

A flexible new Australia

Opportunities and challenges serving the flexible economy

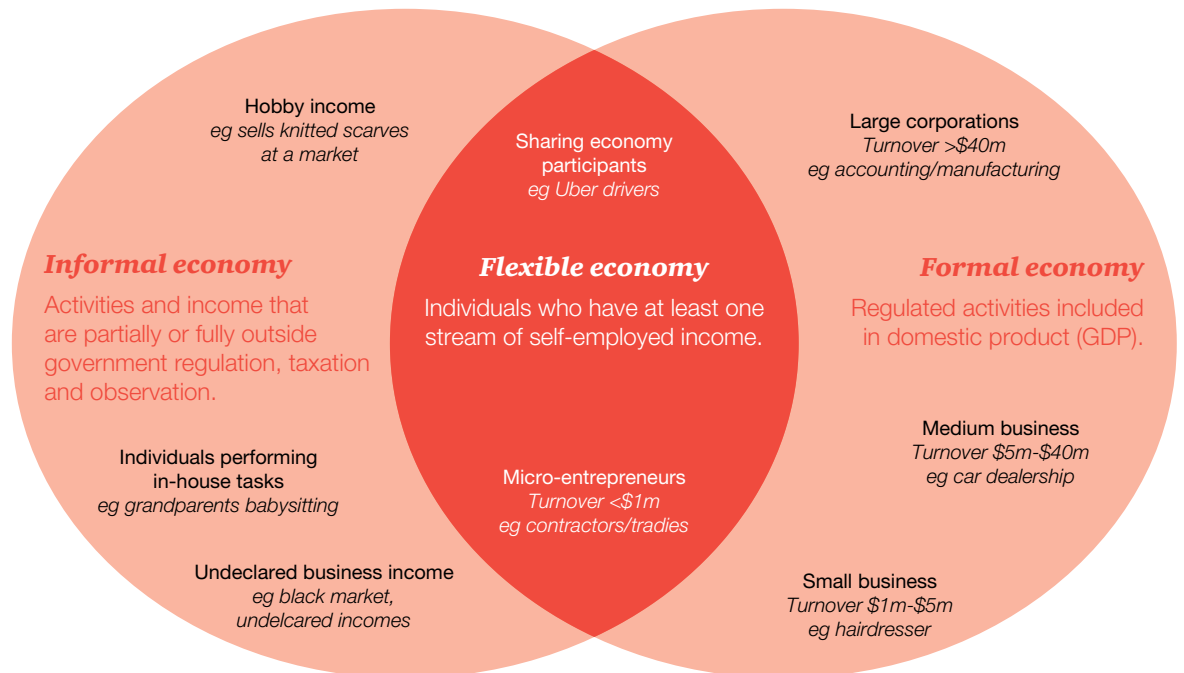
We live in a shifting world of work. Technology allows us to operate remotely, on the go, at times that suit us. The balance of workforce population is shifting to the millennial generation: one which values work/life balance, innovation, social impact and prizes access over ownership. Combine this with the opportunities facilitated by digital platforms and we see a new economic, commercial and social phenomenon emerging, dubbed the 'flexible' economy.

Better together

PwC and NAB have teamed up to help self-employed and microbusiness customers operating in an emerging more flexible economy to manage their GST requirements.

The flexible economy starts with the individual. On offer are either their skills or their property (a car, a house, even a pet). Participants range from entrepreneurs to freelancers or contractors who may have a number of self-employed income streams. Importantly, participation in this economy doesn't require complete commitment. Many individuals that take part still draw most of their income from conventional means, for example, by working full time for an organisation.

Figure 1: The flexible economy straddles both informal and formal parts of the economy



The flexible economy

Flexible economy participants share key traits:



Participants opt in and out

This trait is the core of flexibility. Individuals can – and often do – participate in multiple businesses for varying lengths of time. A participant can contract their labour while between jobs, rent their assets to supplement income, or drive a side business based on a hobby or interest.



Trust is based on reputation, not relationship

Participants in the flexible economy no longer rely on relationships to form trust. Digital reputation indicators – peer ratings on platforms such as Uber and eBay – allow suppliers and customers to instantly understand their counterparties and make decisions based on a digital history of transactions.



Income streams are non-traditional and come from multiple sources

Idle assets – such as cars, real estate, advertising space, even pets – are becoming more easily monetised by their owners. This means asset owners have the ability to create several streams of income, for example by renting out their property when they are on holiday.



Participants are fragmented

Sole traders or small firms drive value in the economy themselves as the scale advantage achieved by large organisations can be achieved through partnerships or through technology.



Digital is the critical enabler

The mode of interaction typically relies heavily on customers' mobile devices. Interactions must be simple, seamless and non-intrusive to provide an adequate customer experience.

