more give, less take

Federal Budget 2014

What the Federal Budget means – Small Business

About Small Business

NAB is Australia's leading business bank. With over 200 Business Banking Centres (BBC) and covering a network of over 750 branches Australia-wide, our team comprises of 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 takes a long-term view on the businesses we support and take time to understand your business and the challenges and opportunities you face. We lend to more Australian business than any other bank and we believe in the potential of our customers and communities.

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Federal Budget overview

Our economists' view

Alan Oster, Group Chief Economist, NAB

The 2014 Federal Budget should really be seen as a re-ordering of Budget priorities to fund significant new outlays proposed for years to come – including National Disabilities, Gonski education reforms and Paid Parental Leave commitments – and at the same time put the Budget on a more robust path to balance. With net debt to GDP of around 17% this was never a Budget in crisis – although some medium term challenges had to be addressed. The Government has opted to spread the pain and start straight away.

Much of that pain has been well signalled. That included tightening eligibility criteria for family tax benefits and eligibility rules for unemployment benefits; increased cuts to public sector employment (from 12,000 to 16,500); the merger/abolition of 70 public entities and more privatisation; a deficit tax levy of 2% for those paid more than $180k per year (for three years); cuts to industry assistance programs worth $850m; resumption of petrol indexation (with the proceeds put to road funding); and medical co-payments of $7 per visit (to set up a new medical services future fund); large cuts to hospital payments; and university fee liberalisation (which will increase the cost of some courses). In the longer run, from 2018 Gonski funding will be replaced by an indexation of education funding; the pension age will be raised to 70 years effective from 2035; and the pension assets test will not be indexed for a number of years.

Over the next three years the measures represent significant savings (around $15 billion) – with most of the work done on the revenue side. Effectively our estimates suggest that the Government, in a structural sense, is taking around 0.5% out of growth in each year in the forward estimates. While the tax rises and petrol tax increases are not enough to seriously impact growth, they together with significant transfer cuts, could well have more important effects on confidence.

On the Budget forecasts, NAB is more optimistic on growth (NAB 3% Govt 2.5% in 2014-15). We are more cautious on domestic demand, reflecting a view that public sector demand and/or consumption might be hit harder by Budget announcements. That said, the Government sees unemployment peaking at the same rate as NAB, but staying at that rate longer (all of 2015-16). The Government also anticipates a faster terms of trade fall and, consequently, lower nominal GDP growth. Overall, we see the forecasts as unlikely to overstate the fiscal outcome and indeed they appear marginally conservative.

Clearly this Budget has lots of politics. This is where the main uncertainties will emerge. How many of the measures announced will get through Parliament and how will consumer and business confidence be affected?

Fiscal Outcome

The underlying cash deficit for 2013-14 is estimated at $49.9 billion (3.1% of GDP). The Budget maintains large but shrinking deficits of $29.8 billion in 2014-15, $17.1 billion in 2015-16, and $10.6 billion in 2016-17. The Government has set an objective to return the Budget to 1% of GDP over the medium-term.

Economic Outlook

The Government's economic outlook is softer than recent RBA forecasts, and slightly softer than NAB's forecasts for 2014-15 (NAB is weaker in 2015-16). In 2014-15, the government has forecast real GDP growth of 2.5% (compared with NAB's 3.1%), reflecting a smaller trade balance that more than offsets its stronger expectation for domestic demand. In 2015-16, the Government's forecast is a little stronger (3% compared to NAB's 2.7%) due to an anticipated improvement in domestic demand (NAB is forecasting a further slowing, led by a contraction in mining investment). The Government expects unemployment to rise to around 6.25% by mid 2015, while NAB expects it to peak sooner (at a similar level), before easing to around 6%. The Government, RBA and NAB share very similar views on the outlook for underlying inflation, although the RBA sees larger price pressures in the near term. Each expects inflation to remain well within the RBA's 2-3% target band over the forecast horizon. The structural adjustment occurring in the economy at present remains a real risk to the outlook. Nothing in the Budget changes our view that rates are on hold until late 2015.

Financial Markets

Beyond the economic/fiscal outlook, the Budget was regarded as 'credit positive' by Moody's Investors Service, and supportive of Australia's AAA rating. The market reaction to the Budget was positive, with the $A quickly rising ½ a cent to under 0.938, before retracing. Despite all the concern in the lead up, most measures were well flagged, with no real negative surprises. Overall, the market sees the Budget as a good start towards addressing the looming structural pressures facing government finances.

