

A History of Taxing Married Women in New Zealand

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I INTRODUCTION

In taxing income, a government has two choices. It may tax the individual, or it may choose to tax the marital unit and impose a tax on a married couple's joint income. When income tax was initially imposed in 1891 it was charged on individuals, rather than married couples. This has not remained a consistent choice over time.

The first income tax was introduced into New Zealand through the Land and Income Tax Act 1891. Section 39 of this Act provided simply that every person was to be taxed on his or her income.¹ Section 13 of the Land and Income Tax Amendment Act 1939 required that for the purposes of calculating income taxes, any income derived by a married woman was deemed to be derived by her husband. In enacting this provision, the Government of the day claimed that it was attempting to eliminate the frequent tax avoidance that was occurring as a result of married couples artificially splitting their incomes in order to reduce their combined tax liability.² This provision remained in effect for two decades before it was effectively repealed by section 14 of the Land and Income Tax Amendment Act 1960.

What little did remain of the aggregation provision following the 1960 amendment was eventually repealed by section 10 of the Land and Income Tax Amendment Act 1973. This position of taxing the individual rather than the family has remained since then, with current tax legislation providing that every person who is resident in New Zealand must calculate and satisfy his or her obligations under the Income Tax Act.³

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¹ See text accompanying notes 6 to 9, *infra*.

² (3 October 1939) 256 NZPD 536 (Walter Nash).

³ Income Tax Act 2004, s BB 2(1).

The issue as to whether an income tax is imposed on the individual or on the marital unit will have the greatest effect on the secondary earner in the marriage. This is because, under a progressive tax system, when the income of the secondary earner in the family is aggregated with that of the primary earner, it will often be taxed at a much higher marginal rate than if the two earners were taxed individually. Even if the marginal tax rate is unaffected by the policy of aggregation,⁴ such a system would always increase the total tax payable, and therefore the effective rate of tax on the secondary earner's income. As the wife has historically been the secondary earner in a two-income household, the Government's choice as to whether to tax the individual or the marital unit will impact on the wife to a greater extent than it would the husband. When the rate at which the wife's income is taxed increases as a result of the aggregation provisions, the additional taxes which will be imposed on her income may discourage her from obtaining paid employment, thus providing her with a strong disincentive against entering the paid workforce. The alternative approach of taxing the income of each taxpayer individually produces inequities across different families with the same combined income. This results from the fact that without aggregation, a one-income family will almost always pay a greater amount of tax than a two-income family with the same combined income.

This article examines the repeal (in most circumstances) of the aggregation of income provisions in New Zealand's income tax legislation in 1960. In particular the focus is on the effects of this change on taxpayers, and more specifically, on married women. Under a progressive tax system such as that which operates in New Zealand, the choice of tax unit "can have a major impact on both the distribution of the tax burden and the resultant social and economic consequences."⁵ An analysis of how income tax was imposed on married women both before and after the repeal of the aggregation provisions illustrates the social impact of higher tax rates under the aggregation provisions. A comparison between income tax law based on marital and individual tax units demonstrates the inherent trade offs that a tax system must face when choosing the appropriate unit of tax. Neither of these systems is perfect, and an analysis of tax law prior to and following the 1960 changes highlights the advantages and disadvantages of each approach. The choice of tax unit also affects the administration of the tax system.

⁴ For example, this would be the case if both earners were already caught by the highest tax bracket.

⁵ *Report of the Task Force on Tax Reform* (1982) [6.15].

The Pay As You Earn (“PAYE”) system was introduced in New Zealand at a time when income taxes were imposed on aggregated marital incomes. This system of aggregation created a number of difficulties for the PAYE procedure which were alleviated upon a return to a system of individual taxation. Analysing the interaction between the aggregation provisions and the PAYE system and how the resulting difficulties were overcome following the return to a system of individual taxation illustrates the administrative issues which must also be considered when choosing the appropriate unit of taxation.

II AGGREGATION OF INCOMES: 1939 TO 1960

Income tax was first imposed in New Zealand under the Land and Income Assessment Act 1891. Section 39 of this Act provided that “[a]ny married woman seised, possessed, or entitled to any land, mortgage, or income to or for her sole or separate use, shall be chargeable with and liable to pay tax in like manner as if she were sole and unmarried”.⁶ This policy of taxing the husband and wife separately remained in force for the next half century. In 1939 the individual was replaced with the married couple as the unit of tax. In introducing this new policy, Walter Nash, the Minister of Finance and Minister of Land and Income Taxes for the Labour Party, suggested that taxing married couples on their combined income would prevent the tax avoidance that had been frequently occurring through the splitting of a married couple’s income in order to obtain the benefits of a lower marginal tax rate.⁷ Aggregation of the incomes of married couples was introduced by section 13 of the Land and Income Tax Amendment Act 1939. This section effectively provided that any income earned by a married woman was treated as if it had been earned by her husband, and the husband was solely liable for the income tax calculated on the aggregated income.⁸

Although Nash claimed that aggregation was necessary in order to prevent income splitting between married couples attempting to minimise their combined tax liability, section 13 of the Land and Income Tax Amendment Act 1939 went further than was necessary to achieve this objective. The new aggregation provision was not limited to only those couples artificially splitting their incomes in order to benefit from

⁶ Land and Income Assessment Act 1891, s 39.

⁷ (3 October 1939) 256 NZPD 536 (Walter Nash).

⁸ However, the provisions only applied where both husband and wife earned in excess of £200.

lower marginal tax rates. Instead, a blanket approach was adopted, providing that the incomes of all married couples, earning in excess of a predetermined threshold, would be aggregated for the purposes of calculating their income tax liability. The introduction of the aggregation provision sparked heated debate in Parliament as to whether it was an appropriate way both to impose an income tax and to deal with the tax avoidance which was occurring amongst married couples splitting their income to lower their total tax liability. Some, such as National MP Joseph Coates, argued that aggregating the incomes of married couples was “unfair and undermines all that we have been striving to achieve for many years past – namely, the giving of individual rights to men and women”. The aggregation provision was also criticised by National MP Herbert Kyle who suggested that there must be some more appropriate “method of dealing with people who are evading the payment of taxation, without a general provision of this sort being made”.

