
TAXATION IN AUSTRALIA AND NEW ZEALAND

Author(s): HAROLD M. GROVES

Source: *National Tax Journal*, March 1949, Vol. 2, No. 1 (March 1949), pp. 1-11

Published by: National Tax Association

Stable URL: <https://www.jstor.org/stable/41789798>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



is collaborating with JSTOR to digitize, preserve and extend access to *National Tax Journal*

JSTOR

National Tax Journal

Volume II, No. 1

March 1949

TAXATION IN AUSTRALIA AND NEW ZEALAND

HAROLD M. GROVES *

STARTING with a few general impressions of taxation in Australia and New Zealand, one may observe first that the subject is not characterized by simplicity. One soon arrives at the conviction particularly with regard to Australian taxation that if the tax-makers had deliberately set out to make their system as complicated as possible they might well have ended with existing institutions and practices. This conclusion is reached after due discount for the difficulty of any outsider in understanding domestic institutions that seem simple enough to those who have grown up under them. The complications of the Australian system are a matter of frequent criticism at home;¹ they do provide some outlet for the Australian's unsurpassed sense of

humor, but the fun is mixed with several grains of frustration. And in New Zealand a favorite joke among "tax men" alleges that the tax commissioner of Australia requires two hours to compute his own income tax liability after all the facts are in.

General Characteristics

The complications of the Australian income tax (the principal villain in the piece) are due to:

1. The fact that under the cabinet system the intellectuals (professional administrators) play a larger role in writing tax laws than here; there is less censorship by the lay legislator;
2. The traditional use of formulas to achieve smooth progression;
3. The regular calculation of tax by the administrator rather than the taxpayer, which leads to the conclusion that the taxpayer need not understand the devious and tortuous process by which his bill is determined;
4. The rebate system allowing for certain deductions as a subtraction from tax rather than from income (explained later);
5. Elaborate differentiation in tax upon "earned" and "unearned" (property) income; and

* The author is professor of economics at the University of Wisconsin.

¹ For example, the following is quoted from the *Hobart Mercury* in *The Taxpayers Bulletin* (published by the Taxpayers' Association of New South Wales, Sydney), XVII (July 1, 1948), 115: "Taxation acts and regulations, with amendment piled on amendment, have developed into a chaotic mass of complexities. They are now a maze into which few but trained accountants can venture with any confidence. And there is not the slightest need for taxation to be so complicated."

6. The British convention of expressing tax rates as pence in the pound rather than as a percentage; the neophyte is utterly confounded until he learns to *think* in terms of British money.

On the other side of the picture, the monopolization of the income tax by the Federal Government is a mitigating factor. The Australian can extend sympathy to the American interstate business that has to keep not only a Federal tax service on its shelf but also some dozen or more state services.

In general, taxes in Australia and New Zealand are at least as high as ours (in relation to national income) and probably somewhat higher. Calculating a ratio of taxes to national income is a hazardous undertaking but a figure of over 30 per cent is accepted in Australia and the one for New Zealand is probably not much less.² Taxes in the United States have been reduced too recently to give a current figure for this country but it seems improbable that the ratio in recent years has ever reached 30 per cent. (The figure for 1947 appears to be slightly less than 26 per cent).³ Federal direct taxes in the middle brackets are much higher in the South Pacific countries than here. In Australia the income tax on a taxpayer with a wife and one dependent and an

income of \$3,250 is at least three quarters higher than three times as high as our Federal levy (with allowance for social security payments). At the upper and lower end of the scale the difference disappears. Tax reductions in the South Pacific since the war have been substantial but as in this country tax levels remains much above prewar; military expenditures have been sharply reduced but expenditures on the social services have largely filled the gap. State and local taxes, particularly those on property, are much less than ours. On the expenditure side, the outlays for social security are very high. In New Zealand expenditures in this area are of a magnitude comparable with our outlay for military purposes. Expenditures for education are lower than ours while much less is spent for military purposes, particularly in New Zealand.

