



PRIME MINISTER

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INTERVIEW WITH ALAN JONES, 2UE, 4 JUNE 1985

JONES:

As I've said to you earlier on in the program the tax package, or the government's draft White Paper - its preferred position - has been made public today and I think we ought to emphasise that. There's a long way to go before the government is able to win the day on its preferred position but nonetheless it's a brand new area of reform in Australia and the government is to be commended, as I have said many times, for the initiative it's taken on the question of reform. But like everything it's not going to please everybody and the man who perhaps stands to lose most and has got the toughest job in front of him in selling it, both to the summit and to the public at large, is the Prime Minister himself and he's on the line. Good Morning Prime Minister.

PRIME MINISTER:

Good Morning Alan.

JONES:

Well Prime Minister I suppose the community will be saying some good news and some bad news. Perhaps could we take the good news about the overall reduction that you have foreshadowed in personal tax and may I ask you does that mean that all four marginal rates will be reduced?

PRIME MINISTER:

Under the preferred option yes, Alan, if I could just give them to you: at the level of income between roughly \$6000 and \$12500 where the present rate is 25¢ in the dollar - the marginal rate - that would come down to 20¢. Between \$12500 and \$19500 it would be reduced from 30¢ to 20¢ and in the very important area where just so much damage has been caused now earnings comes in the range of \$19500 to \$28000 where people are now paying virtually half - that's 46¢, there'll be a massive reduction down to 35¢, and the \$28000 to \$35000 comes down from 48¢ to 40¢ and the top rates of \$35000 and over would come down from 60¢ to 50¢.

JONES:

Right.

PRIME MINISTER:

If I could give you very specifically the example of the level of average weekly earnings so that you could get quite clearly the net sort of picture, there would be a 30% reduction in direct tax paid by the average weekly earnings person of an income tax cut of \$31 a week. Against that would be the rise in costs coming about from the consumption tax. That will cost \$16.80 a week. So net benefit, Alan, to that person on average weekly earnings of \$14.20 a week.

JONES:

Right. Well now also Prime Minister you've raised the tax-free threshold, haven't you?

PRIME MINISTER:

Yes Alan. It's currently \$4595. That would go up to \$6250 tax-free threshold which if I can put it in weekly terms, Alan, a person now can earn up to \$88 a week and pay no tax. Under the preferred option that would go up to \$120 a week which a person could earn and pay no tax.

JONES:

Right. Now we'll come to the consumption tax later but again on the good news front to compensate the lower income earner for the damage that might be done by a consumption tax you are also going to make a one-off increase, are you not, in pensions?

PRIME MINISTER:

Yes.

JONES:

That will be all pensions?

PRIME MINISTER:

Yes Alan. Let me just go very quickly to that and I'm very glad you brought it up early. The calculation is that the affect of the introduction of a broadly based consumption tax is that it would increase the CPI one-off by 6½%. Now on the basis of the adjustment of pensions to meet an increase in the CPI that would require an increase of \$6 a week in the pension to cover that increase in the CPI. The proposal is that the pension would increase by \$9 a week for the single person so that's well over - 50% over - the price impact. Married couple pensions would go up by \$14 a week. But that's not the end, Alan, of what we'd do because we are very conscious of the fact that introducing a broad based consumption tax would in the absence of compensatory mechanisms hurt people at lower level of income, and particular social security beneficiaries. So you're right - over-compensate in pensions but in addition to that we would also increase the dependent spouse rebate and family allowances by 14% and the family income supplement, which is particularly there to help low income families, would also be expanded and the benefits increased. So in total the compensation package that we would bring in under this preferred option would be about \$2 billion so that there would be over-compensation for the price impact. We believe, Alan, and I know you would share this view, that you can't talk about bringing in a consumption tax which would otherwise hurt people on lower incomes. You have got to have that compensation - there would be \$2 billion worth of it.

Right now if we could just take the total package then Prime Minister. That is, the cost to the government of the threshold increase, the cost to the government of reducing the four marginal rates plus the pensions and the welfare benefits. What do you anticipate that to cost you?

