



PRIME MINISTER

FOR MEDIA

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GOVERNMENT TAXATION POLICY STATEMENT

The economic policies of the Government, and the approach that has been used in developing and implementing those policies, have produced dramatic improvements for all Australians since March, 1983:

- the creation of over 260,000 new jobs against the loss of almost 200,000 in the last twelve months of the Coalition Government;
- halving the inflation rate from double that of the rest of the industrialised world to an underlying rate around that of other advanced countries;
- significant reductions in interest rates;
- significant reductions in the Budget deficit;
- restoration of the housing industry from drastically depressed levels to high levels of activity.

These results, which are fundamentally important to the welfare of all Australians, have flowed from this Government's unique approach to policy-making. We have not sought to impose positions from above.

Under this Government's approach there has been more consultation, information-sharing and tapping into the accumulated experience and wisdom of business, trade unions and community organisations than ever before in the history of this country.

This approach has been spectacularly successful by all relevant criteria - a fact acknowledged within Australia and very widely by international commentators.

A handsome dividend on the economic success of the Government, and the approach that it has used to policy-making, will be paid with effect from tomorrow. Substantial personal income tax cuts - \$7.60 a week for the

average taxpayer or equivalent to a wage increase of \$11 a week - will flow to all taxpayers. And they represent a real reduction in personal income tax. Full indexation to cover the effects of inflation would have cost \$1.2 billion in a full year. These cuts will cost \$2.1 billion.

The Government intends to apply exactly the same approach to an overhaul of the Australian taxation system as it has used in the formulation of the general economic strategy which has produced these outstanding results. And the dividends resulting from an overhaul of the tax system will again flow to all Australians - unless they have been cheating on tax in a big way.

The Government will conduct a comprehensive review of the Australian taxation system based on widespread community consultations during 1985, leading to an announcement on a tax reform package towards the end of 1985.

The Government has been progressively implementing changes designed to improve the existing tax system since assuming office in March 1983.

The first element of the Government's policy as I have already indicated is tomorrow's substantial personal income tax cuts. The tax cuts address immediately one important problem area in the tax system - the excessive levels of tax on low and middle incomes. All taxpayers benefit from these cuts.

The second element of the Government's policy is the vigorous strengthening of the existing tax law and administration. We have cracked down on tax avoidance and evasion in the cash economy. We have updated taxation penalties, and created a stronger Tax Office by increasing its resources.

We have also legislated against ^{some} tax loopholes, although the ^{while thinking of new ones} Opposition in the Senate has obstructed the Government's proposed action against such notorious tax avoidance schemes as "bottom of the harbour" and "cherry pickers".

There is strong community support for the third element of the Government's tax policy: an overhaul of Australia's taxation system. Most Australians believe that the overall distribution of the taxation burden is unfair. They are resentful at the unfairness associated with substantial tax avoidance by a minority. There is also widespread belief that the tax system is holding back economic development, and discouraging much potentially valuable investment, production and employment. There is particular concern that the interaction of the taxation and social security systems is discouraging social security recipients from full participation in the national economy - that is, that they have created poverty traps.

And when the community talks of the inequities and anomalies of the existing tax system, they are talking about a system which has been built up over a period in which the Coalition parties had been in power for 31 of the 34 years before we assumed office in March, 1983.

While acknowledging these weaknesses in the tax system that we have inherited - and particularly the unfairness associated with tax avoidance - the Government does not underestimate the difficulties of overhauling the system. Indeed, to be brutally frank, the difficulties are enormous. This is why there has been no substantial tax reform in Australia, despite the work of Asprey, Mathews and others. The administrative, economic and political difficulties associated with overhauling the tax system explain why the previous Coalition Government abandoned its attempt to change the tax system - limited though that was - and why the Opposition has been so vague in its recent tax policy statement. But two lessons are clear from what has been said, and more importantly what has not been done in the past decade about improving our tax system.

As we believe in Julius + Octavius | The first lesson is that tinkering at the margin in attempting cynically to gain short-term political advantage is very likely to generate new complexities, inefficiencies and inequities. Tax reform will only be worthwhile - and in any case is probably only achievable - if it is based on detailed and thorough analysis of packages of alternative measures.

The second lesson is that meaningful reform is not possible in the absence of widespread community agreement that the tax changes make the system fairer and more equitable. There can be no progress unless the community can be persuaded that the Government is serious about an overhaul of the tax system which includes a reduction in some taxes.

The Government's approach to tax reform takes account of both lessons. The Opposition's approach takes account of neither.

The Government's approach to overhauling the tax system is fully consistent with its approach to the economic management of this country since assuming office: one of consensus, typified by the holding of the National Economic Summit Conference and the subsequent establishment of the Economic Planning Advisory Council (EPAC) and a number of consultative councils. It is an approach that has the trust and confidence of the Australian people. It is an approach that will ensure that the economic progress since March 1983 will not be put at risk.