Postwar tax reductions in both countries have been comparable to our own. They include a repeal of wartime excess profits taxes. The reductions in personal tax have favored the lower brackets. The 1948 New Zealand budget presented by Walter Nash, Minister of Finance in August, 1948, carried an income tax rebate of £10 for each taxpayer, an idea frankly borrowed from President Truman's proposal to the 80th Congress.

As previously suggested, the social security system figures more heavily in the South Pacific revenue systems than in ours. Moreover, the social security taxes are largely integrated with the net income tax and no pretense is made of following the contributory principle. In Australia the main special support for social security is an addition to personal income tax rates. Persons with incomes of less than £104 per year and

² See footnote 20 at the close of this article. A figure of 26.2 per cent for New Zealand (1947-48) is offered provisionally by the Government Statistician who first deducted a very substantial item of subsidies from the tax total. *New Zealand Official Estimates of National Income*, Wellington, 1948. Average per capita income in these countries, while high, is considerable lower than in the United States—a fact which makes the 30 per cent ratio more significant.

³ Tax figure of \$52,429 million is taken from Tax Institute, *Tax Policy*, August, 1948; income figure of \$203.1 billion from *Economic Indicators*, prepared for the Joint Committee on the Economic Report, Washington, June, 1948.

no dependents are exempt; the exemption is higher for persons with dependents. Rates are graduated up to a maximum of $1/6d$ in the pound (7.5 per cent). The social security tax system of New Zealand consists of a 7.5 per cent net income tax applicable to both companies and natural persons and without benefit of any personal credits. Companies are not included in the Australian system except that they pay a payroll tax on wages in excess of £20 per week.

Both countries have an elaborate system of benefits to cover most if not all of the hazards of life. This includes family endowment (for each child in New Zealand and each after the first in Australia); old age insurance (New Zealand has two varieties, one with and one without a means test); medical assistance (covering most expense associated with medical advice, hospitalization, and drugs in New Zealand); and generous benefits for time lost in either unemployment or sickness. Of these items family endowment and old age pensions are the most expensive. All told, the bill for social security runs to a third of the New Zealand national budget and is roughly one-tenth of the national income. Not only has the government left no stone unturned in its effort to take the worry and hazard out of life, but in addition, its security program aims at the more radical objective of pay according to need. Basic wages are adjusted to the needs of small families and the greater responsibility of larger ones is covered by family endowment.

The governments of the South Pacific countries are noted for their equalitarianism. It is said that in these countries men mix enough water with good

wine so that there may be enough for everybody. It is a commonplace that the spread between rich and poor is less than in the United States, and some of this is due, no doubt, to public policy. Equalitarian objectives are less apparent in the tax system than in social security benefits, wage control, and the promotion of trade unionism. But they appear to some extent in the favor given to necessities in the high protective tariff, and sales taxes and in the differentiation of the income tax in favor of service income.

That the Australian tax system, particularly, is "tough" on incentives would be hard to deny. The combination of high personal tax, double taxation of corporate profits and dividends, differentiation in the personal tax unfavorable to property incomes, and an undistributed profits tax seems about as unfavorable to investment incentives as any that could be devised. Yet life and business do go on somehow and standards of living are still among the highest in the world. Curiously, the local tax system, based largely on unimproved land values, gives unusual stress to incentives.

The pervasiveness of government, especially in New Zealand, is most impressive. On the police side, one encounters licensing of imports, new business, and new labor unions; determination of basic wages and differentials; approval of union rules; compulsory arbitration of labor disputes; price control. On the proprietary side the government owns and operates mines, railroads, air transport, banks (including one trading bank), broadcasting, tourist service, an insurance company, much housing, and a legal service (assistance in making wills, investments, and so

forth). The government subsidizes freely and markets farm products abroad for the primary producer. To this, of course, is added the elaborate social security system previously described. When one then takes account of the relatively undeveloped state of private enterprise outside agriculture, he gets an idea of the extremely predominant role played by the government. He hastens then to inquire (remembering Hayek) about the effectiveness of public opinion as the ultimate master of this Frankenstein monster. He is reassured to find an extremely alert, well-informed, sharply divided, and almost universally participating electorate. Some concern is expressed lest tyranny and suppression might yet raise their ugly heads out of this thick web of government. But it is plain enough to the observer that this has not happened yet.

