more give, less take

nab

Federal Budget 2013

What the Federal Budget means for Small Business

About Small Business

NAB is Australia's leading business bank. With a over 200 Business Banking Centres (BBC) and covering a network of over 750 branches Australia-wide, our team comprises more than 5,300 business and specialist bankers nationally. NAB provides the full suite of commercial services to almost 700,000 business customers, ranging from very small businesses through to Australia's largest corporations. NAB provides specialist expertise in key sectors including agribusiness, healthcare, property, infrastructure, national resources, education, government and professional services. We take a long-term view and we focus on your business so we can understand the challenges and opportunities you face. We respond effectively and quickly so your business can achieve its goals. We believe in the potential of our customers and communities.

nab.com.au/fedbudget

Federal Budget overview

Our economists' view

Alan Oster, Group Chief Economist, NAB

What a difference a year makes. Gone is the political rhetoric on the importance of gaining international credibility by getting a surplus no matter what. Rather, the focus is very much on a fairly timid initial approach that doesn't see a balanced Budget till 2015/16 or a surplus till 2016/17. In short, a Budget that is more in line with a "soft economy" – even if the Government doesn't describe it as such.

The Budget effectively takes nothing to the economy in the near term (compared to detraction from growth of nearly 1½% this year). From a structural viewpoint nearly all of the heavy hitting is from the revenue side and most is done in the out years. That said, the Budget is helping to repair some structural problems via:

- scrapping last year's welfare increases (last year's so called spreading the benefits of the mining boom – around $2.5bn over the estimates) and the baby bonus
- increasing the Medicare levy to help fund national disability reform (the largest saving at $11.5bn over the estimates)
- tightening offshore tax arrangements including Offshore Banking Units (a hefty $4.2bn over the estimates) and acknowledging the lower carbon price ($3.4bn over the estimates).
- measures to reduce funding costs of schooling (out of universities etc at $2.6bn) and measures to introduce PAYG systems for large tax payers.

The main expenditure items (within the estimates period) are more infrastructure ($3.1bn) school building ($2.9bn) and disability care ($1.9bn but ramping up in the beyond estimates period).

NAB's real activity forecasts are very similar to Treasury's – albeit we are a touch weaker in 2012/13 and we also have unemployment a touch higher. Of more concern, we are significantly lower for nominal GDP – which is important because this was the main cause of revenue under prediction in recent years. We are also slightly weaker for the global outlook. For more details, see Economic and Financial Outlook.

The real risks to the Budget probably revolve around how much of the package will see the light of day post the election. Also, the Budget expenditures are very much back ended which raises the question of just in what state the economy will be in 2016/17 and beyond. Finally even this modest fiscal retraction will possibly be at risk if election spending fires up. At least in that context Australia's debt position remains very strong in an international context with debt levels very low – albeit they are possibly moving towards the lower end of the remaining AAA economies. For more details, see Bond Issuance and Net Debt.

Overall then a budget for a softer economy but one that is very political in nature (as probably was inevitable in present circumstances).

Fiscal Outcome

The underlying cash deficit for 2012/13 is estimated at $19.4 billion (1.3% percent of GDP). The Budget maintains large deficits of $18 billion in 2013/14, and $10.9 billion in 2014/15, before moving into a marginal surplus of $800 million in 2015/16.

Economic Outlook

The Government's economic outlook is broadly in line with recent RBA forecasts, and only slightly stronger than NAB's. However, the Government's outlook for nominal GDP is substantially stronger than ours, at 3¼% in 2012/13 compared to our 2.1%, and 5% in 2013/14 compared to our 4.2%. Over estimating nominal GDP was the reason why revenues were overestimated in recent years – and this is clearly a concern. The Government and NAB both have growth of 2.7% and 3% for 2013/14 and 2014/15. However, we are weaker in 2012/13 (at 2.7% v the Governments 3%) largely slower near-term public sector demand and a sharper pace of decline in the terms of trade. The Government expects unemployment to rise to around 5¾% by mid 2014, while NAB expects it to edge towards 6%, reflecting our weaker view on growth. The Government, RBA and NAB share very similar views on the outlook for underlying inflation, which is expected to remain well within the RBA's 2-3% target band over the forecast horizon. Given the structural adjustment occurring in the economy at present, as well as softness in labour market conditions, we still believe the economy would benefit from another 25 bp rate cut this year (November); this would take the RBA's cash rate to 2.50%. However, further deterioration in labour market conditions could see earlier action and possibly more than one cut. For further details, see the Economic and Financial Outlook.

Financial Markets

Beyond the economic/fiscal outlook, for bond investors the two main considerations from tonight's Budget are: 1) the Government's debt programme for 2013/14, and 2) any implications for Government's stable AAA credit rating. The market reaction to the Budget was negative, with the $A quickly falling ½ a cent to under 0.9950. The reasoning was less to do with the detail of the Budget and more that investors saw a string of deficits indicating the economy remains weak. The bond market was little moved.

For more detailed analysis from NAB Group Economics, please visit **nab.com.au/fedbudget**

Small Business

Through our relationship with COSBOA, NAB is excited to share additional industry commentary and analysis.

Key initiatives:

- A $378.6 million Venture Australia package, which will provide additional finance for SME's, to be disbursed over a period of 15 years.
- Providing $29.4 million of funding over 5 years – Enterprise Solutions program – to assist SMEs to more successfully bid for Government projects and tenders.
- Maintenance of the Small Business Advisory service.
- Providing $19.2 million to expand the Enterprise Connect program to encompass the IT, transport, logistics and professional services sectors.
- An additional $7.2 million over 3 years to assist SMEs to better harness the opportunities provided by the NBN.

