

INTERVIEW WITH 'SWITZER' SKY BUSINESS CHANNEL

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SUBJECTS: Targeting Tax Crime, Economic Recovery

PETER SWITZER:

Be prepared for budget cuts and higher interest rates as the economy recovers from the global financial crisis. That's the warning from our new Assistant Treasurer; and he says the Government also is determined to have an exit strategy from the deficit caused by its series of stimulus packages. And he's talking tough on cracking down on tax crime.

Joining me now in the studio, welcome Senator Nick Sherry.

NICK SHERRY:

Evening, Peter; and evening to your viewers.

PETER SWITZER:

Mate, it's good to have you here; you're the first official government minister to have on the program.

NICK SHERRY:

Oh, what a great pleasure.

PETER SWITZER:

Now, the ATO has launched a new magazine targeting tax crime. What's the story there?

NICK SHERRY:

Well, the magazine is there to inform people, make them more aware that there's a much greater focus by the ATO and the Government through support for funding for cracking down on tax evasion.

PETER SWITZER:

Mmm.

NICK SHERRY:

Now, not just in Australia, but internationally, there's a much greater focus on tax minimisation.

Also, importantly, the ATO is whole-of-government cooperation. AUSTRAC, who can identify movements of money internationally in and out of Australia; the Attorney-Generals; ASIC; there's a lot more cooperation amongst the various regulators to crack down on tax minimisation and evasion.

PETER SWITZER:

How big is it? How significant is tax evasion?

NICK SHERRY:

Well, to give you an example, over the last four years and including this year, we're looking at probably a billion dollars in tax to be raised. So it's significant.

PETER SWITZER:

Mmm.

NICK SHERRY:

And we do know in some areas, particularly the use of tax havens, phoenix companies, that sort of behaviour is significant. And if people, particularly the higher end of town, are getting away with tax minimisation, it's putting an unfair burden on the rest of the Australia taxpaying community.

PETER SWITZER:

Probably the most sensational media story around tax havens concern, you know, Rene Rivkin and the accounts in Switzerland and other people who probably should remain nameless; has that really raised the question in the ATO how many other people at various levels have these secret bank accounts? And are the Swiss authorities helping, you know, other tax regimes?

NICK SHERRY:

There's a big change in the last year or two. Those sorts of cases, yes; but what we've seen with the G20 and the global financial and economic crisis is for the first time we're seeing coordinated action against tax havens.

Now, tax havens now under threat of financial penalty, or if they're third world countries, threat of reduction in aid, are now having to provide information. So in terms of Australian citizens using tax havens, I'm actually signing a number of treaties at the moment, updated treaties to ensure that those tax havens provide information to the Australian authorities in order to collect tax.

This is part of a world wide crackdown. I was in the US two weeks ago and they're doing the same. There's significant - for the first time, significant economic pressure on tax havens to provide the information to collect tax.

PETER SWITZER:

Because it's been, in a sense, like a trading competitive advantage of Switzerland and they actually didn't play by the rules everyone's played for[sic]. Does - is that going to change, do you think?

NICK SHERRY:

Oh, it is changing..

PETER SWITZER:

Yes.

NICK SHERRY:

It has changed, it is changing. It's not just Switzerland...

PETER SWITZER:

Yeah.

NICK SHERRY:

... there's about...

PETER SWITZER:

Hayman Island [laughs]...

NICK SHERRY:

... 20, 25 countries I can think of that are now on an international list and they are being targeted...

PETER SWITZER:

Yeah.

NICK SHERRY:

... and they're being pressured for the first time to provide information on, say, Australian taxpayers who use those jurisdictions. So there's a lot more effective work going on both internationally and in Australia.

PETER SWITZER:

To try and work out how big this - the use of tax havens is, what kind of, sort of, research have you done? Because I was actually staggered when the Rivkin story became quite big and I was doing some interviews on radio and television and whatever, people were ringing in and saying, well, you know, I've got a small business in Burwood and I've been using tax havens for a long time. So a lot of accountants I guess had been advising their clients to do it, probably when they had a lot of cash as well?