The Uniform Tax Plan

The greatest achievement in Australian tax history, according to many Australians, is the merger of state and Federal income taxes which was consummated during the war and retained in the postwar period. Prewar state income taxes were characterized by stiff rates, differing widely, however, from state to state; by jurisdictional conflicts; and by special levies on certain income such as wages and salaries. Substantial progress toward a coordinated system had been made, however. During the 'twenties agreement had been reached to eliminate duplicate administration; the states were to administer the Federal income tax along with their own in five states; and in West Australia the Federal Government would manage the two levies. This arrangement

worked well and was justly publicized in this country as a great achievement. In addition, a uniform set of income tax provisions (exclusive of rates and exemptions) was accepted in conference, and real progress was made in promoting the general acceptance of this measure. Still further, the Commonwealth had always allowed deductibility of state taxes in calculating its own tax and this procedure reduced interstate differences in the burden of the combined taxes. Nevertheless, the system did not survive the strain of the war. The uniform tax measure of 1942 was adopted over the unanimous protest of the states. The war measure was taken to court and sustained. Moreover, it appears from the court's decision that the right of the Federal Government to pre-empt this tax did not depend upon the defense power and could be exercised in peace time.⁴

During the war, income tax revenue returned to the states was at the level of the average income tax collections in prelegislation years. The figure was raised somewhat for 1946-47 and 1947-48 after which it would gradually advance (a) in proportion to total population increase in the six states and (b) by a percentage equal to half the percentage increase in average wages. (This is an escalator provision to take account of changes in productivity and the value of money.) As to relative distribution among the states, a

⁴ Actually, of course, the Federal law did not and does not prohibit state income taxation but (a) gives the Commonwealth priority in the collection of its tax and (b) makes grants conditioned upon states' abstention from the field. See *South Australia and others v. Commonwealth of Australia*, 2 A.I.T.R. 273, 65 C.L.R. 373. See also discussion in J. A. L. Gunn, *Commonwealth Income Tax Law and Practice* (2d ed.; Sydney: Butterworth and Co., 1948), pp. 97-104.

complicated formula was added, providing for a gradual change over the years in favor of states with growing population (with special emphasis upon the age group 5 to 15 years) and of states whose population is sparsely distributed. The emphasis on the junior age group means that school children will count four times as much as their elders. The formula will thus extend increasing grants to states that need to provide increasing educational facilities.

Australia has several well-developed institutions of intergovernmental fiscal coordination that have no counterpart in the United States. The fountainhead of policy in the area of Federal-state relations is the Premiers Conference (of Commonwealth and state ministers) which meets often and deals with a wide range of problems. Another body with both Federal and state representation is the Australian Loan Council. This group arose from a financial agreement between the Commonwealth and states in 1927. (Contracts among federal and state governments—a common occurrence in Australia—are not used in the United States, though our interstate compacts are a beginning in this direction.) The Australian Loan Council in effect rations credit and centralizes the arrangement and security for debt. Finally there is the Commonwealth Grants Commission, a body of three appointed to recommend special-need grants to the weaker states (not to be confused with the distribution of Uniform Tax revenue). The commission has regularly recommended substantial grants to three of the six states. The standard applied is that of allowing a uniform minimum standard of government at uniform state cost. Some account is

also allegedly taken of the quality of state administration. This discretionary system has been criticized as too subjective and inimical to state incentives. Some critics hold that it would be better to tie the grants to differentials in average per capita income. However, the commission takes the view that “no fixed formula can suitably be applied.” The commission’s recommendations have always been accepted without modification by the Federal Parliament. In the case of the three so-called “mendicant” states this special aid from the Commonwealth runs to more than one-half the amount these states raise locally.⁵

