

Numerology and the Media

NICK RENTON

The media's fascination with large and/or round numbers can get in the way of meaningful reporting.

WHEN the Dow Jones Industrial Average passed 10,000 recently at around the same time as the All Ordinaries index in this country exceeded 3,000 for the first time, these esoteric mathematical concepts from the business pages made headlines in the general press. Yet to anyone who knows anything about statistics, it would have been obvious that these nice round numbers really had no greater significance than any other numbers.

In the same way, when the exchange rate for the euro reached what is delightfully called 'parity' with the US dollar, it was somehow regarded as more noteworthy than when the euro was worth US\$1.01 or 99 US cents. Do we really still believe in black magic?

Then there is the 'big is beautiful' syndrome. When 400 textile workers lose their entitlements in a single company failure, this becomes a page one story. When only one or two workers are similarly hurt, the media ignore it—yet the principle is exactly the same.

Again, if 30 people die unexpectedly in a bushfire, the press rushes in to set up funds for the dependants of the victims. Fair enough—but are these really worse off than the dependants of 30 people who die, one at a time, in 30 different road accidents?

Then there is the Bill Gates phenomenon. His words are given holy status—not because of his achievements, but because his wealth can be measured in billions of dollars. Once again, the reason seems to be that 'big is beautiful'.

In a similar way, any story involving rich people in this country gets the media so excited that fair reporting goes out the window. To illustrate, when Kerry Packer and companies controlled by him won a major Federal Court case brought by them against the Taxation Commissioner, this naturally made news. The case

held much interest not only for tax professionals but also for the general public.

An amount of some \$260 million in tax was said to be involved. The full text of the lengthy actual judgment handed down by Mr Justice Hill is on the Internet. For those interested in the technical details the judgment can be found at www.austlii.edu.au/au/cases/cth/federal_ct/1998/1276.html and www.austlii.edu.au/au/cases/cth/federal_ct/1998/1277.html.

Possibly because Mr Packer is himself a media baron as well as being very rich, the media quite unfairly portrayed this legal judgment in both text and cartoons as some sort of rip-off of a type which is not available to ordinary tax-

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paying battlers. Such persons were being provoked into making public outcries of shame.

Surely the important issues raised in this litigation deserved a better treatment than this? Would it be proper for the Commissioner to levy \$260 more tax on an age pensioner than the law actually required? If that were to happen then there would no doubt be outrage.

Why, then, did sections of the media regard it as perfectly proper for the

Commissioner to levy \$260 million more tax on Mr Packer than Parliament in its wisdom had decreed?

The principle would clearly be the same in both instances. If the rule of law is not to be brought into contempt, then the media have a clear duty to explain this to the wider community.

The concept that there should not be one law for the rich and another for the poor works both ways. It must have regard not only to the liability for tax but also to the correction of errors.

IRRELEVANT TRIVIA

Lightweight newspaper stories at the time saying that the \$260 million could have bought, say, 1,370 booze buses or paid for 6,500 nurses for a year add nothing to the quality of the debate or, for that matter, to the reputation of the papers that printed them.

As one left-wing writer in a Sunday paper asserted, Mr Packer may have once used a taxpayer-funded ambulance to cheat death. That is indeed a colourful story, but should a court of law really hold such an incident against a litigant appearing before it?

Another learned commentator who should really have known better wrote:

We're also mad as hell to learn that the country's richest plutocrat pays no tax. We assume that if the Australian Taxation Office goes to court to make a case that Mr Packer owes the exchequer several hundred million dollars then that is indeed what he owes. I think we can take it for granted that this was not a frivolous try-on by the ATO. The outcome of the court case makes us dumb PAYE taxpayers very angry ...

Just why should anyone make the assumption that one particular party in a court case, namely, the party claiming money, must always be right and the other party, namely, the party resisting the claim, must always be wrong?

If things were that simple, then the need for courts and judges would disappear. To make such an assumption before a case is actually heard would be bad enough—but to make it after all the evidence and submissions are in and the impartial umpire has handed down a considered verdict is totally absurd.

By the same logic, the prosecutor in a criminal case must always be right and every accused person must automatically be guilty. Such an assertion would defy all logic. The commentator concerned would no doubt feel very differently if an over-blown assessment were to relate to himself rather than to Mr Packer or his companies.

