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## PRIME MINISTER

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TRANSCRIPT OF JOINT PRESS CONFERENCE - HAWKE AND KEATING - 4/6/85

PM: Well ladies and gentlemen, we have no opening statement. We are ready for your questions.

JOURNALIST: Prime Minister, why have you surrounded yourself by flags. Is that to show that ...

PM: It's a great day for Australia. All over?

JOURNALIST: I am a little puzzled by the reference in one of your papers, Prime Minister, that there be no death duties. I can't actually reconcile that with a provision for deeming capital gains be realized at a certain time. That seems to be a tax on a notional amount.

PM: Well that is a problem in your comprehension. It has got nothing to do with the facts of the situation. Quite clearly, a capital gains tax is not a death duty. It varies in so many ways. The elements of the capital gains tax are that it is not a tax on the nominal value of the asset in question. It is on the real value so that the accumulated amount in the asset which represents inflation is not covered which would be the case in a death duty. It is in no sense applicable to or describable as the concept of death duties.

JOURNALIST: But by virtue of the deemed realization provision, you will be taxing estates and gifts?

PM: You won't be ...

KEATING: But outstanding tax is now paid on an estate, if there is tax payable and a capital gains tax is an income taxed as capital. And the monies which are paid now - the Commissioner of Taxation has a call upon the States which you don't call death duties, so why therefore make the analogy in respect of a deemed realization on the real gain, as the Prime Minister indicates. It doesn't qualify for a death duty. A death duty is levied upon the full value of an estate and, of course, there is in this, of course, an exemption for residential homes as well.

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JOURNALIST: Mr Keating, were you disappointed that after so much work, the tax task force was unable to come up with more positive action on trusts and income splitting. Would the Government anticipate going on with work in that area to try to see how that could be dealt with?

KEATING: Look, Michelle, that is a difficult area because the problem with trusts is that first of all, you have got unit property trusts which have been built up over a period - public trusts built up over a period of time with set price earning ratios which would be disturbed by a move to company taxation in any precipitate way. That is the first point. The second point is, say, on trusts of a private nature, that if we were to impose outright company tax on trusts, the likelihood is that those arrangements would shift then to partnerships, and then you would have to devise a way of taxing partnerships. And the likelihood is then that one partner would lease equipment to the other partner. And you have got to then devise a system of taxation to cover that. The other point I think which - that indicates the difficulty. It is not an easy problem. And, in the case of discretionary trusts - the ones I have just described - you will find very quickly changing arrangements to accommodate the tax. Now, that would be the main point I think I would like to make about it.

Sorry, there was one further point I was going to make. That is, in respect of companies we talk about in here half imputation and full imputation and we examine the concept of full integration. Now, if it is, in the view of the public desirable to see full integration of companies - that is, we would be moving down - or imputation of companies - we would be moving down the track where we are going for an outcome in tax treatment of incorporated arrangements similar to a trust. So before one takes the position of imposing tax treatments on a trust to try and bring them back to the company tax arrangements when one is musing over changing the company tax arrangements heading towards trusts, it is not just simply a simple matter then to say, well look, the clear thing to do here is to tax trusts. If it is to be that we believe - and it is not clear - this is not the Government's position, but it is certainly a view put very solidly - that the full integration of companies is a desirable development. Full integration of companies would accord with the current tax treatment of trusts. So therefore, one has to be very clear about one's objectives in going down the trust route in terms of the company tax treatment. So, we have left open the possibilities there of half imputation, full imputation, and integration. And those issues, I think, are important in determining what the long run focus of tax treatment trusts should be.

JOURNALIST: Does the Government have an estimate of whether or by how much the public service - i.e. the Taxation Department would have to be increased to implement the various aspects of the preferred option?

PM: Well a calculation has been made as to the net cost of the administration of abolishing the wholesale tax and then bringing in the new broad-based consumption tax. And the estimate, I think, Paul, and I say this subject to question, is the net additional cost of the order of \$80 million.

