Story: Taxes

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V2 (Goldsmith, P., 2010a)

First taxes

New Zealand has had taxes ever since formal government was established. When colonial governor William Hobson proclaimed British sovereignty over the North Island on 21 May 1840, the New South Wales customs tariff - a tax on imports came into effect.

In 1841 Hobson declared New Zealand a Crown Colony separate from New South Wales. The Customs Regulation Ordinance, which established New Zealand's first tariff from 1 July 1841, was the third law passed in the new colony.

Customs duties

Customs duties (taxes on imports, including tariffs) were the major taxes until e 1870s.

Over 60% of tax revenue came from alcohol and tobacco. Sugar was next. Most tax was voluntary. If you didn't smoke, drink alcohol or tea, or use sugar, you paid very little tax.

By modern standards taxation levels were light. One estimate in 1860 put the yearly tax burden at 4% of the country's yearly production (known as gross domestic product, GDP). This averaged out at £1 8s a head (around \$140 in 2008). In 2005, the tax burden was 37.8% of GDP, around \$16,000 per person.

Stamp and death duties

The first permanent tax taken directly from the taxpayer - rather than indirectly, for example through customs duties (which are recouped through increased prices) - was forced on the population by the cost of the 1860s New Zealand wars. The wars were funded largely by borrowing. New taxes helped to repay these loans and interest costs.

amp and death duties passed into law in October 1866. Stamp duties are taxes on documents such as mortgage deeds; death duties are taxes on inheritances. Death duties varied depending on the closeness of people's relationships, rather than on the size of the overall estate - widows were exempt, but someone who was not a relative paid 10%.

Local government taxes

In 1874 'rates' – taxes paid to local government – represented around 7% of total local and central government taxation, similar to the figure in the 2000s. Around 300 road boards levied landowners to raise funds for road construction and maintenance.

Protection racket

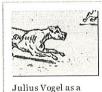
At least one early settler, F. E. Maning, regarded the gifts and work he gave his Māori chiefs in return for their protection, prior to the Treaty of Waitangi, as a form of indirect taxation. Taxation in the usual sense of the term did not exist prior to 1840 simply because there was no form of central administration



Otago, 1894







kangaroo



Harry Atkinson's property tax







Through the 1870s Premier and Treasurer Julius Vogel borrowed heavily to build infrastructure. By 1877 there were long and serious Parliamentary discussions on who was benefiting most from government spending, and who was paying the most tax to support it.

In Parliament Sir George Grey argued that the tax system was unfair as it was based primarily on customs duties. The poor paid the same duties as the rich, but they earned less, so they paid a greater percentage of their incomes on taxes. Grey wanted a shift towards more proportional taxes — so the more you earned or owned, the more tax you paid.

Grey became premier in 1878, and his treasurer, John Ballance, announced a land tax in his first budget, raised at a halfpenny in the pound on the unimproved value of land for large estates.

Improvements were exempt from this land tax. Ballance rejected the idea of penalising industry and entrepreneurial behaviour by taxing the investment of capital or labour in the land. Government wanted to tax only the 'unearned increment' – the rise in land values that resulted from public investment in rail or roads and other public works.

Poll tax on Chinese

The Chinese Immigrants Act 1881 imposed a £10 poll tax. A poll tax is a tax on individuals – in this case only on Chinese immigrants. It usually took Chinese immigrants some years to repay the debt.

Property tax

Grey's timing was unfortunate. In 1879 a £1 million (\$139 million) hole opened up in the national accounts. Ballance and Grey fell out, and lost the 1879 election to Harry Atkinson. Atkinson replaced the land tax with a broad-based property tax, which captured the value of land, together with mortgages, bank balances, herds and personal possessions.

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