July.¹

Until 1914 all foreign income was subject to tax on the remittance basis. The FA 1914 (more or less) abolished this rule.

Sir William Vestey, later 1st Baron Vestey (1859-1940) took the view that he could not carry on his (unincorporated) business on the basis that he had to pay income tax at a rate which his American competitors did not; and in 1915 he left the UK, taking his business with him, with a loss of about 4,000 jobs.

In 1921 he carried out a tax avoidance scheme. The scheme was accepted by the Revenue until 1936, but then challenged under FA 1936 (transfer of assets abroad) and FA 1938 (settlor-interested trusts). The challenges were unsuccessful in a case which decided some issues still relevant today: *Vestey's Executors v IRC* 31 TC 1).

As a result, Vestey was able to return to the UK, though I expect most of the jobs did not.

He received a peerage in 1922.

The Royal Commission evidence is of interest as an early discussion of the problem of taxation affecting the business competitiveness of the UK, which would now be called international tax competition.

The House of Lords debate and the George V/Lloyd George correspondence is of interest as an early airing of the issue of whether those who carry out tax avoidance schemes should be members of the House of Lords. I am grateful to Adrian Shipwright for the reference to it.

One needs to read the Royal Commission evidence first, in order to understand the tax position. The debate might also appear to be an early discussion of the distinct issue of whether those who are not domiciled in the UK should be members of the House of Lords, but this is not really the case, as Lord Vestey was UK domiciled and the references to domicile in the comment of the Liberal peer, Lord Strachie, are based on a confusion.

At the time of the debate Lord Vestey's evidence to the Royal Commission was public knowledge, though his 1921 tax avoidance scheme was not.

These various debates continue actively at the present day.

¹ Originals are in the Parliamentary Archives ref: LG/F/29/4/103 and LG/F?29/4/104

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January 2011

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**Evidence of Sir William Vestey, given 31 July 1919 to the Royal Commission on the
Income Tax**

Evidence in chief of Sir William Vestey, of the firm of Vestey Brothers.

9424. (1) Our firm, both as to the partners and the capital, is purely English. We are not interested in the American Beef Trust or any other foreign firm in any way.

9425. (2) We are proprietors and managers of freezing works, cold stores, or cattle ranches in Great Britain, Russia, China, Australia, New Zealand, United States, Venezuela, Brazil, Paraguay, Argentine, South Africa, Madagascar, France, Spain, Portugal, and other countries. The capital employed in the business and that of the affiliated concerns under the same management is in excess of £20,000,000; the business therefore ranks among the largest British industrial concerns and is larger than that of all other British freezing and cold storage companies combined. It is quite as important as that of three out of the five members of the American Beef Trust. Up to the end of the year 1915 we conducted the business from London. In that year taxation was imposed which made it impossible to continue working from England. We did all we could to be allowed to remain in England, but after several interviews with the highest officials, who were most sympathetic, we had no alternative but to remove the business abroad, and are now domiciled in the Argentine Republic.

9426. (3) Our competitors are the American Beef Trust; they are fierce competitors with more than £100,00,000 of capital; enterprising and skilled in their business, and with the whole force of the American Government and of every employee of that Government, everywhere working like beavers for them. Under these circumstances, for any firm to try to compete with them on anything but absolutely equal terms is useless, the slightest handicap means failure.

9427. (4) I think the best evidence I can give as to the effect of the Income Tax, Super-tax, and Excess Profits Duty is to give the concrete example of its effect in the case of our firm and to show the unfair and overwhelming advantages given to the American Beef Trust by the present method of taxation.

9428. (5) In respect of all businesses begun since August, 1914, if we were working from London, we should have to pay on the profits 6s. Income Tax, 4s. 6d, Super-tax, plus 40 per cent Excess Profits Duty on all profits in excess of 9 per cent. In addition we should also have to pay 40 per cent. Estate Duty, which is merely deferred Income Tax, so the result would be as follows:

(In the following calculation no account is taken of the effect of the 9 per cent. Allowed on capital, as it is impossible to estimate what relation it would bear to the profits, but it could not materially affect the calculation.)

Profit	£100. 0. 0.
40% Excess Profits Duty	40. 0. 0.
	<hr/>
	60. 0. 0.
	<hr/>
Income Tax 6/-	
Super-tax 4/6	
	<hr/>
10/6	31.10. 0
	<hr/>
	28.10. 0
	<hr/>
Death Duties (merely deferred	
Income Tax 40%)	11. 8. 0
	<hr/>
	£ 17. 2. 0
	<hr/>

so that the Government would take £82 18s in taxation, leaving us with £17 2s for the use of our capital and to cover the risk and as payment for our time, energy and enterprise' to do business on these terms is, of course, impossible. The Trust, on the other hand, pays the American taxes on the business they do in America just as we should do on our English business, but they have made their businesses outside America into foreign companies, and unless they take the profits to America, which they avoid doing as much as possible, they are free from American taxation. Most of the goods they sell to England are sold f.o.b. port of shipment, and are quite free of English taxation. If they ship goods to England without selling first, then they are given special terms by the English Government. The net result is that on more than 90 per cent of their business with England from their works outside America they pay no taxation whatever, and only a mere trifle on the remaining 10 per cent, while we, if carrying on our business from England, should have to pay £82. 18s. per cent on the profits if the goods were sold in England or even if they were sold abroad and never saw England, a condition under which it is obviously impossible to work.

9229. (6) We are told and believe that the government would like to get England out of the clutches of the American Beef Trust, but, in fact, the Trust themselves could never have conceived so perfect and simple a device for consolidating and extending their practical monopoly of the frozen meat trade as that the British Government should exempt them from taxation and impose a tax of £82 18s per cent on the profits of any British firms who might have the temerity to oppose them. It appears impossible, but that is the present position.

9430. (7) We should like very much to bring our organisation to this country and work from London instead of Chicago or Buenos Aires, but we cannot do this unless we have equality of taxation with the American Beef Trust and the Argentine Meat Companies. It does seem a pitiable state of affairs that we should have to ask our own Government for equality of treatment with foreigners in our country, or that we should have to remove our business abroad in order to be able to trade in England on an equality with foreigners.