The aggregation provision was also criticised because it would substantially increase the overall tax liability for many married couples. Under New Zealand’s progressive tax system, the aggregation of incomes would mean that married couples would reach a higher average tax rate than if they were taxed individually. The effect of the new aggregation provision on a married couple’s overall tax liability was summarised by National MP Charles Wilkinson during the debate on the Land and Income Tax Amendment Bill 1939 as follows:

The clause will operate in this way: a man with an income of £1,000 a year might pay a tax of 4s. in the pound. His wife, with an income of, say, £500 a year might pay 2s. in the pound. By aggregating the two incomes, it is possible that the rate on the joint income of £1,500 will be 5s. in the pound – an increase in the rate paid by the husband of 1s. and an increase in the rate paid by the wife of 3s. in the pound.

Under the aggregation of incomes provision, it was likely that aggregation would result in a married couple’s income crossing a tax bracket, and thus being taxed at higher rates. The effect of this was emphasised by William Polson, another National MP, who noted that section 13 of the Act “makes it more expensive for people to live together in marriage than in an unmarried state”. Whilst both husband and wife would be affected by the resulting higher tax liability, the effect would be more detrimental to the wife. In a two-income household, the wife would typically be the lower earner. Under the aggregation of incomes provision, her income would be added on top of her husband’s. Thus, the

husband would receive the benefit of the exemptions, and lower tax rates under a progressive tax system, and the wife's income would automatically be taxed at the higher rate. Overall a significantly higher amount of tax would be deducted from the wife's income than would be the case if she were single, or if the couple were taxed individually. These higher taxes would reduce the contribution which the wife's earnings made to the family income and as a result would negatively impact on her incentives to obtain paid employment. As Polson noted in the Parliamentary Debate on the Bill, the aggregation provision would make "an independent income a costly luxury for both the woman and her husband".

In 1939 it was rare for a married woman to earn more than £200 a year. The majority of married couples would, therefore, have been unaffected by this change in the law. Census figures for the 1936 income year indicate that 82 per cent of married women did not earn any income. Further, only one per cent of married women earned more than £208.⁹ In 1945, 94 per cent of married women earned below £200.¹⁰ In addition it would not appear that these figures were driven by women choosing to leave the workforce after getting married, due to the high taxes their husbands would be required to pay under the aggregation provisions. Only four per cent of women who had never been married earned in excess of £208 in 1936, whilst in 1945, 20 per cent of this group earned more than £200. Based on these figures it would appear that in 1939 the aggregation provisions would only have applied to high income couples or to those who were "splitting" their incomes in order to lower their combined tax liability.

This fact did not, however, remove the controversy that surrounded the introduction of the aggregation provisions. The Labour Party thus faced considerable difficulties in passing the Land and Income Tax Amendment Act 1939. Although the Bill was presented to Parliament for its second reading on the afternoon of 3 October 1939, it was not passed until just before 4:30 am the following morning.¹¹ As each clause of the Bill was passed, "voting on the frequent divisions was on strictly party lines". The relatively narrow application of the aggregation provisions, along with the strong party divisions in voting on the various clauses of the Bill, suggest that the enactment of the aggregation provisions more likely represented the implementation of a

⁹ *Results of a Census of New Zealand, 1936*,

¹⁰ *Results of a Census of New Zealand, 1945*.

¹¹ (3 October 1939) 256 NZPD 579.

piece of Labour Party tax policy than any necessary amendment to income tax law.

Due to its narrow application, the system of aggregating spousal incomes might initially have provided a simple and effective solution to the problem of married couples splitting their incomes to reduce their overall tax liability. Over time, however, incomes would rise and eventually exceed the £200 threshold at which the policy of joint taxation would set in. In such circumstances, the aggregation provisions had the potential to discriminate against women in two key ways. First, under the system of aggregation married women would enter the paid workforce at high marginal tax rates, dictated by their husband's income. Second, a natural consequence of these high tax rates would be an increase in the couple's overall income tax liability. In some cases, this would tend to make it too costly for the wife to seek employment outside the home as a means of supplementing the family income. As a result, the tax system worked to discourage married women from participating in the paid labour force. In the event that a married woman did choose to work outside the home, the aggregation provision provided her with an incentive to keep such work to a minimal level so as to avoid reaching the £200 threshold at which the aggregation provisions would take effect. This situation eventually occurred. By 1951, more than half of all working wives earned in excess of the £200 threshold at which aggregation applied, and were thus subjected to the system of joint taxation.¹² In 1953, a minor amendment to the Act raised the threshold at which the aggregation provisions would apply from £200 to £230. This increase would have been too small to be of any benefit to most married couples.¹³

In 1954 Parliament amended the legislation to provide some relief, albeit of a minor nature, to married women who were seen as being treated unfairly by the aggregation of income provisions. The 1954 amendments split the wife's aggregable income into two portions and in line with a general rise in income levels,¹⁴ raised the threshold at which aggregation would apply to £500.¹⁵ The law continued to treat all income derived by a married woman as if it had been earned by her husband. The husband remained liable for all taxes imposed on this income. However, following the 1954 amendments, the two portions of a

¹² *Results of a Census of New Zealand, 1951.*

¹³ Land and Income Tax Amendment Act 1953, s 3(2)(a).

¹⁴ According to the 1951 Census, the median income for adults actively engaged in the workforce for the 1951 income year was £499 for males and £276 for females.

¹⁵ Land and Income Tax Amendment Act 1954, s 15(1) and (2).

wife's aggregable income were treated differently for income tax purposes. The first £500 of the wife's aggregable income was taxed as if it was the only income derived by the taxpaying husband, and thus was taxed at the lowest possible rate. The remainder of the wife's income was then aggregated with the husband's income and additional tax was calculated on this amount, at the appropriate (and usually higher) tax rate.¹⁶

This change was introduced by Sidney Holland, Prime Minister and Minister of Finance for the National Government in his 1954 Budget.¹⁷ In reading the Budget, Holland stated that the existing law aggregated the incomes of husbands and wives "so as to increase the yield of tax payable to the Government". Thus, despite the Labour Party's assertions that aggregation was necessary to prevent tax avoidance by married couples, it was seen by others, including the National Party, as simply an easy way for the Government to increase its taxation revenue.

The 1954 amendments to the aggregation provisions brought about several important consequences. According to National Party MP, John Rae, who commented at the time this amendment was passed, most married women did not earn "a particularly high income." In 1954 it was unusual for a married woman to earn in excess of the £400-£500 range.¹⁸ Following the enactment of this change, virtually all working wives would be relieved from the additional tax burden placed upon them (and their husbands) by the aggregation of income provisions. A second important consequence was that it removed a certain amount of the discrimination in earlier legislation against married women on the basis of how much they earned. Under the law as it stood immediately prior to the amendments, married women earning less than £230 were taxed separately on their incomes, whilst the law treated the incomes of married women earning in excess of £230 as if they had been derived by their husbands. The operation of the law in this way was seen by some as removing the right of a married woman, earning more than £230, to her individual earnings. Rae noted this view when commenting that "[married] women are entitled to their earnings, and there should be no penal method of aggregating their incomes with those of their husbands".¹⁹ The 1954 amendments alleviated this problem to some

¹⁶ *Ibid* s 15(3).