As previously stated, opposition to this highly centralized revenue system is considerable. The premier of New South Wales said of the scheme in 1942: “If you take away the power to tax, you take away the power to govern.”⁶ Also frequently quoted is the prophetic statement made by the Honorable Alfred Deaken in 1942: “As the power of the purse in Great Britain established by degrees the authority of the Commons, so it will in Australia ultimately establish the authority of the Commonwealth. The rights of self-government of the States have been fondly supposed to be safeguarded by the Constitution. It has left them legally free, but financially bound to the chariot-wheels of the Commonwealth. Their need will be its opportunity.”⁷ There is considerable ground for the belief

⁵ See *The Work of the Commonwealth Grants Commission* (Canberra, 1945) and Commonwealth Grants Commission, *Fourteenth Report* (Melbourne, 1947).

⁶ Commonwealth Office of Education, *Uniform Taxation* (Current Affairs Bulletin, 1948), p. 15.

⁷ I. W. K. Hancock, *Australia*, (Australian ed.; Sydney: Australian Publishing Company, 1945), p. 97.

that the Australian federal system has served its usefulness and operates currently mainly as a brake to positive action. It will be recalled that the New Zealanders abandoned their federal system in the eighteen seventies. But even without a federal system there would persist a problem of a financial base for virile local government.

The Net Income Tax

Formula Progression.—An impressive feature of the personal net income tax of Australia is graduation by formula aimed to create a smooth curve of progression stepped up evenly from pound to pound of income. More accurately, the system provides consistent progression within a series of ascents flattening out (degressively at the top. Rates are applied to the totality of income rather than to portions as in our system; no (“notch”) problem arises in the transition from bracket to bracket because the width of each bracket—one pound—is negligible and the step up therefore can be very gradual.

Suppose a tax schedule that started with 1 cent on the first dollar of taxable income and increased by one-hundredth of a mill on each dollar thereafter up to \$10,000, the marginal rate to apply to the entire income whatever it might be. This method would result in a rate of approximately 11 per cent (10.999) on a \$10,000 income and would provide a steady increase in the effective rate throughout the schedule. This in substance is the way the Australians apply progression.

Although the principle of progression thus applied is plausible and fairly simple, the actual formulas developed in the Australian laws and literature are notoriously complex. The original

law of 1915 with rates devised by Sir George Knibbs specified for property income, curves of the second and third degree. The Australian Yearbook (No. 36) gives the schedule of rates for 1946-47 starting with the following formula for personal exertion income within the income classification £201-£300: the tax in pence is equal to $.06 T^2$ plus $12T$ minus 4800, where T is taxable income in pounds.⁸ No explanation is offered as to how this formula is derived. Certainly these mathematics mean nothing to the layman. Tax tables and “ready reckoners” of course can be used by the taxpayer to approximate his tax, but he never knows exactly how it is calculated. Perhaps it is not necessary for him to know, but the author gained the impression that the taxpayer’s morale suffers when his natural curiosity about the mechanics of his tax is frustrated. The following—addressed to the Prime Minister—from a taxpayers’ bulletin bears out this impression:⁹

⁸ Or take this one from an earlier yearbook:

$$R_a(\text{rate}) = \frac{5533.3}{I(\text{taxable income})} - 5 + \frac{12.583}{10^3} \cdot I - \frac{1.06}{10^6} \cdot I^2 + \frac{.03}{10^9} \cdot I^3$$

Use of actual formulas in the law itself was discontinued during the war period. The first schedule of the 1945 Act (No. 38) starts as follows: “If the taxable income does not exceed £200, the rate of tax shall be nil. If the taxable income exceeds £200 but does not exceed £300 the rate of tax for every pound of taxable income up to and including £200 shall be 3 pence, and the rate of tax for every pound of taxable income in excess of £200 shall be 36.15 pence increasing uniformly by .15 of one penny for every pound by which the taxable income exceeds £201.”

