



O4

The 1940s

REBIRTH IN ADVERSITY



CHAPTER FOUR: The 1940s

Rebirth in adversity

Between 1939 and 1949 ATO staff grew from about 1,000 to 7,200. In the same period the revenue it collected grew from £35.05 million (39 per cent of the Commonwealth's total revenue) to £362.45 million (over 71 per cent of the Commonwealth's total revenue). War was the first impetus for this tenfold growth but post-war reconstruction continued it. In this period the ATO also went through major reconstruction.¹³⁴

War became inevitable during the 1930s as Nazi Germany became a dominant military power in Europe, Fascist Italy sought territory in northern Africa and Japan militarised and invaded China. Other countries began modernising their military forces and industries in response and Australia put new energy into developing industry and rebuilding its military forces. Prime Minister Lyons died in office in April 1939 and Robert Menzies became leader of the United Australia Party and Prime Minister.¹³⁵

When war finally broke out on 3 September 1939 Menzies told Australians that Britain had declared war on Germany and, as a result, Australia was also at war. Within days Australia's military forces were mobilised, regulations were announced to give the Commonwealth government wide powers for the duration of the war, prices and rents were fixed and plans announced to train over 66,000 airmen and soldiers to support Britain in the war. The leader of the Labor Party, John Curtin, also pledged his party's support for the war effort. When peace finally returned in August 1945 almost a million Australians had seen military service and 39,761 had been killed. The monetary cost of the war was £2,132.74 million, more than 10 times the cost of World War One. Raising revenue became a vital part of Australia's war effort and that saw the creation of virtually a new ATO playing a central role in Australian life.¹³⁶

A pinch of desert sand

A taxpayer writes from the Middle East.

6th Division, AIF
Palestine
8th May, 1940

Dear Sir

I am in receipt of the attached notice. All going well you should now have summoned me about six weeks ago and by the time you receive this you should have me well on the way to penal servitude.

However if I were you I would save further expense and with the money buy a new poker for stoking the home fires.

I am enclosing a pinch of desert sand for your consumption. We find that taken with a bit of fly blown meat and questionable cabbage it makes an excellent cure for financial worry.

Yours faithfully

Wartime conditions resulted in the fall of revenue from customs and excise duties so a greater burden fell on taxation. Land tax was increased by about 11 per cent in 1938 and doubled in 1940, sales tax rates were increased from six to 8.5 per cent in May 1940 and income tax rates were also increased, particularly for higher income earners.¹³⁷

These increases did not create much more work for the ATO but new taxes did. A gold tax was introduced soon after the war started to raise revenue from the rapidly increasing value of gold. Gift duty was introduced in 1941 to raise additional revenue and discourage people from making large gifts that reduced estate duties when they died. The wartime (company) tax was introduced in 1941 with the same intention as the wartime profits tax of World War One but it was simpler to administer. A payroll tax was introduced in May 1941 but it was not designed to fund the war, rather it helped fund a new national child endowment scheme announced in January 1941.¹³⁸

These new taxes increased the ATO's workload at the worst possible time. Many young tax officers enlisted for military service while about another 170 of the most experienced tax officers were transferred to government departments that were being set up or expanded for the war. The strain on remaining tax officers was exceptionally heavy and to cope, the ATO introduced compulsory overtime two nights a week around this time.¹³⁹

The most significant change, that increased the workload again, was the introduction of income tax payment by instalment. At the beginning of the war income tax exemption rates were lowered so more people became liable to pay the tax, making it viable to introduce an instalment deduction system that spread the collection of income tax across the year. The ATO was not keen on the new system because it would need more staff and be more expensive to administer. There were also many complexities in administering an instalment system including setting up a tax stamp system and the need to coordinate with the states that already had instalment systems so the Commonwealth and state systems would be compatible.¹⁴⁰

The government's needs outweighed ATO misgivings and Commonwealth and state Commissioners of Taxation met in January 1940 to devise the new system that was approved in September. It would cost an estimated £227,000 to introduce, including recurring costs such as salaries, rent, commission paid on stamp sales and printing them, and one-off costs including machines, furniture and building alterations which included adding a new floor to the taxation building in Melbourne.¹⁴¹

There were two parallel instalment systems. Tax stamps were the most common, bought by employers at post offices and given to their employees in place of the tax that had been paid for the stamps. Employees then used them to cancel the tax shown as owing on their annual income tax assessment. The basic principle was simple but the ATO had to set up complex systems to issue, check and cancel the stamps, collect tax stamp money and pay cash refunds when too much tax had been paid. State governments also used the Commonwealth's tax stamps to collect their income tax so tax stamps were overprinted with the name of the state in which they were sold and they could not be used in other states under normal circumstances. Larger employers used the 'group' system in which they made regular income tax instalment payments to the ATO of deductions from employee wages and issued 'group' members with certificates that they then used in the same way as tax stamps when they received their assessment notice.¹⁴²

The instalment scheme started at the beginning of 1941 and made income tax a part of daily life for many Australians, rather than a once a year event. In the first six months the ATO had collected £7.44 million, and in the first full year of operation, 1941–42, it collected £25.22 million, £16.38 million from the sale of stamps.¹⁴³

The Menzies government did not put Australia onto a full wartime footing until June 1941 when the war was going very badly and there were fears of Japanese expansion into the Pacific. New government departments were established and the Commonwealth resolved to push ahead with nationwide mobilisation despite state resistance. By then, however, the United Australia Party was in disarray and Menzies resigned from its leadership. In October two independents in parliament gave their support to the Labor Party and John Curtin became the new Prime Minister.¹⁴⁴

On 7 December Japan began the Pacific War with landings in Thailand and Malaya and an airborne attack on Pearl Harbour. Within weeks Japanese forces had reached northern New Guinea and were pushing towards the Solomon Islands in an attempt to isolate Australia from the United States. On 19 February 1942 a large force of Japanese aircraft raided Darwin for the first time, killing 243 people and injuring more than 300. The ATO there was damaged during the raid and Darwin's office was relocated to Adelaide.¹⁴⁵



Staff and family at a combined picnic of the Adelaide sales tax branch and Northern Territory branch after it had been moved to Adelaide following the bombing in February 1942.