¹⁷ Sidney Holland (1893-1961).

¹⁸ According to 1956 census figures, 77 per cent of women actively engaged in the labour force earned less than £500.

¹⁹ *Ibid*.

extent by allowing all married women to earn up to £500 before the aggregation provisions would take effect. In those situations where the aggregation provisions did apply, only that income earned by the wife in excess of £500 would be aggregated with that of her husbands, and charged at the higher rates of tax.

The final significant change brought about by the 1954 amendments relates to the allocation of tax exemptions between husband and wife. Prior to the amendments, a wife's income was added on top of her husband's for the purpose of calculating tax. As a result of this, the exemptions allowed under the Land and Income Tax Act 1923 for both husband and wife were deducted from the husband's income. This further increased the tax imposed on a married woman's income in contrast to that which would be payable on the income of a single woman. The 1954 amendment to the aggregation provision took a step toward resolving this situation. Under section 15(2) of the Land and Income Tax Amendment Act 1954, the wife's personal exemption of £375 would be deducted from the first portion of her earnings. She would then only be taxed on the remaining £125. The second portion of her earnings would then be aggregated with that of her husband and taxed at his higher marginal tax rate.

Despite taking these small steps toward relieving women from the heavy burden of taxation they faced under the aggregation provisions, income tax law still discriminated against women in one key respect. This discrimination arose from the fact that "aggregable income" was still defined as being all income earned by a married woman while living with her husband.²⁰ Despite the fact that different rates of tax were applied to the first and second portion of a married woman's income, the relevant tax law still provided that all the income she earned was "aggregable income." It was therefore deemed to have been earned by her husband. For practical purposes, this meant that the income tax return for the married couple was filed by the husband, as if he had earned all the income declared within it. Despite the measures implemented to relieve married couples from the heavy burden of tax under the aggregation provisions, tax law still failed to recognise the ability (and the right) of women to earn their own incomes.

The law as it stood following the enactment of the Land and Income Tax Amendment Act 1954 was re-enacted as section 104 of the Land and Income Tax Act 1954. Another amendment to the provision in 1958 saw the Government's tax policy take a step back towards its initial

²⁰ Land and Income Tax Amendment Act 1939, s 13.

position of taxing the individual rather than the family unit. Section 29(1) of the Land and Income Tax Amendment Act (No. 2) 1958 repealed section 104 of the Land and Income Tax Act 1954 and substituted a new set of aggregation provisions. Subsection 10 of the new section 104 provided that “[a] married man shall be solely liable for the income tax assessed to him in accordance with this section and his wife shall be solely liable for the income tax assessed to her in accordance with this section”.²¹ Thus, following the 1958 amendment both husband and wife would each receive individual tax assessments, and each would be solely liable for taxes imposed on their respective incomes. However, under these amendments, aggregation was still necessary to determine the rates at which income tax would be imposed on the respective incomes of husband and wife. Subsection 5 provided that income tax in relation to the first portion of the wife’s aggregable income (i.e. the first £520) would be “...calculated at the rate that would have been applicable if she had derived no [other] income...”²² The remainder of the wife’s income was to be aggregated with the whole of the husband’s income. This aggregated value then determined the rate at which both the second portion of the wife’s income and the whole of the husband’s assessable income would be taxed. Thus, under the 1958 Amendment, the total tax payable by a married couple was calculated in essentially the same way as it was under the 1954 Act. However, the resulting tax liability of the married couple was split between husband and wife, with each being individually liable for the tax relating to their respective incomes.

This change was introduced by Arnold Nordmeyer, the Minister of Finance and Minister in charge of the Inland Revenue Department for the newly elected Labour Government. According to Nordmeyer, this amendment was necessary to “facilitate the PAYE procedure” which had been operative since 1 April 1958, some four months earlier. Intuitively, some changes to the aggregation of income provisions would be necessary if the PAYE system was to operate effectively. The purpose of the PAYE system was to deduct income taxes at source from taxpayers’ wages and salaries. However, under the aggregation provision, the husband was solely liable for all taxes associated with the incomes of both himself and his wife. Thus, under income tax law immediately prior to the 1958 amendments, a married woman could not be liable for any income tax. This was the result of two features of the tax system. First, the aggregation provisions deemed all income earned by a married

²¹ Land and Income Tax Amendment Act (No 2) 1958, s 29(1).

²² *Ibid.*

woman to be derived by her husband. Second, the husband was solely liable for taxes payable on the aggregated income. Two alternative consequences arose from this situation. First, it could be said that PAYE deductions could not technically apply to a married woman's income as she, personally, had no income tax liability. Alternatively, by deducting income tax from her income, the wife would be contributing towards the settlement of her husband's income tax liability. For these reasons, it made sense that if a woman was to have PAYE deductions made from her income, she needed some tax liability against which the deductions could be offset. The enactment of the Land and Income Tax Amendment Act (No 2) 1958 resolved this situation by providing that the husband and wife would each be separately liable for their respective portion of the aggregate assessment.

The effect of this amendment was that tax legislation now recognised the right of a married woman to earn an income and to be taxed on that income. However, despite this change, women continued to be treated unequally by the income tax system. Under the aggregation of income provisions, the second portion of the wife's aggregable income was added on top of her husband's income for the purpose of calculating income tax. This meant that this portion of the wife's income was almost always taxed at a higher rate than if she were to be taxed on a purely individual basis. In addition, if the aggregation resulted in her husband crossing into a higher tax bracket, he too would be required to pay tax at a higher marginal rate than he would if taxed only the basis of his individual income. More importantly, the overall tax liability of the couple, and therefore their effective tax rate, would also increase. The burden of these higher rates would have considerably less impact on the husband's overall tax liability than it would on that of the wife. This results from the fact that the wife's income was added on top of her husband's for the purposes of calculating income tax. The husband would get the benefit of the zero tax bracket and the initially lower rates under the progressive tax system. Once the whole of the husband's income had been taxed at the progressively increasing rates, the second portion of the wife's income would be taxed at the highest possible rate. The overall effect of this was that despite its stated objective of splitting the aggregate tax proportionately between each spouse, the burden of the aggregate assessment now fell much more heavily on the wife.

