

PRIME MINISTER'S WEEKLY BROADCAST

THE NEW TAX SYSTEM

SUNDAY 24 AUGUST 1975

THE PART OF THE BUDGET THAT NATURALLY INTERESTS US MOST AS TAXPAYERS IS THAT DEALING WITH INCOME TAX REFORM. THERE WAS SO MUCH OF IMPORTANCE IN BILL HAYDEN'S BUDGET LAST TUESDAY NIGHT THAT THE FULL SIGNIFICANCE OF THE TAX REFORMS MAY EASILY HAVE ESCAPED YOU. IT'S WORTH REFLECTING FOR A MOMENT ON JUST WHAT THESE CHANGES MEAN. I HAVE NO HESITATION IN SAYING THAT BY MEANS OF THIS BUDGET WE HAVE BROUGHT ABOUT THE MOST SWEEPING REFORM OF THE TAX SYSTEM EVER MADE. I HAVE NO DOUBT THAT TAX REFORM COULD PROVE ONE OF THE REALLY GREAT ACHIEVEMENTS OF THE LABOR GOVERNMENT - IN THE LONG RUN, AND FROM THE POINT OF VIEW OF JUSTICE AND FAIRNESS FOR THOSE MOST IN NEED, PERHAPS EVEN MORE IMPORTANT THAN MEDIBANK.

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PRACTICALLY EVERY TAXPAYER IN AUSTRALIA WILL BENEFIT FROM THE NEW SYSTEM. FAMILIES AT THE LOWER END OF THE INCOME SCALE WILL HAVE MOST TO GAIN, BUT EVEN HIGHLY PAID PEOPLE WILL BENEFIT AS WELL. THOSE WHO WORK HARDER TO EARN HIGHER SALARIES OR EXTRA OVERTIME WON'T BE PENALISED FOR THEIR EFFORT. THE MAJORITY OF AUSTRALIANS WILL PAY LESS TAX; HALF A MILLION AUSTRALIANS WILL PAY NO INCOME TAX AT ALL. MANY PEOPLE WON'T HAVE TO BOTHER ABOUT FILLING IN TAX RETURNS, AND FOR EVERYONE ELSE THE TAX RETURN WILL BE MUCH SIMPLER AND EASIER TO FILL IN. THE WHOLE PROCESS WILL BE FAIR AND JUST TO EVERYONE.

IF ALL THIS SOUNDS TOO GOOD TO BE TRUE, LET ME EXPLAIN JUST HOW WE HAVE TACKLED THIS PROBLEM AND HOW WE ARE SOLVING IT. THE BASIC TROUBLE WITH THE TAX SYSTEM IS THIS: IT HAS BEEN BASED MORE OR LESS TO CONDITIONS APPLYING 20 OR MORE YEARS AGO. IN 1950, SAY, A MAN EARNING SIX THOUSAND DOLLARS A YEAR - 3000 POUNDS - WAS VERY HIGHLY PAID; HE WAS IN THE TOP INCOME BRACKET. THE TAX HE PAID THEN WAS APPROPRIATE FOR A HIGH INCOME EARNER. BUT TODAY OF COURSE, 6000 DOLLARS HARDLY PUTS A MAN IN THE TOP INCOME BRACKET; YET THE MAN ON THAT INCOME IS STILL BEING TAXED AS IF HE WERE WEALTHY. THE INCOME TAX SCALES JUST HAVEN'T BEEN ADJUSTED TO TAKE ACCOUNT OF THE CHANGE IN MONEY VALUES AND OTHER CIRCUMSTANCES. PEOPLE ON LOW OR MEDIUM INCOMES WHO WORKED HARDER TO EARN MORE MONEY FOUND MOST OF THE EXTRA MONEY GOING IN TAX.