9431. (8) It is unnecessary to point out how vital it is that the supply of foodstuffs, particularly of meats, should be in the hands of English subjects, whereas, whatever their intentions may be, the Government have done, and are doing, everything they can to fasten the American Beef Trust still more firmly upon the backs of our people.

9432. (9) Until ten years ago, the American Beef Trust had not one single freezing works outside the United States. Since then they have built very many in different parts of the world, solely to supply the English market, and are now building freezing works at San Paulo, Santa Ana de Livramento, another quite near that place and two at Rio Grande de Sul, all in Brazil, three in Paraguay, and one in Santa Cruz, Patagonia, and have bought land and are about to commence the erection of another at Rosario also commencing building in Colombia, I believe at Baraquilla, also sending out material to build in South Africa, and have their men out acquiring sites in other countries. They have, to my knowledge, offered to buy important works in the Colonies. All their works in the past have been built almost solely to supply the English market. While all this work is being done by the Trust, not one English freezing works has been built abroad by any other firm than our own. It does seem to me that the preferences which are given in every possible way to the American Beef Trust by the English Government should be stopped and English firms given equality of treatment. We do not ask for any preference in any way, but merely equality of taxation.

9433. (10) One of the most shameful things is that the American Beef Trust are allowed to open freezing works in Australia (a British Colony), sell the whole of the beef from those works to the British Government, and not pay one farthing of taxation in England either for Income Tax, Super-tax, or Excess Profits Duty, while, upon any profits which might be derived from our Australian works, were we domiciled in England, we should have to pay £82.18s per cent in taxation. That this state of affairs should be allowed to exist for one minute after attention is called to it is beyond belief.

9434. (11) We have been asking for many years for equality of treatment with the foreigner. Every government official we see agrees with us that the position is unjust and deplorable. Seeing the great interests which are at stake, and what a matter of national importance it is that the frozen meat industry should be in English hands and conducted from England, cannot taxation be so arranged that English firms can commence to work from this country at once, on an equality with the foreigner.

9435. (12) So far as I know there are only two English companies engaged in the meat freezing industry abroad. The American Beef Trust had nearly killed them both, when the war broke out and saved them, but it is quite certain that when the trade gets back to its normal state they will either have to be given equality of treatment with the American Beef Trust so far as taxation is concerned, or they must conduct their businesses from abroad, sell out to the Trust, or go out of business.

9436. (13) In conclusion there is no reason whatever why England should not have the lion's share of the frozen meat industry, it can be conducted quite as well from London as from Chicago, or Buenos Aires, but the foreign works controlled from England must be free from English taxation so long as the profits are not brought to England (this was the case until 6 or 7 years ago). If any taxation should be imposed upon the Trust's business with England, English firms should pay on the same basis, but it is idle to think for one moment, that they are going to be able to pay any taxation in England, on business done from their foreign works, with countries outside England; competition is too fierce to permit of any handicap.

9487. (14) So far as revenue is concerned, the Government would receive far more indirectly by freeing the industry from taxation, otherwise it is only a matter of a short time before there will be no industry to tax. Take our own case of instance, if we were granted equality of taxation with the Trust we would as soon as possible move our business to England and control our foreign businesses from England, directly and indirectly finding employment for a very large number of men. Further, I am quite sure that when the trade knew that the English Government would give them equality of treatment with the American Beef Trust so far as the taxation of foreign businesses was concerned, and would not handicap them by taxing them more heavily than the American Beef Trust on any business they might do with England, they would soon begin to form companies and largely increase England's share in the trade, so that directly and indirectly from English companies will have been taxed out of existence, no new ones will be started, and the American Beef Trust, aided by the English Government will have secured practically a monopoly of the supply of foreign beef to England.

[This concludes the evidence in chief]

9438. *Chairmen:* We have your evidence-in-chief. You are the proprietors and managers of these great works? – these various works, yes.

9440. *Sir T Whitaker:* We have had an opportunity of reading your proof of evidence, and therefore I will simply ask you questions upon it? Might I say one thing: I see you have got me down here as Vestey Brothers Limited. It is Vestey Brothers, not Limited, but I do not know that it matters very much.

9441. You are proprietors and managers of very large concerns in many parts of the world? - Yes.

9442. With a very large capital? – Yes.

9443. Prior to 1915 your head offices were in this country and the control was exercised from here? – Yes.

9444. In consequences of taxation you have removed the control, I understand, to South America? – Yes to Buenos Aires.

9445. So this is not a case of someone coming and telling us that they might have to take their business away, or would have to do so; you have actually done it? - We have actually done it.

9446. That means a considerable loss of Income Tax to this country? – Very considerable.

9447. Then I think you make a further point about the American packing houses sending their meat into this country? – Yes.

9448. And that if you were here you would pay a tax that they do not? - That is so. They practically do not pay anything. We should have to pay, according to the statements I show here, something like 82½ per cent.

9449. And you feel that this differentiation, as you consider it, against you is so serious that you cannot possibly remain here? - We cannot possibly compete with the American Beef Trust unless we are given equality of treatment in taxation. Any German can come in here

today and send his stuff in on the basis I am asking for. I only want the treatment that you give to any German.

9450. I understand also that there were some other companies here, and that some of them, at any rate, you have acquired because they could not continue here on the old footing? – That is it.

9451. So, that it means more companies than your own in this particular line of business have gone? – Yes, and further, there are now only two companies in this country engaged in the frozen beef trade. One of those companies has been to us three times for us to buy them out, and we were within 5 per cent of buying the other company out, and then you would not have had one British company in this country.

9452. That is a condition that applies in principle to other businesses as well as your own? – I will keep altogether to the beef trade. I do not know anything about any other business, but this one I do know something about. I know you cannot have any beef trade, or any frozen works abroad if you continue with your present policy.

9453. I think I understand that, and I just wanted to put it to you for the purpose of getting your opinion, and advice if you feel able to give it, as to how the difficulties which doing as you wish would give rise to could be best met. As you are well aware, until 1914 investments abroad, when the income was not brought to this country, were not taxed here. That is the position in which you wish to be placed? – Yes.