A further problem also remained as a result of the interaction between the PAYE system and the operation of the aggregation provisions. This arose from the fact that the rate at which the second portion of a married woman's income was to be taxed was determined by

reference to her husband's earnings. If PAYE deductions were to be made at the appropriate rate, the amount of her husband's income, and therefore the appropriate tax rate, would need to be known by the employer making the tax deductions.

The law remained this way until 1960. The Land and Income Tax Act 1954 now recognised the right of a married woman to her own income and to be taxed individually on that income. However, the operation of the aggregation of income provisions continued to advantage her male counterpart. Under section 104 of the Land and Income Tax Act 1954 and its various amendments, the second portion of the wife's income continued to be aggregated with her husband's earnings for the purpose of determining the applicable tax rates. As a result, the wife was required to pay disproportionately higher levels of tax than her husband, and than that which she would have paid if she were taxed individually. Overall, this meant that the value of the wife's income to the family was considerably less than her husband's. For some women, the result was that it was not worthwhile to enter the paid workforce.

III THE SECOND LABOUR GOVERNMENT: 1957-1960

The political environment between 1957 and 1960 is closely related to the eventual decision to repeal the aggregation of income provisions in 1960. For this reason, it is necessary to examine the economic environment the second Labour government faced during its term in Office from 1957 to 1960.

The Exchange Crisis of 1957-1958

The Labour Government was elected in 1957 largely on the basis of a promise of a £100 tax rebate for every taxpayer. This was intended to provide some relief to taxpayers who would have one year's tax due in February 1958, one month before tax deductions at source under the PAYE system were due to begin. This proved to be a big issue in the 1957 election campaign. The National Party also offered some relief to taxpayers, promising a 25 per cent rebate for every taxpayer, up to a maximum of £75.²³ The Labour Party's considerably larger rebate would

²³ Chapman, Jackson and Mitchell, *New Zealand Politics in Action: The 1960 General Election* (1962) 31.

cost £21 million to implement,²⁴ a cost which they realised after the election could not be met without substantial increases in other, indirect, taxes and social security charges.

Labour's campaign had included promises of an increased family benefit and a state-run loan scheme for first home buyers. Approximately three weeks after entering office, the Walter Nash-led Labour Party realised that there were insufficient funds to implement these rather expensive election promises. In a radio broadcast on New Years Day 1958, Nash described the country's bleak economic outlook to the nation. According to Nash, the National Party was aware of the falling overseas reserves and had failed to take appropriate preventative action to correct the situation.²⁵ In December 1957 when Labour took office, foreign reserves sat at just £46 million, a significant drop from the £77 million that had existed just twelve months earlier.²⁶ Nash described the situation facing his newly elected government as "the most serious economic situation New Zealand has faced since the depression of the 1930s" and immediately implemented a system of strict import controls in order to regain control over the nation's economy.²⁷

Despite the worrying balance of payments situation, Labour quickly went about implementing its election promises and in February 1958 enacted the £100 income tax rebate, costing the country approximately £21 million. Around the same time, Labour also began to implement its home-loan package. These actions only worsened the already bleak financial situation. As Budget day drew nearer some sort of drastic action was needed to improve the country's economic outlook. The ultimate result of the combination of the exchange crisis and Labour's extravagant election promises was the release of Nordmeyer's Budget of 26 June 1958. This Budget provided for a wide range of increases in taxes and duties and quickly became known as the "Black Budget".

Income tax rates, which had been reduced under the National government, were restored to the higher 1954 levels and the personal exemptions for income tax for both single people and working couples were reduced. These tax increases affected all, but the burden fell most heavily on single taxpayers without family commitments. Following the 1958 Budget, the tax liability of a single taxpayer earning £1000 increased from £78 to £130. For a married man with two children, also

²⁴ *Ibid* 47.

²⁵ *Ibid* 34.

²⁶ *Ibid* 35.

²⁷ *Ibid* 107.

earning £1000, annual tax payable increased from £37 to £49.²⁸ In addition, the Budget also followed delivered on another of Labour's election promises by increasing various forms of family benefit.²⁹ However, as with the rest of Labour's election promises, these family benefit increases required taxpayer funding to implement. For most, if not all, taxpayers, the rise in family benefits was not sufficient to offset the additional tax they were now required to pay.

The "Black Budget" provoked extensive criticism from a number of groups in society. Keith Holyoake,³⁰ the leader of the Opposition, claimed that the tax increases under the Budget, particularly those relating to petrol, were "savage and unjustified" and "would be a terrific increase in the cost of pleasure, living and production".³¹ The country's major newspapers also expressed strong dissatisfaction with Nordmeyer's first Budget. In its editorial on 27 June 1958, *The New Zealand Herald* stated that "[t]he tax increases which Mr Nordmeyer announced in his Budget last night will shock the entire country."³² The economic circumstances that resulted from the exchange crisis and the increased taxes meant that Labour's popularity dropped sharply during this time.

The Budget of 1960

Public discontent with the Labour Party's extravagant election promises and the excessive taxes that were required to pay for them continued throughout Labour's three-year term in Office. By 1960, with the next general election only months away, the Labour Party was still explaining to voters why such substantial tax increases had been necessary and justifying the measures introduced by the "Black Budget".³³ If the Labour Party was to stand any chance of remaining in Office after the 1960 General Election, Nordmeyer needed to produce a powerful, vote-capturing Budget.

As a vote-winning document, the Budget of 1960 was a disappointment. However, this Budget did introduce a few significant and broad-reaching tax reductions. At the company level, the Budget provided some exemptions from excess retention taxes and reintroduced a special depreciation allowance. The earlier "Black Budget" had both

²⁸ Ibid 48-49.

²⁹ Ibid.

³⁰ Keith Holyoake (1904-1983).

³¹ "Terrific Increase in Many Costs Forecast", *The Evening Post*, Wellington, New Zealand, 27 June 1958) 6.

³² Editorial, *The New Zealand Herald*, Auckland, New Zealand, 27 June 1958), 8.

³³ Chapman, Jackson and Mitchell, *supra* note 23, 34.

introduced the excess retention tax and drastically limited special depreciation allowances. The individual taxpayer also received a number of small benefits under the 1960 Budget. Nordmeyer attempted to encourage small savings through an increase in the interest, life insurance and superannuation exemptions from income tax. In announcing these minor tax reductions, Nordmeyer was careful to emphasise the fact that the Labour Party had pulled the country out of the recession arising from the exchange crisis. According to Nordmeyer, the stringent import controls and tax increases had been necessary to control the demand for imports during the crisis period. Now that the economy was recovering well, it was appropriate to stimulate economic growth through reductions in the burden of taxation.