JOURNALIST: Any extra staff in the Tax Department to implement ...

KEATING: Oh yes, there would need to be extra people.

JOURNALIST: How many?

KEATING: I'm not sure of the number, Wal, but there would be a lot of extra people if you let the tax evasion and avoidance industry go on. Simply, we put another 700 on last year on compliance only because this package represents a fairly substantial salt upon the instruments of avoidance and evasion. The savings there in compliance staff offset against firstly, the losses of staff which would be part and parcel of the winding up of the wholesale sales tax system. And the additional staff to operate a consumption tax at the retail level would be significant, but it has to, I think, be viewed against what the tax system would otherwise need to try and keep the income base in some sort of repair.

JOURNALIST: ...the package is implemented, Prime Minister, does the Government believe that the next logical step is a system of taxation indexation in order to ensure that the benefits, particularly in the lower marginal tax rates, are in fact preserved and not eroded over time.

PM: The White Paper makes the point that once you have made the tax reform - the substantial tax reform - that that is the logical next step.

JOURNALIST: And I take it, the Government accepts that, does it?

PM: I believe so, yes. When I say I believe so, I am saying that in the sense of our general position as government. You see, we have made it clear from the beginning in the enunciation of the nine principles that we are not putting a position of take it or leave it. We are seriously saying to the community - as you will see from the last paragraph - we want all the options, including the preferred option, to be tested. And on the basis of the preferred option being acceptable broadly across the community then, the Government, I believe, would say that that is what logically follows.

JOURNALIST: Mr Keating the Treasury estimates of revenue collections have notoriously been inaccurate. The provisional tax estimates for this year is an example in point. When you are putting figures on what could be collected from fringe benefits particularly, if they do run under the mark what is going to happen to the income tax cuts. Are you still going to work at a zero sum or are you going to set a bigger deficit?

KEATING: Well Mungo, let me just make the point. It is true we have a discrepancy in the provisional tax outcome this year. That has arisen, not because of the Treasury's estimates of income - which it has the peculiar and sole responsibility of estimating - but of other estimations by other agencies about the likely buildup of equipment on farms etc. Now the point is they've got to be right, no matter who does them. I take the responsibility for them as Treasurer. And I take responsibility for these numbers. But I don't think that given the fact that the Treasury picked the turnaround in the economy in 1983/84, broadly picked inflation and employment estimates, employment growth for numbers outcomes in the last couple of years. I think their estimating has been pretty good considering the swings and the magnitude of the swings in the economy. Now on this particular measure I don't think there's anything in the Treasury been through greater scrutiny than these numbers. And on a lot of those numbers we've taken the conservative estimate. And I think the conservative estimate also applies in respect of fringe benefits. The fringe benefit assessment at seven hundred million dollars it would effect, if it were wildly astray, it would effect the figuring. But on a sum of that magnitude even a modest change would not dramatically effect the potential for the tax cuts on a revenue neutral basis.

JOURNALIST: The point that I'm trying to make is that there is still a very big tax avoidance industry, there are a lot of tax cuts and a lot of lawyers around, who are going to be as from this morning, trying to work out ways to drive a train through anything that you put up

PM: If not a cart.

JOURNALIST: OK, try and knock your cart over by a train, if you like.

KEATING: Well look basically we think the estimates are firm. They hang together. They would provide tax cuts of the orders we specify in the document, and it is on a revenue neutral basis. Now there is of course a potential for some of the brace broadening measures to produce higher out year earnings, and those earnings would be subject to Cabinet's approval I'm sure, as part of the tax relief. So we're talking about the second full year of the second year of these measures operating in terms of that revenue buildup. And on those bases those figures hang together and the tax cuts of those orders are appropriate on a revenue neutral basis.

JOURNALIST: Mr Hawke the Opposition leader has refused to say whether the Opposition will allow legislation to implement Option C, through the Senate. How do you feel about fighting an election based on that factor?

