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# Early federation reviews and 1942 income tax unification

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## Abstract

In Australia's first five decades as a Federation, tax reform efforts were driven by the need to establish robust revenue bases for a growing nation and settle relative taxing responsibilities of the Commonwealth and state governments. These decades were also a time of crises with two world wars and a depression, these events being catalysts for tax and welfare reforms and influencers of the nature and extent of government in Australia.

The Constitution gave the Commonwealth exclusive access to customs and excise duties but other taxes were open to both levels of government and they soon found themselves in competition. That competition became most intense over income tax with efforts to resolve this being the focus of royal commissions into taxation in 1920–23 and 1932–34, then ultimately the 1942 Commonwealth takeover of income tax. This paper tracks those developments.

Keywords: tax, reform, federation, constitution, government, royal commission

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# EARLY FEDERATION REVIEWS AND 1942 INCOME TAX UNIFICATION

## Introduction

In Australia's first five decades as a Federation, tax reform efforts were driven by the need to establish robust revenue bases for a growing nation and settle relative taxing responsibilities of the Commonwealth and state governments. These decades were also a time of crises with two world wars and a depression, these events being catalysts for tax and welfare reforms and influencers of the nature and extent of government in Australia.

The Constitution gave the Commonwealth exclusive access to customs and excise duties but other taxes were open to both levels of government and they soon found themselves in competition. That competition became most intense over income tax with efforts to resolve this being the focus of royal commissions into taxation in 1920–23 and 1932–34, then ultimately the 1942 Commonwealth takeover of income tax. This paper tracks those developments.

### *Tax Reform Criteria*

Reform exercises range in nature from broad, open, searching inquiries to narrowly-focused processes set up to produce predetermined results. I will assess the type and quality of the above tax reform exercises against five criteria.

1. *Terms-of-reference and panel*. Indicates the government's ambition. A broad terms-of-reference suggests an open, searching inquiry as opposed to a narrow remit if a particular, perhaps predetermined, reform is sought. A panel with broad experience suggests a consultative approach, whereas a panel with specific expertise, and perhaps known views, might be appointed if particular recommendations are expected.
2. *Gathering of evidence and calling of witnesses*. Indicates the extent the panel is relying on external experts, practitioners and taxpayers. A process with extensive compilation of evidence and stakeholder consultation suggests a genuine searching inquiry, whereas one with less external input may indicate predetermined views.
3. *Timeliness and relevance*. Indicates the report's likely short-term influence. A quick, focused review with recommendations consistent with the government's policy framework is more likely to be implemented. A longer, more open searching review may, however, provide a platform for subsequent reform exercises.
4. *Approach to analysis of issues*. The analytical quality of a review report will depend on the type and rigour of its policy framework. I will examine the nature of the public finance framework used, in particular how the analysis is framed against the standard tax policy considerations of efficiency, equity and simplicity.
5. Q*uality of tax policy outcomes.* The ultimate test of a reform exercise is the policy outcomes it facilitates, although this is also dependent on the government's actions. A good reform exercise is generally a necessary but not sufficient condition for reform.

The first three of these relate to process (type of review) while the last two relate to substance (quality of policy recommendations). Different types of reviews will suit different circumstances and there may of course be trade-offs between criteria. I will assess each tax review and whether it has suited the circumstances of its time.

## Development of Australia's Tax Systems

### *Pre-Federation*

As the Australian colonies were established from the late 18th century, their initial financing needs were met by the British Treasury and non-tax revenues. It is relevant context that Australian colonisation came in the wake of the American rebellion against British taxation with the Boston Tea Party and the American War of Independence.

The first colonial taxes came at the start of the 19th century with wharfage fees and duties on imported spirits, wine and beer in New South Wales. These customs duties were extended to tea, sugar, flour and grains in the 1840s. Excise duties were also introduced on local production in the 1820s but with the limited local economy they were not a significant revenue source. These customs and excise duties were principally designed to raise revenue and for ease of administration.

The 1850s gold rush provided additional revenue opportunities with gold licensing fees, although their poor design led to protests such as the 1854 Eureka Stockade in Victoria. Fees on grants of land and leases and various licence fees were further early revenue sources.

Estate taxes were introduced from the middle of the 19th century, beginning with NSW in 1851. Land taxes were introduced later in the century, beginning with Victoria in 1877. Stamp duties were developed over the course of the 19th century – initially as fees for the validation of contracts and probate, they were a significant revenue source by the century's end.

As the Australian economy developed and the colonies' revenue needs increased, greater attention was paid to tax design principles of social equity and economic efficiency. The 1890s depression, meanwhile, resulted in reduced imports and hence customs duties, accentuating the need to develop alternative tax bases. In this context, the late 19th century brought the refinement of direct taxes such as land taxes and estate duties, and most significantly the introduction of income taxes.

Internationally, income tax is a relatively modern policy instrument,[1] being reliant on a structured economy and reliable accounting records. In the modern era it was first introduced in the UK as a war-time levy, in 1799, but not established more generally until 1842. In the USA it was first introduced as a civil war levy, in 1861, but not more permanently until 1913.

In Australia, Tasmania made the first income tax foray, with a tax on the distributed income of companies in 1880. South Australia introduced the first tax on the income of individuals in 1884. Table 1 shows that the other colonies soon followed, with each having some form of income tax by Federation.

**Table 1: Year of Introduction of Income Tax**

| | Dividend tax | Income tax | Exemption | Tax rate |
|---|---|---|---|---|
| Tasmania | 1880 | 1894 | £300* | 3d/£ (1.25%)* |
| South Australia | – | 1884 | £300 | 3d/£ (1.25%) |
| Victoria | – | 1895 | £200 | Progressive |
| New South Wales | – | 1895 | £200 | 6d/£ (2.5%) |
| Queensland | 1897 | 1902 | £160 | 6d/£ (2.5%)** |
| Western Australia | 1899 | 1907 | £200 | 4d/£ (1.67%) |
| Commonwealth | – | 1915 | £156 | Progressive |

Source: Royal Commission on Taxation (1932–34), p. 51.

* Assumed same as SA. ** Assumed same as NSW.

These original income taxes were based on the British equivalent, which in 1879 applied a flat tax rate of 5 pence in the pound (2 per cent) on incomes over £150.[2] The Australian taxes were likewise designed to apply to higher-income earners, with exemption levels well above the average wage of around £70 pw in the late 19th century.[3] The colonies' income taxes evolved in different ways, though, as greater elements of progressivity and other features developed. W. T. Murphy observed, 'beyond the fact that the general principles of the parent act were maintained in each, there was no uniformity in the statutes; they were dissimilar in rates, exemptions and deductions'.[4]

At the turn of the century, though, customs and excise duties remained the dominant tax bases, accounting for three-quarters of tax revenue, although the colonies also had substantial revenue from business undertakings.

**Table 2: Pre-Federation Colony Taxes (1896-97, $m*)**

| | NSW | Vic | Qld | SA | WA | Tas | Total |
|---|---|---|---|---|---|---|---|
| **Taxation** | | | | | | | |
| Customs and excise | 3.0 | 4.0 | 2.5 | 1.3 | 2.2 | 0.7 | 13.8 |
| Income tax | 0.6 | 0.4 | 0.1 | 0.2 | – | 0.1 | 1.3 |
| Probate duties | 0.3 | 0.2 | 0.2** | 0.2 | 0.1** | 0.0 | 1.0* |
| Stamp duties | 0.4 | 0.4 | ** | 0.1 | ** | 0.0 | 0.9* |
| Land tax | 0.3 | 0.2 | – | 0.2 | – | 0.1 | 0.7 |
| Other taxes | 0.2 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.5 |
| ***Total taxation*** | *4.8* | *5.2* | *3.0* | *1.9* | *2.4* | *0.9* | *18.1* |
| **Business undertakings** | | | | | | | |
| Post and telegraphs | 0.0 | 0.0 | −0.1 | 0.1 | −0.2 | 0.0 | −0.1 |
| Railways and tramways | 3.1 | 2.1 | 0.9 | 0.8 | 0.7 | 0.1 | 7.6 |
| Public lands | 3.8 | 0.8 | 1.0 | 0.4 | 0.8 | 0.1 | 6.9 |
| Other revenue | 1.6 | 1.0 | 0.4 | 0.6 | 0.2 | 0.1 | 3.9 |
| ***Total business*** | *8.5* | *3.9* | *2.2* | *1.9* | *1.5* | *0.3* | *18.3* |
| **Total revenue** | 13.3 | 9.1 | 5.2 | 3.8 | 3.9 | 1.2 | 36.4 |

Source: Mathews and Jay, Table 5, p. 32.
* Converted from £s (2:1).
** Probate duties and stamp duties not separated for Qld and WA.

### *Early Years of the Federation*

The negotiations to bring about Federation in 1901 became centrally articulated in Australia's Constitution, which laid out the federated nation's architecture and law-making responsibilities. As Sawer explains:

> The Constitution combined responsible democratic parliamentary government on the British model … with a federal distribution of powers between the Commonwealth and the six State governments on the general line of the constitution of the U.S.A., the Commonwealth being given a list of specific powers and the States retaining the undefined residue.[5]

While the states may not have intended for the Commonwealth to be as dominant as it became, in reality the Constitution gave it the key economic powers. The Commonwealth was provided with substantially unrestricted taxation powers, subject to not discriminating between states. The states were provided with concurrent powers, except with customs and excise where the Commonwealth's powers were exclusive. Giving the biggest tax base exclusively to the Commonwealth enabled interstate duties to be removed and a uniform rate to be applied across the nation but also created an immediate fiscal imbalance with the states.

The states were left to develop their other taxes - land tax, probate duties, stamp duties and fledgling income taxes. With these raising limited revenue, they were heavily reliant on distributions from the Commonwealth. This was managed for the first decade by the 'Braddon' clause, requiring three-quarters of customs and excise revenue to be provided to the states[6], and from 1911 by grant payments of 25 shillings per capita.

The realities of a developing nation meant governments faced increasing pressure to raise more revenue – the Commonwealth for its economic and social policy roles, not least in dealing with the Great Depression and two world wars, and the states for their nation-building infrastructure programs. These revenue needs, coupled with protectionist sentiments, underpinned ongoing growth in customs and excise duties, which remained the largest tax base until World War II.

In a portentous development for the states, in 1910 Andrew Fisher's Labor government introduced a land tax on unimproved values,[7] with its progressive nature intended to break up large landholdings. This Commonwealth move into a tax base beyond customs and excise was seen as an encroachment by the states but the High Court upheld its constitutional validity,[8] a significant affirmation of the Commonwealth's powers which would be relevant a generation later in the uniform tax legislation case.[9]

### *World War I*

World War 1 (1914 - 1918) presented the first great challenge for the Australian Commonwealth including finding ways to finance the war effort. Substantial increases in both revenue and borrowings were required. The Commonwealth duly increased its revenue with an expanded land tax, an estate duty and, most substantively, an income tax in 1915. Tax revenue doubled from £17 million in 1914-15 to £33 million by 1918-19.

The Commonwealth income tax was simple in its construction, taxing ordinary concepts of income derived by a person or a company in Australia, while allowing for related deductions. The entire *Income Tax Assessment Act 1915* was only 22 pages long[10] but did have some interesting features.

Taxable income was that derived in the relevant financial year from all sources in Australia.[11] It included business profits, dividends, interest, inheritance, royalties, salaries, 5 per cent of retirement lump sums and 5 per cent of house values (effectively, a tax on imputed rent).[12] There was no specific provision for the taxation of capital gains. Regarding company income, there was a deduction for distributed profits[13] which were taxed as dividends in the hands of shareholders, thus preventing double taxation.

Deductions were allowed for expenses incurred in gaining taxable income,[14] which included other taxes such as state income tax, life insurance and superannuation contributions, property expenses, depreciation of capital and gifts over £20.