In this crisis Curtin said Australia looked to America for help, free from any pangs about its links with Britain. He demanded 'a complete revision of the whole Australian economic, domestic and industrial life' and his government created a 'total war' economy. The National Security Act mobilised the workforce to preserve essential industries, an identity card system was introduced, rationing began and the prices of goods and services were fixed.¹⁴⁶

The United States Army began arriving in Australia in April 1942 and in May and June the United States Navy blunted the Japanese advance in sea battles in the Coral Sea and at Midway. On the ground Australian forces stopped the Japanese at Milne Bay and on the Kokoda Track in September. But the war remained in a very precarious state.¹⁴⁷

Total war forced the Commonwealth government to spend money at an unheard of rate. Curtin launched a £35 million 'liberty loan' in February 1942 and in November a much larger £100 million loan. That was not enough so taxation also had to be increased. When Treasurer Ben Chifley delivered the 1942 Commonwealth Budget he said that virtually every Australian was working so the community had never had so much money while prohibitions and restrictions meant there was little it could be spent on. This created a great surplus that the government could channel through loans and taxation to pay for the war. 'The Government is determined on this', Chifley said, 'and will take such measures as may be necessary to impose its will.'¹⁴⁸

By June 1942 the government had imposed additional taxation worth about £60 million and in October it took back control of entertainments tax and increased it. In this time of desperate national emergency money had to be raised and efficiencies made wherever they could be found but there was no greater source of revenue or cause of inefficiency in Australia than its income tax system. The Menzies government had known this and suggested to the states in 1941 that it could take over all income tax for the duration of the war, plus a year, and pay the states compensation, but the states had not agreed.¹⁴⁹

The Curtin government was less concerned with state sensibilities and more concerned with efficiency and revenue so it appointed a committee of three to study the problem again in February 1942. A month later it recommended the Menzies proposal again. The government then developed a scheme to take over income tax under its constitutional powers, and all state income tax collecting organisations – the staff, records, furniture and accommodation – to stop the

states from collecting income taxes.¹⁵⁰ It sought legal advice about its plans and, on 1 May 1942, a cablegram from the Solicitor General to the Attorney-General swept aside two decades of debate and negotiation:

Re uniform taxation. Sydney Counsel after perusing opinion of Melbourne Counsel and considering matter further agree with Melbourne view that under the Defence Power Commonwealth can exclude States from field of income taxation if Commonwealth measures have real connection with Defence Power and in a totalitarian war such as present one measures can have such connection.¹⁵¹

The Commonwealth's plan to take over all income tax collection was generally popular but the states rejected it and took their objection to the High Court, where they lost. Several states also tried to stop the Commonwealth from taking over their income tax organisations, but the High Court rejected that too. Consequently, uniform taxation came into force in 1942.¹⁵²



Sydney branch rugby league team, 1941.

Back row, left to right: Pat O'Connor, Jack Morahan, Lance Ferguson, Alby Kemister, Jack Foran, Alf Green, Alan Fox, Jim Fullerton, George Pearton. Front: Bobby Pearson, Nev Hall, Paul Crilley. With so many tax officers enlisting for military service the team comprised junior clerks straight from school. They played before record crowds on the Sydney Domain.

Some 2,900 tax officers were transferred to the Commonwealth on 1 September 1942. Most would hardly have noticed the difference because they went to the same offices and sat at the same desks doing almost the same work. There were many minor problems to be overcome because conditions in the states differed from each other and from Commonwealth public service conditions in many ways and the ATO and Public Service Board tried to be as liberal as possible in helping with the transition. But they could not satisfy everyone and, at a time when unemployment was almost non-existent, some officers resigned to find other employment.¹⁵³

Despite the amalgamation the ATO still faced staff shortages. Annual visits to regional areas were abandoned and land values were pegged at pre-war levels because there was a shortage of skilled valuers. The only way to increase staff numbers was to employ more women and the percentage of women working for the ATO rose from 23 per cent at the beginning of the war to 51 per cent in June 1943, and a peak of 57 per cent in June 1945. Most people saw this as a temporary arrangement for the duration of the war and although women were traditionally paid less than men, the government established the Women's Employment Board to set women's pay rates outside the normal wage setting arrangements so they could be paid at higher rates. As a result many women in the ATO were paid at male rates. After they had proved their capabilities many women were given low-level assessing positions, and less experienced women came in to fill the positions they had previously held as typists and assistants.¹⁵⁴

Many men had little idea of how to relate to 'the fairer sex' in the workplace. Some of the helpful advice they received included retaining doctors who could examine women for 'female conditions', giving women definite day-long schedules so they were kept busy and did not bother managers with questions, giving them a variety of work because women were inclined to be less nervous and happier with change and giving them adequate rest periods. Supervisors were advised to pick young married women who were liable to have a greater sense of responsibility than young unmarried women, pick older women with experience outside her home and 'huskier' girls who were more even-tempered and efficient than their underweight sisters. They were also warned to be tactful in issuing instructions or making criticisms because women were often sensitive and could not shrug off harsh words the way men did.¹⁵⁵



Tax officers outside the Great Southern Hotel, Sydney, where they went for lunch when working overtime on the weekends during the war.

