V2 (Goldsmith, 2010c)

Story: Taxes

Page 3 – War, depression and increased taxes – 19

First World War and tax

During the First World War income tax revenue increased eleven-fold. It overtook customs duties to become the most important single tax in New Zealand (as it did in other countries involved in fighting). But people still only paid income tax if they earned over £300 (around $40,000 in 2008) – around 12,000 people out of an adult population of about 700,000 paid the tax. An average plumber earning £150 per year (around $20,000) did not pay income tax.

War tax (1st of 2)

Progressive rates

The war ushered in new thinking. The sense of duty that underlay conscription carried with it a strengthening of people's ideas of community obligation. Parliamentarians began to quote English economist Arthur Pigou who applied the so-called 'marginal revolution' in economics to welfare and taxation: an additional pound means more to someone earning £100 than it does to someone earning £1,000, so higher income earners should be taxed more. The top income tax rate rose from 6.67% in 1914 to 43.75% in 1921.

No plums

Income taxes ease

During the 1920s there was a gradual decline from wartime levels of tax on higher incomes, companies and large landowners. It subsided to 22.5% by the mid-1920s. Income tax revenues showed the same trend, largely as a result of a 1922 taxation committee dominated by businessmen. They lobbied hard for tax cuts and got them – but the retreat was only partial. This reflected a trend that repeated over time: when tax rates were raised and subsequently cut, they didn't usually fall back to their original levels.

Depression workers

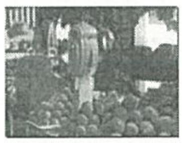
Company taxes

The greatest impact of higher taxes was on companies. During the 1920s and 1930s New Zealand taxed companies directly at higher rates than many other countries. This made it difficult to build enterprises by reinvesting retained profits. Successive tax commissions criticised the practice, to no avail.

Motor taxation pamphlet

Depression taxes

A poll tax was introduced in 1930 to fund unemployment relief. Every male over the age of 20 paid £1 10s a year (around $126 in 2008). The logic was that every taxpayer would feel that unemployment affected him personally. The government soon needed more money. In 1931 an 'Emergency Unemployment Charge' at a flat rate of 1.25% on all income was added on top of a £1 poll tax.



Greengrocers, 1920s

Everyone directly taxed

The poll tax and flat tax, although light, established the principle that all people should pay some direct taxation. Every male had to go to the Post Office and hand over some money to the government. Income tax rates were also raised in 1930 taking the top rate to 29.25%. Annual income exempt from tax was lowered to £260. Finance Minister William Downie Stewart began the practice of diverting part of petrol tax for general purposes.

On 8 February 1933 Finance Minister Gordon Coates introduced a sales tax of 5% of the value of goods sold, on top of any customs or excise duties. (An excise duty is a tax on a particular domestic product such as cigarettes.)

These sales taxes were among the first indirect taxes that were not levied at the border. The Beer Duty Act charged 3d per gallon of beer when it was introduced in 1880.

How to cite this page:

Paul Goldsmith. 'Taxes - War, depression and increased taxes – 1914 to 1935', Te Ara - the Encyclopedia of New Zealand, updated 5-Mar-10
URL: http://www.TeAra.govt.nz/en/taxes/3