

The two 'big numbers' in last night's Federal Budget

Transcript of Craig Whatman's chat with 3AW's Ross and Russell

Ross: ... We had a budget last night.

Russell: Yeah.

Ross: Russell was excited. I watched some Viking drama. Craig Whatman, is a Partner at Picture Partners.

Russell: Craig, would have watched it.

Ross: Craig, good morning to you?

Craig Whatman: Good morning, Ross.

Ross: So, you have the jaded and the unjaded in here. It's all balanced out. What's your major takeaway?

Craig Whatman: Look, I think it was definitely a big spending budget, Ross, which is obviously suitable for an election year, spending of more than \$628 billion, more than a third of which is on social security and welfare. So, in terms of the numbers highlights, that's one of them. The other big number obviously is the gross debt of more than \$1 trillion expected in 2024, which is not a number that we're used to hearing in Australia. Your listeners would probably be more accustomed to hearing that in the US budget than in Australia one, but it's certainly a very big number. It's a thousand billion dollars or 12 zeros for those that haven't seen it before. So's it's a big number.

Ross: So if we're putting it in household terms, Craig, we haven't got any money, so we're going to spend more money.

Craig Whatman: Correct. So I guess coming out of the COVID relief measures, the JobKeeper payments and the other significant COVID support members measures that the government provided, Ross, the government's plan appears to take a step back now and leave the business tax, supposed to shoulder the burden of the economic recovery going forward. So basically step out of the way and let the businesses and the other taxpayers do their thing moving forwards.

Russell: So Craig, the bounce back of the economy has been surprisingly strong, right?

Craig Whatman: It has.

Russell: And, so the economic forecast for growth is pretty good?

Craig Whatman: Yes.

Russell: And there is low unemployment?

Craig Whatman: Correct.

Russell: Which means that the welfare payments are low than what was expected?

Craig Whatman: Yes.

Russell: And there is growth of income, which means that the incoming revenue is pretty good as well.

Craig Whatman: That's right. I'd say yes.

Russell: And so is there a sense that the economy is strong or is there concern about some weakness ahead?

Craig Whatman: Well, I think there's definitely been a strong rebound. I mean that's played out in the figures and a very strong rebound in the current financial year that's going to taper off a bit over the next few years. But, the prospects for growth are reasonably good in Australia and we are really leading the world in that respect. Obviously, inflation is a concern moving forward. But, really there is a good prospects for reasonable economic growth over the coming years.

Ross: Craig, I discern the soft lilt of a New Zealand accent in your voice. Am I correct?

Craig Whatman: About 20 years ago, that would be right, Ross. Yes.

Ross: One of the other ways I feel that we lead the world at Australia is, with the levels of tax we pay. And I read about the levels of tax that are paid in New Zealand. Is there any danger we could ever get our rates of tax that we pay in Australia down to the lovely levels of the shaky aisles?

Craig Whatman: Well, I think it's interesting, Ross, that whichever side of politics is elected into government in May, that they're obviously going to face a significant challenge in terms of... First of all, servicing the trillion dollars of debt that has been accumulated while at the same time, trying to bring the budget back into surplus over time. And that's going to likely require them to relook at some of the significant structural reform measures that have been ignored over the past 20 years. And one of the biggest of those is obviously tax reform and it's been talked about for a very long time. But, I think that the next government is going to need to look at those major tax reforms and other reform measures to increase productivity. So, how to reform-

Ross: When you talk about tax reform, Craig, do you mean we pay too much tax?

Craig Whatman: In one sense, yes. Definitely. From a company tax rate, one of the tax reforms that's been murdered over the years is a reduction in the company tax rate. Obviously the personal tax rates have been coming down and they will go further downwards over the next couple of years on the GST side though, Ross, I think it would be generally accepted by our clients at least that the GST rate needs to increase, probably in conjunction with getting rid of some of the inefficient state taxes that are still in place.

Russell: And, Craig, anything in the budget that surprised you?

Craig Whatman: I think the most pleasant surprise was probably the increase in the patent box measures that were announced last year. So, I think we talked about that briefly this time, last year, that was announced for medical and biotechnology industries. It's going to be extended to agriculture and low emission technology sectors. So, basically that's one of the productivity measures that we need to focus on going forward and enable those sectors to get a concessional tax rate of 17% for the income that comes out of their research and development from their patent so, that's a positive move.

Russell: Great.

Ross: Craig, Craig Whatman, Partner at Pitcher Partners.