Even with the employment of women the ATO struggled to keep up with the work. All staff worked a regulation 45 hours a week and compulsory overtime to about 8.30pm twice a week. At tax time they spent the weekends opening mail, helping with enquiries or in the cashier's office. While it was possible to work more overtime for short periods, the ATO soon found it reduced overall efficiency so it was limited as much as possible, particularly during winter months when the blackout made it hard for staff to get home late.¹⁵⁶

Despite these strenuous efforts the ATO had fallen seriously behind by mid 1944 which caused serious problems for the government and the community. Taxpayers suffered from long delays in receiving their assessments and in the crowds and queues when they made queries or payments.

Under pressure

A tax officer sent the Commissioner a report on the state of the enquiries section in Sydney office after a complaint from the Taxpayers' Association had been published in *The Sydney Morning Herald* in August 1943.

I telephoned Mr J M White this morning regarding the reported statement by him that many complaints had been received by taxpayers that they were unable to obtain information or assistance from this Department in preparing their returns.

In the first place Mr White intimated that the "Herald" had not published several other of his statements in which he pointed out the difficulties confronting the Department at this period of the year. He realised that it was almost impossible to provide the service and accommodation to cope with a peak such as is met immediately prior to the last day for lodging returns.

He claimed that many complaints were received but, generally, they were due to the delay in receiving attention at the Department. Others complained that there was insufficient privacy. Mr White realises that there is bound to be a little more delay than usual at this time of the year and also that complete privacy is not practicable with our present accommodation. On Saturday morning Mr White attended the Basement personally and his observation was that the facilities were inadequate for the crowd to be handled. On the other hand, Mr Pullan, Chief Interviewer, reported to me that he had spent three-quarters of an hour in the Basement, and while there was some congestion, the crowd seemed to be moving through fairly freely. In support of this Mr Pullan mentioned that, in the space of three-quarters of an hour, he answered approximately fifty enquiries. Several of the taxpayers seen by him expected the Department to complete the return forms on their behalf which, of course, was out of the question. I mentioned this latter aspect to Mr White and he too realises that such a service cannot be expected.¹⁵⁷

By late 1944 the ATO had a staff of 4,980 in 16 office buildings across Australia. In Sydney tax officers were spread across four buildings and in Brisbane and Hobart three buildings each, but overcrowding was still a problem. In Canberra, where 54 tax officers were housed in West Block, the situation was described as 'suitable but inadequate'. In Sydney the ATO had gradually expanded to take over most of the Savings Bank Building but there was still severe overcrowding with 1,500 packed into a building designed to accommodate 1,200 so a penthouse was constructed on the roof as a temporary solution.¹⁵⁸

Other working conditions were generally poor. Air conditioning was unknown and lighting was often poor so staff doing complex assessments and calculations often had to work in dull light and the cold of winter and the stifling hot conditions of summer. Opening windows for some relief let in the dust and noise of the city and often caused draughts that sometimes blew confidential papers out into the street. Rats were a common problem and the Sydney office was infested with them. They were a health hazard and nibbled at files, so the entire building had to be fumigated in 1944, with only partial success.¹⁵⁹

In addition to these working conditions tax officers shared the same difficulties and privations as the rest of the community; the regulations, shortages, restrictions, censorship and gnawing uncertainty about the fate of family and friends overseas. Despite everything most people came to regard the war years with mixed feelings because it was also a time when the entire community seemed to be most united because of what they shared and suffered together. And just as war-time conditions helped bind the entire nation, so the experience of tax officers helped unite them in the difficulties they faced, as did the morale boosting dances, shows and sporting events that they organised and enjoyed.¹⁶⁰

Patriotic affairs

On Frank Arkwright's retirement an article in *Tax Topics* recounted an event from his career during the war.

He became an energetic Secretary of the Patriotic Affairs Committee during the war. It was at this time, when their hearts were young and gay, that he and our ADC, Mr Keith Myers, who had then become Secretary of the Social Club, hatched a Machiavellian scheme to pep up staff patriotic fund contributions from the "3d per person per pay" basis to a sum they considered more appropriate.

Accordingly one day Keith vociferously harangued the lunch hour crowds in the dining room about the miserable sum in hand for our Servicemen and passionately denounced the Patriotic Affairs Committee for ineptitude, with particular and insulting reference to the Secretary. He demanded a staff 'no confidence' motion, which was deferred until the following day to enable Frank to say his piece. Frank's ability to expound a theme in three minutes or thirty, as the occasion demanded, was fully exploited by our wily conspirator, and as his flights of oratory beat on the ears of his exhausted listeners until five minutes to two, the opportunity was seized by his confederate to withdraw the no confidence motion and substitute an amendment that the previous fixed subscription be increased to a sum more in keeping with the dignity of the office and the worthiness of the cause. The amendment was carried unanimously at one minute to two. The heat engendered in their respective supporters was subsequently the subject of much mirth between Frank and Keith.¹⁶¹

