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PRIME MINISTER

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TRANSCRIPT OF INTERVIEW WITH MARK DAY - 19 SEPTEMBER 1985

DAY: Mr Hawke, welcome.

PM: Thank you very much, Mark.

DAY: The reverse to that question is can you sell them?

PM: Yes, I believe we can, Mark, because the guiding principle of this tax reform package is fairness and equity. The ordinary Australian, the ordinary viewer, the honest taxpayer has been paying far too much tax because the tax rates have been pitched at too high a level. Very largely that has been because of the existence of avenues for avoidance which have been utilised by high income earners. That meant they hadn't been paying the tax that they should have been and so what we have done is substantially to reduce the rates of tax that will be paid by your ordinary Australians. And that's what they want.

DAY: ... you talk about fairness. We all know that the greedy by the system have been able to either pay no tax or very little tax. Now by dropping the top rate from 60¢ to 50¢, are those greedy going to say 'OK, I am willing to pay half'...

PM: No, no, what you missed there with that question Mark, is that if that's all we did then the question would have some validity. But at the same time we have closed off the rort areas. We have already done an enormous amount in finally putting to bed the paper schemes. Now we have gone to the areas of avoidance so that as you close those areas of avoidance, that means that they will be brought into the tax system. And it is appropriate and fair to reduce the rates not simply for the sort of considerations you have been talking about but for fairness. People ought to be able to feel as far as possible that when they earn that extra dollar, they are going to be able to keep a substantial part of it. Because if I could just put a couple of statistics to you Mark, which are very important to, I think, your viewers. In the early days, the beginning of the 70's, the top rate would cut in at a person who was on about \$110,000. But because of what has happened, that top rate of 60¢ is cutting in at \$35,000. Now that is just distorting the whole system. It is terribly unfair for the ordinary middle Australian out there.

DAY: But you have lowered the rate, the tax scales stay the same, your top tax rate will still come in at 1½ times average weekly earnings.

PM: Yes, you see it is going to be a very very significant lowering of the rate. I mean it is a very great difference to paying 60¢ in that marginal dollar and coming down to 49¢. The other important consideration Mark, in bringing the top tax rate down to 49¢ is that the existence of that margin above the company tax rate meant that there was an enormous incentive which was exploited by people, not to pay tax because if they could incorporate themselves in one way or another, they pay the 49¢ and not the top tax rate. Now, having your top tax rate at the same as the company rate, that incentive for avoidance by incorporation is going to be taken away.

DAY: Do you agree that if you get this wrong that it could cost you office?

PM: Well, I just don't look at it in simple terms like that of just one thing. I have always

DAY: Before this whole debate got going you said you wanted broad community support.

PM: That's right, I did. I believe very sincerely, and if I could conclude the answer I was going to give which would have got us there much quicker Mark, I am saying that I have a great faith in the Australian people. I don't think they decide just on one issue. They look at the things that government do as part of their whole approach to government. They have seen Mark, that since we have been in government we have turned this economy around from the worst recession in 50 years to one where now we are growing and doing better than any other economy in the world. Now I have told them and the Government has told them that we have also got to reform the tax system if we are going to look after the future economic development of Australia and have fairness and equity. So they are going to, when we come to the next election, say 'Alright, sure, what's this Government done about tax'. They are going to make a judgment on it. I believe on tax itself, they will vote in our favour, though I also believe that they will look at it on the basis of the economic record with which we will be going to the people. And it will be an outstandingly good record.

DAY: You have to date enjoyed pretty broad support from the business community. Are you worried that it might cost you that support because you have added to the cost of business, not only with the rise in company tax, but also the imposition of the perks tax on business rather than the

PM: Well let me make a couple of points very quickly about that, Mark. When we came to office, company profits and the share of company profits had come down to disastrously low historical levels, about 12% of the national income. Now under our economic policies that has moved up to historically high levels. That has meant under our economic policies that the profits of companies have increased by several billion dollars. That percentage going up from 12% of the national income and going up to over 15% has meant an enormous increase in profits. Now we don't object to that. In fact, our whole policy approach has been to restore that profit level, to lift it up, because unless companies are profitable and can invest they don't employ and that change has been very significant. Now, what we will be taking from companies is very easily accommodatable in this enormous increase in profitability. But I also believe that the business community will

look at this as a whole. It is true that they will have this burden in the fringe benefit area imposed upon them. But we have given them something that for 30 years conservative governments would not give them. They have been crying out with justification against the double taxation of dividends. Now, we have given them that. We have given them that at a cost of about \$250 million. I think that the business community like your ordinary Australian taxpayer is going to look at this as a whole and the business community is going to say - well there are a lot of benefits in this for us.

DAY: And in spite of goodbye free lunches, Mr Hawke, goodbye - we are out of time. Thanks very much for coming along.

PM: Thank you very much indeed Mark.