Robert Ewing, Commissioner of Taxation from 1917 to 1939,[15] said the legislation was broadly modelled on the state Acts: 'It was desired at that time to have an Act which conformed as closely as possible to all the State laws in order that taxpayers should not be confused more than could be helped through the introduction of a new taxing measure'.[16]

The tax rate scales were provided in the (two-page) *Income Tax Act 1915.* Designed by the Commonwealth Statistician, Sir George Knibbs, they were innovative in the inclusion of a mathematical equation to define the average (rather than marginal) tax rate. Personal exertion income was subject to a continually increasing average tax rate up to £7600[17] which resulted in an also continuously increasing marginal tax rate. The equation was:

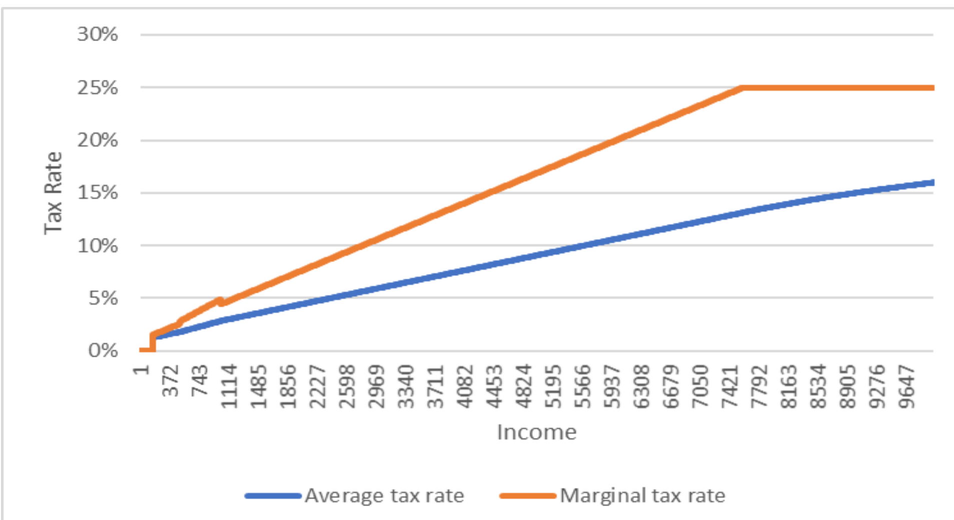
$R$ = (3 + (3/800)*$I$)pence

where $R$ = average tax rate (pence/pound), $I$ = taxable income in pound sterling

A general exemption on the first £156 of income[18] was fully available up to £500, then clawed back at a rate of £3 in every £10 up to £1020. Above £7600, the marginal tax rate was 60 pence in the pound (25 per cent).

This 'Knibbsian' tax scale was highly progressive,[19] with little or no tax paid by most wage earners. As Figure 1 shows the average tax rate didn't reach 2 per cent until income was over £600, with 3 per cent kicking in over £1000. With a minimum wage of 7 shillings a day (around £109 a year) having been set in the 1907 Harvester case, and an average male wage of £147[20] in 1915, the tax was designed to place the main burden on high-income earners.

**Figure 1: Commonwealth (Knibbsian) Income Tax Rates, 1915**




Source: Calculations derived from *Income Tax Act 1915*, First Schedule.

* The raised marginal tax rate visible between £500 and £1020 is the claw back of the £156 exemption.

In introducing the Bill, William Hughes as Attorney-General argued that high progressivity was a counter to the more regressive nature of indirect taxes and other charges: 'My point is the man who receives £156 a year pays … from one-third to twice as much in proportion to their income as the men who will have to pay taxation under this measure'.[21]

Income from property was subject to a separate series of continually increasing average tax rates designed to apply higher rates of tax on such income.[22] Companies were taxed on undistributed income at a flat rate of a shilling and sixpence per pound (7.5 per cent).[23] Hughes said the relatively low tax rate on company income was designed to distinguish between production and consumption: 'The Bill draws a very sharp distinction between that portion of wealth used for production, and that portion of wealth over and above that which is necessary for maintenance – which is, in short, devoted to luxury'.[24]

The interaction with state income taxes was interesting. They had moved to more progressive rate structures over time, although not to the extent of the Commonwealth; for example, by the early 1920s the Victorian rate scale consisted of four steps, from 1.25 per cent on the first taxable pound, to 2.9 per cent above £1500.[25] With state income taxes being deductable, and generally having lower rates at higher incomes, the Commonwealth tax raised most of its revenue further up the income scale.

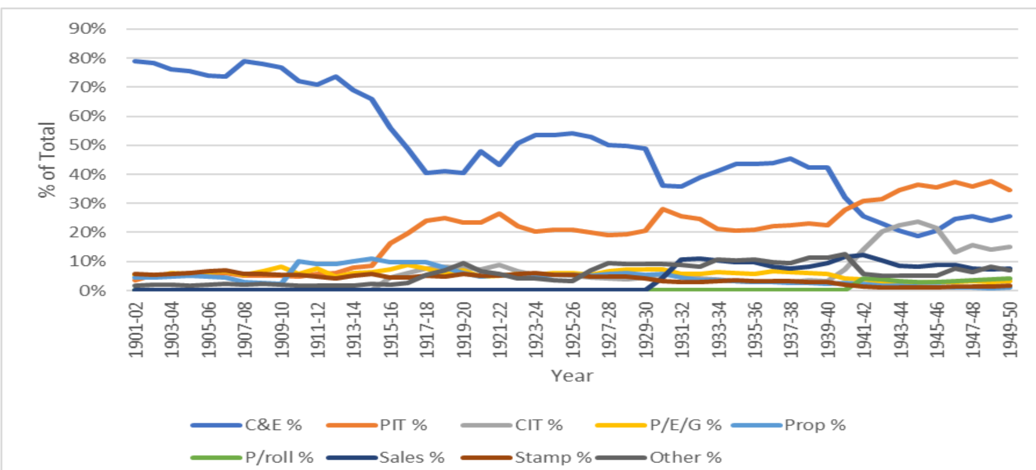
Over the course of WWI and its aftermath, with customs duties hit by falling imports, Commonwealth income tax rates increased significantly but were then partly unwound: collections increased from £8 million in 1915-16 to a peak of £34 million in 1921-22 (around a third of Commonwealth tax revenue), before falling back to £22 million in 1923-24.

### *Post–World War I*

With demand for public services continuing to grow, the two levels of government were increasingly competing for tax bases. Each was levying land taxes and probate duties, but it was income tax, with its greater revenue-raising capacity, that became the focus of competition.

Figure 2 shows the growing dominance of income tax and the relative decline of customs and excise over the first half-century of federated Australia. Figure 3 shows the increasing total tax take over this time, driven by the growth in income tax.

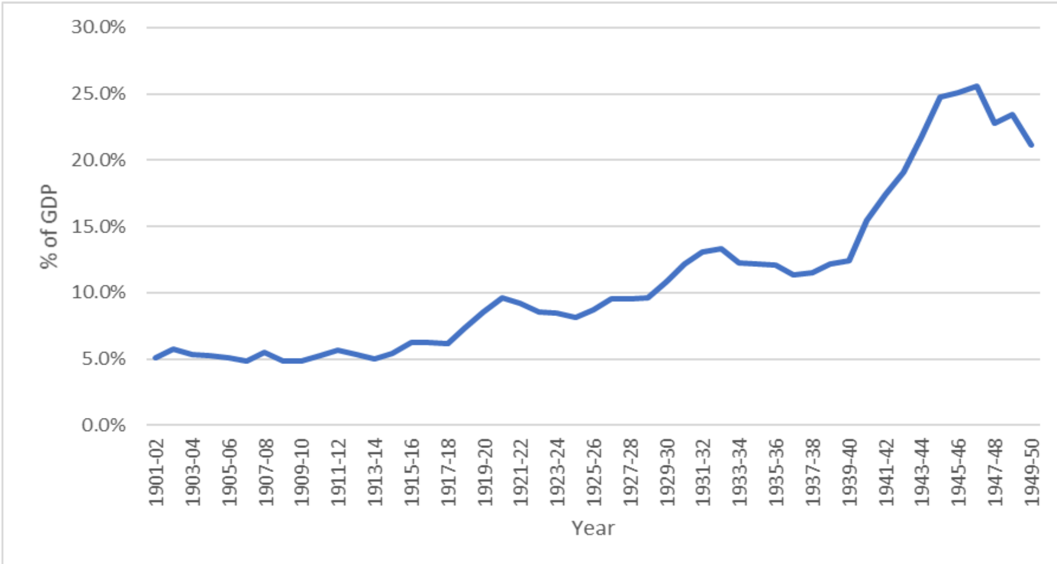
**Figure 2: Commonwealth and State Taxes Combined: %s of Total, 1901-02 to 1949-50**




Source: CBCS and ABS publications.

C&E (customs and excise), PIT (personal income tax), CIT (company income tax), P/E/G (probate/estate/gift)

**Figure 3: Total Tax/GDP: Commonwealth and State Combined, 1901-02 to 1949-50**




Source: CBCS and ABS publications.

The history of Australia's tax systems up to the early 2000s is covered comprehensively in Julie Smith's *Taxing Popularity: the Story of Taxation in Australia*. This paper will focus on the dynamics of Australia's tax reform exercises.

***Institutional Arrangements***

The growing size and sophistication of Australia's taxes necessitated commensurate revenue-collecting and advisory bodies. The first state treasury was established in Sydney as the Colonial Treasury in 1824, and in time the other colonies established their own treasuries, with accounting, budgeting, taxation and audit functions. These treasuries continued after Federation and were integral to the early operations of the Commonwealth Treasury and management of federal finances.

The colonies also established various revenue-collecting agencies which became consolidated in state revenue offices as their taxes developed, especially with the move into income tax. These likewise continued after Federation, albeit without the responsibility for customs and excise, with those resources moving to the Commonwealth.

The Commonwealth Department of the Treasury was created at Federation in 1901 as the government's budget manager and administrator.[26] This included responsibility for revenue raising, although customs and excise duties were collected by the Department of Trade and Customs.[27] However, in its early decades Treasury did not have a significant policy role and was not a major player in the tax reform processes.

A Commonwealth Tax Office was established in 1910 when land tax was introduced, initially as a branch of Treasury reporting to a Commissioner of Taxation.[28] As the Commonwealth's taxes expanded, this office likewise grew and in time became the Australian Taxation Office (ATO).

Commonwealth–state relations were coordinated through regular premiers' conferences, with financial matters also dealt with at heads-of-treasuries meetings. Formal Loan Council and Grants Commission processes were put in place in 1927 and 1933 respectively.

***Overlapping Responsibilities***

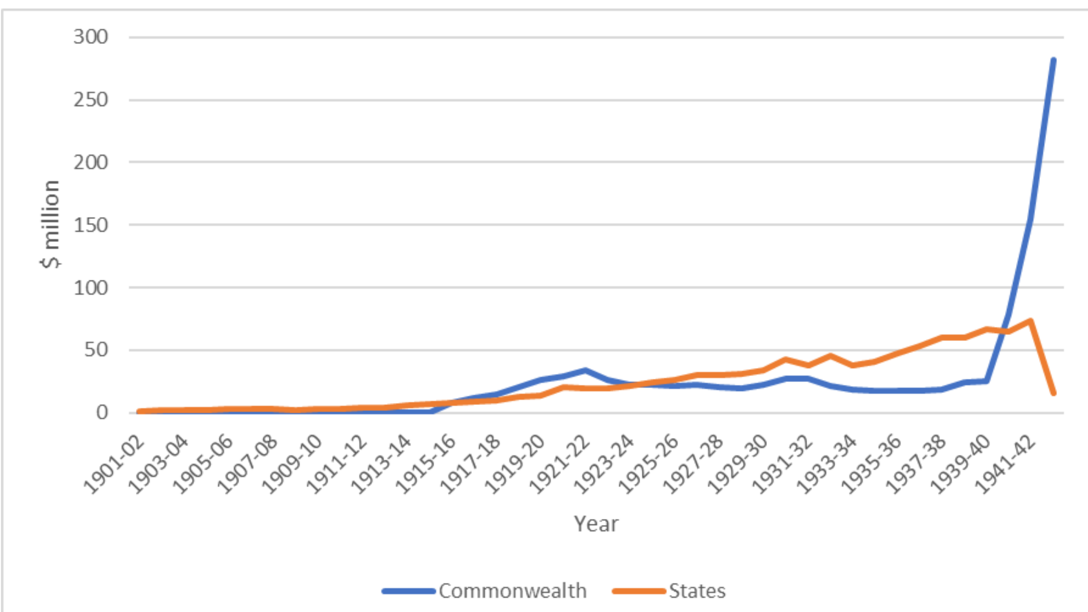
With the Constitution leaving significant jurisdictional overlaps, the first decades of Federation were marked by efforts to clarify Commonwealth and state responsibilities and indeed the size and nature of government in Australia.

