

Federal Budget 2015-16

12 May 2015

The 2015-16 Federal Budget was handed down on 12 May 2015 by the Federal Treasurer Joe Hockey MP.

Budget Forecast

- The global economy has improved and is expected to strengthen, with forecast World GDP growth of 3.5% in 2015, up to 3.75% across 2016 and 2017.
- In Australia, the outlook for the economy is generally positive, with forecast Real GDP growth of 2.5% in 2014-15, rising to 2.75% in 2015-16, and up to 3.25% in 2016-17.
- The national unemployment rate is expected to stabilise, forecast to rise slightly from 6.25% in 2014-15 to 6.5% in 2015-16, then back down to 6.25% to 2016-17 and ultimately projected to fall to 5.75% by 2018-19.
- The inflation rate is also expected to remain stable, within the RBA's target band, at 1.75% in 2014-15 and then a constant 2.5% out to 2018-19.
- Expected taxation revenue has been revised downward by \$51.7 billion over the four years to 2017-18, due largely to a rapid fall in the iron ore price. Taxation revenue is now forecast to rise from \$351.5m in 2014-15 up to \$422.8m in 2017-18.
- The underlying cash deficit is expected to be \$35.1 billion in 2015-16 (2.1% of GDP), estimated to go down to \$25.8 billion (1.5% of GDP) in 2016-17, and eventually down to a deficit of \$6.9 billion (0.4% of GDP) in 2018-19.
- A return to an underlying cash surplus is projected to occur in 2019-20.

Budget Key Features for Business

For existing businesses:

- The Company Tax Rate for small businesses with an annual turnover under \$2m will be cut by 1.5% to 28.5%, while unincorporated small businesses will receive a 5% tax discount up to \$1,000 per year. Both measures commence on 1 July 2015.
- Small businesses will be able to immediately claim a tax deduction on every asset costing less than \$20,000, up from a \$1,000 threshold, until the end of June 2017.
- Small businesses will now be able to change their legal structure without attracting a capital gains tax liability.
- A Fringe Benefits Tax exemption has been added for small businesses providing more than one work-related portable electronic device to employees.
- A \$1.2 billion national wage subsidy pool will be available for employers to access, covering long-term unemployed, youth, older workers, and Tasmanian unemployed.
- Employee share schemes will receive extended tax concessions as of 1 July 2015.
- A \$100m cap is being introduced on the amount of eligible R&D expenditure for which companies can claim a tax offset under the R&D Tax Incentive.

- GST will apply to cross-border supplies of digital products and services imported by consumers from 1 July 2017.
- New multinational tax avoidance measures will be introduced to target companies with global revenues of \$1 billion or more which attempt to avoid tax by shifting profits overseas.

For start-up businesses:

- The business registration process will be streamlined.
- Start-ups will be allowed to immediately deduct professional expenses incurred as part of starting a business.
- Businesses will have easier access to crowd-sourced equity funding

ACT-Specific Budget Announcements

- A further reduction of 35 Government agencies.
- An end to the hiring freeze for the Australian Public Service, but the 2.5% efficiency dividend will be retained for another two years.
- \$112m over five years for capital works upgrades at Parliament House and the Dept. of Finance.
- \$4.8m to allow four Commonwealth properties to be placed on the market in the ACT: East Block, West Block, Anzac Park East and Anzac Park West.
- Functional reviews of several Government departments, including: Dept. of Agriculture, Environment, Foreign Affairs and Trade, Treasury, Attorney-General's, Taxation, Social Services and the Bureau of Statistics.
- \$235m over five years to provide technology upgrades for the Australian Bureau of Statistics.
- An additional \$5.5m for the Australian Institute of Aboriginal and Torres Strait Islander Studies.
- An additional \$300,000 for previously announced ramp metering on the Tuggeranong Parkway.
- \$3.2m for a National Highway Upgrade on the Federal Highway near the NSW border.

Comment

While it is a concern that the Budget underlying cash deficit will reach \$35 billion in 2015-16 and that spending levels are at GFC levels at 25.9% of GDP, the fact is that the Budget is heading in the right direction over the medium-term with a surplus predicted in 2019-20. More importantly, in the short-term, Australia and the small business sector in particular, could not afford a continuation of the economic paralysis that has gripped the economy since the Federal Budget in May last year.

