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(Goldsmith, 2010d)

## Story: Taxes

Page 5 – Post-war taxation – 1950 to 1959

### Taxes only ease slowly

From 1930 to 1950 the rise of Labour's welfare state increased the percentage of GDP taken in tax from 15% to 26%. Sidney Holland's National Party came to power in 1949 promising reward for effort. It gradually eliminated the remaining 15% war surtax (an add-on tax) that had helped fund the war. Yet aside from a few other tweaks, income tax rates remained virtually unaltered through the 1950s.

In 1951 a tax committee chaired by Theodore Gibbs, a Wellington accountant and company director, recommended a lower overall tax take, and reduction in the top income tax rates. The government and subsequent administrations largely ignored this advice. The National government was committed to the welfare state and that commitment had to be funded. This limited its ability to cut taxes.

The overall tax burden as a percentage of GDP did drop around 2% over the decade.

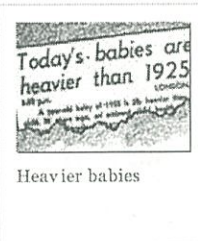
### Pay as you earn

Pay As You Earn (PAYE) was introduced for income tax in 1958. Under PAYE tax began to be deducted fortnightly from the pay packets of wage and salary earners, and people never saw the money. Previously income tax had been calculated on gross earnings for the year and this was then due in a lump sum the following year.

The introduction of PAYE was against the advice of the 1951 Gibbs Report. It had warned, 'Deduction of taxes at the source tends to remove the full appreciation of liability. The taxpayer does not feel the direct weight of the tax.'<sup>1</sup>

### Company tax

The second Labour government's infamous 'black budget' of 1958 introduced taxation of dividends, on top of direct taxation of companies. Company income was double taxed until the introduction of imputation credits during the 1980s tax reforms (an imputation credit is a tax credit given to a company for tax it has already paid on its profits, which helps prevent shareholders being taxed twice, first on company profits, and then on dividends paid out of profits).



Heavier babies



Pay As You Earn pamphlet (1st of 2)



Arnold Nordmeyer



Nordmeyer's sin taxes

#### The 'black budget'

The fact that the second Labour government had only one term in office (1957–60) may in part be attributed to its 1958 'black budget'. Taxes on beer and cigarettes were doubled (or more than doubled) and sales taxes on petrol and cars were also raised. These 'sin taxes' did not go down well with the average man in the street – especially as Finance Minister Arnold Nordmeyer neither smoked nor drank.

### Economic tool, or vote buyer?

From the mid-1950s the government used taxation increasingly as a tool for economic management – and, the cynical would say, to buy votes. The size of tax rebates went up and down as finance ministers attempted to give

the economy a boost, or applied the brakes.

The danger from the annual tax rebate lottery was the temptation it laid before politicians. In the 1957 election campaign National offered £75 (\$3,182 in 2008). The Labour opposition led by 75-year-old Walter Nash offered £100 (\$4,242). In the campaign's last week Labour's newspaper, the *Standard*, asked, 'DO YOU WANT £100 OR NOT?' Labour won the election.

**Footnotes:**

1. Quoted in Paul Goldsmith, *We won, you lost, eat that!* Auckland: David Ling, 2008, p. 222.

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