PRIME MINISTER:

Well I wonder Alan if I could put the total picture to you this way - I think it would be clearest: what we would get from bringing in the broad based consumption tax would be just over \$14 billion. That would be increased revenue. The broadening of the direct tax base would bring in about \$1 and 3/4 billion. But then the offsets that you refer to: we would abolish the wholesale tax which would cost about \$5 billion. The compensation package that I just talked about of just under \$2 billion and some slight changes in the excise levels and other administrative changes about \$1/2 billion, so the costs of those abolition and the compensation is about \$7 1/2 billion. Now when you take that \$7 1/2 billion off the approx. \$16 billion we get from the broad based consumption tax and the broadening of the tax base leaves you about \$8 1/2 billion which you can then use to very substantially reduce the personal direct taxes and which as I say at the level of average earnings would give you the 30% reduction in tax. Now Alan people may ask well how is it that you're able to say to the great majority of Australians you'll be better off under this tax reform. I think you will appreciate there are two elements in it when you look at those total figures that I'm talking about - two elements which give you more revenue to distribute to the mass of Australians. Firstly, that the broadening of the direct tax base which gets into areas where people are simply evading and avoiding, that's about \$1 and 3/4 billion. But also you see that large number of people who are paying no tax at all now on their income because they are avoiding or evading, with a broad based consumption tax you're getting a benefit there - you are getting revenue from them that currently you miss. So when you take those two things together - the broadening of the direct tax base to get the people who are avoiding, plus the revenue you get from them on their consumption which you don't get now, that gives you a net benefit as a community which you are able to distribute so that the great mass of Australians in net terms will be off.

JONES:

Quite right and Prime Minister I agree with that position entirely and have said so. I think that indirect tax at least prevents people from getting out of that net and makes people meet their obligation and I just would put to you the next proposition which I have in fact equally argued strongly and it's a counter position to yours. Why then, when such a commendable initiative is in place, do you prejudice this opportunity for acceptance by moving into the fringe benefits and the capital gains area?

PRIME MINISTER:

Well I'm glad you asked that Alan. Could I just go to the points you raise one by one. If you look at the fringe benefit area, all the evidence shows, Alan, that that's absolutely exploding now and it would treble or more within the manner of about three years and so the great mass of Australians who don't get that benefit would be even further prejudiced and something simply has to be done about that we believe if you are going to close off that very significant haemorrhaging

of the tax revenue base.

JONES:

Could I just before you go make two points there PM?

PRIME MINISTER:

Sure.

JONES:

One is I'm just wondering whether that obvious explosion which you're talking about isn't a manifestation of the high marginal levels and secondly, I'm just wondering that if this goes ahead that the employer won't just scrap those benefits, put them as taxable income, which means the bloke is going to be worse off than he was now.

PRIME MINISTER:

No in regard to those non-cash fringe benefits it would be a tax on the employer. Now there will be varied responses to that Alan. In many cases I think the employer would say well that is something which I will bear. In some cases, Alan, they might just say alright we'll transfer that to an equivalent, or more than equivalent, cash payment in which case the beneficiary would be better off by the reduction to the extent of the very significant reduction in marginal rates that we will be bringing in and obviously in some cases Alan they would say oh well we won't go on with this. Where the allowances are there as a result of specific arbitration they will be exempt from this provision so when you look at that total package Alan there will be different responses but again I've got to come back to this point. You're right - absolutely right - in saying that this will be an area of concern, perhaps some risk for the government, but I believe responsibility we've got to put before the Australian people the dimensions of what has been lost to revenue and most importantly the obvious fact that if something is not done about this it will explode in a way which will cost the revenue very, very dearly into the future.

JONES:

Prime Minister I don't mean to be personal about this but I suppose that the first question the public will ask is where then do politicians fit into this with air travel and those sorts of benefits - which I personally think are important to induce the best people into the job?

PRIME MINISTER:

Well I made the point whether its politicians or ordinary workers - where they have benefits which are a result of arbitration, where there has been a deliberate decision by an independent arbitral authority if it should be given for the purpose of allowing a particular job to be done appropriately then they will be excluded and politicians won't be treated any differently in that respect from anyone else in the community.

JONES:

So that because the Remuneration Tribunal has so determined those sorts of allowances will be exempt from this taxation?

