



PRIME MINISTER

E. & O.E. - PROOF ONLY

TRANSCRIPT OF INTERVIEW WITH MIKE WILLESEE - 4 JUNE 1985

MW -- The lurks, the perks, the non-taxable fringe benefits would go or stay if the companies could afford to pay tax on them. Have you assessed how many companies might go to the wall on this proposal?

PM -- I don't believe any companies will go to the wall under this proposal Mike, its the sort of thing we have talked about with some representatives of the business community. They have conveyed to us that they think its the appropriate way of going about it. Its the approach that was adopted in New Zealand Mike, and we believe that it is . a sensible way of doing it.

MW -- Isn't it the easy way out? Even cowardly to put the burden on the companies?

PM -- No, its neither easy or cowardly. It is we believe the sensible way of doing it. There'll be a difference in reactions, some will say they will absorb it, others will say well we'll translate into a cash benefit and you are going to be in a situation with very significantly reduced marginal rates for employees so they will do better out of it,

MW -- But in this particular one you have got the employees getting benefits, and not paying tax on them. You say thats wrong, should change, but they're not going to pay. The company will.

PM -- Well all I'm saying Michael, its not just something we conjured up, and said Oh isn't this a clever idea, we had discussions with representatives of employers, and there is not actually universal aprobation by employers, but we have certainly had representatives of

cont.... 2

employers saying to us they think this is a sensible route to follow. Its one that has been adopted in New Zealand after very serious consideration and discussion over there, we believe this is a fair and equitable way of handling it.

MW -- so its not just a matter of employees having more votes than companies,

PM -- No, certainly not.

MW -- Well officially, politicians of course get the best tax free perks of all. Would they still get them?

PM -- No the same rule would apply to politicians as to other people. I'm a little bit disapointed that in the discussion that has developed today, there has been some suggestion that we might be doing it because there is some potential benefit for ourselves, I just simply want to say this, I had intended at an early stage to say it and I say it now, that when Paul Keating and I were discussing these matters quite early in the piece, we saw that as a result of the bringing in of the package there could be a, benefit to ourselves in reduction of the higher marginal rates, both Paul and I decided that in regard to any net benefits that would accrue to us we wouldn't accept them. Any thing that would come to us would go to charity because we, I'm not trying to grandstand about that, I don't want this issue in any way muddied by any suggestions that you are trying to do something to benefit yourself.

MW -- What about members of parliament and their electoral allowances which are quite substantial? What

PM -- What's been said in the white paper, is that where you have any arbitrated provision then that will be not covered by these proposals and that will apply equally to members of parliament as to anyone in the workforce who have that sort of benefit.

MORE

cont 3

MW -- Doesn't that make it much more difficult to sell this proposal

PM -- I don't think so.

MW -- When companies are disadvantaged, but politicians won't be.

PM -- No, that's not the right sort of comparison, what you are saying is that there are a whole lot of people in the community

Mike who have arbitrated allowances, they have been the result of an independent, arbitral decision and in those cases it is said, and it's appropriate not to touch those. The major haemorrhaging of the revenue system Mike is in the private sector where, and this is what the private sector itself tells you that they are making up remuneration in packages which are in part a salary but then they have all these other things like payment of education, housing, and all that sort of thing,

MW-- Yes, no doubt about that, there is no doubt at all, but surely the same applies to politicians, but you are now going to differentiate.

PM -- We are not differentiating, I don't know how many times I have to say it, I'm saying that exactly the same rule will apply to politicians as to the rest of the community. Exactly the same rules.

MW -- The company says, well either I can afford to pay the extra and I will pay it to keep these better paid executives happy or they won't and they won't get it and they can make a decision as to whether they stay or not. Politicians will get it.

PM -- Politicians will have the same rules applied to them as in the rest of the community where there are arbitrated decisions where it is simply not a question of an arbitrary decision, by some employer but where there have been independent tribunals saying that in respect of the employment of this class of person, this sort of allowance should be made, whether it's a politician or any one else where there has that independent decision made, then the same rules will apply to everybody. Now I have said that 3 times Mike
cont....

cont 4

I think that ought to be enough to establish the point.

MW -- Prime Minister what do you think your proposal really will do to stop tax avoidance?

PM -- Well there are these things to be said. In the broadening of the tax base, the direct tax base, there will be a closing of a number of shelters which have been used for the purpose of tax avoidance. The closing of of those shelters will mean the end of avoidance in those areas. The second thing is that if the broad based consumption tax is brought in those increasing numbers of people in the community who buy the usual clever lawyers and accountants have avoided the payment of any tax on their income and also in the absence of a consumption tax aren't paying any tax on the spending of that income. They will be caught up there by the 12½% consumption tax, they will be paying tax so that's the second point.

MW ---Can I just take it a point at a time because that is very important. Are you conceding that if you can't catch them on the tax they should be paying, at least get them for 12½%.

PM -- That's not the only point, what I'm saying is that I believe that the ordinary Mr & Mrs Australia object to the point where now so many of them are paying in respect of the marginal dollar that they earn that they are paying virtually half of every marginal dollar out in tax. 46 cents in every marginal dollar going. Where we will be able to provide a net benefit for the majority of Australians is because of two things. 1 we will be broadening the direct tax base. Removing shelters and so on, so more revenue will be coming in and secondly you'll be getting this dividend through the consumption tax from those people who at the moment don't pay any tax at all. So from those two sources you'll be able to get the situation which

XXXX

for the person on average earnings produces this situation. They'll get 31 dollars a week cut in taxes, they will pay an extra \$16.60 because of the increases in prices and associated with the broadbased consumption tax so in net terms, that average weekly earning will be \$14 a week better off. We're able to do those things because we are bringing in a tax on those who currently are avoiding it.