A more logical assumption must be that both parties in this commercial dispute thought that they had a winnable case. Presumably also, Mr Packer would be very conscious of the fact that his tax affairs would always be under close scrutiny and he would, no doubt, be ultra-cautious and act accordingly.

AMBIT

Another impression which the media deliberately set out to create is that, as a result of this judgment, Mr Packer's total tax liability fell from \$260 million or thereabouts to nil or to just a few dollars.

That was, however, just the ambit of the particular dispute which was before the court on this occasion. Mr Packer understandably does not choose to broadcast his personal situation and the Taxation Commissioner is bound by law to secrecy in regard to the affairs of any taxpayer.

It may well be that the reality over a period of years is that a total tax bill of, say, \$10 billion has been reduced to \$9.74 billion and that the adjustment is thus only around two or three per cent.

While the press does not seem to realize it, the principle that taxpayers do not have to meekly accept incorrect assessments is essential for the proper working of the Australian tax system.

Journalists should also educate the public in regard to other aspects of the tax system—for example, that assessments always relate to a particular financial year.

To illustrate: a company which loses, say, \$200 million in one year and then earns \$200 million in the next year has earned nil over the two years and has quite logically paid no tax on

that outcome. For the media to let readers think that such a company has somehow defrauded the system by paying nil tax on \$200 million profit in the second year is a disturbing nonsense.

Another misconception can arise when profits pass from one company to another, as they frequently do. The first company in the chain will pay \$36 tax out of every \$100 which it earns. If it pays the remaining \$64 as a dividend to a second company, then naturally no further tax is payable in the latter company's hands, as the Government very reasonably does not seek to impose two lots of tax on the one lot of profit. But for the media to then describe the second company as somehow rorting the system would be quite mischievous, when all that has happened is that the second company has reported such dividends as profits subject to nil tax in its own accounts. The principle is, of course, exactly the same regardless of whether the actual figures involved are very large or quite small.

Of course, some people want the rich to be penalized for their success and thus urge that they should become subjected to some form of supertax.

Readers, however, may also be familiar with the Laffer curve. The optimum collection of tax in any country does not occur at very high rates of tax. A tax rate of zero would clearly produce no revenue. A tax rate of 100 cents in the dollar would, however, also produce no revenue—because no sane person would find it worth while to earn any income.

The maximum amount of revenue is thus gathered at some intermediate point—although nobody knows precisely what that particular point might be. It may be that Australia has already passed it, and that imposing supertaxes on the wealthy may just drive them offshore and result in even fewer contributions to consolidated revenue from them.

The media were keen to imply that Mr Packer—and others like him—were somehow being immoral in trying to minimize their tax liabilities.

Morality, however, is in the eye of the beholder—and very wisely our tax system is instead quite firmly based on the rule of law.

Nick Renton is the author of 'Understanding the Stock Exchange' and 'Taxation and the Small Investor' (Information Australia).

Musing...

Ideas and Everyday Life

MICHAEL WARBY

I live in Fitzroy, Melbourne and every working day I walk along Brunswick Street. From Alexandria Parade to below Johnston Street, it is one of the great café strips of Melbourne, arguably the world. The vividness and variety of the cafés, particularly their signage, and the quality of their food and service make the area a riot of form, colour and activity. Only concern for my wallet and my waistline have stopped me dining out every night.

Further down Brunswick Street are the huge, many-storey, public housing blocks. 'Suicide towers' a friend and former inhabitant of public housing calls them. A former public service colleague, now a chaplain for the Brotherhood of St Laurence, told me that one of the Brotherhood's first reports found that the blocks housed fewer people than the period housing that was demolished to create them. They are a nightmare for young mothers in particular, as taking children to the green spaces at their bottom is a family expedition in itself. They have to pass the lounging adolescents, vaguely menacing young men and druggies in order to venture into the vast spaces for toddlers to run off in.

The difference between the cafés and the towers can be expressed very simply. The cafés gain their income from a myriad daily acts of consent. They live or die by their ability to entice and to satisfy.

Public housing is assigned on a take-it-or-leave-it basis. The income of those who conceived and administer them has nothing to do with their value as housing. The consequences are obvious and completely unsurprising.

A simple idea, that having one's income dependent on the individual, daily consent of others makes you more attentive to other people's wishes. But how profound and clear the consequences: and in a single street.

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