IT WAS THE SAME WITH REGULAR WAGE INCREASES THROUGH AWARDS ON BASIC WAGE ADJUSTMENTS. MOST OF THEM WENT IN TAX. IN FACT, IN ROUND FIGURES, EVERY ONE PER CENT INCREASE IN EARNINGS LED TO A TWO PER CENT INCREASE IN TAX RECEIPTS FOR THE GOVERNMENT. THIS WAS CONVENIENT FOR THE GOVERNMENT BUT IT WAS PRETTY TOUGH ON THE TAXPAYER. EVEN GOVERNMENTS THAT HAD FAR LESS NEED OF PUBLIC REVENUE THAN WE DO WERE REMARKABLY RELUCTANT TO CHANGE THE SYSTEM.

THE OLD SYSTEM HAS BEEN DREADFULLY UNFAIR IN ANOTHER WAY. IT RELIED ON AN UNJUST SYSTEM OF CONCESSIONAL DEDUCTIONS. I WONDER HOW MANY OF YOU, WHEN YOU WERE CLAIMING YOUR SO-CALLED TAX CONCESSIONS - THE VERY WORD SUGGESTS HOW PATRONISING THE SYSTEM WAS - STOPPED TO THINK THAT PEOPLE BETTER OFF THAN YOU WERE GETTING MUCH HIGHER CONCESSIONS FOR THE SAME EXPENSE. PUT IT THIS WAY: WE ALL HAVE TO SPEND MONEY ON EDUCATION EXPENSES, SUPERANNUATION AND OTHER THINGS; UNTIL MEDIBANK, WE ALL HAD TO SPEND MONEY ON HEALTH INSURANCE. SOME OF US STILL DO - DEPENDING ON WHAT STATE WE LIVE IN. BUT DEDUCTIONS FOR THESE EXPENSES UNDER THE OLD SYSTEM WERE WORTH MUCH MORE TO THE WEALTHY MAN THAN PEOPLE ON LOWER INCOMES. QUITE LITERALLY, THE WEALTHY MAN WAS PAYING LESS FOR THE THINGS WE ALL NEED. I OFTEN QUOTE THE COMPARISON BETWEEN ME AND MY CAR DRIVER. I EARN PERHAPS FIVE TIMES AS MUCH AS MY DRIVER; WE BOTH NEED INSURANCE AND WE HAVE BOTH HAD TO PAY EDUCATION EXPENSES FOR OUR CHILDREN. WHY SHOULD I PAY, IN EFFECT, MUCH LESS FOR THESE THINGS THAN MY DRIVER?

THE WHOLE SYSTEM WAS GROSSLY UNFAIR. THE WEALTHIER A MAN BECAME THE MORE HE WAS SUBSIDISED BY POORER ~~BY POORER~~ TAXPAYERS. THE WEALTHIER A MAN BECAME, THE MORE HE WAS ABLE, AND THE MORE HE WAS LIKELY, TO SPEND MONEY ON BIG INSURANCE POLICIES OR EXPENSIVE EDUCATION FOR HIS CHILDREN. THE LIBERALS ACTUALLY ENCOURAGED THIS SYSTEM. THEY MADE A VIRTUE OF INCREASING THE ALLOWABLE CONCESSIONS, KNOWING THAT THE PEOPLE TO BENEFIT WOULD BE THE RICH, AND THAT POORER PEOPLE WOULD BE SUBSIDISING THEM, MR FRASER STILL MOUTHS SLOGANS ABOUT FREEDOM TO SPEND OUR MONEY AS WE WISH. OF COURSE WE SHOULD BE FREE TO SPEND OUR MONEY AS WE WISH; BUT WHAT REAL FREEDOM DOES A MAN HAVE TO SPEND HIS MONEY WHEN A LOT OF IT HAS TO GO IN HEALTH, SUPERANNUATION, HIGH TRANSPORT CHARGES AND EDUCATION EXPENSES BECAUSE THE PUBLIC SERVICES PROVIDED IN THESE AREAS ARE POOR OR NON-EXISTENT? THE OLD TAX SYSTEM WAS DEVELOPED AND EXPANDED UNDER LIBERAL-COUNTRY PARTY GOVERNMENTS THOSE WERE THE DAYS WHEN YEARS OF NEGLECT BY THESE GOVERNMENTS ENSURED THAT DECENT HEALTH CARE AND EDUCATION WENT ONLY TO THOSE WHO COULD AFFORD IT.