The major income tax initiative of the 1960 Budget was the removal of the provisions of the Income Tax Act 1954 relating to the aggregation of incomes of husband and wife. This announcement followed an increase to the threshold at which the aggregation provisions would apply from £520 to £650 in 1959 and was seen as one of the “highlights of the 1960 Budget”.³⁴ There was a strong belief amongst both politicians and “taxation experts” that the removal of the aggregation provisions would result in “some fairly substantial tax savings for most married couples”.³⁵ Figures quoted in the *New Zealand Herald* indicated that a married couple where the husband earned £1500 a year, and his wife £1000, would save £49 15s 6d following this change in tax law. For a relatively high income couple, where both husband and wife earned £3000 a year, the tax savings would be £614 8s.³⁶ However, because the aggregation provisions had only applied to those couples where both husband and wife earned £650 a year or more,³⁷ low income couples would not receive any benefit from this change.

Tax was a sensitive issue for the Labour Party, particularly following the heavy tax increases under its “Black Budget”. In his Budget speech, Nordmeyer commented that income tax rates should be reduced before any alteration was made to the indirect taxes imposed at the time of the 1958 Budget. For this reason he had, under his 1959 Budget, reduced tax rates from October 1959 and again from April 1960. These reductions, which had an estimated total value of £22.4 million,

³⁴“Mr Nordmeyer Faces the Facts”, *The New Zealand Herald*, Auckland, New Zealand, 22 July 1960, 10; “Limited Budget Concession”, *The Evening Post*, Wellington, New Zealand, 22 July 1960, 8.

³⁵ “Married Couples to Benefit”, *The New Zealand Herald*, Auckland, New Zealand, 23 July 1960, 19.

³⁶ *Ibid.*

³⁷ Land and Income Tax Act 1954, s 104 as amended by Land and Income Tax Amendment Act 1959, s 13(1).

had effectively brought income tax rates back to 1957 levels. This was approximately 25 per cent lower than those which had been imposed in 1954, and reintroduced by the 1958 Budget. According to Nordmeyer, to reduce income tax rates even further so soon after the economy had recovered from the exchange crisis would only endanger the economic stability which his Government had worked hard to achieve. However, removing the aggregation of income provisions was one means through which Nordmeyer could reduce tax liability for a number of taxpayers whilst retaining the current income tax rates. In addition, this change would encourage many married women to re-enter the paid workforce after their children had grown up. These women may have been discouraged from returning to work while the aggregation provisions were in operation due to the higher rates at which their income would be taxed. The tax payable on this additional income would help to offset the reduction in taxation revenue that the Government would suffer as a result of taxing husband and wife separately. Thus it would appear that the removal of the aggregation of income provisions was a means through which Nordmeyer could reduce the tax liability of a significant number of voters, whilst suffering minimal reductions in income tax revenue. Nordmeyer's announcement of the abolition of the aggregation provisions was criticised by some Opposition members on these grounds. For example, National MP, Frank Gotz argued that the liberalisation of aggregation provisions under the 1960 Budget would "benefit a few people, but very few".

An examination of the income levels reported in the census of both 1956 and 1961 provides some support for these criticisms. In 1951, 77 per cent of females actively engaged in the workforce derived incomes below the £500 threshold at which the aggregation provisions would take effect. By 1960, at the time of their repeal, the aggregation provisions did not apply until both husband and wife earned incomes in excess of £650. However, according to the next census of 1961, 91 per cent of women actively engaged in the workforce earned less than £600. These figures suggest that by 1960, the application of the aggregation of income provisions was very limited. Thus it is likely that very few couples would have received any benefit from the repeal of the aggregation of income provisions. Further, it is also unlikely that this change to the law would have impacted on the Government's tax yield in any significant way. Despite this, the Labour Government frequently claimed that the repeal of the aggregation provisions would result in substantial tax savings for a great number of married couples. In reality however, it would appear that this change to the income tax legislation was simply

another of Labour's electioneering strategies. Removing the aggregation provisions was a means through which the Government could create the impression of substantially lower taxes. In reality, the strategy would cost the Government next to nothing and would benefit only a handful of high-income taxpayers.

The 1960 General Election

An examination of the close relationship between the Budget and the Labour Party's election campaign also suggests that the 1960 Budget was a final attempt by the Labour Party to regain voter support. Both National and Labour focused much of their campaign on the performance of the Labour Party during its time in Office. The debate centred on the events of 1957 and 1958 and in particular, on the exchange crisis and Labour's "Black Budget". On the one hand, the National Party claimed that there was no "crisis". Holyoake admitted that at the time of the 1957 election, overseas funds were relatively low. However, he disagreed with Labour's claims that there was any sort of "crisis" that justified the exceptionally high taxes imposed by the 1958 Budget. According to Holyoake, the National Government had been faced with a similar situation after they assumed Office in 1954, and had been able to deal with the run-down of overseas funds calmly and effectively. The exchange "crisis" of 1957-58 only developed later after the newly elected Labour Government panicked and began imposing drastic import restrictions and indirect taxes.³⁸ Labour also placed great emphasis on this so-called crisis during their election campaign. Nash suggested, on the other hand, that National had left overseas reserves so low that the 1958 Budget, with its increased taxes, was necessary to deal with "the sharpest trade crisis since the early thirties".³⁹ These claims made by Nash throughout his election campaign bear a strong resemblance to those made only a few months earlier by Nordmeyer in his Budget speech.

Throughout its term in Office, the Labour Government was constantly criticised for failing to keep its 1957 election promises and in particular its undertaking to reduce taxes. Possibly as a result of this criticism, the Labour Party did not make any spectacular election promises during its 1960 campaign. Instead Labour candidates focused their efforts on emphasising the Party's achievements in Office, and in

³⁸ Chapman, Jackson and Mitchell, *supra* note 23, 106.

³⁹ *Ibid* 105.

particular that it had managed to pull the country through the exchange crisis of 1957-1958. The election policies Labour did announce appeared to be very closely related to Nordmeyer's 1960 Budget.