PM: Well I feel confident. I go back, Laurie, to what I've been saying consistently on this. When we started this process of tax reform during the last election campaign we set out the nine principles. The ninth principle was that any tax reform would need broad support in the community. We believe strongly that during the process of public debate and discussion, leading up to and at the Summit, we will get that broad support because the benefits of this tax reform, I believe, will be so obvious. If the Government makes the judgement, which I believe we'll be able to, that we have that support, then we will put it to the Parliament. Its going to be a very heavy obligation, I believe, upon the Parliament to recognise the will of the community. You talk about the attitude of the Opposition, I think its been best summed up by one well known radio commentator this morning who said "here they go again, negative, obstructionist unprepared to look at the package as a whole". I believe if they do that they will pay a heavy price. We are prepared to face up to these hard issues. We've done it in the areas where they refused to in the past. I've listed them before. They did the work on the deregulation of the financial market. They knew what ought to be done, but then they wouldn't make the hard decision because they thought there might be some difficulty. Same thing in the dollar float. Same thing in the entry of foreign banks. They would never face up to the decisions that needed to be taken to protect and advance the interests of the Australian community. If they try and go down that track again of saying yes well we recognise that these things ought to be done but we're going to try and take some political advantage out of a particular point. We're prepared to fight them on that.

JOURNALIST: Does that mean an election sir if its blocked in the Senate.

PM: Well I'm not going to the point now of answering that hypothetical question. What I'm saying is that we've discharged our obligation, we'll go to the Summit. Our responsibility, our first responsibility's discharged. Our second one now is to get the response of the Australian community. Then we will seek to give effect to that. Now I am optimistic that, particularly with the involvement of the Democrats, who are at least accepting their responsibility to come to the Summit, to listen to what the community has got to say. If they see that there is a broad support for this we'll get that support reflected in the Parliament. I am not going to address myself to the hypothetical questions of refusal by the Parliament to reflect the desire of the community. We'll deal with that if it arises.

JOURNALIST: Mr Hawke do you think that the ACTU will be able to resist the tax cuts inherent in Option C, and if not when do you think they're going to give their approval.

PM: Well as I understand the position it's this Greg. Paul has had extensive discussions with the ACTU, as he has had with the business community. The understanding that he has and which he's conveyed to me and the Cabinet, is that they will go to the Tax Summit with their options open. They will not close their mind to a package which involves the broad based consumption tax. And essential in the understanding of your question, I know you understand it, is that the only way you can get the very substantial direct tax cuts of about 30% of the level of average weekly earnings is through the broad based consumption tax route. Now the figures are stark, they're clear at the level of average weekly earnings there would be a thirty one dollar a week cut, for the average weekly earner. That's thirty one dollars a week more he or she has in the pay packet. The cost of the broad based consumption tax - approximately sixteen dollars eighty. Net gain, therefore, of just over fourteen dollars a week to that average earner. Now they know now and they will know even more clearly by the time the Summit's finished that it's only by <sup>the</sup> preferred option that they can get that benefit. They will also know that in that process that the lower income people in the community and those not on direct incomes, but relying on social welfare payments will be more than protected. Now it's our judgement that as those things become clear to the Trade Union leadership and their members that they will see that that is an appropriate path to go. Now as to when they make that decision, I think the indications are they're moving that way. They go to the Summit with an open mind, and I believe that relatively shortly after the Summit, that good sense would indicate to them that that's the way to go.

JOURNALIST: But will they accept discounting, Prime Minister?

PM: Let me make it clear as we did in principle seven, of the nine principles. That that is an essential element. This has got to be clearly understood. Let it be clear from day one of this debate. We will not, you could not, simply have a situation where wage and salary earners get these substantial benefits, the thirty dollars a week, which come from the increase in revenue associated with the broad based consumption tax - get that benefit which in net terms, as I say, at the level of average weekly earnings is fourteen dollars a week and then say, we grab that thank you very much. But we're now going to double dip and not accept discounting of wages. That is not on and it was made clear in principle seven that it was not on.