9454. You are no doubt aware that that affects a large number of other concerns, that is to say, large trust companies and insurance companies, and also some private individuals who did invest their money abroad and accumulate the interest abroad and not bring it here? – Yes.

9455. The total of that income would be very large and would make a very serious gap in our Income Tax receipts. I did not know whether you, with your great experience, had any suggestion to make to us that would enable us to relieve what all of us would feel is a serious matter about these businesses, and still retain the tax on those other investments and businesses to release which would be a very serious matter? – So far as our trade is concerned you cannot tax the trade which is done between two foreign countries. For instance, if I kill a beast in the Argentine and sell the product of that beast in Spain this country can get no tax on that business. You may do what you like but you cannot have it. On the other hand, the goods which come to this country I would suggest that you take a turnover tax upon, say, 1 per cent., or any percentage you like to fix on the goods which are brought to this country. They are the only ones which can pay a tax, and that would put us all in the same position.

9456. You are aware there is a provision in the law now for a tax on turnover practically? – Yes, but that is not applied to English people; that advantage is given to foreigners only.

9457. Of course, as you see, that does not deal with the difficulty of letting off the investment companies? – No. I do not know what you are doing to do. I know, of course, it is a very difficult position. How would it be if it were applied to trading concerns only?

9458. That means differentiating between business profits and interest on investments, and when you come to split up your business profits to ascertain how much of that is interest on investments or return of capital, and how much is profits, you will find you are in very great

difficulty? - An investment company is an investment company; its investment consists in debentures or investments in shares, and that is very easily found out; there is no business profit there, so I think it would meet the case probably, so far as investment companies are concerned, do you not think so?

9459. Your suggestion broadly would be that the relief should be given to trading undertakings? – Only.

9160. *Sir E. Nott-Bower*: I suppose you would not object to this: assessment on the business excluding the trading between foreign countries. The partners who resided here would be liable to some extent, at any rate, in respect of foreign profits that have accrued to them if they were brought here; at any rate, you would admit the liability? – In a business of this nature you cannot say how much is made in one country and how much is made in another. You kill an animal and the product of that animal is sold in 50 different countries. You cannot say how much is made in England and how much is made abroad. This is why I suggest that you should pay a turnover tax on what is brought to this country, whether it be the hides, the beef, or any portion of the animal. I want to help the country to get revenue. It is not my object to escape payment of tax. My object is to get equality of taxation with the foreigner and nothing else. I do not mind if you make your turnover tax 10 per cent. 5 per cent, or whatever you like so long as I have equality with the American Beef Trust; and that, I think, I am entitled to have I cannot get it, and I have never been able to get it yet, but I do feel I am entitled to it.

9461. It is not a very easy problem, but I should like to put one question to see if I understand the matter aright. Your suggestion comes to this, does it not, that we should pay no attention to the question of where the control for the business is? – absolutely.

9462. I think that is the point you are on? – Yes.

9463. We have evidence of other witnesses bearing on that point. No doubt the doctrine that the control of the company being here should carry with it the consequence that the whole profits of the concern stretching over two or three continents possibly, should be taxed just as if they were English profits, does give an enormous scope to the Income Tax. We have to consider very carefully what we have to recommend with regard to the enormous liability which attaches to control? – Yes.

9464. You say you would like to control your business here provided it did not involve your business in such an immense liability. You have to arrive at the English profits somehow? – You cannot arrive at the English profits; that is why I say you should take the turnover.

9465. You have to take some measure? - You take some basis.

9466. That was the difficulty that had to be faced, I understand, in the case of the Beef Trust Companies. I understand they said that they could not ascertain what their English profit was? - No, they cannot.

9467. And the one solution was to charge them on turnover? – Yes.

9468. As long as the same calculation was made in your case as in the case of the American Beef Trust, you would be content. You merely ask for equality of treatment, and you want to get rid of what I understand is the further liability to taxation by reason of control here? – That is it.

9469. You have a lot of foreign properties, and if you had the control here, you would probably come to reside here to exercise that control? – Yes, I should.

9470. With regard to the foreign properties you would not object to being assessed on the foreign profits so far at any rate as you had them sent over to this country? – The net result of that would be that none whatever would be sent over.

9471. I only want to understand what your position is? – I am quite willing to accept that but I want to point out what the result would be.

9472. Then if I understand the matter aright you really want two things; first of all, you want some limitation of liability to taxation by having control in this country, and, secondly you want the law to be restored to the position it was in before 1914 when foreign profits which were not remitted to this country were not charged? That would settle all our difficulties; we should come back to England tomorrow and we should employ 3,000 or 4,000 men.

9473. *Mr McLintock*: I would like to ask you a question or two about your calculations here. With regard to your 82 per cent in the first place, you ignore the standard altogether? – The 9 per cent.

9474. Take the case of a new business? – I call attention to that; it would affect the calculation to some extent.

9475. To a material extent? – No, not very material.

9476. Assume you have a capital of £500 earning £100 profit, that is, 20 per cent; you are entitled to 9 per cent on that £500; are you not? – Yes, I suppose so.

9477. That is £45. You take that £45 off the £100 first; you are allowed to keep that: is not that right? – May I put it in another way?

9478. I should like to put it in my own way first? – Will you begin again; I want to follow closely.

9479. Capital £500; 9 per cent on that is £45; take that off the £100 profit you have earned on the 3500. - That is after I earn 20 per cent?

9480. Yes. You are then left with a balance of £55 which is subject to 40 per cent. Excess Profits Duty, that is £22; you have to pay away £22 out of the £100 and you have £78 left. Then you pay Income Tax and Super-tax at practically the highest rate, 1 0s. In the £? 1 0s. 6d.

9481. Well, call it 10s. You are left with £30? – Then I pay 40 per cent of that again.

9482. To whom? – For Death Duties, it is merely deferred Income Tax. 9483. You never spend any of your profit? – Never.

9494. You save every penny you make? – Every farthing.

9485. How do you live, may I ask? - On what I earned 20 years ago.

9486. You neither spend any of it, nor give any of it away? – I do give a good deal of it away unfortunately I am rather foolish in that respect.

9487. Then you do not pay Death Duties on it? - If I may say so, I do not give any of it away, because I give also from what I earned many years ago.

