



## PRIME MINISTER

PRIME MINISTER ON ZUE - ALAN JONES - 24 September 1985 - 9.10am

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JONES: ... Well the tax package has been launched and the tax debate about its merits has begun. To see how the Prime Minister is bearing up under the challenge of selling it, he's with me this morning. Good morning, Prime Minister.

PM: Good morning, Alan.

JONES: Prime Minister can we just go right to the hub of the thing, do you think this is a proposal, the tax change, where there are considerable risks for you but not a lot of rewards. I'm just wondering how, for example, you respond to yesterday's Sydney Morning Herald editorial which said that in three years more than a million people who are now in the 30% tax bracket will be paying tax at the marginal rate of 40%. Is that still a worry.

PM: Well I think the greater worry would have been if we had done nothing because the tax system had disintegrated, Alan, and we had to take measures which were going to ensure that avoidance and evasion loopholes were closed off and that we made these steps to reduce the tax rates, marginal tax rates. If we hadn't done that you were just going to have an intolerable situation. So, no, I don't think that we've taken risks. I think we've taken the right measures and all the first evidence seems to be that the Australian people have reacted accordingly.

JONES: But if this brings as it suggests here, about one million people into a higher marginal rate and then they're only on about three quarters of average weekly earnings, may we not still have to contemplate a move to indirect tax to relieve that personal tax load.

PM: Well we've made our calculations, Alan, on the basis of what we believe is going to be necessary to relieve burdens. Those calculations have been made on the best data available to us. We're confident that we've produced a situation which the great majority of Australians are going to be better off. Now we will keep the whole of economic policy under constant review as we have done. And it's a result of keeping that economic policy making under constant review that we've produced an economic performance in this country which is the envy of the rest of the world.

JONES: Well can we just take the difficult question of fringe benefits - I have said I'm not opposed to a tax on fringe benefits but I wonder if we are taxing all benefits. And if I could take perhaps the most current example, and that is namely Dr Armstrong, who's received a payment of \$500,000 and yet he's going to be taxed at 31% rather than at the marginal rates. Is it true then that we are taxing all fringe benefits.

PM: Well let me say in regard to Dr Armstrong I'm simply not in a position to comment on that. As you know I've asked Mr Reid to write to me on the subject of that separation payment and until I receive a reply from Mr Reid I simply can't talk about that. But going to your question more generally, what we've done in a long period of examination of this issue now is to try and ensure that all those areas where these benefits were being used as a method of emolument substitution that meant the avoidance of legitimate tax payments, that they have been covered. I guess in any tax system, Alan, you're not going to be able to cover every single little item that may come into that category. But I think we have done the best job that can be done in the circumstances. And I repeat, Alan, it's one which seems to have received the support of the majority of the Australian people. Because, after all, the majority of the Australian people do the right thing and they want to see those who are not doing it brought into the same situation.

JONES: Sure, I'll come to that in a moment. I agree with that point. But I'm just wondering in relation to taxing the fringe benefit whether some taxpayers aren't paying twice. For example, if the taxpayer's a private employer, then he's going to pay the tax on his employee benefits. But the taxpayer is also the employer of the public sector, so isn't he also paying that tax as well.

PM: ... the latter part?

JONES: Well the employer is in fact the taxpayer when it comes to the public sector.

PM: Well you take the individual employer - in regard to the benefits of his employee it is true that we are taxing those in the hand of the employer and Mr Keating has been quite straightforward in his discussions with the business community and everyone about that. And we think that on the basis of the enormous increase in profits that have been affected under the policies of our Government and taking into account the very substantial benefits that we're giving to the business community through the full imputation system and no tax on dividends, that this is an impost which is reasonable for them to bear. Now I'm not sure what you're saying as to the next point though ...

JONES: Well if I could use an example, could I, because I am opposed personally to tax - and I'm forgetting that Bob Hawke's the Prime Minister - a tax on the Prime Minister's benefits. But let me just take the comparison between a Prime Minister and a managing director of a company. If the managing director had the Prime Minister's benefits - that's houses, cars, planes, meals, allowances - and if they were taxed, don't you concede that that would be hell of a burden on his company, in other words, the

JONES cont...: private sector is going to be more burdened by this than would say a Bob Hawke or his employer.

PM: Well let me say in regard to Bob Hawke, I've made it quite clear from the beginning of this tax debate, as you know, that I seek no benefit of it at all and I simply want to say in regard to my own situation that I will expect the Tax Commissioner to treat me as is appropriate in his exercise of judgement under the law. And I won't be seeking any benefits, and if I get hit in some respect you won't hear me complaining.