NAB's view:

Overall, the Federal Budget can be described as marginally positive for SMEs. Unlike their larger counterparts, who are likely to face enhanced tax scrutiny, SMEs are likely to benefit from a number of targeted programs.

More specifically, expanding the sources of finance for SMEs through the availability of venture capital funding; financial support in assisting SMEs bid for government projects; assistance with leveraging the benefits of the NBN (National Broadband Network); expanding the scope of the Enterprise Connect program. Finally, highly competitive and innovative SMEs may stand to benefit from the Government's Innovative precincts.

However, there have not been any notable measures to reduce business red tape, as well as improving the taxation impost – in terms of both regulatory compliance as well as payment schedules faced by SMEs. Furthermore, some initiatives such as the Venture Australia package have very long lead times and would require greater clarity in regards to implementation.

Peter Strong, Executive Director, COSBOA

Peter Strong, Executive Director of the Council of Small Business of Australia (COSBOA), acknowledged the significant budget deficit of $20 billion but was pleased to see continuing commitment to invest in innovation and support for small business.

"Given the depth of the deficit we were pleased to see support for: the Enterprise Connect program; assistance to SMEs to apply for public sector work; and support for small businesses to engage in the digital economy and take advantage of the National Broadband Network," said Mr Strong.

However, COSBOA was disappointed that there wasn't more of a focus on what it sees as the core issues that really matter for small business.

"We see these as compliance costs, complex work place relations, confusing tax processes that place huge demands on the small business person, competition policy and contract law that favours big businesses," said Mr Strong

Small business key areas addressed in today's federal budget announcement:

- **Infrastructure:** COSBOA expects a positive impact on small businesses particularly in regional areas from the continuing infrastructure investment.
- **Innovation:** COSBOA is pleased to see the government continuing to fund support for innovative small businesses. However, how these funds will be distributed to small businesses still needs to be determined. We need to make sure that application processes are not complicated and do not inhibit small business owners.
- **Tax:** COSBOA continues to be concerned about the complexity of the tax system, which hasn't seen any changes from this budget. The demands placed on small business owners to collect tax on behalf of employees (in the form of PAYG) and customers (in the form of GST) are too great.
- COSBOA also would have liked to have seen the government impose GST on overseas purchases.
- **Superannuation:** COSBOA believes the government has missed the opportunity to add value to the superannuation system by removing the employers from the collection process; this change could save a significant amount in administration costs by simplifying the process and putting superannuation in the PAYG system.
- **Health:** There has been no specific focus on the health of the small business person. There are approximately two million small business owners who employ a further five million people and their health has to be acknowledged.

These key issues impact on small businesses and need to be openly discussed.

Personal Finances in conjunction with MLC

The 2013 Federal Budget contained a few new measures and reconfirmed some recent announcements. Here is a summary of the key take-outs.

Note: These measures are proposals only and may or may not be made law.

Gemma Dale, Head of Technical Services, MLC

Personal Taxation

- The Medicare levy will increase by 0.5% to 2% pa from 1 July 2014 to help fund a better life for Australians with significant and permanent disabilities.
- The changes to the personal income tax thresholds, marginal tax rates and low income tax offset that were to take effect from 1 July 2015 have been abolished.
- The tax offset that is available if 'Net Medical Expenses' exceed $2,120 (in 2012/13) will be progressively phased out. The impact will be immediate for many people and it will be abolished by 2019.
- The amount of self-funded education expenses that can be claimed as a tax deduction will be capped at $2,000 pa from 1 July 2014.
- The Baby Bonus will be abolished from 1 March 2014.
- Families who are eligible for Family Tax Benefit Part A (FTB(A)) will receive an extra $2,000 following the birth of their first child and $1,000 for subsequent children.
- The income thresholds that are used to determine eligibility for FTB(A) and the threshold of $7,500 pa that applies to Child Care Rebate will not be increased until 1 July 2017.

Superannuation

- Currently, pre-tax and other concessional super contributions are capped at $25,000 pa, regardless of your age. This cap will increase to $35,000 pa from:
    - 1 July 2013 for people aged 60 and over, and
    - 1 July 2014 for people aged 50 and over.
- Currently, all earnings from assets held in a super pension are tax-free. From 1 July 2014, only the first $100,000 in earnings per member will be tax-free and earnings above this threshold will be taxed at 15%.
- From 1 July 2012, the tax concession on concessional super contributions will reduce from 30% to 15% for people who earn $300,000 pa or over.

Social security

- Currently, income payments received from an account-based pension are concessionally treated under the social security income test. However, from 1 January 2015, account-based pensions will be treated the same as other financial assets and be deemed to earn a particular rate of interest, regardless of the income actually earned.
- An incentive will be provided to older Australians to downsize the home by providing an exemption from the assets test for up to $200,000, subject to certain conditions. The main one is the home must have been owned for at least 25 years.

Important information

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek professional financial and taxation advice prior to acting on this information. Before acquiring a financial product a person should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product.

Our financial planners are Representatives of National Australia Bank Limited ABN 12 004 044 937, an Australian Financial Services Licensee, Registered office at Level 4 (UB4440), 800 Bourke Street, Docklands VIC 3008 and a member of the National Australia Group of companies.