PRIME MINISTER:

Yes well let me make it clear; to be fair it's not just politicians - whether it's railway workers or anyone else where a particular provision has been not just given whim by an employer but has been subject to independent arbitration then that would not be affected and there'd be many more people than politicians, infinitely more, that would be covered in that way.

JONES:

Well now could I just take the - because time is always against us - but the capital gain question PM.

PRIME MINISTER:

Capital gains - yes?

JONES:

No I mean obviously a lot of money now of investors which have a few bob goes into the housing industry and that provides tremendously in Sydney here tremendous problems in the shortage of rental accommodation. Now isn't this going to act as a disincentive to the person who invests money in the house and may he not seek compensation for the capital gains imposed upon that investment by raising rentals which is also going to damage the very bloke we're looking to protect?

PRIME MINISTER:

Oh a very fair - I wonder if you'd excuse me if I just said a number of things, some directly in regard to that and then more generally about capital gains. Firstly, it is the case that uncertainty about whether there would be a capital gains tax or not I think has had some impact upon investment decisions in the rental market. Now I believe that once there is certainty after discussion with the community on this and I believe that on balance the community will come to see the benefits of a capital gains tax which I'll go to in a moment - once the uncertainty is removed then these things will sort themselves out. I make the second point which I think is relevant to that and more to your specific points but also more generally relevant, and it is this: Australians have to ask themselves I think this question - why is it that virtually every other western country has a form of capital gains tax and what is it that's unique about Australia that we shouldn't have it. The answer I think is this - it's in two parts - first, and both of them are relevant to Australia, firstly, it is unfair that a person, an ordinary worker, should through the sweat of his muscles or the exercise of his mental capacity go out and earn money and then pay tax on that but you could have a situation where other people derive very considerable income by way of capital gain and make no contribution to the general revenue as a result of those changes. And so the world has said that it's inequitable, that you should make that distinction against people who derive income by their actual work. Secondly and very importantly, in some senses more importantly, the rest of the world has said that it is important to have a capital gains tax in place as an effective instrument against tax avoidance and evasion. So in other words Alan this is a very modest tax in the sense that not an enormous amount of revenue will be derived from it - that is proof of its modesty - but it will be an important part of the armoury which I believe the Australian community is entitled to have to stop tax avoidance and evasion (WORD INAUDIBLE) make these specific points about the proposed capital gains tax which I think you would appreciate.

JONES:

Yes I do. I would say though in answer to that - and we always seem to get cracked for time - but I would have thought that that is one of the incentives to investment. I mean if we've got shortages in the housing industry there has to be - we've got to try and generate haven't we some investment for people to put their money there as opposed to the famous problem of the election campaign under the beds so to speak.

PRIME MINISTER:

Let me make this point about housing: it's the responsibility of governments by general and specific economic policies to ensure that the housing requirement of the community are met as quickly as possible and that's why we have specifically brought in policies to do that, - as a result of two things - it was the First Home Owners Scheme and also a significant increase - a 50% increase in funds - for public housing which has produced the result now that the housing industry is operating at its capacity of 150,000 units per year. Now that has the industry almost at more than full capacity so that all that would happen now if you had more activity in the housing area would be a reflection in prices rather than more supplies so I can assure you Alan that we are taking the range of decisions that regard to housing and also construction, because you'll recall that in our previous budget we introduced a further investment allowance for buildings - the depreciation allowance for buildings which has acted as a stimulus to construction in that area.

JONES:

Right. Well PM finally - and we'll close off here - but a yes/no: I suppose everybody will be asking at the end of the day whether the excise on grog is going to go at the rate it is. Is that a yes or a no?

PRIME MINISTER:

No you will find that decision has been taken which will mean that in regard to grog, beer in particular, there will be a decision which will mean that grog won't be disadvantaged.

JONES:

Right. Alright Prime Minister, much appreciated that you've taken the trouble to explain what is a fairly complicated area.

PRIME MINISTER:

Alan can I just say two things very quickly: thank you very much for this interview. And secondly can I say that I appreciate the positive and constructive way in which we're able to discuss this with you and I hope that in the day and the weeks ahead we'll have further opportunities to do it.

JONES:

You'll be most welcome Prime Minister and I appreciate those remarks. The Prime Minister of Australia, Mr. Bob Hawke.

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