ATO people did many things to raise funds for the Taxation Department Comforts Funds with events that included dances, annual balls and variety shows. One example was an ATO dance in Phillip Street, Sydney in June 1942. As usual, women danced with each other because of the shortage of men but they were interrupted by the air raid siren's wail and spent two hours in the basement before the all clear signal sounded. The Sydney Taxation Players was formed to put on shows to raise funds. Its second or third production was the musical comedy, *The Quaker Girl*, that ran for three nights in April 1945 at the Conservatorium of Music in Macquarie Street that seated around 300. There was a cast of over 50, an orchestra, costumes loaned by JC Williamson's and stage furnishings from David Jones.¹⁶²

Many tax officers wrote letters to keep in touch with their colleagues on active service and, in Sydney, Vic McQuarrie and a small group sent a letter every week, with newspaper summaries and an occasional comfort parcel, to each of the 350 tax officers who had enlisted from Sydney. By the end of the war they had sent 39,341 letters, 19,996 magazines and 19,792 newspapers as well as 3,297 parcels, and raised over £5,000 and many donations of goods for the parcels. Many of the serving tax officers wrote back and Vic and his helpers became a link with the world back home.¹⁶³

Dear Vic

One of the letters to Vic McQuarrie from a tax officer on service writes about the value of his letters and about paying tax.

Your letter of 27th June safely to hand, also the canteen orders contained therein, for which please accept my sincere thanks. I wrote some time ago, after receiving your first letter, probably about the middle of June. You should have received it quite some time ago, at any rate, I hope so.

It is very nice to get such letters from you and to be kept somewhat in touch with at least the social side of the office. I was pleased to hear of Jackie Fisk and Bert McGlynn. I knew that that had been pending for a long time. I would be very pleased if you would convey my very best wishes to them both. This increased work is not altogether good hearing. Pat received my Federal Assessment just recently and told me about it in a letter. I nearly fell over when I read the amount, for it was more than three times what I had paid the year before. And last year the income was not quite as much as it had been the year before. However, I suppose that we have to pay for the war somehow, so it is no use worrying over it.

I had heard about Ray. The last that I got was that he is a prisoner, that was from the Records Office. Some time ago, just after we arrived in fact, I had met Gregory – I think I told you of it – and he had told me that he had heard that Ray had been so badly wounded that he did not have a chance. However the latest news seems to indicate that that was exaggerated. It is to be hoped that he will soon be OK again and that it won't be long before he is back home again.

By the end of January 1943 the tide of war had turned and organised Japanese resistance ended in Papua and Australian and American forces began pushing north. In Australia the Labor party won a majority in both houses of parliament in August 1943 and two women were elected for the first time. The electoral defeat signalled the end of the United Australia Party and Robert Menzies brought the Liberal Party into existence towards the end of 1944. John Curtin died in office in July 1945 and Ben Chifley became the new leader of the Labor Party and Prime Minister.¹⁶⁴

The improved war situation and Labor's 1943 electoral victory allowed the government to turn its mind to the world beyond the end of the war. Curtin and other leaders spent three months overseas in 1944 visiting America and Britain, and Australia was among the 50 nations that met in San Francisco in April 1943 to draw up a charter for the United Nations. A ministry for post-war reconstruction was created to plan for an Australia after the war by developing its industries, population and workforce for future national survival and prosperity. Two early signs of this new government's intentions were the Widows' Pension Bill introduced into parliament in May 1943 and unemployment and sickness benefits introduced in March 1944. Preceding them, and making them possible, was new income tax legislation that set the basic shape of Australia's income tax system for decades to come. The primary purpose of the new legislation was to increase the tax base by lowering the exemption level to just £105 (although the basic wage at this time was still only about £60 a year). It was expected to raise an additional £40 million a year and bring 300,000 more people into the Commonwealth's income tax system.¹⁶⁵

The details of the new legislation were worked out at a conference of ATO officials in January 1943 and the amended income tax legislation came into force from 1 August. Its major innovations included a much stronger instalment system known as PAYE (pay as you earn) and the registration of tax agents.¹⁶⁶

Tax agent registration would help protect taxpayers from unscrupulous agents and enable the ATO to deal with them. It had been recommended by the 1930s Royal Commission but since most income tax had been collected by the states at that time, tax agent registration had been left to them, although not all states had it. Bringing income tax under Commonwealth control in 1942 had left tax agents unregistered in some states so a national system of registration was necessary, but since some states already had registration the new Commonwealth system had to be state based. New boards were set up where they did not exist and the existing boards were brought under the control of the new legislation.¹⁶⁷

The new PAYE system was similar to the 1941 instalment system but spread payments over the full year of 52 weeks to make individual instalments smaller. The major problem with the instalment system was that the tax collected in one year was used to pay the tax due for the previous year, necessitating a system of tax credits that was complex to administer and calculate. As a result the Commissioner told his Deputy Commissioners that they needed more staff for the PAYE system and good officers capable of administering it properly.¹⁶⁸

This complexity was the real weakness in the PAYE system and it promised to cause real problems at the end of the war when industrial production was reduced and overtime was cut back so workers would find themselves having to pay a lot more tax for the year when they worked overtime from income in a year when they worked little or no overtime. A joint parliamentary committee recommended a simple solution, that the income tax system be changed so PAYE instalments were paid on the current year's income and those outside the PAYE system would pay provisional income tax payments, based on the previous year's income but paid in instalments and assessed for the current tax year. This change was introduced in 1944 and could have obliged taxpayers to pay two years tax in one year, but the government cancelled three-quarters of the tax owing for the taxation year of 1943–44 to lighten this burden. It also gave it a quarter more tax than it would otherwise have received, and involved the ATO in still more work.¹⁶⁹