⁹ Taxpayers Association of New South Wales, *The Taxpayers Bulletin*, (Sydney, August 1, 1948), p. 136. One also recalls the renowned passage from Adam Smith’s *Wealth of Nations*: “The tax which each individual is bound to pay, ought to be certain, and not arbitrary. The time of payment, the

I'm worried Mr. Chifley
 With the bill you sent to me.
 It's complex and it's difficult
 To understand you see.
 I've puzzled and computed
 By math and graphs and Euclid.
 Would you really say I'm stupid,
 Mr. C.?

Nevertheless, the system has been commended by the Royal commissions of investigation. One of them observed that straightline progression "is more scientific and not more difficult either to understand or apply" than other systems.¹⁰ Another commission thought the curves in use actually approximated the marginal utility of income of taxpayers.¹¹ Considering the unknown and the unknowable in this area, one should be permitted to take this with a considerable pinch of skepticism.

The New Zealanders' personal income tax is graduated like our own except that brackets are narrowed to a width of £100. Thus on the standard schedule the rate on taxable income is 2/6 (2 shillings, 6 pence) on the first £100, 2/9 on the second, 3/- on the third, and so forth.

Rebates.—A second interesting feature of the Australian law is the allowance of tax rebates in lieu of personal deductions and credits. Instead of allowing these concessions in the familiar form of subtractions from the tax base, the Australians add up the tax first, then calculate the tax value of the concessions, and subtract the "rebate"

manner of payment, the quantity to be paid ought all to be clear and plain to the contributor, and to every other person...."

¹⁰ *Third Report of the Royal Commission on Taxation, 1934, p. 94.*

¹¹ *The Report of the Royal Commission on Taxation, Second Report, 1922, p. 98.*

from the tax. Frequently a ceiling is provided for the rebate. (Thus the allowance for a spouse is £150 but the rebate may not exceed £45. The ceiling appears to be a survival of the vanishing exemption system that was once featured in the Australian law.) Something similar to this is provided in some of our state income tax laws but there the rebate applies to personal allowances only. The Australian concessions cover an elaborate set of allowances not only for dependents but also for such items as certain nonbusiness taxes, medical expenses, contributions, and insurance. They are calculated at the personal service rate of tax plus the social security contribution rate. They serve the revenue better than deductions because: (1) they do not reduce the base on which the graduated rate is calculated; and (2) they make no allowance for the higher rates on property income.

The New Zealanders lean toward austerity in their provision for personal deductions; none are permitted. Subtractions are confined to business and professional expenses and personal credits for the taxpayer and dependents. There is much to be said for this practice but the complaint is heard from educational and philanthropic institutions that the system discourages donation.

Differentiation of Service and Property Income.—An outstanding feature of income tax laws in the South Pacific is their radical differentiation between service and property incomes. In general, the differentiation runs about a quarter in the Australian rate schedule and about a third in that of New Zealand.¹² The Australian definition of property incomes includes dividends,

¹² This differential tapers off at both ends of the graduated scale.

while the New Zealand definition is confined largely to interest and rent. Neither includes the receipts from unincorporated business. The dual schedule adds another complication since it is especially difficult to apply in the case of mixed incomes. It also raises many controversial questions of tax policy. One may quarrel with the specific classification. For instance, the Australian tax measures seem to single out corporate profit income for much higher taxes, other things being equal, than noncorporate profit income. One may also take issue with the pronounced degree of differentiation. And one may even doubt that, in combination with other taxes, differentiation provides a more equitable tax than straight quantitative graduation.