JOURNALIST: A fist full of dollars perhaps Prime Minister?

PM: No the difference between the fist full of dollars that's in your mind of 1977-that you had a weak gutless deceptive government then, that deliberately deluded the Australian electorate. Went into an election and said there's your fist full of dollars and then within five months grabbed them back. The distinction is that we have laid out entirely, and honestly all the implications that's involved in net benefit terms, and the bringing into effect of that package will be as a result of full and honest consultation with the Australian electorate. They, with us, will be making the decision. They, with us, I think will adhere to the decision.

JOURNALIST: Whose preferred option is the preferred option? This morning the Treasurer told us that our Cabinet will support the decision of Cabinet as you've always done. Last night only Senator Walsh came up with rather a different preferred option. Does this mean we'll get a number of Senator Walsh's preferred options between now and the Summit or will we not.

PM: We have outlayed in the Paper a number of options. The Cabinet has made it clear that Paul Keating and I, and others who speak on this issue now have the authority of the Government to put as the preferred option the one which is so designated in the White Paper. That is the way the debate will be conducted between now and the Summit and at the Summit. I make it clear that, as you see in the final paragraph of the White Paper, we're not saying there it is, its all closed, you can't talk about anything else, to the community. We are saying to the community we want you to test all the options, including the preferred option. And its our firm belief that a fair analysis of that preferred option, which is a total package, will lead to its acceptance. And its not going to be any good in this debate someone getting up and saying well look there's a bit of the package I don't like. Because there will be bits of the package that some people won't like. The obligation upon everyone in the community now is to look at the package as a whole, and see whether the community as a whole benefits from the implementation of the package as a whole.

JOURNALIST: If certain groups do pick out sections which they don't like, is it then worth assuming that Option B, given the fact that the White Paper says that it may not be worth going down that route, given the fairly small gain for a la upheaval in the tax system. Is it not worth going down that route, if there are problems with Option C.

PM: Well, we've made it quite clear that we want all the options examined. We would say now, if out of the Summit, and the processes leading to the Summit, you were to get a position where there was a clear majority view in the community. That they didn't want to go down the preferred option package, then the Government would obviously have to take account of it. That's what principle nine says. But the task that faces, particularly Paul and myself

now, as having the main carriage of this matter, is to try and get the community to see the benefits of the preferred option. And let me make it clear that you've got to get, and I hope the Australian Community will see this, they've got to get their time scales right on this. There's no point in just looking at this today and say well look, there might be a bit of a problem about one element of this. As I've said recently on a number of programmes, we could slide through today and tomorrow, with this tax system that we've got, and without a fundamental reform of it. But the future generations of Australians will pay a very heavy price if having now fully exposed the haemorrhaging of the revenue base of this country they say well we're not really going to deal with that. Because the inevitable result of that soft option, if you like, of saying we won't really have a thorough going review, is that the ordinary Australian man and woman, and their dependants are the ones who will pay more and more, as they have been over recent years.

KEATING: Can I just add a point to that, in respect to the 46% rate, and I think this needs to be well understood. That where we got near the 46% rate in the seventies, the Labor Government of the day broadened the base of the income base under the treasurership of Bill Hayden. And that 46% area was then moved away from average weekly earnings. Its with the dramatic inflation through the seventies has started to come back. And about the time it was starting to impact again, the Fraser Government discovered Bass Strait. And so again revenue was used to keep average weekly earners out of the 46% area. It was then moving back to the 46% area when the Fraser Government gave a tax cut in 1982/83 which the budget could not afford and left us with a massive public deficit. But despite that tax cut, it's in the 46% area now. But there isn't a Bass Strait this time. There can't be any irresponsible blowout of deficits of a fiscal deterioration of the kind we had in 1982/83. And now Australia faces a clear choice - that it either does something about the high marginal rates impacting on average weekly earnings and finds another base in the tax system or it doesn't. Because the three billion of new revenue which Bass Strait provided, or the base broadening which was provided back in the seventies, is only in part available now and as far as Bass Strait is concerned is running down. We've got the company base being eroded by five three depreciation. The excisers in a position where they can't contribute very much more to revenue. And if there isn't some offsetting of these very high marginal rates on narrow income base, in another base in the tax system. Well what's going to happen is what the Prime Minister described. Low and average income earners are going to be suffering a high proportion of their extra earnings being lost at that rate.