The states had developed their own constitutions in the 19th century, but s109 of the Australian Constitution provided that 'When a law of a State is inconsistent with a law of the Commonwealth, the latter shall prevail'.[29] Aitken and Orr hence argue the Commonwealth has generally been the more powerful partner and note that, in construing the Constitution, the High Court has applied a relatively broad interpretation to Commonwealth powers.[30]

As demands on governments increased, the significance of the overlaps amplified. On expenditures, the Commonwealth commenced age and invalid pensions in 1909 and 1910 respectively and then faced major defence outlays through the two world wars. On taxes, overlaps of land tax and estate duty weren't particularly onerous and were resolved over time while the Commonwealth didn't develop stamp duties.

With income tax, though, the overlap was a problem for taxpayers dealing with two levels of tax law and administration. Even before the Commonwealth income tax, the state taxes were seen as 'uneasy bedfellows'.[31] Julie Smith also notes the lack of consistency: 'The various state dividend taxes, company taxes and personal income taxes produced a veritable tangle of income taxes across Australia'.[32] This duplication intensified as income tax collections increased in the 1920s.

**Figure 4: Commonwealth and State Income Taxes, 1901-02 to 1942-43 ($m)**




Source: CBCS and ABS publications.

The lack of tax uniformity across federated Australia reflected the lack of an agreed tax policy framework, with governments driven by a mix of tax design motivations. Writing in 1924, Sir Douglas Copland said, 'Some governments have attempted to use taxation as an instrument of social change, while others have been content to adopt the line of least resistance. In this way a great diversity has arisen, making very difficult any attempt to promote uniformity'.[33]

Adding to the lack of consistency and taxpayer frustration were regular, uncoordinated amendments to Commonwealth and state legislation, and the addition of new Acts with special income taxes devoted to particular causes. At the Commonwealth level, there were new income tax Acts in 1922[34] and 1936,[35] with amending Acts in other years.

These concerns over non-uniformity of taxes were overlaid with broader fiscal issues of commonwealth versus state control of tax bases and questions of governments' overall size and revenue needs.

### *A Desire for Greater Uniformity*

The appeal of more uniform tax laws was generally recognised. Federation had brought interstate free trade and greater evenness in industrial relations but income tax duplications remained a frustration. The desire for greater uniformity was manifest in two dimensions: the definition of the tax base; and the administration of tax collections.

The most intractable issues lay with the tax base, that is, the definition of taxable income where significant revenue was at stake in any changes. Even finding common ground on the tax administration issues - tax returns and tax-collecting authorities - proved difficult.

With the issues unresolved, Commonwealth royal commissions on taxation were convened from 1920 to 1923 and 1932 to 1934. As we shall see, though, while these established the case for unification, they were not able to fully break the deadlock. Ultimately, that would take a unilateral war-time move by the Commonwealth in 1942.

## The 1920–23 Royal Commission on Taxation

### *Pathway to the Commission*

A series of Commonwealth–state conferences held from 1916 onwards considered possibilities for more uniform income tax laws and administration, but building consensus was hard.

On instruction from the December 1916 Premiers' Conference, a March 1917 Conference of Taxation Officers designed an income tax Bill that would take the place of the seven Acts in operation, noting that if the Bill were adopted, 'the form of return of income to be filled in by taxpayers, both for Commonwealth and State purposes, will be in all respects uniform, and the irritating and confusing differences (to the taxpayer) done away with'.[36]

However, the draft Bill was not substantially progressed by governments. With the country still at war, political fluidity and the relative powers of governments in the Federation still being established, there was a reluctance to cede anything. Further conferences of premiers and treasurers in 1918 sought additional advice from tax officers on ways to streamline tax administration, at least, but made little substantive progress.

A January 1919 conference of Commonwealth and state ministers contemplated a joint department to administer the various tax Acts but could not agree on control arrangements for such an authority. The Commonwealth Treasurer, William Watt, offered for the Commonwealth to collect the states' direct taxes, at a third of the cost, but the states were not prepared to cede any fiscal control or flexibility. The offer was repeated by Prime Minister William Hughes at a Premiers' Conference in July 1920, and Western Australia subsequently accepted.

That Premiers' Conference also appointed a Board of Inquiry, consisting of the Hon. James Ashton MLC of NSW (Chair), Robert Ewing (Commonwealth Commissioner of Taxation) and R. M. Weldon (State Commissioner of Taxes for Victoria), to report on possibilities for one tax-gathering authority and one form of tax return. The board's February 1921 report proposed as a principle that 'To be acceptable to both State and Commonwealth Governments, any scheme for the collection of taxes by one authority should preserve to the respective Governments, inviolate and without surrender to any body, all their existing rights in regard to administration and control'.[37]

Views remained split, however, on control of such a body. The majority report (Ashton and Ewing) favoured a model whereby the Commonwealth collected income tax on behalf of the states, along the lines of the Western Australia agreement. The minority report (Weldon) favoured control by a jointly appointed five-member board.

Governments likewise agreed on the concept of greater uniformity and one tax-collecting authority but could not agree on practical form or control arrangements. The states, other than Western Australia, remained concerned that under a commonwealth scheme, 'the sovereign rights of the States appear to be subordinated'.[38] The stalemate continued.

At the heart of the problem was the desire to preserve existing taxing capacities and flexibility. The Commonwealth aspired to enhance its revenue capabilities to advance the federation, including for defence purposes. The states were railing against the Commonwealth encroachment into their areas of tax. With the relative roles and responsibilities of the two levels of government in the Federation still unsettled, and with income tax representing around a third of tax revenues for each of them, neither side was ready to give ground.

Further, these were primarily tax administration considerations. The more substantive issue of unifying policies, and hence the Acts, was not yet being seriously considered.

### *Commissioning the Commission*

In this context, in September 1920 the Hughes Nationalist government appointed a royal commission[39] to examine federated Australia's overlapping tax arrangements – both the tax policy and tax administration aspects. This was Australia's first major organised attempt at tax reform and the commission was given a broad remit:

> to inquire into and report upon the incidence of Commonwealth taxation, and into and upon any amendments which are necessary or desirable with a view to placing the system of taxation upon a sound and equitable basis, having regard generally to the public interest, and particularly to
>
> - The equitable distribution of the burdens of taxation;
> - The harmonisation of Commonwealth and State taxation;
> - The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions; and
> - The simplification of the duties of taxpayers in relation to returns and in relation to objections and appeals.[40]

The chair was Warren Kerr (businessman and government adviser[41]) and the other commissioners were John Garvan, John Jolly, John Farleigh, William Missingham, John Thomson and Stephen Mills, with Maurice Duffy also engaged for specific matters. They were not tax policy experts but rather, as Copland noted, 'representative of the commercial, farming and labour interests, and though some were recognised as close students of economics and had carried out social and economic investigations for the government, there was no recognised economist as such'.[42]

With its royal commission powers and time frame, the commission examined the issues thoroughly and took views and advice from governments, stakeholders and economic and public finance experts. It enlisted the assistance of state revenue officers, held 118 public sittings and examined 191 witnesses[43], producing five reports over three years covering the full range of issues faced by the federation's tax systems. (Appendix A provides summarised details.)

The first report on 2 November 1921 dealt with some specific primary producer and mining issues. The third on 4 August 1922 dealt largely with deductions. The fourth on 13 June 1923 dealt with land taxes. The fifth and final report on 13 June 1923 dealt with estate duties and entertainment taxes.

The most substantial, and contentious, issues around tax harmonisation were addressed in the second report on 13 April 1922.[44] Deliberating in the wake of several years of failed negotiations, the commission's focus was on the 'evils arising from duplication and complexity', stating that the main consideration should be

> **the sovereign right of Australian taxpayers to have the mechanism of taxation so designed and controlled as to impose the minimum of inconvenience and involve the minimum of cost.**[45] (original emphasis)

The foremost areas of tax duplication at that time were the direct taxes, namely income tax, probate duties and land tax. The commission's focus was on income tax.

### *The Nature of the Problem*

The diversity of policy objectives pursued by jurisdictions in the development of their taxes had resulted in substantial differences in basic tax design features.

The starting point for any tax design is the tax base; that is, what will be taxed. One marked difference between jurisdictions was in the taxation of dividends: the Commonwealth taxed companies on undistributed income, with dividends taxed in the hands of shareholders; while the states generally just imposed a flat tax rate on all company income, with dividends exempt for shareholders.[46]

The next design issue is tax rates and these had evolved in different ways. The states generally started with a flat rate on personal income above a general exemption but as Table 3 shows had moved to more progressive rates over time, especially after the Commonwealth entered the field with its own highly progressive rate scale.

**Table 3: Tax Rates, 1922**

| | NSW | Vic | | Qld | SA | WA | Tas | C/W | NZ | UK |
|---|---|---|---|---|---|---|---|---|---|---|
| Top MTR (%)* | 12.5 | 2.9 | | 18.0 | 11.5 | 23.0 | 6.9 | 42.7 | 44.0 | 60.0 |
| Threshold (£) | 9700 | 1500 | | 4000 | 10,000 | 7766 | 2000 | 7600 | 10,000 | 30,000 |
| Steps | 6 | 4 | | Cont. | 5 | Cont. | 9 | Cont. | Cont. | 13 |

Source: Royal Commission on Taxation (1920–23), pp. 95–6.

* Including special taxes.

A tax unit also has to be defined and jurisdictions mainly chose the individual for personal tax, thus taxing a husband and wife separately in a departure from the British law at the time.[47] The separate taxation of companies recognised them as legal entities, although the Commonwealth approach of exempting dividends showed an intent to recognise the individual shareholder as the primary tax unit.

The time period for measuring taxable income was the financial year: 1 July to 30 June. The colonies originally followed the then English time frame of the calendar year before moving to the financial year in the latter part of the 19th century – to avoid parliament needing to sit over the summer months to pass a budget.[48] Averaging provisions were, however, provided - in

1922 the Commonwealth allowed for incomes to be averaged over five years[49] and South Australia originally averaged over three years.[50]

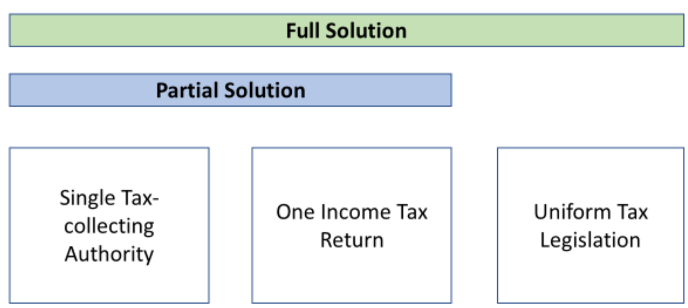
### *The Commission's View*

A particular focus of the royal commission was taxpayers with income in multiple jurisdictions, particularly companies: 'State Taxation authorities find great difficulty in dealing with the question of apportionment of Company profits made partly in one State and partly in another'.[51] Federation had provided for freedom of trade and capital and labour movements, but the web of different income tax systems had become an impediment to that.

Commission witnesses expressed their frustration with tax administration and compliance costs, with an estimate of £1,000,000 pa in taxpayer compliance costs being referenced,[52] in addition to the £750,000 pa funding of the taxation departments.[53]

Having expounded in some detail the problems caused by the lack of uniformity of Australia's income tax systems, and the previous unsuccessful efforts to address this, the commission identified three aspects of potential reform: 'securing uniformity of taxation legislation, the creation of a single collecting authority, and the adoption of one form of Income Tax return'.[54] Figure 5 illustrates how these represented partial and full solutions to harmonise commonwealth and state income taxes.