OUR SYSTEM WILL BE COMPLETELY DIFFERENT AND MUCH SIMPLER AND FAIRER. YOU WILL DEDUCT YOUR UNION DUES AND YOUR INTEREST CHARGES FOR HOME LOANS FROM YOUR TOTAL INCOME (AND I REMIND YOU THAT THOSE HOME LOAN DEDUCTIONS ARE ANOTHER INNOVATION BY THE LABOR GOVERNMENT). THEN YOU DEDUCT FROM THE TAX PAYABLE ON YOUR INCOME A FLAT AMOUNT - A REBATE - FOR DEPENDENTS, EDUCATION, INSURANCE AND SO ON. THE CRUCIAL POINT IS THAT EVERYBODY'S ALLOWANCE FOR DEPENDENTS AND EXPENSES WILL HAVE EXACTLY THE SAME VALUE. THE DEDUCTIONS FOR A WEALTHY MAN WILL BE WORTH EXACTLY THE SAME AS THE DEDUCTIONS FOR ANYONE ELSE. IN THE STUDIES WE UNDERTOOK ON THE OLD TAX SYSTEM WE FOUND THAT MOST TAXPAYERS WITH DEPENDENTS CLAIMED AROUND \$1350 IN DEDUCTIONS. SO WE HAVE ADOPTED THE SIMPLE TACTIC OF GIVING EVERYONE A REBATE EQUIVALENT TO THAT AVERAGE DEDUCTION. THIS MEANS THAT ONLY THOSE PEOPLE WHO ARE GOING TO CLAIM DEDUCTIONS WORTH MORE THAN \$1350 WILL BE ASKED TO FILL IN THE DETAILS ON THEIR TAX FORMS.

FOR YEARS THE LIBERALS KEPT PROMISING TO REFORM THE TAX SYSTEM BUT THEY NEVER DID ANYTHING ABOUT IT. SIR ROBERT MENZIES PROMISED IT IN 1949 AND AGAIN IN 1958. THREE WEEKS AGO EVEN MR FRASER WAS PROMISING SOME KIND OF REFORM. ALL THE LIBERALS DID WAS INCREASE ALLOWABLE DEDUCTIONS AND MAKE THE SYSTEM MORE UNFAIR. IT HAS TAKEN A LABOR GOVERNMENT TO GET THE SYSTEM CHANGED. IN ONE SWEEP, WE ARE PUTTING AN EXTRA \$5 A WEEK AND MORE IN THE PAY PACKETS OF AROUND THREE MILLION AUSTRALIANS ON AVERAGE INCOMES; WE ARE ELIMINATING TAX ALTOGETHER FOR HALF A MILLION AUSTRALIANS ON THE LOWEST INCOMES; WE ARE GIVING SPECIAL TAX RELIEF TO 100,000 WIDOWS AND UNMARRIED PEOPLE SUPPORTING CHILDREN, AND WE ARE EASING THE RISING TAX RATES ON MIDDLE-INCOME EARNERS WHICH HAVE DISCOURAGED THEM FROM EARNING MORE. WE HAVE SIMPLIFIED THE WHOLE CUMBERSOME BUSINESS OF FILLING IN COMPLICATED FORMS. I COUNT IT A GREAT ACHIEVEMENT THAT IN BRINGING DOWN A BUDGET TO TACKLE INFLATION WE HAVE MANAGED TO REFORM THE TAX SYSTEM SO RADICALLY AND CREATE THE CONDITIONS FOR A FAIRER AND MORE JUST SOCIETY.