The queue of taxpayers outside Sydney Branch in May 1944. (Sydney Morning Herald)

The other change to income tax during the war that increased the ATO's workload even more was the introduction of a social service contribution to help pay for the country's social services. The income tax payable by individuals remained basically the same but was divided into two separate levies, income tax and a social service contribution. This made little real difference to taxpayers, but meant even more work for the ATO in making the separate calculations and separating the contribution that was paid into a different government account.¹⁷⁰

On 8 May 1945 Germany surrendered unconditionally, on 8 August newspapers reported that the first atomic bomb had been dropped on Japan two days earlier and, on 13 August, Japan's surrender ended the war. In addition to the 33,926 Australian men and women who died in service, 180,864 had been wounded or injured and 23,059 had spent time in prisoner-of-war camps.¹⁷¹

In all, 1,380 tax officers had enlisted in the fighting services. The returnees were welcomed back to the ATO with thanks for the sacrifices they had made and in the sad memory of lost comrades. They faced the difficulty of fitting back into the daily

routine of office life and, at a welcome home ceremony in the Sydney Town Hall in May 1946, the Commissioner and Sydney Deputy Commissioner assured them that everything possible would be done to acknowledge the problems they would experience as a result of their military service and to ensure them a place in the ATO.¹⁷²

War's end in August 1945 brought relief and celebration and thousands of men and women were soon returning to civilian life every week. Tax officers began returning to their duties and the ATO also recruited more ex-servicemen. Returned servicemen were welcomed with dances and dinners and in Sydney with a special meeting in the town hall, followed by dinner, a dance attended by 2,000 people, and a special rugby league match



Cover of the program for the Official Welcome Home held in the Sydney Town Hall for returned tax officers on 10 May 1946.

the following day. To help them in their transition back to civilian life the ATO began classes to bring returned tax officers up-to-date with the changes that had taken place in their absence and give newly appointed ex-servicemen an initial grounding in ATO methods and practices. As men returned to the ATO the number of women working in it declined so they made up only 48 per cent of its workforce by mid 1946. It appears that most women were prepared to leave the ATO or move back to lower positions as men returned because they believed that was the proper order of things and what was expected of them.¹⁷³

Post-war growth soon replaced the stagnation of the 1930s and restrictions of the war years. General working conditions improved and a 40 hour working week, annual leave and penalty rates for weekend work were introduced. The pharmaceutical benefits and national health schemes were introduced and a national anti-tuberculosis campaign launched. Heavy industry and mining began to expand and electric power systems, oil refining and railway modernisation commenced. The Commonwealth Scientific and Industrial Research Organisation (CSIRO) was established in 1948 and the Snowy Mountains Scheme was unveiled in 1949. There were one million motor vehicles on Australian roads by 1947 and rolling out the first Holden car in 1948 was a foretaste of the motor car's future popularity. Australia also began developing a new sense of national identity and the British nationality Australians had previously held was replaced by a separate Australian nationality and citizenship in 1949.¹⁷⁴

Such large scale and rapid growth needed a large population but Australia had only 7.58 million people in 1947. To increase its population Australia embarked on a major migration program, beginning with refugees from the chaos caused by the war in Europe, and an assisted migration program from Britain to maintain the existing cultural blend. This migration program soon grew to include migrants from other European countries but the 'White Australia' policy kept out people from other parts of the world.¹⁷⁵

There was little change to post-war taxation. The land tax and payroll tax remained unchanged, the flour tax, gold tax and wartime (company) tax were discontinued and the wool tax was restyled as the wool contribution charge. The rates and exemptions for all other taxes were amended to reduce the tax burden on the community and the only new tax was a stevedoring industry charge, introduced in 1947 to fund a commission that would improve and manage conditions on the waterfront. Labor won the 1946 federal elections but its attempts to enforce greater central control, in particular its attempts to nationalise the banking system, alienated much of the electorate and in December 1949 the Liberal Party was elected to power and Robert Menzies returned to the Prime Ministership.¹⁷⁶

Commissioner Jackson was only 62 when his seven year term expired in May 1946 but the stress of the many and rapid changes that had taken place since his appointment in 1939 had taken a heavy toll. When the government asked him to accept another term he declined, saying he felt physically incapable of continuing in an office that made such heavy demands on physical and mental resources. He retired on 5 May 1946 and the new Commissioner was Patrick McGovern who had been with the ATO since 1919 and appointed Second Commissioner in 1942.¹⁷⁷



Patrick McGovern, fourth Commissioner of Taxation.

One of Commissioner Jackson's final achievements was a five month journey to Britain in 1945 to begin negotiation of a double income taxation treaty between Britain and Australia. It had only become possible after the Commonwealth took over all income tax in Australia and it was an important part of Australia's post-war development strategy because it would free the way for increased British investment in Australian secondary industry that would foster national development. The agreement was signed in October 1946 and came into force in April 1947.¹⁷⁸

Given this and the other benefits that were gained from Commonwealth control of all income

tax, it was no surprise in 1946 when the government announced it intended to keep it. All the ATO staff who had been temporarily transferred to the Commonwealth in 1942 were appointed permanently to the Commonwealth public service and the Commonwealth formally ended the 1923 agreements with the states at the end of August 1946. Staff were offered the option of remaining with the state public services or going to the Commonwealth and most decided to go to the Commonwealth.¹⁷⁹