NICK SHERRY:

Well, the wall of silence and protection around tax havens is breaking down.

PETER SWITZER:

Mmm.

NICK SHERRY:

And look, it's a serious crime. It is a serious crime to avoid tax in that way. The chances of being caught now are much greater because of AUSTRAC; they track movements of money internationally, whether it's electronically transferred, et cetera, and because of a greater cooperation tax havens have now been forced to enter into, so...

PETER SWITZER:

Mmm.

NICK SHERRY:

But world wide, we're looking at tens of billions of dollars being laundered through tax havens, and as I say, for the first time, the G20, the principal economies of the world have decided that this has got to stop.

PETER SWITZER:

Mmm. So what about, you know, lower-level tax evasion, you know, have we dug up more information about the seriousness of that?

NICK SHERRY:

Well, the projects that the Tax Office are involved in are obviously the tax-haven higher income earners; but also using cash in businesses...

PETER SWITZER:

Mmm.

NICK SHERRY:

...the Tax Office is getting a lot more effective and smarter in identifying cash transactions even in a smaller business.

Phoenix companies, a phoenix company is where directors deliberately accrue debts and then the company goes bankrupt and they leave a lot of money owing.

PETER SWITZER:

Mmm.

NICK SHERRY:

The Tax Office is doing a lot of work in that area.

So across the board, we've seen, as I say, close to a billion dollars in either tax raised or tax identified. And, you know, the Rudd Labor Government in the last budget provided another \$122 million to support this coordinated activity.

As I say, it's not just the ATO, it's also AUSTRAC; ASIC, the financial regulator; there's a lot more coordinated action; social security fraud; those sorts of - data matching; a lot more going on.

PETER SWITZER:

What's the community attitude like, Nick? Do people dob in people who they think are evading tax to a ridiculous amount?

NICK SHERRY:

Well, I suspect, unfortunately, they don't.

PETER SWITZER:

[Laughs] Oh, okay.

NICK SHERRY:

They don't; but...

PETER SWITZER:

Do you want to beg them to change their attitude?

NICK SHERRY:

Well, look, I'll just point out that if someone is avoiding tax; if they're avoiding tax, it puts an unfair burden on the considerable majority of people in the community who are paying their fair share of tax. And it's a matter of fairness, fundamental fairness.

PETER SWITZER:

So, the idea of actually creating an online magazine; what's the thinking there? Get people reading about the implications, profiling - I'm like that person therefore I could end up with the same sort of penalties?

NICK SHERRY:

Exactly. I mean it's a form of warning, form of lifting the profile. Also informing people that, you know, the days of tax havens, using tax havens is coming to an end. You won't be able to get away with it for much longer if you've been doing that sort of activity.

And also, AUSTRAC is a new, new tracking institution that was created, not just for money laundering, but in the fight against terrorism.

So you've got a lot more coordination across government. You've got a lot more coordination internationally. So the chances of being caught are a lot higher.

So, it's better to fess up and stop it now before you get caught, because the penalties are significant.

PETER SWITZER:

Okay. Now, when they asked you to switch from Superannuation Minister to Assistant Treasurer, did you say, you know, we've got a global financial crisis here, we're tackling a very big challenge; what have I done wrong [laughter] to be given this job?

NICK SHERRY:

Oh well, look, in government, sure it's a challenge at the moment. We all know the, the very difficult financial and economic circumstances with this massive worldwide recession, except in Australia of course.

So it is a challenge, and, you know, putting aside the hurt and the harm that's being caused - increased unemployment, destruction of wealth - it's actually a very interesting time in a policy sense.

So, you know, whatever the job is, the Prime Minister wants me to deal with tax issues and the Expenditure Review Committee, which is there to keep a wary eye and keep a check on the budget and expenditure, and international tax treaties, those sorts of issues. Any job for me in this environment is an interesting one.

PETER SWITZER:

Well, I was thinking, and I was actually talking to an audience today and they said, well look, it seems like a lot of the economists are now peeling back their unemployment forecasts which were, I think in the budget you guys went for about 8.5 per cent.

NICK SHERRY:

Yeah.

PETER SWITZER:

And that was like the consensus figure at the time. That consensus number is coming down.