PM: Can I just add the statistics so that you really understand clearly the dimension of this. As of today 39% of full time earners are at the 46 cents marginal rate. Within three years that will be far in excess of 50%. There'll be three million out of the five and a half million full-time earners. Now we believe that the overwhelming majority



of Australians are simply saying its not tenable to go on to a situation where that extra dollar is going to be eroded to the extent of half of it by tax. Now you can't substantially deal with that problem, we believe, other than with the sort of reform we're talking about.

JOURNALIST: Mr Hawke, are you saying that Option C is a discrete package and that elements of it are not negotiable.

PM: No I'm not saying that. With respect, Greg, you could not have listened to what I said a while ago. We have, we believe, accepted the primary obligation upon government to these things. To expose the inadequacies of the existing system. Its lack of simplicity. Its lack of fairness. Its lack of economic efficiency. Then we've gone through the stages of saying the things that can be done. The broadening of the direct tax base. Some actions that can be taken by moving in regard to the wholesale tax, and perhaps some level of broad based consumption tax. And have gone through to the final preferred option. Now we have said, and I repeat here again, as I've said earlier in this conference, that we have the obligation of trying to persuade the Australian people that going that route is the one most likely to produce a system that will last in terms of fairness and simplicity, and efficiency. Now if despite our best endeavours of exposition you reach a position where the community is not prepared to accept that route, then as a Government we will have to see what elements of reform can be put together to improve the system. But we have said that on the best evidence available to us that preferred option, if all the difficulties can be overcome, is the one most likely to produce those results. I want to say this, as I've said in another programme, but its fair to Paul Keating that this be said, as well as to the Government as a whole. Its not a question of saying we want to steamroller something through for some ideological or perceptual reason. We recognise the difficulties that are involved. Clearly if you have a broad based consumption tax, then prima facie, that will be regressive and have an adverse impact upon lower income people, and particularly upon Social Welfare beneficiaries. What we've done by dedicating just under two billion dollars to compensation is to say we believe that we have overcome those problems. Now its for the community up to and at the Summit to test whether they are satisfied that those problems have been overcome. If the community were not satisfied then we would have to face up to that and see what other combination of reforms would be possible. But its our belief at this time that you will not most effectively overcome the weaknesses of the existing system, and get into place something that as a community we can be sure of into the future, other than by that route.

JOURNALIST: What will the Government do to restrict or reduce fringe benefits to people on its own payroll?

PM: Well Mike there'll be no distinction. Paul may wish to add to this. There'll be no distinction made between people and its payroll and the general community. The same principles will apply. I want to make it quite clear as far as we're concerned we're not about trying to get benefits for any particular <sup>group of</sup> people including ourselves. What we're about is to try and ensure that the community as a whole benefits from reform. Do you want to add to that [to Keating]

TREASURER: There was a comment made by the Opposition today that it was nonsensical to have a Commonwealth Department paying the Commissioner of Taxation tax money. Well if you want to extend that principle we should say that we don't need to pay Telecom for the telephones, because we own them. We can just hop on a Qantas plane, not buy a ticket because we own that. I mean this whole question of no inter-government transfers of funds is nonsense. And there's a demonstration effect, and the fact that there's <sup>an</sup> accountability there I think is important.

