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PRIME MINISTER

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ELECTORATE TALK

The Government is determined to get rid of the cancer of tax evasion, and blatant artificial and contrived tax avoidance schemes.

Already the Treasurer, John Howard, has done more to eliminate tax avoidance and evasion schemes than any Treasurer in the history of the Commonwealth. Some of the rewards that honest tax payers are reaping from the Government's unremitting campaign against tax evasion are particularly evident in this year's budget. For the first time in many years, the Commissioner of Taxation has said that it will not be necessary to make allowance in income tax revenue estimates in the budget for revenue lost through tax evasion. Indeed, hundreds of millions of dollars of extra revenue will be collected this year from measures taken against avoidance and evasion.

Taking out that extra revenue to be collected from tax dodgers there is actually a fall in real terms in tax collection. Clearly, the measures we have introduced are having an impact on tax levels faced by honest tax payers, and there can be no doubt that the measures have contributed significantly to the Government's ability to give the tax cuts which will start from November 1.

One of the measures that we are introducing is designed to allow the Government to recoup tax lost as a result of the so-called bottom-of-the-harbour schemes. These schemes were particularly unpleasant, and particularly fraudulent. They always involved some people in some parts of the transactions acting illegally. Let me give an example of how a bottom-of-the-harbour operation worked, an example drawn in its broad outline from the McCabe Lafranchi Report: A company has made a current year trading profit of about \$750,000 on which company income tax should eventually be paid. Including that current year profit, it has a total "cashed-up" value of about \$1.1 million. That is, when all its assets are sold, and the proceeds put into the company's bank account, there is the amount of about \$1.1 million in that account.

The company is then sold for about \$1 million and that \$1 million is then divided between the company's original shareholders. The other \$100,000 then goes to the promoter or to the person who did the deal. The \$1 million represented capital to the original shareholders.

We need to remember that in the particular example there was about \$750,000 which was current year profit on which taxes should have been paid but on which no taxes had been paid. No allowance was made for meeting the tax either by the original shareholders or by the purchasers and that is where the fraud came into the scheme.

You can see that there was a lot of money involved. It was a fraudulent way of avoiding paying company tax. At some point the scheme had to involve fraud. At some point the scheme had to be illegal. These became known as bottom-of-the-harbour schemes because in some cases the documents were literally dumped into the harbour.

I think you can see how unfair all that is, how unreasonable that is. Why should people be able to profit by that kind of device? Why should the Government and honest tax payers put up with losing the tax that ought to have been paid - which in the example that I have given could have been over \$340,000?

The practice was stopped by a special Act of Parliament in 1980 and that legislation provides for very severe criminal penalties of up to five years in gaol. Schemes of this kind corrode the whole basis of Australian society. There are some who say that they went into such schemes innocently, not knowing that something was wrong. But the essence of these schemes is that the price paid to the shareholders was too high because no allowance was made for paying tax. Some people involved in this practice went back to the trough time and time again. The Government made up its mind that it was going to collect the tax that should have been paid, and we are going to collect that tax from the people who profited from the device. That is, from the shareholders who sold the company and from others who benefited from the deal. I would think that most Australians would agree that that was fair enough.

There is an element of retrospectivity in the legislation that John Howard introduced last Thursday and I know there are many people who intensely dislike any idea of retrospectivity. As a broad principle, I and all members of the Government would support that view. It is an important principle. But it is not the only principle by which we must govern. There is, above all, the principle of fairness. The Government represents all Australians. Its duty is to govern fairly for all Australians. At elections, people divide up their vote between political parties. But it is the duty of governments and of members of Parliament to represent all Australians. That deeply held conviction is the very foundation of the Liberal Party. It is clear that the Government had to make a difficult choice between supporting absolutely the principle of no retrospective legislation or maintaining its support for the principle of governing fairly for all Australians.

In this instance, in relation to the bottom-of-the-harbour schemes, we made the decision that we must place the principle of fairness above the principle of retrospectivity. I hope that the legislation will be given a thoughtful but nevertheless speedy passage through Parliament so we can get on with the business of collecting taxes that should have been paid.

There is no doubt that the legislation will be passed. My Government will not stand by and see average Australians ripped off by a very few mean and greedy individuals who have been very unAustralian in their attitudes and practices.

There is one final point I want to make, and that concerns Mr Hayden's cowardly and vicious attack on Mr John Reid, following his appointment as Chairman of the Review of Commonwealth Administration. The Commissioner of Taxation has given Mr Reid a clean bill of health, and that fact has now been widely publicised. Mr Hayden began a smear campaign against Mr Reid without any attempt to have his implied allegations checked. The record has been set straight, but Mr Hayden seems determined not to accept the facts. He seems determined to continue the smear. He can gain no credit from that.

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