That also would have a pretty good implication for your projected budget deficit, if that actually works out.

NICK SHERRY:

Well if that's to happen.

PETER SWITZER:

Yeah.

NICK SHERRY:

But let's look at this debate - three months ago the government and Treasury were being criticised for not being, you know, pessimistic enough...

PETER SWITZER:

Mm, most definitely.

NICK SHERRY:

...and the argument was, unemployment should have been higher, and growth should be lower.

Now, if, if the figures are updated, that will happen in November when the mid-year economic forecast. But, you know, we're very wary at the moment. I mean, there's, this green shoots is being used a lot, this terminology, and sure, we've seen the impact of the stimulus package in Australia - retail, car sales, property has not collapsed like other countries. We haven't gone into technical recession. The various decisive actions, bank guarantee, etcetera.

So there's some good signs. But, let's be wary. We need to be wary, because I was in the States a couple of weeks ago, and frankly it is just a disaster zone.

PETER SWITZER:

Mm, particularly California.

NICK SHERRY:

Oh, well, they're looking at double digit unemployment, and whether it's the States or Europe, we are affected by this.

And so, I think we've just got to be cautious about, you know, the next year or two ahead. We're not out of the woods yet.

PETER SWITZER:

But, did some of your colleagues say, well Nick, why are you going out there talking about the possibility of budget cuts, higher interest rates going forward? Are you bracing Australians for the reality that you will have to pull the budget in over time?

NICK SHERRY:

Well, there's no doubt we will have to restrain expenditure. Even if the outlook and the performance over the next year or two is better than currently forecast, revenue has decreased significantly. We've lost \$200 billion in revenue, and that's largely the reason why we've gone into budget deficit.

Now, the Prime Minister and Lindsay Tanner, the economic ministers including myself, have made it very clear to our colleagues that we intend

to move back into budget surplus over the next five to six years, and to do that we will have to limit real expenditure two per cent when the economy starts to recover.

PETER SWITZER:

Which will be after the election, so we're looking at a horror budget after the next election, if you're there to deliver it.

NICK SHERRY:

Well I, I think the economy itself is bottoming the next year, and...

PETER SWITZER:

So you couldn't go early in May, because it would be too pre-emptive?

NICK SHERRY:

Well, well, the only, what we're pre-occupied and centred on as a government is cushioning the Australian economy from the effects of this international financial recession - the worst in 75 years. That's our focus. We're not focussed on the next election, believe it or not. I mean, I go to sleep at night dreaming about the GFC - and it's not Geelong Football Club [laughter] - global financial crisis.

PETER SWITZER:

Yeah. Yeah.

NICK SHERRY:

And all of our activity in the last year in the economic sphere has been focussed on cushioning the Australian economy from the worst of those impacts.

And, you know, some of the signs are good. We certainly know the stimulus packages work; the bank guarantee. The Reserve Bank has acted and reduced interest rates down to historic lows.

But, as I say, we're not out of the woods yet, and, you know, there's some difficulties ahead of us.

PETER SWITZER:

Well considering how bad the situation was that you inherited, you must think someone up there must like you at the moment, looking at the figures coming through.

NICK SHERRY:

Oh, it's still very challenging times. I mean, you know, if we don't see a recovery, significant recovery in the US, or in Europe, that impacts on Australia. We're an international economy, but we do know the stimulus package has been effective; retail, property hasn't fallen off on, a cliff as it has in Europe and North America.

We do know the bank guarantees work. We've, I mean, frankly, last, this time last year, or September, October, when the height of the financial crisis occurred, we were facing a depression. And I frankly never thought we'd see that in our life.

So we had to move quickly, decisively, and the economy has been our major focus. But then again, longer term, improving productivity, emissions trading scheme, sorting out the mess in health; they're all important issues for the future - productivity infrastructure.

PETER SWITZER:

And we'll get you back to talk about that in the future mate.

NICK SHERRY:

Love to do it.

PETER SWITZER:

Thanks for joining us on Switzer.

NICK SHERRY:

Thanks very much, and good evening.

PETER SWITZER:

Cheers.