Figure 2: descriptors, traits and behaviours of flexible economy participants



Growth and opportunity

As Australia transitions from the mining boom to the ideas boom, individuals within the flexible economy will have an increasingly larger role in the macroeconomic, commercial and social future of the country.

Macroeconomics

Australia typically relies on the strength of its economic endowments – principally resources such as iron and gas.¹ However over the past two years, mining investment has declined almost 40% equating to approximately 3% of GDP.² In response, we are seeing a shift away from these traditional sectors toward innovation.³ The benefits of this shift are estimated to add 1.5% to the Australian GDP by 2024.⁴

Commercial

The flexible economy includes full-time workers who either own businesses or contract labour to the marketplace. PwC's 2015 report *The Future of Work* shows that nearly half (46%) of HR professionals expect that at least 20% of their workforce will be made up of contractors or temporary workers by 2020.⁵ Importantly, significant participation in the flexible economy is conducted on a micro-scale where participants use online marketplaces to trade goods and services. Almost 7% of Australian adults now using sharing economy platforms to earn additional income to that of their primary occupation.⁶ Technology has been a key driver in the supply growth of this market as buyers and sellers of labour and goods can be easily matched, as exemplified by platforms such as Etsy, Airbnb, Airtasker and Uber. Other drivers include a growing desire for employment flexibility and business model innovation that has enabled the ability to create value from under-used assets and resources.⁷

1 ABS

2 ABS

3 ABC – Innovation statement (2015)

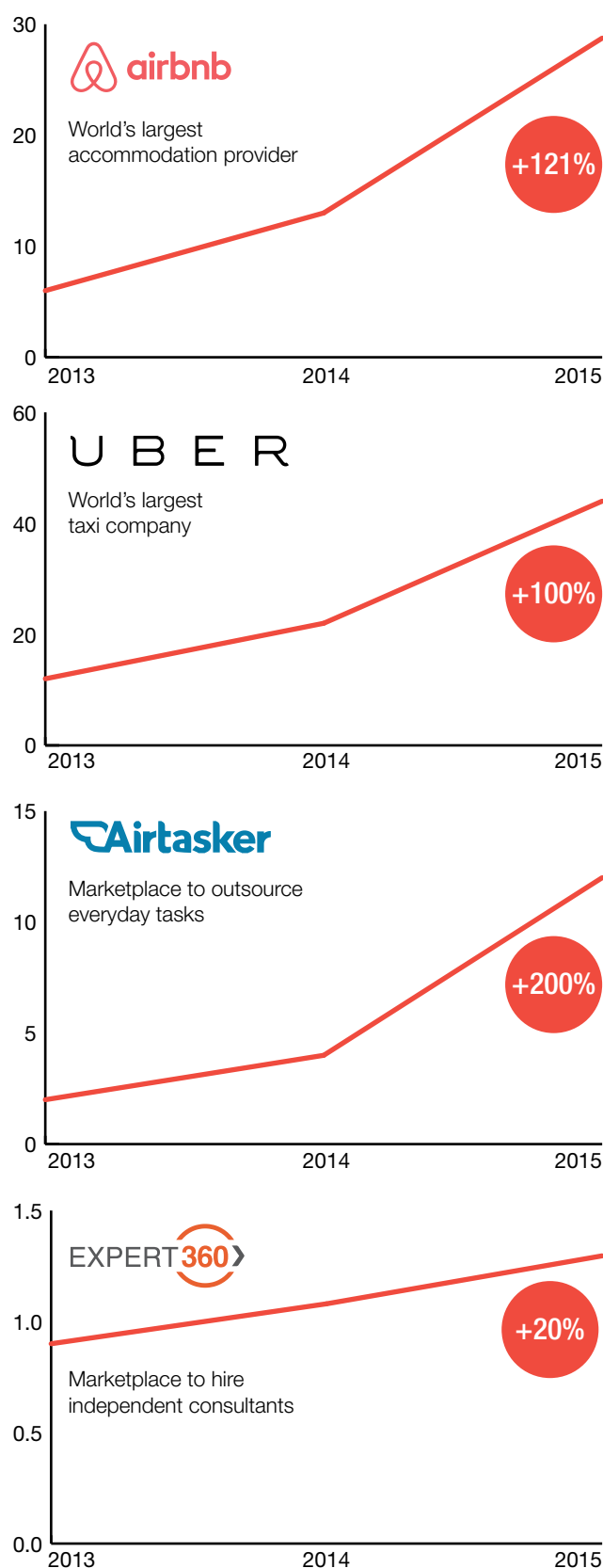
4 PwC – Digital Driven Change (2014)