The idea of a tax review is no short-term election gimmick. The widespread community discussion that the Government has fostered on the tax system has been under way since the very first meeting of EPAC in July, 1983, when the Council called for a Treasury summary of the findings of previous taxation studies.

In the March, 1984 meeting of EPAC, there was discussion of papers by EPAC members on taxation. I said in my Press Statement after this meeting:

"I am grateful to EPAC members for the productive effort that they have put into the work on taxation policy for this meeting.

EPAC agreed that:

- it is clear from these contributions that there are shortcomings in the present taxation structure, whether viewed from the standpoint of the efficient long-term growth of the Australian economy, or of the building of a more equitable Australian society.
- it is also clear that taxation reform must consist of an overall package. Single elements of taxation reform cannot properly be judged in isolation. For community discussion of these matters, and in the end government decision, to be productive, it should focus on inter-related packages of measures. This makes the matter highly complex, and it will take considerable time for informed community attitudes to emerge.
- reform of the taxation structure is a long-term matter, with large implications for the growth and structure of the Australian economy. Different sectors of the economy have put very different views to EPAC.
- consistent with the Government's approach to building community consensus on complex issues, the Government will not take positions on these matters until there has been wide community discussion and until informed attitudes to alternative packages have emerged."

By the time of the last EPAC meeting in September this year, all groups represented on EPAC had presented views on tax reform. A number of other economic and community organisations submitted papers to EPAC after my March statement. Many others have indicated their interest in doing so, and the Government would welcome further submissions early in the New Year. These and other contributions will be discussed within EPAC, and papers put to EPAC will be released for wider community comment.

These contributions and the associated discussion will all be taken into account in the preparation of a draft White Paper on Taxation.

The Government will then convene a National Taxation Summit during the third quarter of 1985, at which interested parties will have an opportunity to comment on the draft White Paper and to suggest alternative approaches.

Invitations to participate will be extended to all sections of the business community including small business; the farming community; the trade union movement; welfare, consumer and other community groups; and representatives of Federal, State and Local Governments.

I would expect that if broad consensus were to emerge from the Tax Summit, the Government would announce a tax reform package towards the end of 1985. And I would expect a popular and widely accepted package to emerge from this consultative process.

It would be quite inappropriate to pre-empt the consultative arrangements on the overall tax system that will proceed during 1985 by detailing a preferred Government position. It would be an insult to those who are participating in the community discussion, and who will participate in the Summit.

But without taking a position on any particular tax or package of taxes, I am today setting out nine firm principles which the Government will insist upon in the process of community consultation on the tax system, and in any tax reform package.

Nine Point Tax Review Principles

- . First, there must be no increase in the overall tax burden, as measured by the share of Commonwealth Government tax revenue in gross domestic product, next year or through the Government's next term in office.
- . Second, any reform must continue the process already begun by this Government, and provide further cuts in personal income tax.
- . Third, taxation changes must contribute to smashing tax avoidance and evasion, which remain as features of the tax system which the Government inherited.
- . Fourth, any reform must lead to a simpler system, which therefore all Australians can understand more easily, and which therefore makes tax avoidance and evasion more difficult.
- . Fifth, any reform package must result in a tax system which is fairer, so that Australians are only required to pay tax according to their capacity to pay, and the overall system must be progressive.
- . Sixth, any tax reform must not disadvantage recipients of welfare benefits, and should reduce or remove "poverty traps".

- . Seventh, if any reform package which includes changes in indirect taxes is contemplated, it must be acceptable to the various groups in the Australian community whose response will determine whether we can maintain moderation in wage movements.
- . Eighth, any reform must provide the best possible climate for investment, growth and employment in Australia.
- . Ninth, any reform package must have widespread community support, including support at a widely representative National Tax Summit of economic organisations and community groups.

These are clear and unequivocal undertakings, which will give the people of Australia a basis for a clear decision on 1 December.

All nine principles are important to making Australia a more equitable society which is better able to overcome the structural barriers to strong, sustained non-inflationary growth.

The first and seventh principles are absolutely crucial to our sustaining non-inflationary growth in the years immediately ahead.

Given the Government's well-known and successful approach to economic management, the first principle requires further reductions in the deficit in the process of continued economic growth through expenditure restraint. We pledge ourselves to this result.

The seventh principle is essential to the Government holding inflation on a downward path, which itself is crucial to maintaining strong growth in production and employment. We must do nothing as a nation to put at risk the hard-won gains in the fight against inflation over the past eighteen months.

The Opposition has claimed that the Government is committed to the introduction of a capital gains tax, death and gift duties, and a wealth tax. Day in, day out, the Leader of the Opposition has been making wild and unsubstantiated allegations to the Australian people on this issue - and in the process making community acceptance of any genuine tax reform more difficult.

