

INTERGENERATIONAL REPORT: GOVERNMENT NEEDS TO CONSULT WITH BUSINESS ON POLICY AND RECOGNISE MIDDLE MARKET AS KEY SOURCE OF GROWTH FOR ECONOMY

The government will need to establish strong policies for investment in education, innovation and R&D, and facilitate a more informed debate about tax in consultation with business if Australia hopes to raise productivity levels in the future, said Pitcher Partners managing partner John Brazzale.

His comments follow the release today of Treasury's fourth *Intergenerational Report* which outlined decreasing productivity as one of the key challenges facing Australia in view of an eroding tax base and an ageing population.

GST – shift from income to consumption tax

Mr Brazzale said Australia has a declining corporate tax base and mounting budgetary pressures. He said this position was “unsustainable” and that Australia’s prosperity will continue to decline if we do not act to restructure the economy and the tax system.

“It is clear that the effects of the GFC on tax receipts and the current deficit position mean that the tax-to-GDP ratio will have to increase if all other things remain equal. Under current policy settings, the increase in tax-to-GDP ratio will be largely driven by increases in taxes on individuals.

“Concurrently, the *Report* is keen to push the line that the level of taxation would impact on the participation incentives of many people and potentially reduce workforce participation, clearly a negative outcome for the nation.

“Company tax is also unlikely to be the source of increased revenue with the report keenly aware of the global approach of reducing company tax rates in an attempt to attract the globally mobile capital of the multinationals.

“This all points to the broadening of the GST base and potentially an increase in the rate as the best candidate to fill the hole in receipts. The report further hints at this by saying that the changed consumption patterns of an ageing population may reduce GST receipts.”

Productivity

Australia’s long-term productivity growth has doubled over the last 40 years, with significant gains in the 1980s and 1990s. However, since 2000 productivity growth has slowed to around 1.5% and, according to the *Report*, are forecast to continue to grow at the same 1.5% for the next 40 years.

Mr Brazzale said improving productivity will be crucial to achieve the growth in living standards and wages.

Investment in education and technology

“Recent research by Pitcher Partners showed that 67% of businesses worldwide are middle market businesses. This accounts for between 70-90% of annual global GDP. It’s clear that the middle market is important to facilitating Australia’s economic evolution.

“The middle market businesses are a key source of growth for the Australian economy. They are the innovators but they need the right conditions – supportive policies for investing in the future, a positive economic outlook, and an environment supportive of investing.

“Investment in education and new technologies is vital if we are to lift our growth in productivity, but this requires strong government policies, in consultation with business. We need the platforms in order to build our economy.

“We need to continue to develop a more services-based economy and promote innovation and technology development. The existing economic trends will also create opportunities for health care, aged care, tourism, leisure, entertainment industries.

Workplace participation

“A key part of enhancing our productivity is workplace participation. We need to get jobs for our unemployed, make sure women are encouraged back into the workforce, and older workers are able to prolong their careers to get the benefits of their skills. We need to encourage employers to take these people on and create opportunities and markets and industry,” he said.

The digital economy

“We need to consider how Australia can adapt to prosper in the global, digital, connected world. An innovative economy will create new businesses. Government must ensure that the regulatory and tax regimes keep pace with these changes. For example, there has been a shift in OECD countries taxing digital downloads. There are some models in Europe that we should be able to learn from.”

Superannuation

Funding Australian in retirement will no doubt be a key challenge over the next 40 years, Mr Brazzale said.

“Our current system was developed when superannuation was only required to supplement retirement for 10 years. For most people their superannuation balances will be required to fund their lifestyle for the next 30 years. This will require robust strategic planning, asset allocation and investment advice.

“With an increasing number of retirees, the impact on the tax, superannuation and welfare system is a challenge that governments around the world are grappling with,” he said.

Mr Brazzale said that the latest *Report* will create challenges for the government to set the next budget and subsequent review of the broader tax system.

Pitcher Partners is an association of independent firms located in Melbourne, Sydney, Perth, Adelaide, Brisbane and Newcastle. Pitcher Partners are independent members of Baker Tilly International.

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