JOURNALIST: On the question of fringe benefits. You've got a new principle coming in ~~in~~. That a tax payable by one section of the community - of those receiving the benefits actually has to be paid by their employers - by another section of the community. Where did that idea come from, is it something that the ACTU wanted.

PM: Well let me say two things about that, and let me get rid of that last snide question or observation that it's something that the ACTU put. Let me make it clear that in this whole approach to tax reform it's the Government which has accepted the obligation of outlining the approach as to what is necessary to produce, as I say a fairer, simpler more efficient system. We have accepted our obligation in discharging the primary obligation upon us to talk with the Trade Union movement, to talk with the business community. Our whole thinking has been informed by information from a range of sources, within and outside Australia. Specifically on the question you asked, our colleagues in New Zealand have brought in the concept of fringe benefits being taxed in the hands of the employers. And it has seemed to have been accepted as a sensible approach there. Now we believe that out of the discussion that will take place leading up to the Summit and at it, that that will be accepted as an appropriate way of approaching this. But as on all parts of the package that's something on which we'll want to hear views from the business community and from the trade unions and from others.

JOURNALIST: Most of the Opposition criticism today has come in relation to Option A.

PM: Is this from Mr Howard or Mr Peacock, because they have different views on the whole question.

JOURNALIST: Well this is in particular from Mr Peacock.

PM: Mr Peacock, well that'll have less authority, yes.

JOURNALIST: He's focussed his criticism on Option A, which is the broadening of the direct tax base. To what extent does the Government believe that this broadening of the direct tax base is non-negotiable as a precondition to switching to a broadly based indirect tax.

PM: I have two things to say about it. I repeat what I've said before, and it is important I have to keep saying it. That we are not going to the Australian community and say there it is, we've made up our mind and we're just going through a charade. We want to hear what they've got to say about all parts of the options we present. And the broadening of the tax base, as you will appreciate is common to all the options. But we want to hear what people have got to say about it. We believe that when you look at it you've got to try and get the situation in this country where those who are not paying tax, either through evasion, or avoidance, pay a greater contribution to the common revenue than they are now. Now if Mr Peacock, who really after all as we know is not an authority on matters economic or fiscal, if he is saying its not proper to take steps to limit evasion and avoidance, well that's the bed he can make up and lie in it. Its our belief that one of the reasons we are in government, and he is where he is and where he'll continue to be, is that his party has been traditionally the one which has not only been soft on tax avoidance and evasion, but has deliberately created the conditions in which tax avoidance and evasion has been able to explode in this country. He wants to take a position in this tax debate that he wants further to facilitate evasion and avoidance, let him make that bed and lie on it.

KEATING: Can I just add that Bob, with a caveat which the Prime Minister's just given. I think you need to see this package in terms of carrots and sticks. And the carrots are reductions in marginal rates. Obviously if we have a marginal rate of 10% there will be no propensity or little propensity to avoid. If you have a marginal rate of 90 there would be every propensity to avoid, to the extent that you bring marginal rates down you bring down the propensity to avoid. In terms of the instruments of avoidance and evasion the sticks, we have the penalties which were introduced in the latter part of last year, which have dramatically lifted the cost to people who wish to undertake avoidance activity. But as the paper schemes have been effectively, and are being effectively dealt with obviously high income tax payers are going to move into the shelters, as they are doing. And if we were to say at the end of this whole exercise, well look the tax shelters are just too hard to touch, then you would just have elective taxation in this country. You would have people deciding whether they would pay tax by the exploitation of the shelters. Now if Mr Peacock wants to line up with that sort of a tax system well let him do so. But as far as we're concerned what we're saying is that there has to be some change. It is