Taxation was one of the key issues for the Labour Party during its 1960 election campaign. This was an area where Labour had come under considerable attack from National, due to the Party's 1957 promise to reduce taxes which had been followed shortly after by large increases in customs duties, import controls and income tax rates. Throughout the Election campaign, Labour Party candidates placed great emphasis on the fact that income tax had been lowered during Labour's term in Office. A claim frequently made by Nash during his campaign was that everyone earning £2000 a year or less was paying less tax than they were in the National Government's last tax year.⁴⁰ The Labour Party promised that if they were to be re-elected into Office, they would increase the personal exemptions from income tax, thus providing voters with even more tax reductions. On the other hand, the National Party focused its attention on income tax rates during the Labour Party's term, and claimed that these rates had increased. In contrast to the indirect means through which Labour promised to reduce tax, the National Party campaign stated that National would reduce taxation through direct reductions in income tax rates.

The repeal of the aggregation of income provisions took effect in relation to all income earned after 1 April 1960, and thus applied to tax payable for the final year of the Labour Party's term in Office. This change in tax legislation, and the income tax savings that followed, would no doubt have assisted Labour in making its claims that income tax had reduced for most taxpayers under the Labour Government.⁴¹ Given the heavy attack the National Party mounted on Labour's performance during its term in Office, particularly in relation to the taxation issue, it was important for the Labour Party to provide voters with a more favourable picture of the Party's achievements. Removing the aggregation provisions, with immediate effect, went some way towards assisting Labour with this objective. Following the repeal of these provisions, income tax liability for at least some married couples would have immediately reduced, even with no other changes to the Party's tax policy. Such a change would then have contributed to the claimed

⁴⁰ "Leaders' Final Messages to Voters", *The Evening Post*, Wellington, New Zealand, 25 November 1960, 21.

⁴¹ However, as these reductions would have occurred without any reductions in the income tax rates, this may also explain National's claims that tax rates had increased under the Labour Government.

reduction in taxes which had occurred under the Labour Government, at least so far as married couples were concerned.

Thus, there appear to have been some strong political motivations behind the 1960 Budget and its repeal of the aggregation of income provisions. Both Nash and Nordmeyer had throughout their political careers gained reputations as ruthless “tax gatherers.”⁴² Following a disappointing term in Office for the Labour Government, both needed some way of regaining voter support if they were to retain their positions for another term. The 1960 Budget saw a number of the controversial provisions of the “Black Budget” being reversed. In addition, it saw the repeal of the aggregation of incomes of married couples under income tax law – a provision that had been controversial ever since its introduction in 1939. It is interesting to note that aggregation of spousal incomes had initially been introduced by Nash during his time as Minister of Finance of the first Labour Government in the late 1930s. Throughout its life, this provision was criticised by the National Party as simply a means through which Nash could increase the Government’s tax yield. Upon its eventual repeal in 1960, both Nash and Nordmeyer claimed that it would result in substantial tax savings for married couples. It remains difficult to understand why Nash would so openly support the repeal of one of his own tax initiatives, especially one which he had claimed was essential for the tax system to operate fairly in respect of the taxation of married couples. Perhaps the reason was that Nash realised the dissatisfaction this provision was causing amongst taxpayers and saw its repeal as a relatively simple way to collect votes in the upcoming General Election.

However, if the Budget and its repeal of the aggregation of income provisions was intended to capture votes for the 1960 General Election, it failed. The General Election on 26 November 1960 saw the National Party obtain a 46:34 seat majority over Labour.⁴³

⁴² Editorial, “Mr Nordmeyer’s ‘Stand and Deliver’ Budget”, *The New Zealand Herald*, Auckland, New Zealand, 27 June 1958, 8.

⁴³ Chapman, Jackson and Mitchell, *supra* note 23, 294.

IV THE REPEAL OF THE AGGREGATION OF INCOME PROVISIONS

The Land and Income Tax Amendment Act 1960

Although it failed in its apparent attempt to recover voter support for the Labour Party, the repeal of the aggregation of income provisions brought about a number of beneficial changes for New Zealand women. These changes were put into effect by the Land and Income Tax Amendment Act 1960. Section 14 of this Act repealed section 104 of the Land and Income Tax Act 1954,⁴⁴ and substituted a new set of aggregation provisions. For the most part, these changes were given effect through a new definition of aggregable income. Prior to the 1960 amendment, “aggregable income” simply referred to all income that a married woman earned whilst living with her husband.⁴⁵ This concept of aggregable income was replaced with a new definition which provided that “aggregable income” consisted only of that income which was the result of income transfers between spouses, or where one spouse had derived income from assets owned by the other spouse.⁴⁶ Under this definition of “aggregable income” the aggregation provisions would only apply in those situations where the husband and wife were in business with each other, or where one spouse derived income from the other spouse.⁴⁷ In all other circumstances, husband and wife would be taxed individually on their respective incomes and were solely liable for the resulting tax. Where the aggregation provision did apply, only the taxpayer’s “aggregable income” was to be combined with their spouse’s income for the purposes of calculating income tax payable. As with the 1958 provisions, any “aggregable income” derived by a taxpayer was split into two portions. The first £650 of “aggregable income”, along with non-aggregable income, was taxed on an individual basis at the rate applicable to an income equal to the sum of these two amounts, without any reference to the income derived by the taxpayer’s spouse. The remainder of the taxpayer’s “aggregable income” was added to the whole of his or her spouse’s income, and taxed at the rate applicable to a total income

⁴⁴ As substituted by Land and Income Tax Amendment (No. 2) Act 1958, s 29.

⁴⁵ Land and Income Tax Act 1954, s 104(1).

⁴⁶ Land and Income Tax Amendment Act 1960, s 14(1).

⁴⁷ However, where such circumstances exist, aggregation would only occur where the aggregable income of one spouse and the ordinary income of the other spouse both exceed £650: Land and Income Tax Act 1954, s 104(3) as substituted by Land and Income Tax Amendment Act 1960, s 13(1).

equal to this aggregated amount. This rate would also apply when determining the income tax payable on their spouse's income. Further, incomes were aggregated only for the purpose of determining the appropriate tax rate. Once this rate had been established, the spouses were taxed individually on their respective incomes at this rate.

The effect of these provisions was that transfers of income between spouses were taxed at the rate which would have applied if the transfer had not occurred. All other income was now taxed on an individual basis with husband and wife being solely liable for any tax imposed on their respective incomes. In addition, subsection (7) of the new section 104 provided that where the total tax payable by a married couple under the aggregation provisions would be lower than if they were taxed individually, the section would not apply. This provision is consistent with the initial objective of aggregating incomes of married couples – to prevent income transfers between spouses for the purpose of reducing their total tax liability. Overall, the effect of the 1960 changes was to lower effective tax rates, and therefore total tax liability for a number of married couples. This result occurred because married couples were now taxed on an individual basis, and therefore would not be pushed into a higher tax bracket as a result of their spouse's earnings.