9488. Do you not think it is hardly fair to bring in the Death Duties? – Well, this is my evidence.

9489. You are dealing with Death Duties, which clearly do not emerge today when the Excess Profits Duty is 40 per cent; you have not to die this year? – If I die tomorrow this calculation is correct so far as the Death Duties are concerned. If I die in 15 years this would have to be reduced by some 10 or 15 per cent according to the length of time I take to die, but if I die today it is correct.

9490. I agree if you die today these Death Duties will have to be paid, but you look like living a good while longer? – I am thinking about dying every day. This 40 per cent always keeps my death before me.

9491. I hope it will not shorten your life, at any rate? – that is what I dislike about it.

9492. On the question of removal to Chicago? – We are domiciled in Buenos Aires.

9493. You have not removed to the United States? – No.

9494. So you have escaped the heavy American surtax? – there is no tax in Buenos Aires at all.

9495. You agree if you carried on the same business in America you would have to pay probably just about as much tax as you paid in this country? – Considerable taxes, but not nearly so much, and not on foreign businesses. I can go to America, I can go to Chicago just as the Trust do, and I can run my South American business, and I do not pay one penny of taxation in North America on that pay one penny of taxation in North America on that.

9496. Supposing you run the business as Vestey Brothers of Chicago instead of Vestey Brothers of the United Kingdom, are you then liable for Income Tax? - On the business I do in America, yes; on the business I do outside of America, provided I do not take the results to America, no.

9497. Assume you carried on just exactly as Vestey Brothers in this country where you have the separate companies? – Yes.

9498. You would have in America on 500,000 dollars 64 per cent to pay in taxation? I cannot tell you now, but a considerable amount; but on all business done outside America, provided I did not bring the profits to America, nothing.

9499. That is provided you form outside companies? – Yes.

9500. And without any control? - The question of control is not raised in America. France also absolutely exempts everyone.

9501. Can you leave all your profits for an indefinite period, say, in the Argentine, for all time, to escape taxation either in America or in this country? – Why not?

9502. Would you be prepared to leave all your capital in the Argentine rather than bring it to this country or to America? – I do not know what I might feel about it in time, but I could do if I choose.

9503. Are there no Death Duties in the Argentine? – Yes, in direct line about 3 to 5 per cent.

9504. Much lower than here? – Much lower.

9505. You agree, however, that this illustration is not quite right from the point of view of the British taxation if you exclude that important fact of your profit standard? – That is the 9 per cent?

9506. Yes? – The 9 per cent on every £100.

9507. On every £100 of what? – Of capital. But out of that £9 that is the amount of the standard, I have to pay 1 0s. 6d in the £ Income Tax.

9508. I agree you pay 10s., if your income is big enough, even on the £9? – Yes, and I also pay 40 per cent on the balance, that is something over £2 so that it would make a net difference in this calculation of something over £2.

9509. I suggest to you that the difference is, as against your £28 10s about £39 – No I am jolly well sure it is not. I have slept with this too long.

9510. But you have not paid that because you have removed to Buenos Aires? Yes, but I know the figures all right.

9511. *Sir J. Harmwood-Banner:* Where are you domiciled at present – in this country? - No Buenos Aires. I am technically abroad at present, but I came over specially to appear before this Commission. The present position of affairs suits me admirably. I am abroad; I pay nothing. I am talking against my own interest, but I was born in the good old town of Liverpool and I want to die in this country, and I want to come and work here; that is why I am here. Really I am doing myself harm by making all these propositions. If I have got to live abroad I am speaking against myself.

9512. Did the clause in the Act of 1915, whereby we brought in the Chicago houses, not affect your views of the situation? – You never did bring them in; that is only a farce. I know that one at least of these Chicago houses pays on 1 per cent of their turnover; that is to say, they have to pay the Income Tax on that. Very well, that is merely a farce. If you will give me that – that is all I want.

9513. Are you aware that that percentage is being raised? - Give me the same. Raise it as much as you like, and give me the same – nothing more. Make it 2, 3, 4, 5, 10, 20 – it is quite immaterial to me if mine is the same, only do not give them one basis and give me a worse.

9514. I think you will probably see in the papers that we have had the packers here, because they consider we treated them badly by raising the percentage? Did you see Armour's balance sheet? Did you see a Swift's balance sheet in "the Time" – a profit of 20 millions on these works? Do you treat them very badly? All that meat came to England.

9515. You know I am a townsman of yours. Is it not a fact that you made every endeavour, even to interviewing the Prime Minister and all the authorities in order to persuade them to

make such arrangements as to avoid your having to leave this country. – I did; I did everything I could. I did not want to go; and I want to come back. I want to work in this country; but I cannot if I am treated worse than the American Beef Trust is treated here, or worse than any German would be treated here. You would give to any German what I am asking you to give to me, and what I have been begging for for 4 years. You would give it to any German.

9516. *Mr McLintock*: How much do you think you ought to pay in taxation to this country? – I will give you £100,000 a year, beginning tomorrow, to be allowed to come and work in this country.

9517. We cannot collect taxation here on that basis? – No but you wanted to know, and I will give you that much; but apart from that I want whatever you give to the others. I do not care what it is. Am I not right in asking that the American Trust should have no advantage over me or that the German should have no advantage over me?

9518. *Sir J. Harmwood-Banner*: Is it not the fact that Petrie's Powell's and a lot of other firms took it very seriously into consideration as to following your example because of the way in which this tax in favour of the packers affected them? I believe they did; and another thing, when I left here in 1915 I went to a solicitor in Chicago for advice. He said: "What is the matter with your people? You are the third Englishman I have had in here this week on the same business." He gave me the name of one of them and it was one of the very biggest iron companies in this country. They had been into that office just the day before to form their business into an American business, or a foreign business.

9519. *Mr Kerly*: I am not quite clear, except that you have a very serious grievance, either as to what your grievance is or what your proposals are. Do not imagine that I do not appreciate that you have a grievance, but I want to see a little more clearly what it is? – My grievance is this, that the American Beef Trust can send their goods into this country. They have their works alongside me in the Argentine, in Brazil, in China, and in other countries and even in the British Colony of Australia. They can send the whole of their products into this country, and on 90 per cent of them will not pay a farthing of taxation because they sell the goods f.o.b. and on the other 10 per cent you give a special rate, 1 to 1½ per cent on the turnover. If I make £100 – I am not bothering to a pound or two more or less – I have to pay 75 per cent, 80 per cent, or 85 per cent of what I make; that is my grievance.