JONES: But you're like me, you're only an employee in that sense because we're taxing the employer. What I was saying is your employer is the taxpayer which makes the position somewhat different from the corporate world.

PM: In that sense let me just say this in regard to the corporate world - where the managing director or the person you want to think of as an equivalent, travels, and his travel is in pursuit of his business then that will be claimable. If he goes overseas on a business trip, Alan, and he is doing that in the pursuit of his business, that will be deductible.

(COMMERCIAL BREAK)

JONES: PM, what would you say to the case that's been argued in some quarters that the reason the tax on fringe benefits was made payable in the hands of the employer, or by the employer, is because unions or MP's wouldn't wear it if their taxes were paid in their own hands.

PM: Well it is the case in regard to some areas of employment that we literally there would be an industrial difficulty. And we had discussions with the employers before we did this. Now don't let me appear to misrepresent the situation and imply that the employers supported the way we've done this - they don't. But I'm simply saying that in the discussions with the employers that Paul Keating and I had this point was covered and there was a recognition as to the reason why we were doing it, that there would be enormous difficulties particularly in some areas of doing the taxing the other way. Now this didn't mean the employers were supportive of the concept, but they did understand that it could create enormous problems for them if it were done the other way. Now we've quite readily acknowledged, Alan, that you can see some conceptual difficulties, if you like, in this way. But I want to go back to the point I made to you before, and that is that the employers of this country have prospered enormously under the policies that we've brought in. I just remind you that when we came to office the profit share in the Australian national income was down to historically low levels of about 12 per cent. Now we've pushed it up to where it's gone back to historically high levels of 15, 16%. And in that process the amount of profit has increased by something like \$6 billion. Now we have made the judgement in the total balance of things that this is something that is reasonable to do, particularly Alan, when we've given employers something that conservative Governments for 30 years wouldn't give

PM cont...: them and that's full imputation. Now they've said to us, business has said to us, that this is centrally important for their well-being, to have full imputation. We've done it. We've brought the marginal rates down from 60 to 49. So if you're going to talk about impact upon business, I think if you look at it in total, a reasonable view is that the business community is going to do quite well out of this.

JONES: Yes, I was just thinking actually not so much of that but of course of the implications if people, to maintain existing benefits, and want to maintain people in employment at those benefits, may put up prices, - then that impinges of course upon people who are buying and the sorts of people we're protecting. Because yesterday, if I can just put it to you, I read where the union movement - sections of the union movement were saying that they are not going to surrender the benefits at all. Now I understood a tax on fringe benefit to suggest that perhaps the benefit as it was being received was more than they were entitled to. Now isn't the employer going to be in some difficulty, if he seeks to wind back the benefit he really is going to be in difficulty with the union. And if he doesn't he's got to pay the tax.

PM: Oh well I think you'll find over time, Alan, that there will be some gradual winding back of these benefits. I mean I don't expect it to happen immediately. But what you've got to understand is if you look at current salary packages that exist for people, they've been built up over a period of time and when employers have seen what's happening elsewhere in the market they do some matching of these things. But I think the corresponding thing will happen - there will be no doubt that in some areas there will start to be a gradual winding back of some of these benefits or that there will be substitution of cash payments, straight additions to salaries, in place of benefits. Now it's going to take some time, Alan, for that change in composition to take place. It will work itself out in the market. But I don't think it really makes very much sense to represent this which is going to bring in, - well I think the fringe benefits payment - brings in less than half a billion dollars, to see this in a total emolument package of this nation, the total wage and salary package is something which is going to be dramatically overturning.

JONES: Well on that basis, and that was one of the reasons I asked you the question about the gamble at the beginning, PM, because you are committed to a \$2000 billion tax package next year with the union movement, and this is likely to only net you about \$800 million, and that was the nature of the gamble in part that I was talking about. Where are you going to get the other \$1200 million from?

PM: Well you get it through economic growth. I mean one of the great advantages that we've got, Alan, is as a result of our economic policies and the stringent trilogy restraints that we've imposed upon ourselves, that means that with growth our revenues grow. We've got one of the fastest growing economies in the world. That means growth in revenue. But we are committed by the trilogy not to allow that to become an

PM cont...: excessive take by way of taxation. So we will be able out of the processes of growth to finance this. But we've given the Australian community the additional promises, Alan, that we're not going to be increasing Government outlays at a rapid rate. We'll constrain those outlays to be within the rate of growth of the economy.