The Effect of Abolishing the Aggregation Provisions

A number of important effects resulted from the removal of the aggregation of income provisions under the Land and Income Tax Act 1954. First, section 29 of the Land and Income Tax Amendment Act 1960 gave effect to the original purpose of aggregating incomes of married spouse, without imposing a generally applicable "marriage tax" on all those who chose to marry. Aggregation had been introduced in 1939 as a means of preventing tax avoidance by married couples who were artificially splitting their income in the most tax efficient way. However, under the blanket approach that had been adopted to deal with this issue, all married couples earning over a predetermined threshold were subject to the aggregation provisions. The repeal of the aggregation provisions in 1960 provided an effective solution to this problem. Following the abolition of the aggregation provisions all married couples would be taxed on an individual basis, except where income had been transferred between spouses. Where income was transferred between husband and wife, tax was imposed as if the transfer had not taken place. This removed any incentive for married couples to artificially split their

income in order to lower their combined tax liability whilst at the same time avoiding the imposition of a generally applicable 'marriage tax'.

The second important consequence of repealing the aggregation of income provisions relates to the incentives for married women to obtain paid employment. In announcing his intention to abolish the aggregation of income provisions, Nordmeyer suggested that returning to a system of taxing the individual, rather than the married couple, would encourage more women to return to the workforce, and in particular to the teaching and nursing professions, once their children had grown up. Following the removal of the aggregation of income provisions both husband and wife would pay tax at a lower rate than they had under the previous system of taxing their combined incomes. However, due to the high rates at which a working wife's "secondary" income was taxed under the aggregation provisions, the effects of the 1960 amendment would be more visible on her income. The lower taxes payable on the wife's income following the abolition of the aggregation provisions meant that her earnings would now add more value to the family income. As noted by Labour Party MP James Edwards, the effect of this was that a married woman could now go out to work without having to worry about the higher taxes her husband would have to pay as a result of the additional income she was bringing into the household.⁴⁸ This would both encourage married women to participate in the paid workforce and lower the overall tax liability of the two-income couple.

Another feature of the 1960 amendment was that it removed the gender discrimination that was inherent in the earlier aggregation provisions. Under earlier legislation the concept of "aggregable income", by definition, was only applicable to married women. By providing that the wife's aggregable income was to be combined with her husband's income for the purposes of calculating income tax payable, the legislation implicitly assumed that the wife was the lower, and secondary income earner in the couple. This resulted in the wife paying higher levels of income tax than if she were not married, or to that which her husband would have paid on an identical income. Further, although the aggregation provisions had the potential to increase the tax rates of both husband and wife, under the assumption that the wife was a low income earner the effect on her would have been more detrimental. However, following the 1960 amendment, the concept of aggregable income could be applied to either the husband or the wife. The new provision thus accepted that there may be situations where the wife is the higher income

⁴⁸ Edwards was a strong supporter of Nordmeyer and later married Nordmeyer's daughter Alison.

earner and diverts some of her income to her husband. In such circumstances, the husband will have derived “aggregable income” and, for the purposes of calculating income tax, this income will be transferred back to the wife and treated as part of her earnings.

The fourth important consequence of the 1960 abolition of aggregation provisions was that it resolved the difficulties that arose from the interaction between the PAYE system and the aggregation of spousal incomes. Amendments to the aggregation provisions in 1958 had made both husband and wife separately liable for the income taxes charged on their respective incomes. However, the system still suffered from the problem that the rates at which each spouse was to be taxed were determined by reference to the other’s earnings. This created inefficiencies in the PAYE system, as there were likely to be large discrepancies, particularly for female taxpayers, between the PAYE deductions made throughout the year and the taxpayer’s final, end of year, tax liability. The repeal of the aggregation provisions in 1960 resolved this problem. Following the enactment of the Land and Income Tax Amendment Act 1960, income tax was calculated on each taxpayer’s income on an individual basis without reference to the earnings of his or her spouse. This facilitated the efficient operation of the PAYE system and helped to ensure that the correct deductions were made from each taxpayer’s wages, thus reducing the amount of any outstanding liability at year end.

Thus the repeal of the aggregation of income provisions solved a number of problems which had arisen under the previous system of taxing the marital unit. These changes assisted the tax system in achieving the objective of equality. Following the 1960 amendments to the Land and Income Tax Act, all taxpayers were taxed equally regardless of whether they were married or single, male or female. This was particularly beneficial for married women, who were no longer subject to various forms of discrimination as a result of the policy of aggregating spousal incomes. A married woman could now go out and earn an income in her own right, and be taxed on that income, without having to worry about the additional taxes both she and her husband would be required to pay as a result of the aggregation provisions.

Equity versus Equality

Although the repeal of the aggregation of income provisions improved the tax system in a number of ways, the return to a system of individual taxation had its negative side. The biggest downfall in adopting a system

of individual taxation relates to the trade-off between equity and equality within a tax system. Whilst a system of individual taxation assists in achieving the objective of equality, in that all taxpayers are taxed in an identical manner, such a system "is said to operate inequitably between households of varying incomes, especially as between one and two-income couples".⁴⁹ This occurs because the overall tax burden of a married couple will depend on the way in which their total income is split between the two spouses. Under a progressive tax system, a family where the husband earns \$50,000 while the wife stays at home will always pay more tax than another family where the husband and wife each earn \$25,000. The difference in tax payable in these two situations occurs because in the two-income household both the husband and wife will benefit from the low tax brackets under a progressive system. However, for the single income household the husband's income will be taxed at progressively increasing rates with the effect that he will reach a higher marginal rate of tax than that of the two-income household. If the tax system was to be based on the principle of equity, or ability to pay, these two couples should be taxed equally, and thus the marital tax unit would be more appropriate.⁵⁰

These arguments are not strong enough to justify retaining the married couple as the unit of taxation. The savings in consumption, from which it is argued that married couples benefit, would apply to all individuals sharing accommodation, whether they are married, a de facto couple, or flatmates. If, as the principle of ability to pay would dictate, married couples were to be taxed at higher rates to reflect these extra savings, then all taxpayers living in shared accommodation and benefiting from shared consumption should also be taxed at these higher rates. In practical terms, it would be near impossible to implement such a system. Finally, even if the arguments in favour of adopting a system of taxation based on ability to pay do hold, it is worth noting that the repeal of the aggregation provisions did not increase any taxpayer's income tax liability. One-income households would continue to pay taxes in the same manner they had under the aggregation provisions, whilst two-income households were likely to benefit from a lower tax liability due to the fact that the wife's earnings were now being taxed at lower rates.