MW --- Do you think you have any realistic proposition?

Getting those people who are dodging the 60 cents rate or the new 50 cents rate, and picking them up only the 12½% rate as you proposed. Do you have any realistic chance of picking them up cleanly and making them pay the lot?

PM -- Well, I think to the extent that there is a part of a package a reduction in the top marginal rate from 60 to 50 that of itself will tend to reduce evasion and avoidance, it will not cut it out entirely.

MW -- Is that really your advice from the business community?

PM --- Yes, that well, let me put it this way, I mean if the marginal rate is 90 cents in the dollar there is a very very high incentive to avoid, if its down to 10% much less. So clearly I think the reduction in marginal rates on balance have an effect of reducing the tendency to evasion and avoidance.

MW -- Prime Minister there seem to be some anomalies, in the consumption tax replacing other sales tax where luxury goods may come in cheaper and basic necessities will be more expensive almost you can get a cheaper Rolls Royce and pay more for your mince meat and bread.

PM -- But you will be having very very much more in your pay packet or in your social welfare receipt. You'll be having more money to pay that increased price in net terms after you have paid the increased price out of your higher pay packet or your higher social welfare receipt.
more

cont ... 6

welfare packet. You will be better off. You and your treasurer have obviously worked very hard to propose compensation for the poor who might be disadvantaged under this set of proposals. Would you consider compensation for businesses which may be ruined as a result?

PM -- We don't believe businesses will be ruined as a result. There is no evidence to suggest that they will be. If you have a tax system which is more economic than efficient and if you increase the amount of money which is going to be available to the ordinary tax payer, the ones with the highest propensity to consume them will in fact be able to buy more goods and services in real terms. If the community as a whole is put in that position, then in economic terms the business community will be better off.

MW -- Lets take an isolated pocket, say an up market restaurant, which many people believe have existed on expense accounts. Now they have got 12½% to add to their prices and they may have drastically decreased customers.

PM -- Well, Mike if you're saying that looking at the Australian tax system as a whole and trying to get a fairer system for average Mr & Mrs Australia where they are paying ½ or every marginal dollar in tax, and where we are going to produce the situation where they are \$14 a week better off where pensions and social security people are going to be better off, that we shouldn't do those things because we might hurt a few up market restaurants I tell you where I come down.

MW -- No there is no suggestion of that, I was asking if you would consider compensation for any businesses, especially small businesses which you might out?

more....

PM -- I don't believe that we will wipe out small businessmen. If in fact you've got the situation where those upmarket restaurants have been able to operate on the basis that Mr and Mrs average Australia is paying for their profits through too much tax, and the people on expense accounts as being able to go along there at the cost to average Mr & Mrs Australia then, I believe, that the people who go along to these upper bracket restaurants that you talking about will still be able to survive because of the people want to go there as they still want to then they will pay. Remember, in other countries where you have consumption taxes and so on and taxes on services, you still have five star restaurants.

MW -- You propose a form of death duty, I know it will be very mild in the early years.

PM -- Well that's your assertion, its not a correct one.

MW -- You are proposing that if someone dies there will be a tax on the gain

PM -- I am saying that there will be a capital gains tax which will not be a death duty.

MW -- Alright, I'll accept your words, but if someone

PM -- Its not just my words, its a clear understanding of anyone involved in the tax system. A capital gains tax on the part of an estate which is, may I remind you, not on the nominal value of the of whats going to be subject to a tax, but will be on real gains, not just taxing for inflation, that is not a death duty.

MW -- Yes, look I understand the gain, you are going to have a cut off point and you say whatever gains there are after this, less inflation, that will be subjected to this tax. A lot of people understand that, as a lot of people understood the assets test, but if you couldn't dispel the spectre of the assets test, how will more ...

you sell what will appear to many people to be a form of death duty?

PM -- Well, it will only appear if people like yourself who know better keep referring to it as such. You know its not, and you would do a great service to the responsible debate in the community if it was described as a capital gains tax which it is, that's the proposal and not a death duty. But let me say this, I have faith in the capacity of the Australian community to look at this package as a whole . Let me remind you that virtually every other country in the Western World has a capital gains tax they have it not basically as a form of great and enormous revenue raising but they have it because there is a realisation that it is a necessary instrument if you are going to have a whole armoury available to the community to help fight tax avoidance and evasion and its because I believe the community wants to stamp out tax avoidance and evasion that they will accept that this very mild capital gains tax is appropriate to protect the community as a whole. Particularly when they know that it is not going to be a capital gains tax which applies to the private home.

MW -- Prime Minister its your government, this is what your government want. Do you believe it will happen?

PM -- Well Michael, let me say this, that when I introduced this process during the last election campaign I said there were 9 principles and the ninth and in a sense , the most important principle was this, that no tax reform proposal could be introduced into the community unless it had fairly broad community acceptance. We have initiated a process in which the community is going to have a great opportunity to be involved in the debate, the discussion, culminating in the summit. I believe that the community will more

see this basic point Mike and that's what I ask every one of my fellow Australian men and women to understand. The present tax system is in decay and the process of decay is hurting average Mr and Mrs Australia. A wealthy, rich person who can afford the tax accountant, the tax lawyer to dodge and avoid is the one which is benefited. Now I believe that ordinary Mr & Mrs Australia wants a fairer system and a more efficient system. I believe that they will respond positively to this proposal.

NW -- In short you are saying that you believe that this will happen.

PM -- I believe so because I do have faith in the Australian public.

NW -- Thank you very much Prime Minister

PM -- Thank you very much indeed Michael

ENDS