JONES: Could I just tackle the capital gain thing, because it seems to me that there is an assumption when people talk about capital gain that everyone is making a capital gain in a fairly underhand way designed to sort of make a quick quid. And I'm really thinking of the people and I'm sure that you've lived this aspect of your life as we all have, where you hope in retirement you'll be able to realise something with a few bob, to be less dependent on Government and therefore when you get 10 or 15 thousand dollars, you put it as a deposit on a second house. Now it seems to me that we are by imposing a capital gain on that, taxing investment and risk-taking and thrift and personal saving, when we ought to be encouraging people to do all of those things.

PM: Let me put it to you this way. I think the best answer to your concerns you've expressed is if you'd been in the House of Representatives when Paul Keating was delivering his speech, and when he got to his capital gains section, you've never seen such a lot of mournful faces on the other side. They were really saying, Alan, you rotten thing Keating, why weren't you more severe, you terrible thing, you promised to be much tougher than this. And that's what they were saying virtually.

JONES: Yes, I appreciate that you've watered it back.

PM: ... miserable looking pack of fellows. You know I've never seen anything like it. Now that's the answer to your question. This, Alan, is not a tough capital gains tax. But it is a necessary one. Just let me make that clear. We have not been seeking to impose a capital gains tax to hurt the sort of people that you're talking about because those sort of aspirations that people have are legitimate. What we needed to do was to bring in a capital gains tax as an instrument there to stop deliberate schemes where people were traversing the barrier and moving income into capital as part of a process of avoiding tax.

JONES: Right, but still the little bloke with the second house is going to be taxed at 49 per cent.

PM: No, but only on his real capital gain. And remember this, there are these elements of it - if he's done that already, his existing property as you know is not touched. Secondly, and implicit in your question, it doesn't affect the domestic home, the major home. Thirdly, it's not on nominal gains, it is only for real capital gains. In other words if the bloke has bought his house for \$100,000 and over a period of time it's gone up to say \$130,000 and there's been 20% inflation, he's only taxed on that \$10,000. So it's a very very mild capital gain and I'm sure that the overwhelming majority of Australians are going to say if it's necessary to have that mild capital gains tax to ensure that we have another instrument there to stop the tax avoiders and the evaders, which we do need, then I'm sure they're going to say well we approve of that.

JONES: Sure, I don't want to labour the point, but all I'm saying is that the bloke really only does invest in that second house to get that capital gain. I mean there's not much return as you would know - the rent that you get on an investment in housing, where we desperately need housing accommodation being built - the return on that's not great. And even when you take the real gain in that he's going to give 49 percent of that up to the Government. But it just seems a disincentive.

PM: Let me say this, Alan, the more usual pattern with the person who invests in that second house, is that it's usually their holiday or established retirement home that they're looking to. Now when that person sells their principal residence they're not going to pay a cent of capital gain on that. So the normal pattern of investment for Australians is not going to be adversely affected. I mean the normal ... of your listeners who has bought a second home, normally that's the one they go to have their holidays and that they're going to retire to. And they sell, when they come to do that, and they sell their principal residence, they will not pay a cent of capital gain on that. So really for the normal pattern of Australians they're not going to be hurt in that respect. Now as to residential buildings, there's no Government, - and I think you've been generous enough in the past to recognise this - we've done so much in the area of residential housing, we lifted the housing/construction industry off its knees. They were building 100,000 units a year when we came to office. We've got that up to over 150,000 now. We've put enormous increases into public welfare housing and we've given the tax incentive for residential building now. We've brought that in. So we're addressing the issue of the increase of our housing stock in other direct ways, Alan. And you've got to have - and I'd think you'd appreciate that the tax avoidance and evasion has been grossly unfair in this country to the sort of people that you're talking about - the decent, honest, ordinary people - and we must have the instruments there to cut that out. And that's why we've got to have that pattern.

(COMMERCIAL BREAK)

JONES: Prime Minister, just finally if I might just cover that question of poverty traps because you have done quite a bit about that. Where do you see the biggest initiative of the Government in solving the poverty trap problem.