9520. There are two things, and I think they must be distinguished; one is the amount of taxation that you pay? – No, not the amount.

9521. Well, the rate of taxation that you pay? – Yes.

9522. The other is your comparative competitive position alongside the American Meat Trust? – Yes.

9523. Let us take the second one first. Whatever your difficulties are comparatively with the American Meat Trust, you do not contemplate that they will prevent your earning a profit? – Not at all. They might in this country if I stayed here, but I would not try.

9524. Of course, we have to consider not your feeling perhaps of quite natural irritation? – No, it is not irritation; I do not feel irritated.

9525. How is it reflected on the trade of the country in which you have earned the profit; you have not to pay any Income Tax? – No.

9526. So that if the competition with the American Meat Trust is so severe that although they make a profit you cannot, you do not suffer any hardship from English taxation because you have no profit to pay upon? – What I suffer is, if I am unfortunate enough to make £100 in England, I pay £82 while the American can make £100 in England and pay nothing and I am not going to compete with a strong rival on that basis.

9527. What I am putting to you, and I want you to meet it if I am wrong, is, that does not prevent you trading at a profit. You do not make such a big profit as they do, but unless your operations are profit producing you do not pay Income Tax? – No. If I lose money I am on as good a basis as they are.

9528. It is really a feeling of soreness that someone else should trade besides you in a similar business and retain more of the profit which he makes? – Put it that way if you like.

9529. And that is aggravated because he is a foreigner? – Put it that way.

9530. You do not know what taxation he pays in America? – No. I am taking now the Argentine; I know exactly what he pays, and I pay the same. I have my works in the Argentine, and I pay the same as he pays in the Argentine plus the England tax; he only pays the Argentine tax.

9531. But you are the individual who is the ultimate recipient of the profit? – Yes.

9532. Because you are a firm? - So is Armour.

9533. Your competitor is a Trust? – No, they work under the names of companies.

9534. It is a collection of companies? – and they work under the names of the companies, but they are in exactly the same position as I am.

9535. Are they not in the corporation? – Just as we are. Vestey Brothers as a firm do not work at all. We have the Anglo South American Meat Company, or something of that sort, but we own all the shares just as Armour owns all the shares.

9536. Again, there is a qualification that was not apparent here. Your real interest is as a shareholder in a number of corporations? – Yes, put it in that way.

9537. But it makes a great deal of difference? - Not merely as a shareholder, but the owner of all the shares in many corporations.

9538. You make, as I understand, two propositions. The first is, that a foreigner trading here should be put upon the same basis as regards taxation as an Englishman trading here and abroad? - No. My proposition is that an Englishman should be put upon the same basis as the foreigner trading here.

9539. That is the obverse of my proposition? – Well, I like to put it in that way, because I know jolly well they will never tax the American Beef Trust as they will tax me if I come here.

9540. You propose that as regards your meat import business you should pay no more taxes than a foreign producer who is sending meat here? – Yes.

9541. And you suggest that if he pays on turnover you should pay on turnover too? – Yes.

9542. The simpler way if you were going to raise revenue in that way is to impose import duty, is it not? That would be too obvious.

9543. It is no good talking about two things under different names. The tax on turnover is an import duty? - Absolutely; well, it is not so obvious to the general public.

9544. When you have got an import duty on all importers alike you propose that if the Englishman has no other business than the importation business he should be free from taxation? Certainly, having paid what the American paid on the same business he should be in the same position.

9545. But you know that Income Tax is a tax on individual income? – Yes, but I should have already paid it in the other thing.

9546. No, you would pay because you are a resident here. Are you not to pay anything for the advantage of living here? I am testing your proposition, you know. I want to see how it works out?

9547. *Mr. May:* With great respect, I should like to have an answer to your question; it is one that has agitated me a good deal since the witness has been in the chair.

9548. *Mr. Kerly:* Sir William is going to give me an answer. I think he was indicating it by gesture, but that will not go on the shorthand note. (To Witness): You are prepared, of course, to pay Income Tax as a resident upon your income, are you not? – Yes, I think I must say so.

9549. You do not expect that we should charge Income Tax as Income Tax upon the foreigner who chooses to trade here amongst other places? - If you do not you will soon not have any of that business to do, because you are going to throw this market open to him and let him send in his goods and pay nothing, whereas I must pay 82 per cent.

9550. Is the only suggestion you can make for getting out of this difficulty that where we find an English resident has an income derived from an import business he should be free from Income Tax? – If you put it in that way it does not sound right.

9551. It does not, does it? – No.

9552. Well, what is the alternative? – I do not know what to say about it anymore than you do I daresay. You are in very much the same position.

9553. I will leave that. I am very much alive to the fact that there are very grave difficulties, and I want to see how far you are helping us about them. Let me put another proposition to you. So far I have dealt with the import part of the business. You suggest that it is inequitable that an Englishman carrying on a foreign business should pay tax upon the profits of that foreign business? - Do you mean between two foreign countries?

9554. A wholly foreign business if you please. It makes the case no better and no worse that it is between two foreign countries or wholly in one, so we can deal with a foreign business.

Do you suggest that if an English resident derives an income from a foreign business he should cut out of his income for income taxation purposes the whole income derived from that foreign business? – Putting it in that way of course it will not do, but if you do not do something of that sort the Englishman will not have any foreign business because he cannot pay two taxes, the taxes in the other country where the foreigner is and the English tax also.

9555. Now you have introduced another element altogether. If he pays a tax on the foreign business in the foreign country of origin _____ ? __He must do that.

9556. Well, supposing he does, the American expedient is to allow him to deduct that tax from the tax he pays on that portion of his income in this country? – But they have another expedient also.

9557. What is that? – Provided that he does not bring the profits of that business to America he does not pay any tax as we do in this country.

9558. I am not sure that you are right, but I will hypothetically accept that? – I believe I am right.

9559. I think you are wrong, but I may be mistaken? - But I know in the Argentine there is no Income Tax at all so the question does not arise.

