more give, less take

Federal Budget 2015

What the Federal Budget means for Business.

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Federal Budget overview

Our economists' view

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The focus of the 2015 Federal Budget is very different from last year. Given the political problems of last year's budget, the focus has been on attempting to make this Budget as politically saleable as possible. Also, unlike last year, the 2015 Budget is relatively neutral in its impact on the broader economy. Essentially, new expenditures have been broadly offset by savings.

More than any budget in recent memory, most of the key changes were pre-announced/leaked – again to emphasise the 'no surprises' focus. Consequently, the key spends include a $5.5bn small business package (really micro business, ie turnover of less than $2m per annum), including tax cuts and, more importantly, a 5% tax discount (up to $1,000) to other tax payments, immediate write-offs of new assets up to $20,000, tax advantages for crowd funding and GST exemptions to SME electronic purchases. Elsewhere there is $3.5bn (over five years) spending on childcare incentives (linked to stalled family tax benefits savings); a new infrastructure fund for Northern Australia ($800m); extra incentives for employment of older Australians; drought spending ($330m); border/terrorism spend ($500m); a payment to offset Western Australia's GST issues ($500m); extra spending on the Pharmaceutical Benefit Scheme ($1.6bn) and the reversal of last year's doctor rebate savings.

The savings were equally well flagged. These include a new law on cross-border profit shifting: GST on intangible/services (Netflix tax); pension savings by lowering the non-home asset threshold to $800,000 ($2.4bn); tightening of the paid parental schemes (anti-double dipping between private and public schemes); the withdrawal of Melbourne East West Link money ($1.5bn); and further public service efficiency dividends.

As set out in the section on the medium term fiscal outlook, the Budget really is a combination of redirected policy spending broadly offset by substantial increases in revenue to GDP – bracket creep. Outlays broadly grow in line with GDP, which is better than the previous upward trend. Also, the economic impact of the Budget on the economy is relatively neutral.

Broadly, the Government's forecasts are very similar to NAB's, so we see the projections as credible. Of course to the extent we have all overestimated growth – especially in a low wage growth and falling commodity price world – the Budget remains open to the disappointments (especially on the revenue line) that we have seen in recent years. But with a credible set of forecasts (and a deliberately conservative iron ore price assumption – Treasury's $US48 vis-à-vis NAB's $US60 per tonne) the rating agencies should be relatively satisfied. Equally we would not expect the very negative reaction of consumers to this year's Budget. That said, we would not really expect much of a kick to business confidence, outside of micro business.

Of course the Budget is not the complete current fiscal story. There is still the Tax White Paper to come. The Budget had little on big tax and superannuation questions. Also, there is still the debate about what happens to Government's removal of $80bn in state funding for health and education in the out years. And finally, despite the Government's best efforts, what happens in the ensuing political process is unknowable.

Fiscal Outcome

The underlying cash deficit for 2014-15 is estimated at $41.1bn and $35bn in 2015-16 (or 2.1% of GDP and below market expectations – but near NAB's). The projected deficit then moves down to $14.4bn in 2017-18 (0.8% of GDP) with an eventual return to surplus in 2019-20. Basically the reduction in the deficit is driven by returning revenues, which rise from 23.9% of GDP in 2014-15 to 25.7% in 2017-18 (accruals basis). Outlays move from 26.1% to 26% of GDP in the same period.

Economic Outlook

As noted above, there is little fundamental difference between Treasury's and NAB's economic outlook. At the margin, we are slightly less optimistic in the near term (NAB 2.3% Treasury 2.5% in 2014-15) but slightly more optimistic in 2015-16 (NAB 2.9% Treasury 2.75%). An interesting difference here is our slightly more pessimistic view on business investment. That said, the RBA is more pessimistic on 2015-16 growth than either Treasury or NAB. At the margin, Treasury has a slightly higher unemployment rate in year average terms in 2015-16 (NAB 6.25% Treasury 6.5%). Finally, on the critical nominal GDP forecasts (for Budget deficit forecasting) there is little difference between NAB and the Treasury (both around 1.5% and 3.5% in the next financial year).

Financial Markets

There was modest but nonetheless positive market reaction to the Budget. The $A has pushed 30bps higher towards 0.7990, although it was trading higher before the Budget's release. Bond futures improved 2-3 bps (ie yields lower), presumably because the debt program is a little less than expected and the major ratings agencies have been quick to say the Budget doesn't pose any immediate threat to the AAA rating.

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Key Initiatives

- The introduction of the multinational anti-avoidance law prevents foreign companies from avoiding tax in Australia. About 30 multinational corporations with global revenues of $1bn and above will be required to pay double their tax liability plus interest if they are found to be avoiding the Australian taxation system.
- Digital products and services supplied by foreign businesses will be subject to GST effective 1 July 2017.
- Telcos will receive $131m over three years as a part of the Government's new data retention policy, which aims to protect Australia against security threats.
- The Government is tightening the benefits around paid parental leave by eliminating 'double dipping'. New parents receiving a workplace maternity leave scheme that is more generous than the government scheme will not be able to receive the government scheme. If the government policy is more generous than the workplace scheme, the recipient will only be entitled to the difference between the two.
- Penalties on foreigners who breach foreign investment laws, inclusive of real estate. Significant application fees on foreigners investing in real estate, agriculture and business investment proposals.
- Abolition of the FBT on portable devices used for work (eg. phones, tablets, laptops).
- Tightening of FBT through the capping of meal and entertainment expenses at $5,000 per annum.

NAB's view:

The Budget puts noticeably less emphasis on big business compared with the primary focus it places on small business. However, larger sized businesses that deal with SMEs will also benefit. A key focus for the Government is reforming taxation legislation so that multinationals operating in Australia pay their fair share of tax. To this end, the Government is committed to eliminating tax avoidance by multinational firms, imposing harsh penalties. Further, foreign companies providing digital products (eg Netflix) will have to pay the GST, creating a level playing field with domestic businesses. This is a positive outcome for local businesses who will be the primary beneficiaries of such a move.

The crackdown on multinational corporations avoiding tax in Australia by using very complex schemes (eg 'base erosion' and 'profit shifting') will assist competing local businesses as it will help to eliminate tax distortions. These issues are also being addressed by the OECD Centre for Tax Policy and Administration.

The $131m grant to telecommunication companies to retain metadata on their customers for the next two years only represents 50% of the capital cost of metadata retention. The shortfall, as well as any administration costs for the system, is likely to be at least partly passed onto the consumers.

Finally, under the previous paid parental leave scheme, new parents could access 18 weeks leave at minimum wage in addition to their workplace scheme. The decision to alter the parental leave policy may dissuade workforce participation, potentially losing big businesses valuable employees.

Industry comment:

Big business has been largely positive in its response to the Budget. The Business Council of Australia (BCA) Chief Executive, Ms Jennifer Westacott, says that "the 2015-16 Federal Budget is a sound, sensible and thoughtful budget which takes pragmatic steps to get Australia's fiscal strategy back on track while investing in jobs, participation and the capacity of the economy".

However, the BCA is more critical of the two-tier company tax rate structure and seeks a commitment from both major parties to lower the company tax rate for all businesses, fiscal circumstances permitting.

In relation to the GST on digital products and services supplied by foreign businesses, retailers are cautiously optimistic. Australian Retailers Association Executive Director Russell Zimmerman notes that "while this tax is certainly a positive step, we must now ensure GST collection is extended to low-value parcels. It should be just as easy to collect GST from Amazon as it is to collect GST from Netflix and Apple".

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