PM: Well when you say the biggest initiative, Alan, what we've done there is to put in about \$215 million, as you know, and that is going to help in three ways. Firstly, in increasing the amount of private income that a pensioner may earn, we've increased that by \$10 a week for single pensioners, and \$20 a week for pensioner couples. And what that means - that a single pensioner now, Alan, can earn each week without affecting the pension, up to \$40 now and for couples up to \$70. Now our calculations are that that will mean the pension payment received by all of the 450,000 recipients who currently get a part-time pension, that will increase by up to \$5 a week. So it's the first area. Secondly, and this is very important, we'll abolish the separate income test on rent assistance and the calculations

PM cont...: are that that will reduce the marginal rate of income withdrawal faced by about 700,000 pensioners, and a benefit of up to about \$15 per week will flow to about 300,000 pensioners. And thirdly, and very importantly, in regard to pensioners with children, that amount that a pensioner can earn without a reduction of pensions is going to be increased by \$6 for each child. And the statement that was brought in by Paul Keating gave an example, Alan. If you take the case of supporting parent or pensioner with two children living in rental accommodation, what those measures would mean, it would mean that if such a pensioner earned say \$100 a week of private income, the social security pension plus rent assistance is reduced by \$44 a week. Now from November that pensioner now would lose only \$18 a week, so there'd be a total gain ...

JONES: Right \$26 in front ...

PM: So that I think is a necessary part of the package. Because we regard it as essential to reduce those higher marginal tax rates to bring more equity, efficiency and incentive into the system. But while we were doing that in the upper ranges it was very important that we looked after the least privileged section in the community who had been faced, because of these poverty traps, at times with marginal rates of tax of over 100 per cent.

JONES: Yes, quite, plus of course the raising of the ceiling of the non-taxable component of incomes. PM, could I just end perhaps with the ubiquitous Dr Armstrong. I'm just wondering whether you regret the fact that you didn't tell from the outset the House everything about his resignation.

PM: I think that my reputation for straightforwardness is pretty well known. What my concern, Alan, from the beginning was not to do anything which was going to create more likelihood of political disputation in regard to an incident we wanted handled in a way which wouldn't bring problems to the Bicentennial Authority or for that matter any undue hurt, personal hurt, to Armstrong.

JONES: But did you recommend that he should go.

PM: I told the House quite clearly that on the basis of all the information put to me, Alan, it was a clear view that the best interests of the Authority would be served if that happened. I made that quite clear.

JONES: Sure, but now you worked as a President of the ACTU and on a salary of about \$27,000 a year because people in union organisations and employer organisations aren't paid a loot.

PM: Said with feeling.

JONES: Said with feeling. Surely you wouldn't approve of a termination payment of half a million dollars.

PM: But you've put your finger right on the point. Unfortunately, because of the legislation brought in by our predecessors I had no authority to determine the conditions. Mr Reid made it quite clear when I indicated to him I thought that the change should take place, he said and Mr Reid was quite right in saying this, Alan, that the matter of the negotiation of the dismissal - well that's not the right word - of the termination, the severance, of Dr Armstrong was a matter for him. It was a matter for the Authority. I had no right to determine the conditions.

JONES: Well then has he erred in striking such a ridiculously high figure.

PM: Well what he put to me was the question on the contract that they'd negotiated. See they had negotiated the contract for Dr Armstrong in the first place, and he put to me that there'd be a question of buying out the contract and that there were six years to go, and given the level of salary it was going to be a pretty high figure. Now all I'm saying, Alan - I'm not trying to avoid responsibility - I didn't have the authority.

JONES: Well should you have that authority.

PM: Well you now again, if I might congratulate you, you logically go to the next point. And I've said to the media yesterday when I had a press conference with them, that I have my Department now looking at this issue, a range of options, as to whether in fact there should be a different sort of relationship between Government and the Authority - whether, and I think this will appeal to your sense of humour, whether we should be deprivatising the Authority. I mean we have the Opposition pressing for privatisation and the removal of Government control, it may be the case that what we've got to look at is reversing what they did. They established this as a separate company, private company, away from Government.

JONES: Could I say, though, that in this current climate if Mr Reid in the structuring of the contractual arrangements for termination has been so insensitive to public opinion as to pay a bloke after a limited number of years service who obviously wasn't doing an adequate job, half a million dollars, shouldn't then Mr Reid go.

PM: Well let me say this, that I'm waiting for a response from Mr Reid on this matter of the composition of the payment. Now I think it would be grossly unfair of me to Mr Reid to make any judgements on this issue until I have received the correspondence from Mr Reid and spoken to him. And I think you'd agree that that's the fair thing to do.

JONES: Yes, I do Prime Minister. Finally could I just ask you to clarify - Mr Keating said the other day that because Alan Bond's America's Cup Challenge boat may have Foster's Lager printed on its outside, that the America's Cup syndicated costs to defend the cup may be a tax deduction. Is that a view you take.

PM: I haven't addressed my mind to it, Alan. I will discuss the matter with my good friend and colleague, Mr Keating, and give you a considered answer.

ENDS