9560. How far would it relieve the situation if we adopted the American plan of allowing a man who is taxed upon a foreign business to deduct from his English tax the tax he pays in the foreign country? – In the case of the Argentine, which is the principal source of the English frozen meat supply, there is no Income Tax, so it would not help in anyway.

9561. In the case of the Argentine the man earning an income there is in exactly the same position as the man earning an income in a factory in England. He has got an income which is not already taxed at the source, and why should he be in a different position from an English resident? – Because you put the American Beef Trust, who send the beef from their factory, which is alongside the Englishman's factory, into this country practically, and relieve him from all taxations, and he is the man he has got to compete with.

9562. I pointed out to you, and I thought you agreed with me that that is not a trade liability, because taxation only comes after you have got the realised profits? – Of those realised profits I should have to surrender about 81 or 82 per cent and the American would surrender nothing; that is my grievance. The business cannot exist on that basis. It would be carried on by an Englishman resident in the Argentine, or by a foreigner.

9563. Very well. Now I want to remind you of what you perhaps know, that there is another difficult question put to us; it is said that where foreigners invest capital here, foreign shareholders in an English company, they should not be charged any Income Tax upon the money which is produced here? – If you do so I should go to the Argentine and I should start a foreign company there, own all the shares myself, build a factory in England, and pay no penny of Income Tax.

9564. So, if we adopted both suggestions this poor country would neither get an income from profits earned abroad, nor receive an income from profits earned here? - I think if you adopted all the suggestions you would have no income whatever; I quite agree with that.

9565. Now let me go to your particular example. In your first paragraph it looks rather appalling. I will not say anything more about the Excess profits Duty, because Mr McLintock has dealt with that. Income Tax 6s. And Super-tax – that is an individual tax depending upon the total income of the man who is paying it? – If the man is unfortunate enough to have an income in excess of £2,500 a year.

9566. His misfortune is not to have this particular kind of income, but to have so much other income as well? – But does it matter if he has got to pay it?

9567. Does not your whole objection on this amount to an objection to a graduated Income Tax? Is not your real complaint that each source of income should be treated by itself, and that nothing extra should be levied upon the taxpayer because his total incomes lumped together are larger than his neighbour's income? – No, I never thought about that. My sole point is that I should not be called upon to pay more than the American Beef Trust pay upon the business that they do; that is the point I stick to.

9568. I am much obliged to you; you have cleared up my notions of what you meant? That is all I want.

9569. Your real grievance is that whether it hurts your pocket or not it hurts your feelings very badly to be trading alongside a competitor who is not taxed so heavily as you are? – I have no doubt it does; it makes me very cross. Another thing, the business could not continue to go on with the handicap in favour of the American.

9570. We are all very much obliged to you, because you have done what is so useful, you have brought a particular case before us, and it happens to be a very large one? – I may just add this, that there are from 3,000 to 5,000 men out of employment because I am not working in this country.

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House of Lords Debate ²⁹ June 1922

Hansard vol ⁵¹ cc138-44 138

§ LORD STRACHIE had given Notice to call attention to the statement made by Sir Frederick Banbury in the Morning Post of June 17, in reference to Sir William Vestey and the Peerage conferred on him; and to ask the Government if they were aware of the facts quoted by Sir Frederick Banbury from the Report of the Royal Commission on Income Tax; and, if so, would they have recommended that a Peerage should be conferred on Sir William Vestey.

§ The Noble Lord said: My Lords, the Question I have on the Paper concerns a statement made and published in the Morning Post of June 17 by the senior member for the first constituency of this country; I refer, of course, to Sir Frederick Banbury, the senior member for the City of London, and also a Privy Councillor. Any statement made by him ought, one would have thought, to receive, general notice, but it appears that, in some directions, little attention has been given to that statement.

§ It is possible that many noble Lords may not have seen that statement, or may desire to refresh their memories, and I will therefore read it. It runs as follows— The name of Sir William Vestey appeared a few days ago in the list of people upon whom a Peerage had been conferred. The same name also appears in the minutes of evidence before the Royal Commission on the Income Tax on the 31 st July, 1919. The following is an extract from the evidence—

Evidence in chief of Sir William Vestey of the firm of Vestey Brothers. We are proprietors and managers of freezing works, cold stores, or cattle ranches in Great Britain, Russia, China, Australia, New Zealand, United States, Venezuela, Brazil, Paraguay, Argentina, South Africa, Madagascar, Prance, Spain, Portugal and other countries. The capital employed in the business, and that of the affiliated concerns under the same management, is in excess of £20,000,000. Up to the end of the year 1915 we conducted the business from London. In that year taxation was imposed which made it impossible to continue working from England. We did all we could to be allowed to remain in England, and after several interviews with the highest officials, who were most sympathetic, we had no alternative but to remove the business abroad, and we are now domiciled in the Argentine Republic. Later he was asked the following question (95n) by a member of the Commission— Where are you domiciled at present—in this country? Answer—No, Buenos Aires. I am technically abroad at present but came over specially to appear before this Commission. The present position of affairs suits me admirably. I am abroad. I pay nothing." No doubt there are a great many people who would think it very desirable to contribute nothing towards Income Tax, as stated by Sir William Vestey, now Lord Vestey.

§ I am so fortunate, I am told, as to have his presence here in this House, so that, whatever I say, I shall be saying it to him face to face. But I should like at once to state that I have no intention of making any personal attack, or attributing any base motives, to Lord Vestey, because, as the law now stands, Lord Vestey is, of course, perfectly justified, from his own point of view, if he thinks it desirable to remove, an enormous sum of money out of this country in order to avoid Income Tax. In so doing, he does not act against the law; he is doing nothing he has not a perfect right to do from his own personal point of view. Every man must be the judge of his own honour in such matters. My point is that His Majesty's Government may not have been aware of this circumstance, and I ask my Question because I cannot think that they were aware of it.