the Liberals primarily who allowed the inflation to run through the scales in the seventies. It is the Liberals who dragged the tax system into disrepute by their failure to do anything about the bottom of the harbour, and the outright evasion paper schemes of that period. And it is this disrepute, it is this non-compliance with the system, the state of mind which is part of the problem that we're now dealing with. And that's why it has to be approached in terms of broadening the base. Moving away - pushing out - removing the availability of the instruments of avoidance and minimisation as well as penalties. But at the same time saying we will reduce marginal tax rates, we'll reduce the incentive to go into these schemes. Now there is a view around that once the loss of innocence has occurred, that people continue to develop tax avoidance schemes, that argument has some force. It has more force if the Government leaves the instruments available in the system. That's why the base broadening measures are important in terms of the content of the paper. They add to the equity and fairness of the proposal.

JOURNALIST: Mr Hawke the Prime Minister gets substantial fringe benefits. They get the use of the Lodge, Kirribilli House, they get the use of C1 the VIP plane fleet. Who would pay tax on those and how much would it be.

PM: I don't know how much it would be but I simply want to make this point. That what I'm about, and certainly what Paul Keating's about, in this exercise is not to have a situation in which I as Prime Minister will derive any special benefits out of the Tax Reform. The principles that apply to the community generally should apply to me. And I want to make it quite clear that I will not be seeking any special benefits. And I will ensure that at the end of the road I receive none.

JOURNALIST: But by applying this principle doesn't it mean that the taxpayer will then be paying the tax? - Really paying double for the Lodge and C1?

THE TREASURER: Well that's like us paying Telecom.

PM: We went to the point about paying Telecom. I'm simply saying in the area in which I could be a direct beneficiary out of lower tax rates, that's not what I'm about and I can assure you I will not be seeking to be a beneficiary in the result.

JOURNALIST: During the last election campaign you talked about the desirability of withdrawing the Income Tax Assessment Act in the interests of simplicity. Do you think that given that one of the major features of the White Paper is simplicity, and you have just talked about simplicity, is that really possible now to withdraw the Income Tax Assessment Act and start all over again?

PM: Well, of course, how the Government will give effect in legislative terms to the package upon which it decides will be a matter for serious consideration by the Cabinet on the advice of the Treasurer. And at this stage of the debate it's not open to me to say precisely how that will be done. I make this point, and I'm sure Paul would want to add to it, that from the beginning we have emphasised our desire, as well as getting a more equitable, fairer system and a more efficient system, we also want to make it simpler. Now the ways in which that will be done will be on the basis, as I say, of the advice to us from the Treasurer. I am sure that in the result the tax system will be fairer and simpler. Paul, I don't know whether you want to add to that.

THE TREASURER: I would just add to those remarks in those terms. I think an adoption of a proposal around the theme would seem would certainly produce a fairer, a more simple, and more efficient tax system. And that is the objective. Now it may be that one could take the view that what we ought to do is rip up the book and start again. But I don't know where in practical terms that would lead you in terms of the kind of legislative approach or change the tax system. Any progressive tax system will always have an incentive for people to minimise their tax at higher levels of marginal rates and invariably a lot of the pot hole filling and changes, amendments have been made over the period arise from that. Now my Party believes, as I believe, and the Prime Minister believes that a progressive scale is appropriate and therefore with that progressive scale I think we have in this proposal done what is reasonable in these circumstances to make the system fairer and more simple.

JOURNALIST: Can I just ask you just a follow up question to that Mr Keating. One of the great gaps in the Tax Act is that there is no definition of income. Given that you are now looking possibly at introducing a Capital Gains Tax and you've introduced an assets test would you consider writing into the Tax Act some definition of income paying to include capital?

THE TREASURER: Well Andrew, there's always been a simple notion that by the flick of a pen you can solve all of the avoidance, evasion problems by so called redefinitions of income. That's never been a view that the Treasury has ever put to me with any force. And while with the Capital Gains Tax the system would be far more complete and may leave the prospect for some change in definition, it's not something we contemplate in this paper. And I couldn't really give you an answer to that without taking advice.