**Figure 5: Full and Partial Income Tax Solutions**




Partial solutions addressed the administrative aspects of the problem – the tax-collecting authority and the tax return – but left both levels of government levying income tax. With this, the commission paid significant attention to the 1921 Board of Inquiry deliberations which had established principles for bringing the collection and administration arrangements under the control of one body and with one amalgamated income tax return.

The commission's view, however, was that this partial solution gave insufficient weight to what it had set as the main consideration – the sovereign right of taxpayers to experience a minimum of inconvenience and cost in paying their taxes. It preferred a full solution that addressed all three aspects of reform, arguing for delimitation of the assignment of different direct taxes – income, land and probate – in full to one or the other level of government.

> **Any scheme of harmonisation or amalgamation which still leaves Commonwealth and State authorities both demanding revenue from the same people by the same**

> **mode of taxation can at best be only an imperfect remedy for the existing disabilities. There was practical unanimity of opinion among witnesses that a delimitation of spheres of taxation was desirable. The members of the Commission are of the opinion that only by a delimitation of spheres or allocation of subjects of taxation between the Commonwealth and the States can an ordered and satisfactory system of taxation be brought into being in Australia.**[55] (original emphasis)

While this was an accepted principle, reaching agreement on which level of government income tax should be allocated to remained contentious. The commission considered but did not support the allocation of income tax to the states, arguing this would be too great a curtailment of the Commonwealth's powers:

> The permanent exclusion of the Commonwealth from the whole field of direct taxation would tend to weaken the sense of responsibility of the citizens to the Commonwealth Government, a result which, in view of the paramount responsibilities of that Government and its financial needs arising out of the War, would be particularly undesirable.[56]

The commission instead concluded that minimising the inconvenience and cost to Australian taxpayers would best be achieved by having income tax raised exclusively at the Commonwealth level and land tax exclusively at the state level. It argued this view was supported by a majority of stakeholders:

> **The majority of witnesses agreed that the levying of Income Tax would be more appropriate to the Commonwealth than to the States, and in this view your Commissioners concur.**[57] (original emphasis)

The commission was influenced by the growing importance of interstate trade and the consequent difficulties for state-based income tax legislation and revenue authorities, especially with the apportionment of company profits.[58] It was also influenced by the Commonwealth's constitutional responsibility for defence expenditures and associated that with full access to taxing powers: 'The Constitution places upon the Commonwealth Government the sole responsibility for defence and for other national services, and, at the same time, as one means of discharging that responsibility, confers on that Government full powers of direct taxation'.[59]

The commission was conscious of the fiscal significance of income tax to each level of government and recommended a transitional delimitation of taxing spheres over 10 years[60] and that the Commonwealth provide reasonable financial assistance to the States.[61]

The Commission's final recommendations were as follows:

> For the sake of clearness, we repeat that, as the ultimate and permanent solution of the problem, in our opinion
>
> (a) An allocation of subjects of direct taxation between the Commonwealth and the States should be made.
>
> (b) The power to impose Income Tax should be exclusively vested in the Commonwealth.
>
> (c) The power to impose other existing forms of direct taxation – Land, Probate or Succession, Entertainments – should be exclusively vested in the States, subject only to the overriding powers of the Commonwealth in the case of War.[62]

***Government Response***

By the time of the commission's final report in June 1923[63] the political environment was very different from when it was commissioned. There had been a realignment of government, with Hughes replaced as Prime Minister by the leader of a new Nationalist–Country Party coalition, Stanley Bruce, with Sir Earl Page as Treasurer.

Negotiations at the political level had been ongoing, with a series of offers and counteroffers. The new Commonwealth government had variously offered to withdraw from income taxation, to restrict its tax to incomes above £2000 and to impose just company income tax in return for ceasing grant payments to the states. Agreement could not be reached, though, partly because a lack of quality statistics obviated a confident assessment of fiscal outcomes.

There was some progress on tax administration. Conferences of Commonwealth and state ministers in 1923 agreed the states (except WA) would administer Commonwealth personal income tax for taxpayers with income in just one state,[64] and the Commonwealth would administer all company tax. But with this leaving the substantive issue of the different statutes unaddressed, it was seen at the time by Copland as a retrograde step:

> It is generally admitted that the federal taxation department was efficiently organised and that it offered more protection to the revenue than the State departments. In view of this and of the inevitable centripetal developments of federal government, this agreement would appear to be a step backwards.[65]

There were, nonetheless, some noteworthy Commonwealth changes in 1923, partly driven by a desire for greater uniformity. The company income tax rate was lowered to 5 per cent, and the exemption for distributed income replaced by an exemption for shareholders if their tax rate was less than the company tax rate, or a rebate equal to the company tax rate if their tax rate was higher than that.[66]. In introducing the Bill as Treasurer, Page said:

> The great difficulty in the past in securing a uniform return, or in simplifying the system of collection, was due to the great divergence of opinion that existed between the Commonwealth Government and the States as to taxation of dividends at their source. The Commonwealth practice was to follow the dividends into the hands of their shareholders, and to disregard the companies so far as the distributed profits were concerned, but to impose a tax on undistributed profits; while the States imposed a flat rate on the companies' profits, and, with the exception of Western Australia, did not follow their dividends at all.[67]

While not making the rebate available to shareholders with a personal tax rate lower than the company tax rate meant they faced a higher tax rate on their dividends than other income, this was offset by not taking the dividend income into account in calculating their personal marginal tax rate. The provision for the taxation of imputed rent was also removed in 1923, and consequently so were the deductions for repairs and mortgage interest.[68]

In regards to income tax unification, several more years of unfruitful negotiations followed. In 1926 the Commonwealth reverted to proposing arrangements similar to the commission's recommendations, but the states remained steadfast in their resistance. The issue of the assignment of income taxes remained unresolved. Sawer observed that this was a frustrating period for Page as Treasurer, involving 'a long process of negotiation, bluff and counterbluff, which reached no issue'.[69]

There was, however, some consolidation of broader Commonwealth–state financial relations. In addition to the tax allocation issue, there had not been a satisfactory resolution of the arrangements for Commonwealth financial support to the states since the 25 shillings pc grant payments had been put in place in 1911. Further, both levels of government had needed to raise significant debt and found themselves competing in capital markets.

In 1927 it was agreed that in place of grant payments, the Commonwealth would take over state debts, with future debt management handled by a formal Australian Loan Council. These arrangements were ratified in the *Financial Agreement Act 1928*. The Commonwealth continued to make additional payments to the less populous states, though, until a more rigorous system was developed with the 1933 creation of the Grants Commission.

### ***Lessons in Tax Reform***

The work of this first Royal Commission on Taxation was extensive and thorough. The quality of its analysis was good, with the tax policy issues broadly considered in terms of the public finance criteria of efficiency, equity and simplicity. Ultimately, however, the problems were political with governments still manoeuvring over their roles in the federation and the commission's work was not able to substantially impact on that in the short term.

I will assess the 1920–23 Royal Commission on Taxation as a tax reform exercise against the five criteria set out at the beginning of this paper.

#### *Terms-of-Reference and Panel*

The commission was given a broad remit to examine Australia's tax systems and with its powers and timeframe was able to do so thoroughly. However, while this breadth enabled it to consider the issues holistically, it probably detracted from timeliness and an ability to focus on the key duplication issues. The commissioners were not tax policy experts but were able to draw on witnesses and other evidence to produce a good analysis of the tax policy issues at stake.

In summary, the open terms-of-reference and large panel made for a searching review that established principles for reform. A smaller panel with more of its own expertise and a narrower remit might have enabled the commission to be more timely, focused and influential in the short term.

#### *Gathering of Evidence and Calling of Witnesses*

The commission used its powers and resources to assemble the first comprehensive assessment of Australia's federal tax systems. The tax policy and administration issues were covered well with input from governments, stakeholders and economic and public finance experts. The commission compiled significant data on the Commonwealth and state tax systems, as well as other countries, at a time when good-quality statistical data was still being developed. It was hampered, though, by limited information on the fiscal impacts of policy options.

Overall, this body of evidence provided a good basis for future research and policy development, even if the commission's reports were not immediately influential.

#### *Timeliness and Relevance*

Over the three years of the commission's work there was a change of treasurer and prime minister, a realignment of government and a change in the momentum of the political debate. The commission reports thus lacked a strong connection with the dynamic of Commonwealth–state political relations of the time and were not able to be an effective agent to support negotiation of a solution in that dimension. Then again, no other body, including Treasury, could engineer this at that time.

In summary, the lack of timeliness and political relevance of the commission reports detracted from their short-term policy influence.

*Approach to Analysis of Issues*

The commission, perhaps surprisingly given its composition, employed a good public finance framework in its analysis, broadly using economic efficiency, social equity and administrative and compliance simplicity as its main criteria to assess the tax systems and tax policy options.[70] The commission's five reports were thorough and logical in their analysis of the issues, making good use of expert witnesses and previous inquiry work. They also made use of international comparisons, particularly with the UK, the USA and New Zealand.

The commission's analysis was high quality providing a good platform for future work.

*Quality of tax policy outcomes*

There was little tax reform immediately after the commission that could be attributed directly to it, other than on some relatively minor and specific issues. It would prove, though, to be an important stepping stone to subsequent reform exercises.

***Conclusion***

Australia's first attempt at a formal tax reform exercise produced thorough, high-quality analysis and reporting, but its lack of timeliness and relevance to the contemporary political environment rendered it ineffective in short-term policymaking. Still, the comprehensiveness of the evidence and data assembled and the rigour of the analysis meant the commission reports laid the foundation for the more determinative processes that were to come.

While royal commissions are probably not the right vehicle to advance immediate tax policy reforms, they can be a good way to elicit evidence and bring thorough consideration to detailed issues. In that sense, on policy issues they are more suited as foundational reviews that can underpin subsequent determinative reform exercises.

## The 1932–34 Royal Commission on Taxation

### *Pathway to the Commission*

After the fruitless political negotiations prior to and following the 1920–23 Royal Commission, Commonwealth–state financial relations had been addressed in the *Financial Agreement Act 1928*. The Australian economy was struggling, though, with falling agriculture prices, increased overseas competition and large debt. The Wall Street stock market crash on 29 October 1929 then triggered the worldwide Great Depression.

In these pre-Keynesian days, with no accepted strategy to deal with such an economic downturn, the debate was between 'reflationists' who wanted to stimulate the economy and 'deflationists' who wanted to balance the budget.[71] Ultimately, Australia's Premiers' Plan largely pursued a strategy of balancing budgets, including raising taxes which accentuated the tax overlap problems.

The Commonwealth increased customs duties in an ineffective counter to falling imports, and it was joined by the state governments in increasing income taxes by applying special taxes and surtaxes. The Commonwealth also introduced a sales tax in 1930[72], generally at the wholesale level – initially at 2.5 per cent, then at 6 per cent in 1931. This was Australia's first foray into a broader-based consumption tax beyond customs and excise duties.

The debate over how to respond to the Depression ultimately split the Labor Party. The newly formed United Australia Party (UAP) then won the December 1931 election, with Joseph Lyons installed as Prime Minister and Treasurer. It continued implementation of the Premiers' Plan and consideration returned to addressing the tax overlap problems.

### *Commissioning the Commission*

In October 1932, the Lyons government established another Royal Commission on Taxation[73] to again consider the 'simplification and standardisation' of income and other direct taxes by the Commonwealth and state governments. There were just two commissioners this time: David Ferguson (ex-Judge, Supreme Court NSW[74]) as Chair, and Edwin Nixon (a chartered accountant).

The commission was asked

> to inquire into and report upon the simplification and standardisation of the taxation laws of the Commonwealth and the States in as far as they relate to substantially the same subject matters of taxation, as for instance income tax, land tax and death duties; and, in particular, to make recommendations for the purpose of obtaining uniformity in legislative provisions, including provisions relating to procedure and forms of returns.[75]

Building on the work of the 1920–23 royal commission, these terms-of-reference went more specifically to unifying legislative provisions. Again, the commission consulted widely, holding public sittings in each capital and examining 136 witnesses.[76] (Appendix A provides summarised details.)