In fact, as has been made clear consistently, the Government has taken no such position on these taxes.

The only decisions it has taken are those that have been outlined today.

But some community views have already been put to the Government on these issues, and as these will be fully taken into account in the review, and at the National Tax Summit, it is appropriate to refer briefly to them.

There is a widespread view in the community that existing capital gains taxes in Australia should be reviewed, because they are unpredictable and arbitrary, and because they provide avenues for tax avoidance. Various suggestions for such changes have been put forward for consideration in a qualified way, including by the Business Council of Australia and the Confederation of Australian Industry, largely to close off existing opportunities for tax avoidance. These groups have emphasised that any changes to the existing capital gains taxes should be considered only in the context of a package of reform measures.

Whether the types of changes that such groups have presented for consideration represent the most effective way of addressing the widely recognised shortcomings in the existing capital gains taxes is a matter for careful and cool analysis and community discussion outside the context of an election campaign.

And a cool and careful analysis of the Government's nine tax invention principles should put to rest the desperate inventions with which the Leader of the Opposition seeks to frighten the Australian people. A fairer system, a system which provides the best possible climate for investment, growth and employment and a system which strengthens the fight against tax avoidance and evasion in this country, is not one which taxes in any way the family home, or threatens the continued growth of farms and small businesses in this country. Indeed quite the contrary.

The average taxpayers, and those who through their productive endeavours have underpinned and will continue to underpin economic growth in this country, must be encouraged, not discouraged, by our tax system. I give an unequivocal commitment that the Government will have no part of a tax reform which is not based on these conditions.

And this can only be done by shifting much more of the burden onto those who during the period that our opponents held office, cheated and defrauded the country of taxation revenue.

The politically expedient option, and the one which our opponents have now chosen, would be to categorically rule out certain taxes in any discussion of tax reform. But the Australian public has been treated cynically too many times by the Coalition parties, with their litany of false and broken promises on tax, to accept another such cynical political exercise.

But let me make one point clear. The only group in the Australian community which has any reason to fear an overhaul of the tax system by this Labor Government is that group which, aided by the Coalition parties, has exploited the system in recent years through avoidance and evasion at the expense of the vast majority of Australian taxpayers.

For what we must and will do is end the day when a small minority of the Australian people - who can afford a smart lawyer and a slick accountant, and can rely on the Coalition parties to protect them, pay no tax - while the average taxpayers pay too much.

The Government's approach to an overhaul of the taxation system will allow for rational community discussion and involvement. We must make every effort to devise a system that is fairer for all Australians. We must make every effort to devise a system that promotes a stronger economy. We must avoid any changes that put at risk the improvements in Australia's economic performance over the past eighteen months. This will be the great challenge for the Labor Government and for the Australian community together in 1985.

As the Australian people will be deciding on 1 December which party they wish to govern Australia for the next three years, in outlining the Government's approach to tax policy it is also appropriate to remind the electorate of the Opposition's record.

That record is highlighted by three features for which the electorate, rightly, will not forgive, and so will never trust the Coalition parties.

- First, the Coalition parties condoned the growth of the tax avoidance industry in Australia on an unprecedented scale. Reporting on the tax avoidance industry, Commissioner Costigan said in December 1981:

"This industry has developed in Australia, particularly over the last five years, at a rate far in excess of any other industry, and has brought with it profits comparable only to the heady days of the Victorian gold rush. Unfortunately this industry carried with it a serious detriment to the interests of government and the Australian community..... The amounts involved are very large indeed, amounting to many hundreds of millions of dollars per year or more. The impact on the community has been very serious. It has introduced into the community a class of people, almost invariably the highest earners, who pay little or no tax and make no contribution in that way as citizens to their fair share of community costs. In addition it has made more difficult for government the task of providing for the community as a whole a more equitable and reduced taxation burden."

By allowing a small and wealthy minority to avoid tax on this massive scale, the Coalition Government effectively imposed an undisclosed but massive supertax upon the majority of ordinary taxpayers in Australia. The Coalition parties in Opposition have continued their protection of the tax avoidance industry by repeatedly rejecting legislation designed to make tax cheats pay back what they owe to ordinary Australians.

- Second, without any warnings at preceding elections the Coalition Government imposed on the people of Australia a wide range of new taxes with substantial impact on average taxpayers.
- Third, the Coalition parties made promises of tax relief at election time and then, after the election, ruthlessly and shamelessly grabbed back the tax cuts. All Australians remember the "fistful of dollars" of the 1977 election, which were taken back within months of their re-election.

The Peacock-Howard-Sinclair combination, all of them parties to this fraud and deception of the Australian people in the last seven years of Liberal-National Party government, simply cannot and will not be trusted again by the Australian electorate on the issue of tax.

And it is against this background of our opponents' total lack of credibility that the Government's consistent and conclusive approach to tax policy will be welcomed by the people of Australia.