JOURNALIST: Prime Minister to get back to constitutional basics, the Governments option - are Ministers' bound to prefer the option. Therefore will Senator Walsh be supporting the preferred option from now on or will you abandon the Westminster principal of Ministerial solidarity in respect to tax reformation?

PM: I don't accept that you have letters back to constitutional basics but I will simply say this, that the Cabinet has made the decision which is reflected in the White Paper and that is that the preferred option is clearly there. I would expect to receive the support of all members of the ministry in that respect.

JOURNALIST: Mr Keating, while your talking about Senator Walsh. He seems to dispute your argument about the effect of the 60 cent marginal rate to encourage avoidance saying that he doenn't think a cut in that rate would help combat avoidance. Would you care to comment on that?

THE TREASURER: Well, I gave an example earlier. If you had a marginal rate of 90% the propensity to avoid would be increased. If you had a marginal rate of 10%, it would be reduced. And any movement up or down changes that propensity. JOURNALIST: So you think he's just wrong? THE TREASURER: I didn't see the point he made, to be honest Michelle. And so I can't say that he is. But that is my view and that is, I think, coupled with the other things - removing the avenues, lifting the penalties and seeing a change of this kind introduced will do a lot to damage the psychology of non-compliance. And I think that's the important thing. The psychology of avoidance and minimisation which, in my view has been no doubt occasion by the compression of the scales. I mean the point is, if you go back to the 60% rate, well go back to \$35,000 where the 60% rate now comes in - 1.6 times average weekly earnings. In the 1950s that group contributed 52% of the earnings of the personal income tax system. Today they contribute 21. And I think that in itself stands as at some testimony to the fact that if you compress the rates and lift the taxes you may think you've got a progressive tax system. You only have a progressive tax system while you've got compliance. And while nominally you have a progressive tax system you don't have it because you don't have compliance. The 60% rate cost \$400m. We earn \$400m from it out of \$30,000m, which is a commentary in itself upon the compliance of the 60% level. So there's no doubt in my mind that high marginal rates have had a very severe impact upon the propensity to avoid. And I think any objective analysis would lead anyone to that conclusion.

JOURNALIST: Mr Keating if the Government finally decides to introduce the Capital Gains Tax, would it come into effect this year and do you accept the view that was espoused by Aspray that the starting date of such a new tax should be ahead of the passage of the legislation through Parliament?

THE TREASURER: Well, John, we'd like to see how the package, first of all, is received publicly, how it is received by the Summit. And I think that in the post-summit consideration of all of these issues by the Government that kind of issue could then appropriately be reattended to.

JOURNALIST: You would be worried about people arranging their affairs before hand.

THE TREASURER: Well, let me say this, with any of these measures, any notice provides taxpayers with a benefit they wouldn't otherwise have in the normal course of a budget. But this is not about budgetary changes. This is a major proposal for reform of the tax system. And because of the difficulties of institutional reform in this country, and the Government's belief that we need a process of consultation to make the reform possible, then I think that's simply one of the problems one has to live with in this kind of reform change. I don't think, I mean, surely this country has been talking about the prospect of capital gains taxes now for four years, and if anybody needed to, as you say, arranging their affairs, they would have certainly been doing that for a long time. I don't think that the evidence of it in this document is going to change public perceptions all that much.

JOURNALIST: As the employer have you worked out how much the Commonwealth is likely to be up for in the ..... tax?

PM: No I haven't. I don't know whether Paul has.

THE TREASURER: 700m across the nation, say, if you work it back. It's hardly anything that's going to debilitate fiscal policy.

JOURNALIST: Mr Keating, did your Department have a look at the compensation of incomes in the threshold? Preparing of facts?

THE TREASURER: Yes, the threshold has been increased to provide full compensation for everybody above the threshold. And that provides full compensation for taxpayers above the threshold and below the threshold. Below the threshold people are in the Social Security system. They are over compensated under these arrangements.