This change ended the state of limbo that most tax officers had been in since 1942, neither state nor Commonwealth public servants. During that period they had created a Transferred Officers Association to represent them in work related matters but the Commonwealth public service already had two staff associations, one each for Third



Commissioner Jackson and colleagues on the deck of the *Empire Chieftain* returning from their trip to London in 1945. Left to right: J Belcher, LS Jackson, R Mair, R Gray. Both Belcher and Mair became Second Commissioners and Gray became the Deputy Commissioner, Sydney.

and Fourth Division officers. Some tax officers joined one of those but they were state based and covered the entire public service while the Transferred Officers Association had been a nationwide organisation for all tax officers, regardless of Division. In late 1946 a majority voted to create a branch of the Federated Clerks Union to represent them, and the Federated Clerks Union (ATO Branch) was created as one union for all tax officers.¹⁸⁰

Between 1945 and 1949 the ATO staff increased by 1,740 but there was no more accommodation available so most of the wartime accommodation problems became worse. When staff were recruited and trained, space could only be found by making temporary and makeshift arrangements that included using the tables of officers on leave, pushing tables closer together, using storerooms and suspending some work. The only solution lay in finding accommodation in other buildings but that was difficult and created inefficiencies.¹⁸¹

Disgraceful conditions

Extracts from a letter from the Commonwealth Public Service Clerical Association to the Commissioner of Taxation in March 1949 give a sense of what it was like to work in the Tax Office.

Office space

This had been a bone of contention for two years and as the staff increases, which is the case, so the position deteriorates.

For example, Section E of Assessments Branch which is comparable with most other Branches has a floor space of 4022 square feet and accommodates on the average no less than 100 officers, which indicates that the space available for each officer is 40 square feet. This calculation does not take into account space allocated to clearance tables, cabinets, bundles of files and 6 pillars each of approximately 4 square feet, so it can be seen that in this Branch particularly the space available for each officer is much less than 40 square feet.

This is deplorable. The officers of this Department in the main are crowded together like sheep and in the warmer months conditions are almost unbearable. It is not necessary to labour this point, the facts are true and an inspection by the Board and the Commissioner is invited, and immediate action demanded.

Hat pegs

There are insufficient and are placed in such positions (directly besides officers' tables) that in wet weather the conditions under which the staff work are almost impossible.

Lift service

This problem is a major one. The Building is hopelessly over-crowded and was designed originally to accommodate approximately half the present number of people occupying the Building. As a result the lifts, during peak periods, do not cope with the demands made upon them.

The Administration has suggested further staggering of commencing times, but to date there is no new system in operation and the conditions with regard to lifts, that appertain, cause the staff much inconvenience.¹⁸²

After the chairman of the Public Service Board visited the Brisbane office in 1949 he described conditions as ‘appalling’. There was rarely space for amenities like lunch rooms, sick bays or even adequate toilets, and if they did exist they had to cater for more people than they had originally been provided for. This was a constant source of staff complaint and led to a stream of strongly worded letters from staff associations and unions. All Commissioner McGovern could do was agree that there were problems and say he was doing everything he could to make improvements. The only long term solution to these problems was construction of adequate ATO buildings but, by the end of the 1940s, the only thing that had been achieved was the purchase of land for a dedicated ATO building in Brisbane.¹⁸³

As well as being unhealthy and uncomfortable for staff, these problems also disrupted the smooth flow of ATO work. Delays occurring in one part of the system disrupted the entire process and when some sections began to become bottlenecks they needed special attention and resources, which inevitably led to problems in other sections. The whole system could only be held together by continuous improvisation, making do with what was available and great inconvenience to tax officers in their daily work.¹⁸⁴

Keeping the work flowing

In December 1946 the Sydney Deputy Commissioner wrote to the Commissioner about the many problems he faced in maintaining the flow of work through his office. One area of particular concern was the calculation sub-section.

Unless the staff of the Calculating Sub-section is increased immediately by 53 officers, thus providing an adequate flow of work to the Issue and Accounting Sections, a breakdown must occur, which in turn will result in complaints and adverse publicity regarding the non-issue of assessments.

An increase of 53 officers in the Calculation Sub-section necessitates an additional 2,650 sq. ft. of accommodation. Such an area is not available in this Office. I am so concerned with the position that arrangements are being made temporarily to place Calculating Officers in the public paying space on the 1st Floor. This space can be used only to a limited degree (2,650 sq. ft. is now available) and will be subject to the demands for paying facilities as the issue of notices of assessment are made (20,000 assessments issued to-day). The layout of this space is such that difficulty will be experienced in observing the secrecy provisions of the Act and preventing members of the public from seeing information relating to other taxpayers.¹⁸⁵

One possible solution to these problems was decentralisation by locating some ATO buildings in the suburbs or regional centres to reduce overcrowding in central city offices. This would also make the ATO more accessible to the public in suburban and country areas. There had already been two decentralisation experiments, an office established in Launceston by the Tasmanian taxation department that was closed in 1938 to reduce costs and improve efficiency, and a sub-branch of the Sydney branch opened in Newcastle in 1943 that had a staff of three by 1946. In 1949 the conference of Commissioner and Deputy Commissioners decided decentralisation was inevitable and adopted it as a matter of policy, but a year later the proposal was allowed to slide because accommodation in city centres seemed to improve.¹⁸⁶