The commission produced four reports over two years. The first on 12 January 1934 dealt with company tax and dividend distributions. The second on 5 February 1934 dealt with personal income tax. The third on 12 April 1934 dealt with a range of business tax issues. The fourth on 28 November 1934 dealt with death duties and land tax.

The commission stated its view of the tax principles that should be strived for:

> **In devising a Taxation Act, regard must be had to three basic principles, viz., the requirements of revenue, equity and simplicity.** The primary purpose of a taxation law is, of course, to obtain revenue, and that must be borne in mind when considering the amendments or concessions that should be recommended. Theoretical equity is unattainable, and the attempt to attain it involves a sacrifice of simplicity and convenience out of all proportion to the value of the results achieved. Equity as applied to taxation is, therefore, a relative term and, for practical purposes, is attained if the burden of taxation is fairly distributed over all classes of taxpayers in such a manner as not to confer an undue advantage upon a particular class or number of classes.[77] (original emphasis)

The commission worked with state treasuries and tax offices as it grappled with 'the diversities of form, arrangement and language of the taxation laws of the Commonwealth and States'[78] and also commissioned a report on Great Britain's income tax laws. Again, the most significant issues were around income taxes.

### *Company Income Tax and Dividends*

The most contentious company income tax design issue for the commission was the treatment of dividends: 'Over-shadowing everything else is the method of taxing dividends from companies in the hands of shareholders'.[79] As Table 4 shows, jurisdictions took different approaches to preventing the double taxation of dividends, with the Commonwealth using systems to tax distributed profits at shareholders' marginal tax rates, while the states generally applied tax just at the company level.

**Table 4: Approaches to Taxing Companies and Dividends, 1932**

| Jurisdiction | Approach |
|---|---|
| Commonwealth (1915–22) | Company taxed on undistributed profits at flat rate. Shareholders taxed on dividends. |
| Commonwealth (from 1923) | Company taxed on all profits at flat rate. Shareholders taxed on dividends with rebate equal to the lower of company tax rate or shareholder's tax rate. |
| Victoria | Company taxed on all profits at flat rate. Dividends tax exempt to shareholders. |
| NSW and SA | Company taxed on all profits at graduated rates. Dividends tax exempt to shareholders. |
| Queensland | Company taxed on all profits at graduated rates based on profits/capital ratio. Dividends tax exempt to shareholders. |

Source: Royal Commission on Taxation (1932–34), pp. 7–11.

The commission broadly supported the Commonwealth system with companies taxed at a flat rate on all profits and the shareholder receiving a rebate, noting two desirable features.

> (1) The greater part of the tax payable by the Company and its shareholders is collected in the easiest and most convenient manner, that is from the Company. (2) Tax is paid on the total taxable profits of the company at a rate not less than the company tax rate.[80]

This system was akin to an imputation system, although with the rebate set at the lesser of the company tax rate and the shareholder's marginal tax rate, lower-income shareholders faced a higher tax rate on their dividend income than on other income. The commission defended this feature of the scheme: 'The shareholders of a company by their association in a corporate body get the benefits which under the law are incident to incorporation, and we think it not unreasonable that they should pay something for these privileges'.[81]

The commission was concerned, though, with 'the complexity of the Commonwealth system, and the helplessness of the taxpayer, even one with expert knowledge of taxation, to check his assessments as regards income from dividends and the rebates allowed thereon'.[82] The complexity arose because the dividend rebate was allowed for distributions out of income on which the company had paid tax and this required establishing which years' profits they were sourced from as the company tax rate had varied between 7.5 and 13.3 per cent since 1915.

The commission recommended simplifying the calculation by allowing a standard rebate at the company tax rate for that year.[83]

### *Personal Tax*

The commission was concerned with the complications and double taxation imposed on the community by the lack of harmony between jurisdictions' personal income tax systems and the regular uncoordinated legislative amendments.

> In consequence of these numerous and divergent amendments it is extremely difficult for persons who are subject to Income Tax in the Commonwealth and in one or more of the States to understand the exact nature of the tax they are called upon

> to pay, or to ascertain the state of the law, without the expenditure of a great deal of time and laborious research.[84]

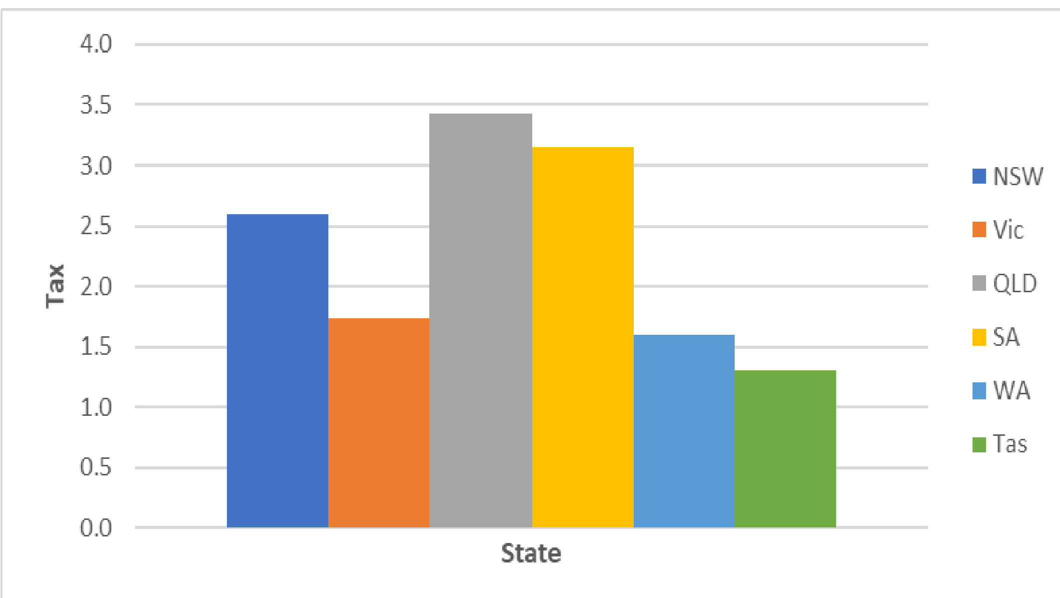
With total personal income tax collections by Commonwealth and state governments having grown from £21 million in 1918-19 to £42 million in 1932-33, it was argued the cumulative effect of increased rates and new forms of taxation had exposed basic design flaws that could previously be glossed over.[85] The commission quoted from Sir Josiah Stamp's *The Fundamental Principles of Taxation*:

> Taxation is now rapidly developing from a merely unpleasant incident into a dominating feature of daily life, and those features which hitherto have been of little interest, because they have been too small to matter, now become of greater importance; the blemishes which were insignificant may now be intolerable simply because in the magnitude of the burden they have become sufficiently magnified or intensified to be within the range of ordinary human feeling.[86]

The commission argued that the problem arose 'because separate Governments are exercising their powers directly in the same field and at the same time, demanding revenue from the same people by the same mode of taxation'.[87] Further, over time the states had diverged significantly in the level and progressivity of their personal income taxes, and the expansion of the Commonwealth income tax had added to the malaise.

Figures 6 shows that in the late 1920s, Queensland, South Australia and New South Wales relied relatively heavily on income tax.

**Figure 6: Income Tax Per Head by State, 1927-28 (£)**




Source: constructed from data in Murphy, p. 278.

Table 5 shows that by the early 1930s, Queensland and NSW were collecting over 60 per cent of their tax revenues from income tax with the other states around half (although this variation was driven more by rates than base).

**Table 5: Income Tax as a Percentage of Total Tax by Jurisdiction***

| | NSW | Vic | Qld | SA | WA | Tas | All states | C/W |
|---|---|---|---|---|---|---|---|---|
| 1934-35 | 60 | 48 | 64 | 45 | 51 | 34 | 55 | 15 |
| 1935-36 | 64 | 48 | 65 | 46 | 59 | 36 | 57 | 14 |
| 1936-37 | 64 | 49 | 65 | 46 | 62 | 42 | 58 | 14 |
| 1937-38 | 65 | 51 | 66 | 51 | 63 | 44 | 60 | 14 |
| 1938-39 | 63 | 52 | 65 | 50 | 65 | 44 | 59 | 16 |
| 1939-40 | 67 | 53 | 65 | 51 | 68 | 46 | 62 | 14 |
| 1940-41 | 68 | 53 | 68 | 56 | 68 | 47 | 63 | 31 |
| 1941-42 | 68 | 56 | 69 | 59 | 69 | 56 | 64 | 43 |
| 1942-43 | | | | | | | 29 | 55 |
| 1943-44 | | | | | | | 7 | 61 |
| 1944-45 | | | | | | | 4 | 64 |

Source: CBCS and ABS publications.

* Includes special taxes.

Within these aggregate variations there were also substantial differences in rate structures and levels of progressivity.[88] Figure 7 shows that Queensland and South Australia's income taxes were the most progressive of the state taxes. Figure 8 shows that the Commonwealth, though, applied the highest rates at high income levels.

**Figure 7: State and Commonwealth Income Tax Scales, up to £800 Income, 1928**

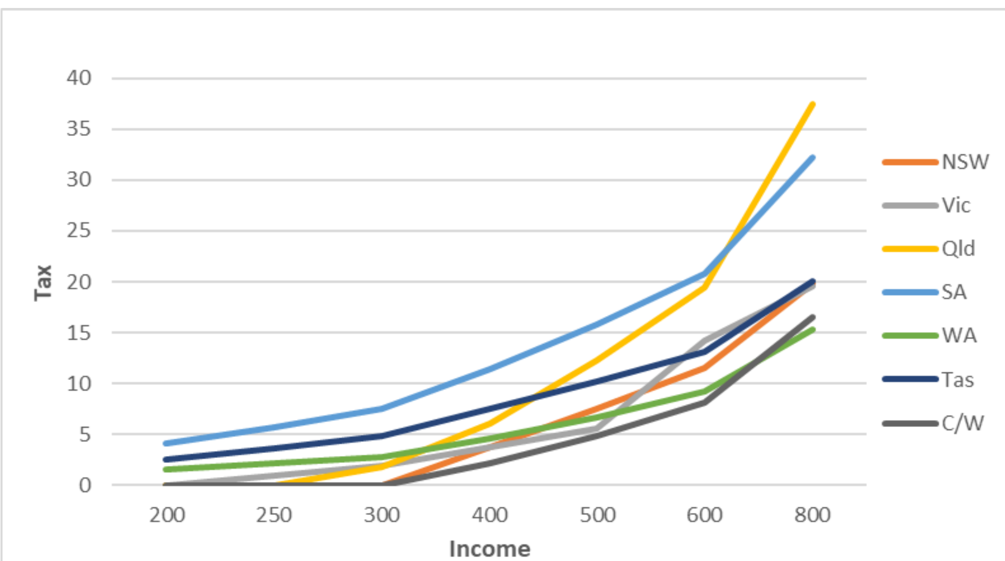
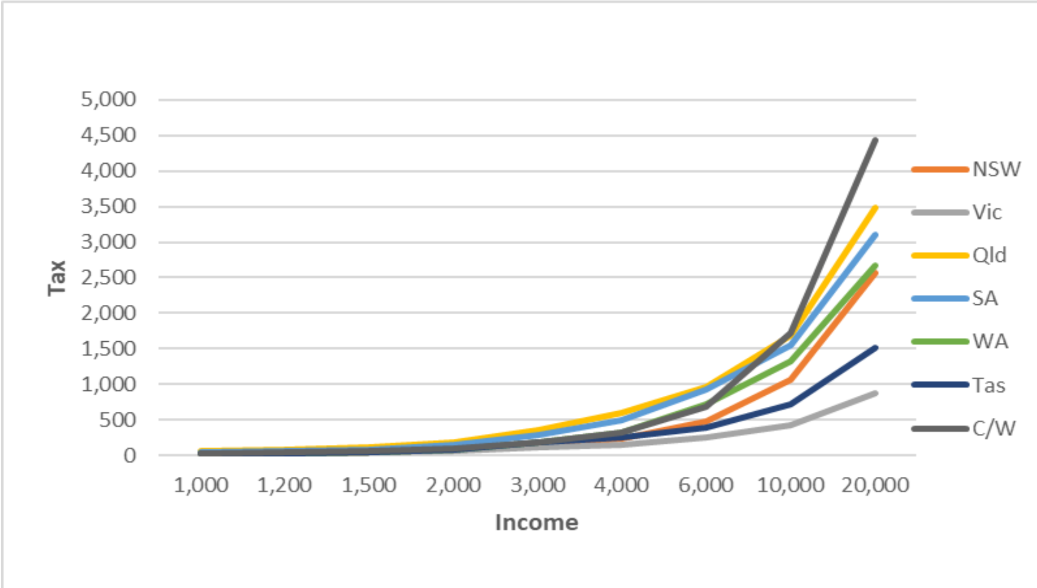


**Figure 8: State and Commonwealth Income Tax Scales, £1000–£20,000 Income, 1928**




Source (Figs. 7&8): constructed from data in Murphy, p. 279.

