

Green shoots and the foundations for growth But enough to prosper?



Media Note

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Reaction to Federal Budget 2015-16 by Crowe Horwath, Australia's leading accounting firm for SMEs

When interest rates were cut to record lows last week, Treasurer Joe Hockey said *"There are many green shoots in the Australian economy, this interest rate cut will help facilitate these green shoots"*. He encouraged businesses to borrow and invest and suggested consumers do the same by spending.

Green shoots and optimism were also broadly the theme for the Budget. However, the national accounts tell a different story. With unemployment at 6.5% and economic growth at 2.75%, a sluggish economic trajectory seems likely. To counter this, the Government handed down a Budget that is expansionary in nature, complementing an already expansionary monetary policy to kick-start business investment and consumer spending.

This Budget sets government expenditure at 25.9% of GDP, which is higher than all the Budgets of Joe Hockey's predecessors, bar one. It marks a lurch from austerity and paying down Government debt to big spending stimulus. What remains a huge challenge for the Government is how this change in tack can be achieved while maintaining a 'credible path' back to surplus.

It seems the Government hopes that the green shoots will lay the foundations for economic growth - and lots of it. Without it, the credible path to surplus is unlikely. The Budget assumes that economic growth will ratchet up to 2.75% next year, then to 3.25% and 3.5% in the following years. Exactly how this will be achieved without a mining boom nudging it along is not clear.

To achieve this economic growth, business and consumer confidence must improve. Whether the measures outlined in the Federal Budget achieve this goal remain to be seen.

The centre piece for the 2015-16 Budget is the \$5.5 billion small business package.

Small business (generally annual turnover of less than \$2 million)

The single biggest change is the huge immediate write-off available to businesses that purchase capital equipment. The rules will be changed so that the threshold below which small businesses can claim an immediate deduction for the cost of assets will be temporarily increased from \$1,000 to \$20,000. This will apply to assets purchased after Budget night until 30 June 2017. However business owners need to bear in mind that legislation has not yet passed so it is wise to consult your tax advisor before making large scale acquisitions.

The tax rate for companies with an aggregated annual turnover of less than \$2 million will be



reduced by 1.5% (i.e. from 30% to 28.5%) from the 2015/16 income year. Business owners with companies need to be aware that there could be significant transitional issues associated with this change – in particular in relation to franking accounts and effective tax rates. Again, consult your tax advisor before deciding on your 2015 dividend policy.

To counter concerns that the Government is discriminating against unincorporated businesses, the Budget contains a 5% tax discount for individual taxpayers with business income from an unincorporated business with an aggregated annual turnover of less than \$2 million. However, the 5% tax discount is capped at \$1,000 thereby providing only a token recognition for those unincorporated businesses. This change will be introduced from the 2015/16 income year.

The current five year write off for start-ups for professional fees associated with creating the legal structure for their business will also be able to claim an immediate deduction from the 2015/16 income year for these expenses and other measures to encourage start-ups and entrepreneurship will be introduced.

Capital Gains Tax (CGT) relief will be available to small businesses for any CGT liability arising from restructuring their business from the 2016/17 income year. Currently this relief is only available when incorporating, but will now be available when changing to any structure such as a trust.

Please view the complete analysis on: www.crowehorwath.com.au/federal-budget

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The team includes approximately 3,000 principals, professionals and support staff located in Australia and New Zealand.

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