5 Australian Financial Review –PwC can keep their start-up and their day job (2016)

6 Airtasker – Sharing Economy Monitor (2015)

7 PwC – The Sharing Economy Report (2015)

Figure 3: Growth projections for sharing economy platforms in Australia (Revenue \$m)⁸



8 Company data and websites, Smart Company, BRW, Strategy& research, forecasted estimates

Social

The growing presence of this market has social implications; workers who are provided more flexibility to carry out their roles are happier and more productive.⁹ Furthermore, it creates new opportunities for those unwilling or unable to provide labour in the structured 9-5 workplace format. Stay-at-home parents, students, the elderly and the temporarily unemployed can supply small increments of labour flexibly. In addition, 78% of Australians also believe that the sharing economy builds a stronger community.¹⁰

The challenge of regulation and compliance

Regulation and compliance are significant barriers impacting the growth of the flexible economy. The average small business spends 160-200 hours on tax compliance alone.¹¹ This does not include money spent on outsourced compliance – for example engaging accountants and tax agents. Compliance could be costing the economy up to \$13.5bn annually.¹²

While necessary, complying with tax and regulatory requirements does not add direct value to a business – new ideas are needed to support flexible economy participants in reducing their compliance burdens in order to focus on their core business.

⁹ <http://www.news.com.au/finance/work/at-work/australian-bosses-are-keeping-workers-at-the-desk-while-embracing-flexible-work-for-themselves/news-story/c3e6f6196f2cb0b3ccfc127c8e82ca42>

¹⁰ PwC – The Sharing Economy Report (2015)

¹¹ ABS, Strategy& and NAB research

¹² MYOB Business Monitor

Inhibitors of flexible economy growth

High cost of compliance: These factors in turn result in higher costs and a heavy administrative burden for sharing economy participants. Current small businesses spend ~\$7k per annum complying with GST, in addition to paying it.

A lack of trust: Micro-entrepreneurs cite an inability to access finance is the main inhibitor of innovation.¹³ The current structure of credit assessment mean that banks are placing increasingly more weight on quantitative risk assessment however micro entrepreneurs generally have limited reporting and a shorter financial history. Consequently, 10% of loans are declined due to insufficient business plans whilst those that are lucky enough to secure funding, are charged a premium (on average 2-3% points high in loan interest). As a result around 30% of micro-entrepreneurs use personal credit cards to finance business activities.¹⁴

Increasing regulation: There is uncertainty as regulators adapt their policies to address the entrance of new sharing economy players – for example taxi regulations being applied to Uber. Post the ATO's July 2015 ruling that ride-sharing drivers, like taxi drivers, must pay GST on the first dollar earned, PwC conducted a survey in November 2015 to ride sharing drivers and found that 25% did not know that they had to comply with GST and only 38% of drivers had actually registered for GST.

¹³ PwC – Flexible Economy focus groups (2016)

¹⁴ PwC – Flexible Economy focus groups (2016)



Meet James

James graduated from university with a commerce degree and wanted to work in a bank. However, when Uber launched, he was attracted by the opportunity to easily and quickly make an income whilst he applied for banking jobs. After successfully gaining a job in a bank, he decided to keep doing Uber on the side, predominately on the weekends when the hourly wages peaked.

When it was announced that James had to pay GST, he was quite bewildered as he did not have much tax knowledge beyond submitting simple tax returns using e-tax. After speaking to some of his friends he was still confused as to whether he could submit BAS himself or whether he should engage an accountant. Scared of fines from the ATO, James gathered all his receipts and highlighted relevant line items on his bank statement and went to an accountant recommended by his friend. The accountant was pleasant, but it was a pain to find time outside of working 9-5 to attend in person and James was shocked at having to pay almost \$400 for the BAS submission. Seeing as James only earned a few hundred dollars a week from Uber, sometimes less, he was not sure whether it would be worth continuing given this new quarterly cost.

The way forward

In parallel with growth in the sharing economy and the greater flexibility it provides both suppliers and users, there needs to be a seismic shift in the attitudes and processes of large organisations, to support the flexible economy in the way they are financed, served and regulated.

A reorientation has begun. Locally, large organisations are realising the value of the flexible economy and are starting to interface with it in new ways. In April 2016, PwC announced an alliance with NAB to provide finance and tax services to flexible economy participants. Airtax, a digital platform built by PwC, helps individuals and microbusinesses process their GST lodgements. Through a specially designed NAB visa debit card, customers capture expense and income data, which automatically flows into Airtax which calculates their GST liabilities or credits and lodge the paperwork with the ATO, reducing administration for the business owner.

These services, initially launched as Airtax and with more to come, provide simple, low-cost and high-value services to make lives of flexible economy participants easier and to enable them to more fully drive value in their businesses.

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