The commission's analysis focused on four elements: differences in the calculation of taxable income; differences in tax rates and exemptions; differences in revenue authority procedures; and diversity in the form and language of the Acts. The most substantive issues lay in the first of these elements – defining taxable income. On the second element, the commission took the view that each jurisdiction could set its tax rates to produce the revenue it required with little inconvenience to taxpayers, while revenue authority and legislative language issues could be dealt with in its broader approach.

On taxable income, the commission sought to identify a core set of common provisions that could be adopted in all jurisdictions' tax Acts. It argued that certain basic principles were generally accepted and that substantial aspects of taxable income were common or could readily be agreed without serious loss of principle or revenue.[89] If such a core tax Act could be agreed, the Commonwealth and each of the states could separately adopt it with variations where agreement could not be reached or for jurisdiction-specific issues. Tax rates could be set separately by each parliament in line with their financial requirements.

The commission examined each of the jurisdiction's tax Acts for the best model on which to base this core tax Act. 'After careful consideration we are of the opinion that the Commonwealth Act provides a more satisfactory basis'.[90] To limit the number and frequency of legislative changes, the commission favoured a governance arrangement which required amendments to the uniform tax Act to be agreed by all jurisdictions.

In regard to administration of revenue collections, the commission considered models for the collection of all income tax by either the Commonwealth or the states but ultimately recommended a jointly appointed independent board: 'If it be possible for the Commonwealth and the States to agree to adopt a uniform Act, it would appear to be a logical consequence for them also to agree to create a joint authority to administer that Act'.[91]

The commission was conscious of political sensitivities and quoted extensively from the parliamentary debates of the time. It argued, though, that while its proposals would involve some reduction in jurisdictional independence, the main fiscal flexibility for each jurisdiction came with the ability to set the tax rate: 'The real power of Parliament is the power to impose tax at rates which it considers necessary to produce the revenue it requires, and each Parliament would still retain that right'.[92] The Commission argued this did not amount to a surrender of state rights.

> The taxpayer is not so keenly interested in the preservation of abstract constitutional rights as in the adoption of an arrangement which will obviate the difficulties which now cause him inconvenience and expense, and if that can be attained by the suspension of unessential powers in regard to the details of taxation he is not likely to object.[93]

Overall, the 1932–34 Royal Commission on Taxation stopped short of recommending one uniform tax Act that would apply in its entirety to all jurisdictions. Rather, it recommended a compromise: the continuation of separate income tax Acts but with a uniform core set of provisions defining principle features of the tax *base*, allowing for jurisdictional variations and for the Commonwealth and each state to set their own tax *rates*.

### *Government Response*

With this royal commission reporting to the same (Lyons) government that appointed it there was more impetus for reform. There was also growing recognition of the problem - writing in 1942 K. M. Laffer observed that 'At the height of the confusion in 1935, some taxpayers were paying as many as fourteen different income taxes'.[94]

On personal tax, Commonwealth–state conferences in 1934 and 1935 worked with commission members to develop common provisions for the core uniform tax Act.[95] This was an exhaustive process with arrangements needed to allocate the income of taxpayers operating in multiple states and each jurisdiction standing to gain or lose revenue.[96]

Agreement on the core elements of taxable income was ultimately reached in time for the 1936-37 tax assessments and enacted by the Commonwealth as the *Income Tax Assessment Act 1936.* Equivalent legislation was passed by the state parliaments, with each jurisdiction setting its own rate scale and retaining its own administrative arrangements.

A significant step towards uniformity of income taxes in Australia had been taken. Some differences remained, however, particularly in regard to the special taxes that jurisdictions had introduced at various times, such as for unemployment relief, financial emergency and family endowment. Further, over time, ongoing changes in different jurisdictions eroded the uniformity. Ultimately, a more dramatic resolution of the problem would be required.

The company income tax differences were not addressed but this would change with the pending war.

### *Lessons in Tax Reform*

The 1932–34 Royal Commission on Taxation was able to build on previous work, including the 1920–23 commission, to establish a strong case for greater uniformity of Australia's tax laws. Like its predecessor, its work was thorough with extensive consultation and high-quality analysis. Unlike its predecessor, though, its recommendations were attuned to the political environment and it was more influential within the immediate policy debate.

I will assess the 1932–34 Royal Commission on Taxation as a tax reform exercise against the five criteria set out at the beginning of this paper.

*Terms-of-Reference and Panel*

The commission was given a more explicit remit than its predecessor, being specifically asked to consider tax overlaps and recommend legislative changes to achieve greater uniformity. Further, just two commissioners were appointed – a judge and an accountant – who brought relevant expertise of their own. Overall, having a specific remit and a small panel with the relevant expertise enabled the commission to produce a targeted and influential report.

*Gathering of Evidence and Calling of Witnesses*

With unification of Australia's tax laws and administration having been debated for nearly two decades, the commission was well aware of the issues and sticking points and could draw on a substantial body of evidence. As such, it was able to move relatively quickly to the main issues for resolution.

The commission did still use its format and resources to gather evidence and take advice from stakeholders and commissioned a report on the UK tax system to inform its analysis. It also drew on the resources of federal and state departments, including with a formal arrangement to work with the state treasury and taxation officers. Like its predecessor, however, it was constrained in having only limited fiscal data to cost different policy options.

*Timeliness and Relevance*

The commission's work was completed in around two years, with its reports being published just before and after the 1934 election at which the UAP was returned for its second term. As such, it reported to the same government that appointed it and at the start of a term, providing a good political window for the advancement of negotiations.

Having worked closely with the state treasuries and tax departments, and having constructed recommendations on personal tax that sought a compromise between the Commonwealth and state positions, the commission's reports were well placed to assist the necessary political negotiations. Indeed, the commissioners participated in the subsequent negotiations and design work.

The 1932–34 commission was timely and politically relevant, enhancing its influence.

*Approach to Analysis of Issues*

The commission used a robust public finance framework with a clear statement of principles for assessing tax laws, namely the requirements of revenue, equity and simplicity. What was missing was a specific consideration of economic efficiency. The reports were strongest in their assessment of the revenue and simplicity principles, using these criteria consistently to assess different policy approaches. The relevance of equity was partially downgraded on the grounds that its precise achievement came at too great a sacrifice of simplicity.

Within these frameworks, the analysis in the reports was thorough and logical, making good use of expert witnesses, previous inquiry work and some use of data. The overall quality of the commission's analysis was high.

Q*uality of tax policy outcomes*

Agreement on and enactment of the core elements of a uniform income tax act was a significant policy achievement. It did not provide a full or ultimately sustainable solution, though, with uniformity undermined by ongoing jurisdictional changes. This royal commission process had, however, established an important stepping stone to a more substantial resolution.

### *Conclusion*

This second formal tax reform exercise in Australia was more influential than the first, although that first royal commission had provided an important foundation. The small panel with relevant expertise and the cooperation of state authorities enabled high-quality and relevant analysis and recommendations. Across its four reports, in particular the first two dealing with income tax, the commission assembled a significant body of evidence and a persuasive narrative for change.

While royal commissions are probably not ideal vehicles to set-up immediate outcomes for federal policy issues involving seven separate governments, they can provide a good basis for subsequent political negotiations. These two royal commissions facilitated a partial unification of the income tax system in Australia – and that would prove to be an important step towards full unification.

## Committee on Uniform Taxation

### *Pathway to the Committee*

Following the adoption of core elements of a uniform tax Act in the *Income Tax Assessment Act 1936* and equivalent state Acts, there was a reversion to old habits with a steady unpicking of that uniformity as each jurisdiction pursued its own policy objectives. The benefits of uniformity were consequently eroded.

This was overlaid with political flux. When Lyons died in office in 1939, with war about to break out in Europe, he was replaced as leader of the UAP and Prime Minister by Sir Robert Menzies. As with that century's first global conflict, World War II (1939 to 1945) presented great challenges to Australia as a nation and financing the war effort would again require large increases in revenue and borrowings.

The Commonwealth enacted a series of personal income tax rate increases, including a reduction in the exemption level to £200[97] which was around the minimum wage in 1940. With war finance requirements pressing, a war-time company tax was enacted from 1940 to 1946[98] and the general company tax rate raised in 1939[99] and 1941[100][101].

Further, the rebate on corporate distributed income was abolished in 1940[102] leaving companies with a flat tax rate on all profits and dividends also fully taxable in the hands of shareholders. This 'classical' system of company tax with its double taxation of dividends would remain in Australia until the 1987 dividend imputation system.

Through these measures, total Commonwealth income tax collections increased dramatically, from £25 million in 1939-40 to £155 million in 1941-42. The Commonwealth also introduced a payroll tax in 1941, initially at a rate of 2.5 per cent, to fund a National Welfare Fund for child endowment.[103]

With war finance requirements escalating, though, the Commonwealth needed even more revenue. Income tax remained the only tax base capable of that task and, to give itself unfettered access, at the 1941 Premiers' Conference the Menzies/Fadden government asked the states to suspend their income taxes in return for compensation from the Commonwealth. The majority of states rejected that.

Part of the problem was the wide variations in state income taxes. The Commonwealth tax was to apply in addition to the state taxes and so, given the constitutional restriction that Commonwealth taxes cannot discriminate between states, it would impose excessively high rates on groups of taxpayers in some states. As Laffer observed:

> The imposition by the Commonwealth of higher rates which could reasonably be applied to the lower taxed States might cause severe hardship on individuals in higher taxed States, and the Commonwealth's power to increase taxation on any particular income group was therefore limited by the rates obtaining in the highest taxed States.[104]

Instability within the UAP led to Menzies' (temporary) demise and ultimately the October 1941 appointment to government of the Labor Party, with John Curtin as Prime Minister and Ben Chifley as Treasurer. Japan's entry into the war in the Pacific in December 1941 also greatly increased Australia's commitments, and it was quickly apparent that a large increase in Commonwealth income tax was needed urgently – which meant getting the states' income taxes out of the way.

On 23 February 1942, Chifley appointed a Committee on Uniform Taxation 'to consider the question of the Commonwealth being the sole taxing authority in the field of income tax for the duration of the war and of payment of compensation to the States by way of grants'.[105] As Mathews and Jay note, the committee was set up to give the government the advice it was looking for, consisting of 'Professor R. C. Mills, J. H. Scullin from the Labor Party and E.S. Spooner from the United Australia Party, all of whom were known to be supporters of a system of uniform income taxation'.[106]

### *Findings of the Committee*

With the policy case for income tax unification well established in the previous reviews, the committee didn't deliberate for long. In its (short) March 1942 report it recommended that, for the duration of the war and one year after, the Commonwealth should be the sole collector of income tax:

> Income tax is the main source of revenue from which the Commonwealth finances war expenditure and that source is limited. The Commonwealth, therefore, should not be hampered by State laws which prevent the fullest exercise of taxation powers essential to the nation at war.[107]

The committee proposed that compensation be paid to the states based on their average income tax collections in the years 1939-40 and 1940-41.[108]

While the committee's recommendation for a single uniform income taxation system at the Commonwealth level was couched in the need for war finance, its arguments went more to basic design problems of income tax being levied non-uniformly by multiple jurisdictions.