Averaging Income.—The Australians have also had a unique experience with the averaging of income. For many years all income was subject to averaging, but in recent years only the primary producers have enjoyed the benefit of this feature. Most interesting is the fact that under Australian averaging the actual income of each year constitutes the base of each year's tax, but the rate applied is one appropriate to a figure derived from a five-year running average. (Thus, if the current income is 3,000 and this income carries an effective rate of 20 per cent and the average income is 2,000 with an effective rate of 10 per cent, the tax is 10 per cent of 3,000 or 300.) A few simple calculations will show that the Australian system involves less fluctuation in tax than would a system that followed the average as to both base and rate. The general application of averaging (introduced in 1922 and used for fifteen years) was repealed follow-

ing criticism of the type usually advanced against the feature, namely, that it was troublesome to administer and unpopular during bad years.¹³ Nothing like the Australian technique has ever been tried or proposed in this country except perhaps for capital gains. Here the proposal for averaging would apply a rate to the gain based upon the actual gain divided by the years of accrual. The Australian system would be more difficult to apply under our rate system than under theirs, but it has some possibilities worth considering, especially in the treatment of capital gains.

Miscellaneous Features.—Current payment of taxes was inaugurated in Australia during the war. Except by special dispensation, the taxpayer is required to make quarterly payments based upon his previous year's income. This rule is stricter than ours and causes considerable complaint from those whose current income shows a decrease. Of course these people are entitled to refunds ultimately but time may be important. New Zealand uses withholding, as does Australia, but has no further provisions for current payment. As to joint and separate returns, the Australian provision is substantially that in the United States before the recent law enacted by the 80th Congress; New Zealand follows the British with

¹³ The problem of averaging was discussed at length in the *First Report of the Royal Commission on Taxation*, 1920, pp. 4-24. The Australian system as described above was enthusiastically recommended. British experience was considered, and the recommended plan was thought advantageous because it would not "seek payment from persons who may be in financial straits, insolvent or fugitive." (p. 21). Repeal except for primary producers was recommended by a second Royal commission, *Third Report of the Royal Commission on Taxation*, 1934, p. 110.

mandatory joint returns. Imputed income (as in the case of the annual value of owner-occupied homes) is not taxed. Treatment of capital gains and losses generally follows British precedent.¹⁴ Gambling gains and losses are ignored, a distressing feature considering the load that is put upon legitimate means of economic advancement. As in England, annuities are generally taxable, even when they represent a return of capital. Depreciation allowances are somewhat less general than our own. A provision permitting such allowances to be figured each year as a percentage of original cost minus previously deducted depreciation wisely makes for a concentration of the deductions in the early years of the life of the asset.

Taxation of Corporate Income and Dividends

Both Australia and New Zealand classify corporations into two groups. One group is termed "private" or "proprietary" companies and is distinguished mainly by the fact that its stock is closely held. The other group is called "public" companies. The definition of a private company in Australia includes firms controlled by seven or fewer persons and which are not companies "in which the public are substantially interested" or subsidiaries of public companies. In New Zealand a "proprietary" company is one that at the end of the year is under the control of not more than four persons. In both cases undistributed income is taxed as though it had been distributed to

¹⁴ Gain and loss on sale of property acquired for disposition at a profit is taxable; this rule is highly ambiguous and difficult to apply. See Gunn, *Commonwealth Income Tax*, pp. 220-239.

stockholders¹⁵ but in the Australian system, curiously, the tax though calculated on the individual scale is assessed to and collected from the corporation.¹⁶ Penalties attached to reinvestment with intent to avoid personal taxes (as in our notorious section 102) are deemed unnecessary.

All corporations, public and private, pay a general corporation tax, amounting to roughly 30 per cent in Australia and to a 55 per cent maximum in New Zealand. Australian public corporations pay an additional 5 per cent "supertax" on income in excess of £5,000. Australian public companies also pay an additional tax of 10 per cent on undistributed profits; and any excess of distribution over capital costs is considered an ordinary dividend at time of liquidation. Bonus shares (stock dividends) that constitute "a capitalization of profits" are ordinarily taxable to individuals.

Dividends are subject to the personal tax in Australia¹⁷ but not in New Zealand.¹⁸ The Australian combination of levies on profit income is impressive for its duplication; the New Zealand system involves no duplication but the initial rate on corporations is impres-

¹⁵The income thus treated is given the euphemistic and ingenious title of "notional income."