§ I also venture further to ask them whether, if they had been aware of it, they would have recommended Sir William Vestey for a Peerage. Why do I say that? Because although it may be quite legal and quite right for any subject of this country to avoid paying Income Tax on an enormous sum of money, yet I do not think the fact of his doing so is exactly a good reason for conferring the great honour of a Peerage upon him. Certainly, I know that the feeling, whatever it may be in this House, is very strong outside that there should be no inducement to avoid, or rather no reward to people for avoiding, taxation in this country.

§ I notice in this Report that Sir William Vestey said that this was not a limited company, so that it is not a question of what he thought ought to be done for his I shareholders. Apparently, it is simply Vestey Brothers, a private concern, as he states in answer to Question 9440. He says that the capital is £20,000,000, and that, prior to 1915, the head office and the control were in England. Now, it is in Buenos Aires, where, I am told, there is no Income Tax. When Sir William Vestey appeared before the Royal Commission on the Income Tax,

he was asked this Question (No. 9472)— You want some limitation of liability to taxation by having control in this country, and, secondly, you want the law to be restored to the position it was in before 1914, when foreign profits which were not remitted to this country were not charged? That was what was put to Sir William Vestey, and he answered— We should come back to England to-morrow, and we should employ from 3,000 to 4,000 men. He would do this if the law was as it existed in 1914.

§ Then again, in answer to another Question (No. 9570), he said— There are from 3,000 to 5,000 men now out of employment because I am not working in this country. I think that is one of the most serious statements given in this evidence. Sir William Vestey says that his action in leaving this country meant that from 3,000 to 5,000 men were out of employment at the present time. It is, of course, entirely a question for Sir William Vestey to consider, whether that action is right or not. I am not criticising that, but I say it is a matter of criticism that you should reward a gentleman who openly says that but for moving this control there would be employment for between three and five thousand men.

§ Again, he was asked (Question 9516)— How much do you think you ought to pay in taxation to this country?—I will give you £100,000 a year, beginning to-morrow, to be allowed to come and work in this country. That shows what enormous profits the noble Lord must be making outside this country. In answering another Question (No. 9526), Sir William Vestey said— What I suffer is, if I am unfortunate enough to make £100 in England, I pay £82, while the American can make £100 in England and pay nothing, and I am not going to compete with a strong rival on that basis. Then again, in further reply to Questions 9527, 9528, and 9529, he said it would appear that taxation would not prevent any profit being made, but not as big as the American, and he ought to pay no more taxation than a foreigner. So that is the real contention: not that the business would be absolutely ruined by having the control in England, and having to pay Income Tax like other people, but that he would not make so much profit as other people would do, and he ought to be able to do as well as the Americans were doing.

§ Sir William Vestey was good enough to send to me, through a Member of the House of Commons, a sort of memorandum of his case, and I notice that what he deals with is that unless he did this the Americans would force him out of all work in this country. It makes no difference to us, because although he has not been forced out of competition he contributes nothing in this country towards taxation. He further tells me he is domiciled abroad, as he said in the statement that I have already quoted. If the noble Lord is domiciled abroad, I cannot quite see what is the advantage in making him a member of this House, because it is generally supposed that a Peerage is conferred upon someone well qualified to take part in our proceedings and help in the government of the country. If he is domiciled abroad I do not see that it is likely he can render very valuable assistance or help.

§ Further, I would like to point out what a very large amount of money the country has lost owing to this transaction. If you take it only during six years, the country has lost in Super-Tax and Income Tax something approaching £3,000,000. I say that this is a very serious matter from the point of view of the Government, because they have bestowed this honour upon a gentlemen through whom, owing to the transfer of the business abroad, the country has lost this enormous sum in taxation. I think the feeling of most people would be that this was not the sort of man who ought to be rewarded for evading taxation and thereby throwing a heavier burden of taxation upon those who have to pay taxes.

§ I noticed that Lord Crewe asked the other day whether it was the fact that the Government wished to show how necessary it was to reform the House of Lords, and that that was the reason why we have such cases. If the noble Lord has been appointed a member of this House because he is domiciled abroad and so cannot attend our sittings, that would seem to be another reason for altering the right to sit here. I make no personal attack upon Lord Vestey. It is, as I have said, a question for himself, whether he considers it right that he should avoid taxation upon £20,000,000, and that, as he has told us, by his action large numbers of men in this country are out of employment. As lie is here, and as your Lordships have had so much discussion lately upon the sale of honours and corruption in this matter, no doubt the noble Lord will be glad to take the opportunity of assuring the House that neither directly nor indirectly has he paid any money for the Peerage which he now possesses.

THE EARL OF CRAWFORD

My Lords, I understand that the noble Lord, Lord Vestey, is going to make a statement on the more technical aspect of the matters raised by Lord Strachie. So far as the Government are concerned the evidence which Lord Strachie has summarised had been published, I think, two years ago, and the Government therefore must be deemed to be technically aware of the document. I believe that the Prime Minister had not studied the evidence in question, and certainly I confess that I had not studied it. I have studied the Report and the evidence given by the noble Lord is not referred to in the Report at all.

I do not know what I should reply as to the last question by the noble Lord, about what would have been done had this evidence been before the Government. It is a hypothetical question. I believe that Lord Vestey has rendered great services to the State, particularly during the war, and that it was upon those grounds the recommendation was made to the King. Having read the evidence, I could comment a good deal upon some of the inferences drawn by Lord Strachie, some of which I thought were not well founded; but I will refrain from doing so, as I have answered to the best of my ability the Questions directed to the Government as to the evidence published in the Report of the Royal Commission.

§ LORD VESTEY

My Lords, I wish to make a personal statement as to the reasons which caused me to go abroad. The firm in which I am interested has built up (in the face of very strong American competition) the largest English business of its kind. Our principal competitors have always been the large American meat companies, who have enormous capital, and who dominate the English market. It became a question of whether we should sell the business to the American companies or continue to struggle and build freezing works in the, countries from which Great Britain imports foreign meat. We decided to adopt the latter course. With our new works adjacent to the American companies' works in these foreign countries and their selling organisations alongside ours in the principal markets of Great Britain, it was obvious that on those new foreign businesses it was impossible for us to compete if we were to be subject to exceedingly heavy taxation which was not imposed upon the American companies on the meat which they brought to this country from works adjacent to ours. Therefore, while our English business, which is very large, has throughout remained domiciled in England and paid English Taxes, I was forced to become domiciled abroad, so far as the foreign businesses were concerned, but that did not affect the English business.