> The Committee attaches importance to the growing need for simplification of income taxation throughout the Commonwealth. Despite past achievements in the direction of uniformity there is still overlapping and insufficient co-ordination between the Commonwealth and the States and the Committee considers that a sole taxation authority opens the way to more simple and efficient machinery for raising of revenue.[109]

Consistent with this, the committee proposed that the new system, to be implemented in 1942-43, would raise the same total revenue as the old one, arguing that the government had the option to subsequently raise tax rates if it wished to increase revenue. The committee did not support any attempt to align the design of the new income tax Act with existing state Acts, acknowledging this would mean differences in tax incidence.

> The Committee emphatically rejects the view that the new system can be tested satisfactorily simply by comparing what a given individual will pay with the amount he

> would have to pay at present in any selected State. Such comparisons merely disclose the inequalities of the present system. … This is but another proof that the present system is chaotic and anomalous and should, in the public interest, be superseded.[110]

The committee also proposed that concessional allowances be provided as tax rebates instead of deductions.[111]

On company tax, the committee suggested that a rate of 30 per cent would raise the same revenue as existing Commonwealth and state company income taxes, and that the specific gold taxes be replaced by subjecting those profits to ordinary income tax.[112]

As Table 6 shows, the committee was able to use fiscal costing estimates to inform its recommendations for a schedule of rates that would provide overall revenue neutrality with the existing taxes but a modest shifting of the tax burden to higher-income earners.

**Table 6: Uniform Tax Act Fiscal Impacts, 1942**

| | **Estimated yield of present taxes (£m)** | **Estimated yield of proposed taxes (£m)** |
|---|---|---|
| Under £400 | 22.5 | 21.8 |
| £401–£1000 | 21.5 | 20.7 |
| Over £1000 | 40.5 | 42.0 |
| *Total* | *84.5* | *84.5* |
| Companies (excluding gold-mining) | 44.5 | 44.5 |
| Commonwealth Gold Tax | 1.3 | – |
| Income from gold-mining | 0.4 | 1.5 |
| *Grand Total* | *130.7* | *130.5* |

Source: Committee on Uniform Taxation, p6.

The committee also proposed that state taxation administration officers be seconded to the Commonwealth Public Service, generating an estimated savings of 30 per cent, or 1000 staff, who could be redeployed to activities directly concerning the war.

Ominously for the states, the committee said it had conferred with the Solicitor-General on constitutional aspects of the proposed changes.[113]

### *Government Response*

The Curtin/Chifley government accepted the committee's recommendations and again sought to negotiate with the states, proposing at the April 1942 Premiers' Conference that they suspend their income taxes for duration of the war and one year after, and be compensated by the Commonwealth. The states again rejected the proposal.

The Commonwealth then acted unilaterally with legislation in May 1942 that effectively forced the states out of income tax, making it a Commonwealth monopoly.[114] This was done with four related Acts.

The *Income Tax Assessment Act 1942* enacted a uniform tax base and prioritised Commonwealth tax over state tax. The *Income Tax Act 1942* applied a new progressive rate scale. The *States Grants (Income Tax Reimbursement) Act 1942* provided for compensating grants to the states, conditional on them vacating their income taxes. The *Income Tax (War-time*

*Arrangements) Act 1942* provided for the transfer of state tax administration staff and resources to the Commonwealth.

While the Commonwealth could not force the states to withdraw from income tax, by imposing this commonwealth tax and making the grants to the states conditional on them vacating the field, it indirectly obliged them to.[115]

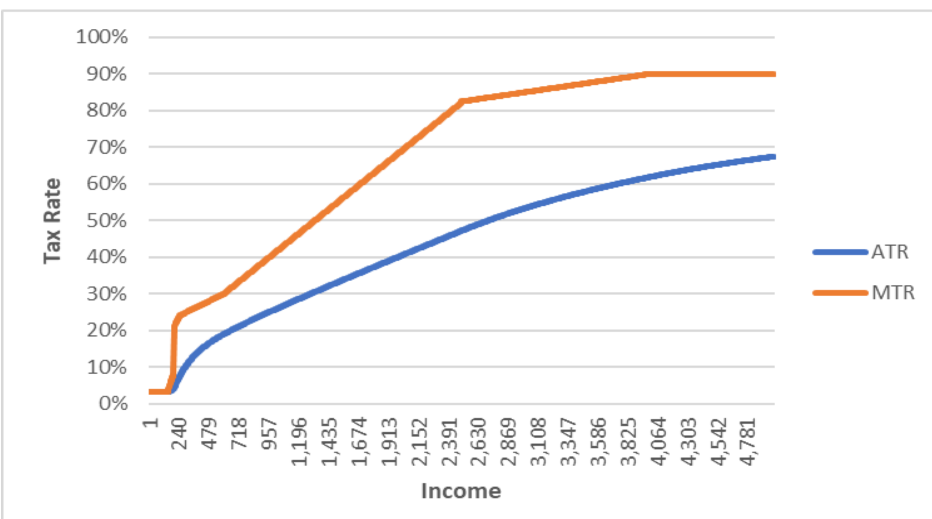
Four of the states – Victoria, Queensland, South Australia and Western Australia – unsuccessfully challenged the constitutional validity of the legislation in the High Court.[116] This first uniform tax case and a second one in 1957[117] were important in establishing the constitutional reach of the Commonwealth, in particular its s96 grants power.[118]

The new uniform tax Act was created by amending the *Income Tax Assessment Act 1936* to enact the *Income Tax Assessment Act 1936–1942.* A range of anomalies and jurisdictional differences in taxable income definitions were thus removed and, for the first time, all taxpayers in Australian faced the same definition of taxable income and the same tax rate scale. The new Act also replaced concessional deductions with rebates, as proposed by the committee.[119]

Introducing the legislation, Chifley said it was in the national interest of a country at war. 'Nothing short of complete control by the Commonwealth during the war will meet the huge demands that have to be faced. National rights must take precedence over all State rights. The rights of the sovereign people are paramount to the sovereign rights of States'. He also spoke, though, of the tax policy issues: 'Every honorable member who has occupied the position of Treasurer can testify that the differing rates of Commonwealth and State taxation form a maddening maze of figures'.[120]

Figure 9 shows the new personal income tax rate scale which was an interesting mix of the continuously increasing rates pioneered in 1915 and the stepped rates that would later categorise the rate scale. Seven ranges were defined, with a flat marginal tax rate of 3.33 per cent below £150[121], a flat marginal tax rate of 90 per cent above £4000 and five ranges in between each with a separate continuously increasing average tax rate formula.

**Figure 9: Tax Act Rate Scale, 1942**




Source: Calculations derived from *Income Tax Act 1942*, First Schedule.

The Curtin government's 1942 uniform tax Act addressed a long-running sore in the Federation. While its impetus came from the urgencies of war finance, its logic was equally supported by tax design principles. The Committee on Uniform Taxation proved to be an effective vehicle to help break a deadlock and achieve a successful tax reform.

The Commonwealth did not seek to raise additional revenue in the first year of the Act, and indeed linked it to a new pension for widows to enhance its political attractiveness. As K. H. Bailey observed, 'the Treasury damsel was dressed in the most politically attractive manner'.[122] Consequently, for that year taxpayers in lower tax jurisdictions (Victoria, Tasmania and South Australia) generally paid more income tax than previously while taxpayers in higher tax jurisdictions (NSW, Queensland and Western Australia) paid less.

With burgeoning war finance requirements, though, in 1943 tax rates were increased and the exemption level lowered to £104.[123] Further rate increases followed as income tax became the dominant revenue raiser for Australia's WWII involvement. Table 5 shows that as a proportion of total Commonwealth tax revenues, income taxes increased from 14 per cent in 1939-40 to 43 per cent in 1941-42, peaking at 64 per cent in 1944-45.

With income tax now levied broadly on wage earners, to facilitate collections the Commonwealth introduced a system of collecting taxes on wages by instalments at source in 1941, and adopted pay-as-you-earn (PAYE) arrangements in 1944 as well as provisional tax for other personal income.[124] PAYE arrangements had previously only been used by the Commonwealth for some special taxes during the Great Depression.

Overseas, other federations were grappling with the same issues. Canada underwent a similar reform in 1942, with their federal government securing agreement of the provinces to vacate income tax for the duration of the war and one year after in return for compensation.[125] After the war, the Canadian provinces' income taxes resumed.

### ***Lessons in Tax Reform***

The 1942 unification of income tax was done unilaterally by the Commonwealth in a major political play with the states. With the unification arguments well established in the preceding royal commissions, the 1942 committee provided the government with the short, sharp report and recommendations it was looking for. While war provided the immediate pretext, the committee's arguments were largely tax design ones, and those issues were long term.

The broader question was: what were the implications for Australia's Commonwealth–state financial relations? Vertical fiscal imbalance, which had been an issue from Federation, had been further entrenched. But the pros and cons of that are beyond the scope of this paper.

I will assess the Committee on Uniform Taxation as a tax reform exercise against the five criteria set out at the start of this paper.

#### *Terms-of-Reference and Panel*

The committee's terms-of-reference were tightly framed to elicit precise recommendations on the unification of Australia's income tax systems. Effectively, they sought advice on how to do it rather than whether to do it.

The panel was chosen to get the recommendation the government was looking for: Mills had worked with Chifley on the Banking Royal Commission, Scullin was an ex-Labor Party Prime Minister, and Spooner had a lengthy political history as a strong nationalist.[126] They were all known to support a uniform tax arrangement.

In short, the committee was set up for a specific, quick result and it delivered on that.

*Gathering of Evidence and Calling of Witnesses*

The committee did not appear to undertake a process of consultation with stakeholders, presumably feeling this had been done extensively in previous processes. It did, though, draw on the resources of the Tax Office and its own secretariat.

As noted, the committee members came with established views in favour of unification.

*Timeliness and Relevance*

By design, the committee report was timely and relevant. It had been commissioned by the new Curtin/Chifley government which knew what it wanted in the context of war financing needs, future revenue needs, tax design principles and its conception of the Federation. While no doubt transparent that the committee had been formed to provide the answer the government wanted, there would have been no value commissioning another lengthy review.

*Approach to Analysis of Issues*

The committee's report was concise and the arguments well presented, although it did not attempt to articulate a broad public finance framework. It summarised the problems with the existing overlapping tax systems and moved quickly to its recommendations for unification. A significant proportion of the report dealt with implementation issues.

The report was a precursor to a political solution and it provided a clear basis for that.

Q*uality of tax policy outcomes*

Unification of income tax at the commonwealth level was a major reform for the Australian Federation that removed numerous anomalies and differences in tax policy and administration. It is a reform that has endured.

***Conclusion***

The 1942 Committee on Uniform Taxation worked for the circumstances of the time. The substantive tax policy arguments for unification had been well established previously and the government was now lining up a political solution.

As is often the case with policy reforms, governments and bureaucracies need to be prepared with the policy case for when reform opportunities present. A crisis, even a war, can provide the opportunity for reform. In this case, the previous royal commissions had established the foundational case for unification, and the election of a new government needing war finance provided the determinative opportunity.

The issues left hanging were around Commonwealth–state financial relations and whether, once the war financing needs had passed, the Commonwealth would return income tax to the states, or whether the tax policy arguments for unification would prevail.

## Post-War Tax Directions

With the end of WWII in 1945, attention turned to the post-war reconstruction of economies. In Australia, the states looked to reinstate their income taxes in line with the original Commonwealth proposal that the uniform legislation would operate for the war and one year after. Chifley, however, now as Prime Minister and Treasurer, took the view that as the states had rejected the Commonwealth's offer at the 1942 Premiers' Conference, it had lapsed.[127] And he was able to maintain this position given the High Court's 1942 constitutional ruling.