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

Key initiatives:

- **Tax cuts:** From 1 July, 2015, the Corporate tax rate will be cut by 1.5% to 28.5%, assisting some 800,000 small and medium sized companies.
- **Industry Skills Fund:** From 1 January 2015, the government will establish a training fund for SMEs, allocating $476 million over four years to support specialised training programs. The industries targeted include health and biomedical sectors; mining and energy sectors; and advanced manufacturing. SMEs will be required to make a co-contribution; the amount is dependent on a sliding scale.
- **Exporting SMEs:** Export-focussed SMEs stand to benefit from an extra one-off capital injection of $200 million to the EFIC (Export Finance & Insurance Corporation) as well as an additional $50 million to the EMDG (Export Markets Development Grants) program.
- **Fuel Excise:** The reintroduction of a fuel levy surcharge will take place on 1 August 2014, which will be indexed to inflation every six months. Every dollar raised will be linked by law to help fund new roads.
- **Extension of Unfair Contract Provision:** An estimated $1.4 million will be allocated to the ACCC over four years to ensure that protection against unfair contract provisions are extended to SMEs, as well as to the consumer.
- **Improving access to Commonwealth Contracts:** The Government has allocated $2.8 million over four years to assist SMEs to ensure they can be more successful in bidding for Government contracts.
- **Small Business Ombudsman:** $8 million will be spent over four years to create a Small Business Ombudsman, which will act as a single point of contact for SMEs to access Government support programs and engage in dispute resolution.
- **Entrepreneur's Infrastructure Program:** An estimated $484.2 million will be spent over five years as part of this program in order to focus on enhancing the capabilities of small businesses to facilitate commercialisation of new products, and boost job creation.
- **Commercialisation Australia & Industry Innovation Councils:** The Government has earmarked savings worth $845.6 million over five years by scrapping these schemes as well as Enterprise Connect, Australian Industry Participation and Industry Innovation precincts.
- **R&D Taxation:** The Government is set to cut the R&D Tax incentive scheme, reducing offsets by 1.5%. It is estimated that the Government will realise $620 million over four years from these savings.
- **Mature Age Workers & Apprenticeships:** Businesses will get up to $10,000, over 24 months, to hire full-time mature age workers (over 50 years of age) as part of the Restart program.
- **Deficit Tax Levy:** Individuals with taxable income exceeding $180,000 per annum will pay a Temporary Budget Repair Levy at a rate of two percent for three years. This will impact approximately 400,000 tax payers.
- Tourism Australia's budget has been increased by an extra $50 million for a new grant scheme that helps small operators promote themselves in international markets.

NAB's view:

Overall, the Budget is moderately positive for SMEs. The creation of a Single Ombudsman should ensure easier Government access for SMEs, reducing red tape. Further, reductions in the company tax rate should lead to higher profitability for some SMEs, as they will largely be spared from the Paid Parental Leave levy, which will impact larger businesses.

That said, only one-third of small businesses are incorporated, so the benefit is limited. Moreover, the removal of R&D tax breaks will be a significant disincentive for SMEs involved in the high tech sector, which have benefited from this facility.

Businesses will welcome incentives to hire older workers; however, the Australian Apprenticeships Incentives program has been slashed, and will be replaced by a higher-education loan style model, Trade Support Loans.

Extending unfair contract provisions for SMEs will offer some measure of protection when dealing with their larger counterparts. Likewise, support for SMEs in bidding for Federal Government contracts will help ensure a more level playing field for SMEs in relation to large firms. The unit will work with small business to develop procurement guidance tailored specifically for them. If this works efficiently it will be a good boost for small business.

The enhanced Export grant will benefit both larger businesses and SMEs, but is a welcome development for export-oriented firms nonetheless. Similarly, the Industry Skills fund will assist SMEs in mining, energy and advanced manufacturing.

The Entrepreneur's Investment program is a mixed bag as it has replaced a number of formerly useful programs such as Commercialisation Australia and Industry Innovation Councils.

Finally, the increased expenditure on physical infrastructure (e.g. roads) is a positive for SMEs. This is, however, offset by the Temporary Budget Repair Levy with SMEs dependent on discretionary consumer income spending potentially adversely affected. In addition, the fuel excise levy will disadvantage SMEs in segments such as transport, where participants may have less scope to either absorb or pass on these costs compared with their larger counterparts.

Industry comment:

Industry groups such as the Australian Chamber of Commerce and Industry welcomed some of the measures in the Budget, but expressed concerns as well.

Chief executive Kate Carnell said incentives for small businesses, as well as the proposed cut in company taxes would boost investment and job creation. She was also supportive of the enhanced road funding program. However, she also indicated that "there are some cuts to important productivity enhancing measures in trade, vocational education and training and small business support that we will be looking at more closely and expressing our concerns to Government".

Important information

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