⁴⁹ Maloney, "Women and the Income Tax Act: Marriage, Motherhood, and Divorce" (1989) 3 Can J Women & L 183, 187.

⁵⁰ *Ibid.*

V TAXATION OF WOMEN: 1960 TO THE PRESENT DAY

Following the introduction of decimal currency in 1967, the threshold at which the aggregation provisions would apply was raised to \$1300.⁵¹ With the exception of this minor change, the aggregation of incomes provisions remained essentially the same for a little over a decade. What remained of section 104 of the Land and Income Tax Act 1954 following the 1960 amendments was eventually repealed by section 10 of the Land and Income Tax Amendment Act 1973. Again, the final repeal of the aggregation provisions was initiated by a Labour Government. By this time, the aggregation provisions were very rarely used. This was noted by Wallace Rowling, the Minister of Finance for the third Labour Government, who informed Parliament upon introducing the amendment that the provisions had “been inoperative for many years”. The section was later passed without any debate in Parliament.

In 1982, a report from The Task Force on Tax Reform (the McCaw Report) recommended a return to a system of income tax based on aggregate spousal incomes. The committee suggested that a voluntary system of “partial income splitting” be introduced for married couples.⁵² Under such a system, married couples would have the option of being assessed for income tax on an individual basis, or of “dividing their aggregate income by some divisor of between 1.3 and 1.8” and being taxed on the basis of the resulting amount.⁵³ If the latter option was chosen, tax would be imposed on each spouse “at the average tax rate applicable to a single individual whose income equals that quotient”.⁵⁴ According to the reform committee, this was the most appropriate way of imposing an income tax for several reasons. First, it was considered that the adoption of such a system would “alleviate the unfair variations in tax liabilities of couples with the same aggregate incomes and household composition”.⁵⁵ The committee also claimed that the partial income splitting system would maintain a reasonable degree of equity in the distribution of the tax burden between single persons and married couples. Finally, it was suggested that the recommended system would provide a “fairer” method of assessing income tax based on the idea of “ability to pay”.⁵⁶ The recommendations of the McCaw committee in

⁵¹ Decimal Currency Act 1964, s 7.

⁵² *Report of the Task Force on Tax Reform* (1982) [6.58].

⁵³ *Ibid.*

⁵⁴ *Ibid.*

⁵⁵ *Ibid* [6.48].

⁵⁶ *Ibid.*

relation to the appropriate tax unit were never adopted by the New Zealand Government.

There have been no further suggestions to return to a tax system based on the married couple as the unit of tax. Such a system would encounter huge administrative difficulties, particularly under the PAYE system which has operated reasonably successfully in New Zealand for almost half a century. More importantly, a tax system based on taxing the married couple would bring about substantial disadvantages for married women. This is unlikely to be considered acceptable in today's society where gender equality is an important social issue. Although a system of individual taxation is not perfect, it is more appropriate than a system based on aggregated spousal incomes.

VI CONCLUSION

The decision to repeal the aggregation of income provisions under income tax law in 1960 appears to have been based on the Labour Party's strong desire to win votes in the upcoming general election. The second Labour Government had entered Office in 1957 on the strength of a number of "glittering" election promises,⁵⁷ including lower taxes for all, an increase in family benefits, and loans for new houses at reduced interest rates. However, the Labour Party's term in Office proved to be a disappointment both for the Party and its supporters. The exchange crisis of 1957-1958 had brought about economic recession. Combined with the rapid implementation of Labour's election promises, this created a need for substantial tax increases which affected all taxpayers. In 1960, with the next general election only months away, the Labour Party was still explaining why these tax increases had been necessary, and justifying the measures introduced by its "Black Budget" of 1958.⁵⁸ If the Labour Party was to stand any chance of remaining in Office for a second term, Nordmeyer needed to produce a strong, vote-winning Budget in 1960. During their time in Office, both Nordmeyer and Nash had developed reputations as ruthless tax gatherers. The 1960 Budget saw the reversal of a number of the controversial taxes introduced by these two politicians, including the provision to aggregate the incomes of married couples for the purpose of determining their income tax liability. Both

⁵⁷ Chapman, Jackson and Mitchell, *supra* note 23, 104.

⁵⁸ *Ibid* 34.

the Labour Party and the media claimed that this return to a system of individual taxation would provide substantial tax relief for a number of married couples. This added strength to Nash's claims that, contrary to popular belief, taxes had actually reduced under the Labour Government. In reality the repeal of the aggregation of income provisions affected only a handful of high-income couples.

As a political tool to rebuild electorate confidence in the Labour Party, the 1960 Budget and its repeal of the aggregation of income provisions failed. The Labour Party lost the 1960 General Election to National by a 46 to 34 seat majority. Despite this failure, the return to a system of individual taxation brought about a number of positive changes, particularly for married women. Under the aggregation provisions, married women had been placed at a disadvantage. The effect of the provisions was to raise the combined tax liability for married couples. As a result of this increase in the couple's effective tax rate, the wife's earnings would add considerable less value to the family income than those of her husband. In some circumstances, this additional tax burden, along with the added costs of obtaining childcare, would tend to make it too costly for a married woman to work outside the home. Instead, the tax system acted to encourage her to stay at home where she could look after her house and her family.

This all changed following the repeal of the aggregation provisions in 1960. Married women were now taxed on an individual basis. They could now participate in the paid workforce without causing an increase in the couple's average tax. Overall, this improved the career prospects of married women and allowed them more freedom in their choice over whether or not to work outside the home. In addition, the repeal of the aggregation provisions alleviated the problems that had arisen through the interaction of the PAYE system and the aggregation provisions. This allowed the PAYE system to operate more effectively and thus assisted in the efficient operation of the income tax system.

In 1982, the Task Force on Tax Reform recommended a return to a tax system based on combined spousal incomes. This recommendation was never put into effect, and an individual tax system continues to operate today. The aggregation of incomes under income tax law had previously created a number of problems for the tax system. More importantly, such a system had disadvantaged married women in relation to their husbands, by making it relatively uneconomical for them to obtain paid employment. Analysing the law before and after the repeal of the aggregation provisions in 1960, it would appear that the horizontal inequities which arise under a system of individual taxation are a small

price to pay for the advantages such a system would bring, particularly for married women. In any case, given the discrimination against married women that is inherent under the system of aggregation, it would seem unlikely that such a system would ever be accepted in today's society, which places such great emphasis on gender equality.