In the post-war years, the Commonwealth reversed part of the income tax increase but retained part to finance an expanded social welfare role. This latter part was rebadged as a social services contribution[128] to be paid into the National Welfare Fund which had been established when payroll tax was introduced.[129] The Commonwealth then levied two separate uniform taxes – the personal income tax and the social services contribution which was akin to the European social security contributions levied to fund retirement incomes.

The Commonwealth's expanded social services role during and after WWII was contentious. To confirm its position, the Chifley government successfully advocated at a 1946 referendum a constitutional amendment to clarify these Commonwealth powers.[130] Together with the takeover of income tax, this consolidated the Commonwealth's dominance of Australia's tax and transfer system.

The increased company income tax rate was also substantially retained, with a general tax rate of 30 per cent continuing.

Australia's tax system was then relatively stable through the 1950s and '60s, the 'golden years' of the Menzies government. Through this time, however, structural problems developing in the Australian economy were left largely unactioned – problems that would become more obvious and costly in the high-inflation economy that was coming. The implications of this for Australia's tax system will be the focus of the next paper in this series.

## Final Observations

The tax systems of federated Australia developed in an uncoordinated way in the early decades, with the Constitution providing substantially overlapping jurisdiction. The two main tax reform exercises, the 1920–23 and 1932–34 royal commissions, were only partly effective in garnering substantive reform. WWII then provided a catalyst for the 1942 Committee on Uniform Taxation and the unilateral Commonwealth takeover of income tax.

The road to the unification of Australia's income tax systems had taken two and a half decades, building through three review processes. The 1920–23 commission did the initial extensive work of gathering evidence and marshalling arguments. The 1932–34 commission was able to build on that to construct a compromise position. From this platform, the 1942 Committee on Uniform Taxation then set up a war-time political solution.

It is debatable whether the crisis of war would have been sufficient anyway for the Commonwealth to take over income tax, but the preceding reviews made that more credible and strengthened the Commonwealth position to not return income tax to the states post-war.

It is difficult to assess unification of Australia's income tax just as a tax reform exercise. The tax policy considerations were heavily overlaid with broader Commonwealth–state financial relations issues, and indeed the very nature of government roles in the new federation. There were clearly benefits in the removal of jurisdictional tax differences but an entrenchment of vertical fiscal imbalance.

In terms of the processes, royal commissions are not ideal vehicles to advance tax policy reform in the short term - their lengthy and independent processes detract from timeliness and relevance. The early federation royal commissions on taxation did, though, provide stepping stones to the ultimate 1942 uniform income tax outcome. They produced the foundational material and analysis that established the basis for a subsequent more determinative process. Australia's future tax reform exercises would learn from this.

## APPENDIX A

## REVIEWS COMPARISON

| | **Time** | **Witnesses** | **Hearings** | **Report size** | **Type** |
|---|---|---|---|---|---|
| **1923 Royal Commission** | 3 years | 191 | 118 | 5 reports, 320 pages | Foundational |
| **1934 Royal Commission** | 2 years | 132 | Capital cities | 4 reports, 237 pages | Foundational/partly determinative |
| **1942 Uniform Income Tax Committee** | 1 month | - | - | 1 report, 11 pages | Determinative |

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## Interviews

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Michael Warlters, 29 April 2020

Tom Reid, 4 May 2020

Vin Martin, 6 May 2020

Miranda Stewart (peer review), 3 June 2020

Greg Smith (peer review), 24 June 2020

Robert Ewing (peer review), 6 July 2020

## Notes

[1] There is some evidence that ancient Egyptian, Roman and Chinese societies levied taxes on wealth or profits. In the Middle Ages in England there were taxes on property or income.

[2] The British scheme applied tax at 5d in the £ on incomes over £150 with an abatement of £120 on incomes under £400. Murphy, p. 276.

[3] Measuringworth.com.

[4] Murphy, p. 278.

[5] Sawer, p. 1.

[6] The Constitution, s87; s94 also provided that the Commonwealth may provide surplus revenue to the states.

[7] The colony/state land taxes were also on unimproved values, which differed from the approach in other countries, such as Britain, which levied land tax on improved values (see Smith, pp. 28–36).

[8] *Osborne v The Commonwealth*, 1911.

[9] Mathews and Jay, p. 95.

[10] This conciseness was partly driven by the urgency of war financing needs requiring it to be implemented by the Tax Office within a few months. Australian Taxation Office, p. 12.

[11] This original income tax applied only to income sourced in Australia (by residents and non-residents). Some foreign-source income of Australian residents was included in 1930, with this extended to dividend income in 1941. In 1959, Australia extended its jurisdiction to apply a withholding tax to dividends paid from Australian companies to non-residents, and in 1968 it applied a withholding tax on interest payments to non-residents (Taxation Review Committee (Asprey), p. 253).

[12] *Income Tax Assessment Act 1915*, s14.
[13] *Income Tax Assessment Act 1915*, s16(1).
[14] *Income Tax Assessment Act 1915*, s18.
[15] Ewing was Australia's second Tax Commissioner and had acted in the position for over a year following George McKay's death in 1916.
[16] Ewing, p. 17.
[17] *Income Tax Act 1915*, First Schedule.
[18] 'In principle this amount was determined by reference to the level of the recently born living wage, the minimum "subsistence" level' (Smith, p. 53).
[19] Sinstead-Reid.
[20] *Commonwealth Bureau of Census and Statistics* 1916.
[21] Hughes, p. 5848.
[22] *Income Tax Act 1915*, Second Schedule.
[23] *Income Tax Act 1915*, Third Schedule.
[24] Hughes, p. 5845.
[25] Royal Commission on Taxation (1920–23), p. 95.
[26] Tilley, chapter 1.
[27] Responsibility for collecting excises transferred to the ATO in 1999, but customs duties (tariffs) are still collected by the Department of Home Affairs.
[28] Australian Taxation Office, p. 5.
[29] s109, the Constitution.
[30] Aitken and Orr, p. 59.
[31] Laffer, p. 298.
[32] Smith, p. 44.
[33] Copland, p. 38.
[34] *Income Tax Assessment Act 1922* and *Income Tax Act 1922*.
[35] *Income Tax Assessment Act 1936* and *Income Tax Act 1936.*
[36] Quoted in Royal Commission on Taxation (1920–23), p. 69.
[37] Majority board report, quoted in Royal Commission on Taxation (1920–23), p. 75.
[38] Minority board report, quoted in Royal Commission on Taxation (1920–23), p. 73.
[39] Royal Commission on Taxation, 24 September 1920 – 13 June 1923, William Kerr (Chair).
[40] Royal Commission on Taxation (1920–23), Letters Patent, 24 September 1920.
[41] Serle, p .1.
[42] Copland, p. 36.
[43] Royal Commission on Taxation (1920–23), *First Report*, p3, 2 November 1921.
[44] Royal Commission on Taxation (1920–23), *Second Report*, 13 April 1922.
[45] Royal Commission on Taxation (1920–23), p. 75.
[46] Mills, p. 245.
[47] Smith, p. 38.
[48] Arndt, p. 53.
[49] *Income Tax Assessment Act 1922*, s13(2). From 1937 this provision was restricted to primary producers.
[50] Smith, p. 38.
[51] Royal Commission on Taxation (1920–23), p. 77.
[52] Royal Commission on Taxation (1920–23), p. 75.
[53] Tax revenue raised by the tax offices at the time (excluding customs and excise which was collected by the Customs Department) was around £80m pa, with around £50m of that being income taxes.
[54] Royal Commission on Taxation (1920–23), p. 68.
[55] Royal Commission on Taxation (1920–23), p. 78.
[56] Royal Commission on Taxation (1920–23), p. 76.
[57] Royal Commission on Taxation (1920–23), p. 77.
[58] Royal Commission on Taxation (1920–23), p. 77.

[59] Royal Commission on Taxation (1920–23), p. 77.
[60] Royal Commission on Taxation (1920–23), p. 79.
[61] Royal Commission on Taxation (1920–23), p. 80.
[62] Royal Commission on Taxation (1920–23), p. 79.
[63] Royal Commission on Taxation (1920–23), Fifth and Final Report, 13 June 1923.
[64] Royal Commission on Taxation (1932–34), p. 54.
[65] Copland, p. 44.
[66] *Income Tax Assessment Act 1923*, s5(d).
[67] Page, p. 2981.
[68] *Income Tax Assessment Act 1923*, s5(e).
[69]Sawer, p. 243.
[70] The public finance tax maxims dated from Adam Smith's 1776 *Wealth of Nations*, which had posited: equality, certainty, convenience of payment, and economy in collection.
[71] Coleman, Cornish, Hagger, pp. 107-124.
[72] Scullin 1930, p23.
[73] Royal Commission on Taxation, 6 October 1932 – 28 November 1934, David Ferguson (Chair).
[74] Arthur, p. 1.
[75] Royal Commission on Taxation (1932–34), Letters Patent, 6 October 1932.
[76] Royal Commission on Taxation (1932–34), p. 5.
[77] Royal Commission on Taxation (1932–34), p. 57.
[78] Royal Commission on Taxation (1932–34), p. 5.
[79] Royal Commission on Taxation (1932–34), p. 6.
[80] Royal Commission on Taxation (1932–34), p. 11.
[81] Royal Commission on Taxation (1932–34), p. 10.
[82] Royal Commission on Taxation (1932–34), p. 13.
[83] Royal Commission on Taxation (1932–34), p. 22.
[84] Royal Commission on Taxation (1932–34), p. 59.
[85] Royal Commission on Taxation (1932–34), p. 50.
[86] Stamp, pp. 1–2.
[87] Royal Commission on Taxation (1932–34), p. 55.
[88] Bailey, pp. 310–11.
[89] Royal Commission on Taxation (1932–34), p. 58.
[90] Royal Commission on Taxation (1932–34), p. 58.
[91] Royal Commission on Taxation (1932–34), p. 61.
[92] Royal Commission on Taxation (1932–34), p. 64.
[93] Royal Commission on Taxation (1932–34), p. 60.
[94] Laffer, p. 299.
[95] Australian Taxation Office, p. 56.
[96] Laffer, p. 300.
[97] The exemption level rose from its initial £156 in 1915 to £200 in 1922, £250 in 1933 and £300 in 1936.
[98] *War-time (Company) Tax Act 1940*.
[99] Menzies 1939, p. 14.
[100] Fadden 1941, p. 9.
[101] Chifley 1941, p. 1135.
[102] Fadden 1940, p. 14.
[103] Anthony, p. 344.
[104] Laffer, p. 302.
[105] Committee on Uniform Taxation, p. 2.
[106] Mathews and Jay, p. 173.
[107] Committee on Uniform Taxation, p. 2.
[108] Committee on Uniform Taxation, p. 3.

[109] Committee on Uniform Taxation, p2.
[110] Committee on Uniform Taxation, pp. 4-5.
[111] The committee report doesn't provide a discussion but rebates are generally of more value to lower income earners than deductions. Committee on Uniform Taxation, p. 5.
[112] Committee on Uniform Taxation, pp. 5-6.
[113] Committee on Uniform Taxation, p. 6.
[114] Aitken and Orr, p. 70.
[115] Laffer, p. 298.
[116] *South Australia v Commonwealth (First Uniform Tax case)*, 23 July 1942, High Court.
[117] *Victoria v Commonwealth (Second Uniform Tax case)*, 23 August 1957, High Court.
[118] Aitken and Orr, pp. 70–1.
[119] Chifley 1942, p. 1291.
[120] Chifley 1942, p. 1286.
[121] A general exemption was provided for the first £156 (*Income Tax Assessment Act 1942*, s4).
[122] Bailey, p. 317.
[123] *Income Tax Assessment Act 1943*, s5.
[124] Downing et al., p. 14.
[125] Mathews and Jay, p. 172.
[126] Lloyd.
[127] Mathews and Jay, p. 175.
[128] *Social Services Contribution Act 1945*.
[129] Mathews and Jay, p. 177.
[130] The Constitution, s51xxiiiA.