¹⁶ In New Zealand, while the income of a proprietary company is divisible among all the shareholders, the treatment is applied only to those whose share is not less than one-fifth the total income.

¹⁷ Through the operation of a rebate, dividends received by a corporate stockholder are not ordinarily subject to a second tax.

¹⁸ In New Zealand, where proprietary income is included in the taxable income of the shareholder, any dividends derived from a proprietary company are disregarded, and a credit is allowed against the tax payable by the shareholder on the proprietary income, this credit being equal to the tax payable by the company in respect of that income.

sively high. The New Zealand system, moreover, exempting dividends at the personal level as it does, is open to the criticism that it precludes the application of the progressive scale to such income. This unfortunate consequence is mitigated somewhat by including dividends in the measure though not the base of the personal tax.¹⁹ Though not themselves subject to tax, dividends count in the determination of the rate applied to other income. But this provision is of no value if the taxpayer receives his entire income from dividends. The New Zealand system (high corporate tax and exemption of dividends to stockholders) is defended curiously on the ground that corporation taxes are easy to bear since they are taken into account in the administration of price control. What this means in terms of the incidence of the tax is a matter to ponder.

Other Taxes

Space does not permit more than passing mention of other features of these interesting tax systems. None of our important taxes is overlooked. Sales taxes in Australia range through three classifications of commodities taxable at 7.5, 12.5, and 25 per cent with the middle classification regarded as standard. In New Zealand the rate is 20 per cent. These look much higher than our state taxes of a similar vintage but the laws provide so many exemptions that they are perhaps more comparable to our special excises than to the more general levies.

Both South Pacific countries have graduated taxes on unimproved land

values (above a specified exemption). These are not to be confused with the local taxes, also (though not exclusively in all municipalities) based upon unimproved land values. The former taxes were originally imposed to break up large holdings in land. They are relatively moderate, not very productive of revenue, and probably not very effective in limiting the size of holdings. Their nonfiscal purpose is subject to criticism for not taking into account the optimum size of holdings in such various pursuits as general farming, ranching, and merchandising. In the case of corporate holdings they require proration of collectively held land among stockholders. The local tax upon unimproved land, in contrast, is a genuine attempt to recapture economic rent. It has major popular support and can be judged successful though the load it carries is not comparable with that of our general property tax. The function of education, for instance, is maintained exclusively out of state and national funds. As previously suggested, a principal argument presented for confining the local tax to land is that this policy spares the incentives to improve sites.

Estate and succession taxes in the two countries offer little that is unique. Rates are not conspicuously high compared with our own or with other taxes in the tax system of these countries. Exemptions are much lower than in our Federal death tax. In Australia, state and Federal taxes in this area (and in that of land taxation) overlap but there has been no important urge to nationalize these levies as in the case of income taxes.

¹⁹ Charles A. Staples, *A Guide to New Zealand Income Tax Practice* (1948 ed.; Wellington: Financial Publications, Ltd.), p. 173.

Conclusion

No attempt will be made here to appraise these tax systems or to analyze further the points where we could profit by their example. It can be said, however, that these countries afford an unusual opportunity for comparative study of tax institutions. They have shown an unusual penchant for experimentation, fostered to some extent no doubt by their isolation. At any rate, few countries have shown so much defiance of "the truculent, narcotic, and despotic past." Now that communication between these countries and our

own has greatly improved and a much greater community of interest has been established, it may be hoped that the tax experience of each may become better known to the other.²⁰

²⁰ This article is based on the situation in the South Pacific countries prevailing in the summer of 1948. A fairly substantial reduction of taxes in Australia was announced by the Prime Minister in his budget speech of September, 1948. The reduction is about 16 $\frac{2}{3}$ per cent of the total amount formerly paid by individuals. The percentage reduction is substantially greater in the lower and middle income groups. The flat rate of tax on companies was reduced from 6 shillings to 5 shillings in the pound on the first £5000 of taxable income (Letter from P. S. McGovern, Commissioner of Taxation, Canberra, January 10, 1949).