Before deciding to go abroad I made every effort to try to arrange with the Government some basis which would have enabled us to compete with the Americans on equal terms, and with

this object in view I interviewed various members of the Government, including, among others, the President of the Board of Trade, Sir John Bradbury, and high officials of the Inland Revenue Department, but, although they all expressed the greatest sympathy, they were unable to suggest any remedy, and, therefore, with the very greatest reluctance, I decided to go abroad. If I had not taken the course I did our new foreign businesses would have had no chance of success, and the strongest competitor of the American meat companies in Great Britain would have been eliminated. As it was, these works were of very great assistance to the Government in providing large quantities of frozen and preserved meat to this and Allied countries, to a large extent from hitherto undeveloped sources.

I may add that I am now domiciled in this country and have been for the last eighteen months. If I have to compete with the American Meat Trust in foreign trade, the business of which is wholly done abroad, I must be on an equal basis with them, or I cannot go into the business at all.

§ EARL STANHOPE

May I ask the noble Lord whether it was necessary for him to take out foreign naturalisation papers in order to get his business domiciled abroad?

§ LORD VESTEY

I have not taken them out, nor was it necessary to do so.

.....
Letter from George V to Lloyd George dated 3 July 1922

Buckingham Place 3rd, July, 1922

My dear Prime Minister

I cannot conceal from you my profound concern at the very disagreeable situation which has arisen on the question of Honours.

The Peerages which I was advised to confer upon Sir J.B. Robinson² and Sir William Vestey have brought things rather to a climax: though for some time there have been evident signs of growing public dissatisfaction on account of: the excessive number of honours conferred: the personality of some of the recipients: and the questionable circumstances under which the honours in certain instances have been granted.

You will remember that both in conversation and in written communications I have deprecated the ever increasing number of those submitted for the half yearly Honours Gazette: and in recent years there have been instances in which honours have been bestowed

² Sir Joseph Benjamin Robinson, (1840 - 1929), a South African mining magnate, was nominated for a peerage in June 1922 but declined.

where subsequent information has betrayed a lack of care in the enquiries made as to the fitness of the persons selected for recognition.

The case of Sir J.B. Robinson and all that it has evoked in the Debates of the House of Lords and in the newspaper reports of interviews given by him to Press representatives must be regarded as little less than an insult to the Crown and to the House of Lords and may, I fear, work injury to the Prerogative in the public mind at home and even more in South Africa.

I fully recognise that the inordinate demands upon your time make it impossible for you, in spite of your marvellous capacity for work, personally to investigate the claims and qualifications of those persons whose names you submit for my approval for honours and rewards.

But I do appeal most strongly for the establishment of some efficient and trustworthy procedure in order to protect the Crown and the Government from the possibility of similar painful if not humiliating incidents the recurrence of which must inevitably constitute an evil, dangerous to the social and political well being of the State.

Believe me

my dear Prime Minister

very sincerely yours

George R.

.....
Letter from Lloyd George to King George V dated 4 July 1922

The King July, 4, 1922

To The King's most Excellent Majesty.

Sir,

I entirely share Your Majesty's concern at the disagreeable situation which has arisen on the question of Honours. No one could feel more strongly than I do the necessity of avoiding any occasion for criticism or complaint in a matter which concerns one of the important prerogatives of the Crown, and I am most anxious to fulfil Your Majesty's desires for all possible safeguards against accident or abuse.

But the situation is not a new one. The preparation of recommendations for Honours by the Party Whips, upon a Party basis, has been coeval with the existence of the party system, and, on the whole, accidents or errors giving just cause for criticism or complaint have been few in number.

I deeply regret that such an accident should have occurred in the cases of Sir J.B. Robinson and Sir William Vestey. With regard to Sir J.B. Robinson, it must be borne in mind that, apart from the recent litigation, the existence of which was unknown to all those who were consulted in this matter, he bears a long record of great public usefulness as regards the industry of South Africa, was of special service to this country after the South African War, and earned the respect and esteem of so great a South African as General Botha who, on two occasions, recommended him to Sir Henry Campbell-Bannerman and Mr. Asquith. Both these Prime Ministers considered him fit for the honour of a Baronstoy, and the latter actually recommended it to King Edward who granted it. Robinson, of course, has always been inclined to take an independent line about South African affairs. This has caused him to make very powerful enemies in Africa and also on the Stock Exchange in London. I understand, however, that as a result of what Lord Lansdowne termed his "very dignified and proper letter" a strong re-action has set in in his favour, particularly amongst the Labour Party who think he is the victim of capitalistic dislike on account of the sympathies with Labour in South Africa.

With regard to Sir William Vestey, I regret that in this case also the evidence which he gave before the Commissioners of Income Tax had not been brought to my notice nor to that of my advisers.

Your Majesty will recollect that a Committee was appointed to make recommendations for the Order of the British Empire and, so far as I have heard, criticism of recent recommendations has been more directly concerned with the Order of the British Empire than with the ordinary New Year and Birthday Lists. I have recently had occasion to examine the lists which I have had to present to Your Majesty for approval and I do not think it can be said that any of the names which I have suggested for peerages are men of distinction and experience in diplomacy, the Army and Navy, Civil Service, Trade, Commerce and Industry. The Lord Chancellor was so much impressed with this series of names that he read them out one by one during the course of the Debate in the House of Lords on Thursday last. I think, also, that the list impressed the Members of the House of Lords who were present.

I doubt if any change of system would result in fewer accidents and errors than have marked the Honours Lists of the last seven years. All Ministers and all Departments are liable to error and no procedure can be found to avoid all possibility of mistakes.

With regard to the length of recent Honours Lists, I may be permitted to point out that the greater number of Honours conferred in the last few years is due to the enormous burden of the war services borne by the civil population, not one-tenth of which has been, or ever will be, adequately rewarded.

For my part I entirely share Your Majesty's desire that every possible step shall be taken to protect that Crown and the Government from the possibility of recommendations for Honours being put forward without the most complete justification, and I am now personally

engaged with the assistance of my colleagues in considering what further safeguards can properly be taken to that end.