These accommodation problems were the result of the virtual cessation of building in Australia through the depression and the war, which was made worse by the shortage of building materials immediately after the war. There was a nationwide housing shortage and the waiting list for a house in Canberra had blown out to three years or more by the end of the 1940s, so staff who moved to Canberra had to leave their families behind until a house was available. Commissioner McGovern believed this would have an adverse effect on the ATO for many years to come because many of the ATO's most promising officers were not prepared to accept Head office positions.¹⁸⁷

Almost the entire public service suffered from severe staffing shortages in the late 1940s. Despite various attempts to recruit more men the problem remained, and there was only one other option. In February the government announced that the Third Division would be opened to women. Women had previously been restricted to the Fourth Division because it was widely believed that they did not possess the capabilities required by career public servants and, even after their admission, they were still forced to resign when they married so the only way they could have a public service career was by remaining unmarried. Since most women were expected to become wives and mothers rather than have careers few parents educated their girls to the level from which they could enter the Third Division, so most young women in the ATO remained in the Fourth Division.¹⁸⁸

This gender inequality had been temporarily overlooked during the war and many women were allowed to do Third Division work although few were appointed permanently to it. There was an anomaly in the ATO because of the mass transfer from the state public service and there were 15 women already permanent members of the Third Division in 1949 (nine of them assessors) because they had been transferred at that level. (There had been more but they had married and resigned.) By 1949 there were a total of 39 women acting in Third Division positions in the ATO who could now be appointed permanently. Women who had been appointed to higher positions during the war on men's salary levels and stayed in them continued to receive men's salaries but newly appointed women were paid at the lower women's wages. The difference was maintained by putting all women on the same basic pay levels but giving those who received the higher payment a special allowance that made up the difference. As general levels of public service pay rose in later years those allowances were gradually reduced so the wages and salaries of other tax officers increased while those women's stayed the same.¹⁸⁹

Although the Third Division of the public service was opened to women in 1949 almost all the tax technical positions of the ATO remained closed to them for some time. The ATO argued that since women had to resign when they married they would not reach the more advanced technical levels, and were perhaps not suited to them. And since the lower levels were the training ground for the higher levels they had to be reserved for men.¹⁹⁰

The traditional Australian gulf between men and women, and the separation between men in the Third Division and women in the Fourth, meant they rarely worked together – although young men often found excuses to visit the typing pool or other sections where the young women worked. However, there were many opportunities for them to meet socially, in lunch hours and at ATO balls, dances and picnics. There were also the variety shows produced by ATO staff such as the *Taxation Follies 1945* held at the Princess Theatre in South Brisbane, and the *Christmas Frolics* in Sydney that began as the instalments branch Christmas party in 1945 and grew to a fully catered dinner dance by 1950. Organising these kinds of events gave men and women the opportunity to work together and spend more time in each other's company. Office romances began to flourish in these post-war years, leading to weddings and tax officers making their contribution to the beginning of the baby boom.¹⁹¹

The social life of the ATO prospered as the ATO grew. Social clubs organised many social events and sub-branches of the RSL sprang up for the men and women who had returned from the war. Sport was still very popular with clubs holding matches between sections and branch teams competing in the many public service and business competitions that sprang up. Football was very popular, rugby (league and union) in Sydney and Brisbane and Australian Rules in the southern states, all branches had cricket teams and tennis, swimming, and golf were also popular. In Sydney the ATO senior and under 21s rugby league teams played on Saturdays and, although the ATO Rugby League Club was not officially formed until 1949, the tax team won the rugby league competition in 1946 and the Deputy

Commissioner accepted the cup on its behalf at the presentation ball. Similar things happened in all ATO branches across Australia and most sporting clubs also held activities to raise funds such as raffles, social events and dances that contributed to the social life of each ATO branch. This growth, and the lifting of wartime restrictions, allowed links between the branches to be re-established. The Brisbane and Sydney branches resumed their annual visits in 1947 and the southern states of Victoria, South Australia, Tasmania and the ACT came together from 1949 to compete in cricket, tennis, bowls and golf.¹⁹²



Program for the Brisbane branch *Taxation Follies* 1947.

Deadlock at Rushcutter's Bay

The Tax Office team won the 1946 grand final in a replay. A Sydney newspaper describes the drawn match.

Like the taxpayer, the Taxation Department has worries of its own – particularly in the Rugby League field.

In the City Houses “B” grade competition, Taxation were minor premiers, but were called on to meet Postal in the final of the major premiership and were defeated 10-nil.

Last Saturday the Grand Final was played at Rushcutter's Bay, but neither side had scored at full-time. The referee ordered another 10-minutes each way, but the result was the same.

A rest period was allowed and then the teams filed on to the field for the sixth “half” of the contest. Still no score. What to do?

Someone suggested tossing a coin, but wiser heads opined the association might object.

Halve the honours was another motion but this would have meant no blazers or trophies for the players.

There is also a tidy nest egg of £20 for the winning club from the general pool – and Taxation folks don't let much of that go astray.