The ACT and surrounding regions have been particularly affected by the economic uncertainty that surrounded the 2014-15 Federal Budget. Like the rest of Australia, Canberra faced several years of the negative impacts of the Global Financial Crisis, but then, unlike the rest of Australia, the Territory moved immediately into two years of uncertainty and speculation about the size and impact on Canberra and the region of cuts to the Public Service – the largest employer in town. Years of economic uncertainty have taken their toll. In 2011 the ACT was ranked as the top performing economy of all jurisdictions in Commsec's *State of the States* report. The Territory has now fallen to sixth position, as the impact of Federal Government cuts to the APS have undermined its employment, retail trade, housing, business capital investment and business confidence levels. Virtually all of the key economic indicators for the ACT are now below the 10-year average for the Territory.

In this context, the announcement in the 2015-16 Federal Budget of a \$5.5 billion *Small Business and Jobs Package*, which includes tax cuts and start-up related incentive measures, is very welcome. The package will provide a much-needed stimulus for small business investment and growth.

The Government appears to have finally recognised that small businesses are the engine room of the economy; they are the potential employers; exporters and innovators.

Tax deductibility for professional expenses for start-ups, reduced red tape in business registration and expanding tax concessions for Employee Share Schemes will make it easier to start-up a business. The 1.5% tax cut for small companies, coupled with accelerated depreciation and changes to fringe-benefits tax for work-related electronic devices will give two million existing small businesses nationally, and over 25,000 small businesses in the ACT, the incentive to invest in equipment and in new jobs and to drive economic growth over the next few years.

The business-focussed measures in the Budget will boost business confidence which, as recent ACCI surveys have consistently shown, remains subdued and is impacting on investment and employment.

In addition to small business being a big winner, the 2015-16 Budget confirms that the worst of the APS job cuts are over with an end to wholesale public service jobs cuts and the two-year recruitment freeze. This is good news for Canberra and the region. It will improve consumer confidence which in turn should lead to increased consumer spending and improved business confidence.

The Budget also places emphasis on lifting workforce participation by improving access to affordable childcare (the \$3.2 billion childcare package) and improving incentives for employers to hire new employees (the \$1.2 billion national wage subsidy pool). A single wage subsidy pool is being established which, among other things, will allow employers to

receive the Restart Subsidy amount of \$10,000 progressively over 12 months instead of 24 months. There are also initiatives to help young people get into the labour market. These measures recognise that increasing workforce participation is a key to improving productivity across the economy.

Together, the end of the APS recruitment freeze, improving consumer and business confidence, small business tax cuts, financial incentives to employ, along with low interest rates and a lower Australian dollar, should create a positive environment for business in the ACT. At the very least business confidence should improve, businesses will begin to invest in equipment and more jobs should be created – and that is a very promising start to revitalising economic growth.

While the Budget 's focus on small business, jobs and productivity is welcome, it is also critical that the Federal Government continues the task of budget repair to reduce the deficit and revives its structural reform agenda – both critical to secure Australia's future.

In this regard, the Federal Government is to be commended for keeping its focus on finding efficiencies and eliminating duplication in selected agencies, delivering smaller government overall, and eliminating unnecessary red-tape and regulation. The Chamber understands the need for an efficient public sector, but believes the proposed program of targeted Functional and Efficiency Reviews of selected agencies is a better approach than the previously applied blunt instruments of efficiency dividends and indiscriminate job cuts across all departments.

Investment in productivity-enhancing infrastructure, particularly in our cities, will be critical for our future. While a few of the national institutions based in Canberra will receive a small amount of funding, disappointingly, the ACT has once again received almost no funding for productive infrastructure.

Finally, for business confidence and economic activity to improve quickly, it will require the Opposition, Greens and Independents to support the Small Business and participation-related measures when they are debated in Parliament. This is not the time to score cheap political points. It is a time to “energise enterprise” to drive jobs creation, economic growth, innovation and prosperity.