Final decision was to play two more full halves next Saturday, or as many more as may be necessary.¹⁹³

Taking control of all income tax meant the ATO also became the target for all complaints about the tax. ‘Blitz Tactics’ declared *The Sydney Morning Herald* in complaining about ATO investigators and ‘Taxation Gestapo Invades Citizen's Home’ exclaimed *Smith's Weekly* as it complained about the ATO's ‘Big Stick’ powers. In Victoria ATO investigations and tactics led to questions about the ATO in parliament. Some complaints may have been justified because officials had more opportunity than ever before to treat people poorly during the war and immediate post-war period and there was less training and supervision to control it. On the other hand, it was also a time when some people needed scapegoats for their frustrations, and the ATO was a good target.¹⁹⁴

The most persistent complaint about the ATO was the long delay in issuing assessments. Every year after the Commonwealth took over income tax the backlog of unissued assessments grew, from 160,000 in June 1942 to 600,000 in June 1946. Many people were still waiting for assessments from three or four years earlier and the problem became an issue during the 1946 election campaign.¹⁹⁵

Commissioner McGovern wrote to all the Deputy Commissioners in June 1947 asking for an all-out effort to overcome the backlog by stopping the work of sections not directly related to assessing, calculating and issuing assessment notices where necessary and working overtime. Staff put in the big effort, and worked a lot of overtime which caused many complaints, but the effort paid off and only about 180,000 assessments remained to be issued by the end of June 1948.¹⁹⁶

This success suggested what could be achieved through a properly organised work program so, in May 1948 the Commissioner sent the Deputy Commissioners detailed assessing programs, setting weekly assessing targets for the coming year. They were based on what had been achieved in the previous year, making allowances for that special effort so they should not need overtime. To ensure branches kept up with this program they had to send Head office weekly telegrams summarising progress and more detailed fortnightly summaries.¹⁹⁷

Some Deputy Commissioners changed the Commissioner's plan. The Sydney Deputy Commissioner did his own calculations which showed that assessors would need to work overtime and more typists would have to be brought in from other departments to meet the targets. The Adelaide Deputy Commissioner also estimated that his staff would need to work overtime but, because his office traditionally did not work overtime during the hottest months of the year, he wanted to start early. The Melbourne Deputy Commissioner also said overtime would be necessary, but not in October or November when assessing staff going to night school took leave to study for their exams.¹⁹⁸

Despite many problems the work program was a success and no overtime was necessary after the end of 1948. The government was happy, the ATO received many congratulations from the community and Commissioner McGovern thanked staff for their cooperation. He said the ATO could now return to giving the public 'service in accordance with its traditions'.¹⁹⁹

The success of the assessing program created the model for how the ATO would handle the tax time peak period in coming years. Each year new weekly targets were set and the necessary resources marshalled to meet them. Between 1945–46 and 1949–50 the number of income tax returns to be assessed increased from 2.72 million to 3.39 million and the ATO kept up by increasing its workforce and returning to

overtime. After a few years the ATO had refined its tax time assessing program through experience and successfully completing that annual program became the dominant annual ATO activity.²⁰⁰

The success of the annual assessing program allowed the ATO to expand its other activities including enforcing taxpayer compliance. While the ATO had struggled to keep up with routine work, investigation and enforcement had a low priority and it estimated that evasion of £100 million had occurred in the five years before 1948. The success of the assessing program freed experienced technical tax officers to begin ‘an attack upon evasion’ and the Commissioner convened a meeting of the branch’s chief investigation officers to plan it.²⁰¹

Ready to deal with evasion

In July 1948 Commissioner McGovern issued a press statement about the Tax Office’s success in reducing its assessing backlog and where it would next focus its attention.

The Commissioner added that the overtaking of arrears of assessment work should free a considerable number of trained officers for an attack upon evasion. It was well known that evasion had considerably increased during the years of high expenditure and high rates of tax and, although every effort had been made to control this evasion, the meagre staffs available had been too hard pressed in ordinary assessment work to do more than provide a slight check. The methods employed to evade tax had been carefully noted by the Department and the staff which will now be made available will be employed in a determined effort to uncover this evasion and to bring the position back to normal.

Mr McGovern said that those taxpayers who had hitherto disregarded advice to make voluntary disclosures of understated income would be very well advised to reconsider. Statutory penalties, provided for tax evasion, are very high and undesirable publicity follows discovery of evasion. When a voluntary disclosure of understated income is made by a taxpayer, publicity is avoided and penalties imposed are usually in the nature of an interest charge on the underpayment.

Mr McGovern added that it might not be generally appreciated that offences in connection with taxation sometimes involve liability for punishment under the Crimes Act. When two persons conspire together to defraud the Commonwealth of tax, they bring themselves within the ambit of the Crimes Act and the penalty may be imprisonment.²⁰²

Through war and post-war reconstruction Australia began to become one unified nation rather than a confederation of competing states. It had been made possible by the powers and experience gained during the war, and the revenue of the income tax. The ATO needed to achieve the same unity by building links between the state branches and Head office and in 1948 Commissioner McGovern convened a special conference of departmental officers to discuss matters such as office procedures to help set up standardised systems throughout the entire ATO. But there was a long tradition of state branch independence to overcome before that could be achieved. The regular meeting of the Commissioner and Deputy Commissioners became a way in which some unity could be accomplished and they usually discussed tax technical issues that brought some unity to the administration of tax laws, but they rarely discussed management issues. On one rare occasion during the 1949 conference they discussed smoking in the office because each branch had a different policy that caused dissatisfaction in the offices where smoking was not allowed. Deputy Commissioners explained the policy in their branch and they then agreed to adopt the New South Wales policy. It prohibited smoking by officers who came into contact with the public but allowed it in the office until half an hour before the end of the day (presumably to prevent accidental fires after people had gone home).²⁰³

The 1949 conference was the first to be held in Adelaide. Commissioner McGovern said he hoped that subsequent conferences would be held in other states in turn so Deputy Commissioners could see the best features in each branch and take them back to their own branches. That would help improve the entire ATO and bring greater uniformity, but it was only the beginning of the process.²⁰⁴