



TECHNICAL UPDATE

BDO'S MYEFO INSIGHTS

The Federal Government has released its Mid-Year Economic Fiscal Outlook (MYEFO) for the 2015-2016 Budget Year. The MYEFO is released under the Charter of Budget Honesty as a six-monthly update of the budget and fiscal position of the Government. It tracks performance against the projected budgetary position, as well as costing the various revenue and expenditure items announced by the Government since the Budget.

Accordingly, there are no major initiatives contained within the statement, as would be expected. Instead, the Government has indicated how it wants to recalibrate the Australian Economy from reliance on the resources boom to a more sustainable economy based on innovation and technical advances.

MYEFO does not provide the details as to how the Government intends to facilitate this change, as this document is essentially a set of half-yearly accounts with some ministerial notes. The detail that business and the community in general crave is contained, and will be further explained in the Innovation Statement, the Tax Reform White Paper, and through reforms to the Financial Services sector and through productivity reviews and improvements.

The numbers

The Government's deficit has been revised up for 2015-16 from \$35.1 billion to \$37.4 billion and deficits through to 2018-19 are also revised up. The expected return to surplus has been delayed until 2021 at the earliest. However, this is dependent on a number of unknowns including whether spending cuts will be passed by the Senate.

In addition, the Government has revised GDP growth for 2015-16 down from 2.75% to 2.5%. However, there is an expectation that growth will return to 2.75% in 2016-17.

In its accounts, the Government has costed a number of minor tax measures that have been previously announced. In addition, there are a number of spending initiatives being used to facilitate the movement in the Australian economy, and a number of spending cuts to offset the spending initiatives.

First, the bad news

Growth has been forecast to contract for 2015-16, with a corresponding increase in the Budget deficit, due to:

- Uneven world economic growth
- Lower commodity prices (particularly iron ore)
- A reduction in the growth of net migration.

SECTOR

Tax

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Why the optimism?

The Government has forecast a more optimistic medium term position due to:

- A projected Increase in net exports for Australia on the back of the Free Trade Agreements and the Trans Pacific Partnership
- A projection that Australia's major trading partners in the Asia Pacific region will have a projected average growth of 4% in 2015, 2016 and 2017, way in excess of projected World averages for the same period
- The prospect of a normalisation of US monetary policy
- China's economic shift from an infrastructure and investment led economy, to a consumption and services led economy, which in turn could present opportunities for Australia's agricultural products, manufactured goods and services.

Where are the improvements coming from?

In addition to international factors, the Government intends to drive the Australian economy through a series of initiatives:

- An announced increased infrastructure spend
- The pending tax white paper – to produce a growth friendly tax system
- The pending productivity reforms
- The Innovation and Science Agenda.

Science and Technology

One of the key planks to the Government's agenda is the Innovation Statement issued last week. It is aimed at changing the economy from being overly reliant on resources to a more sustainable economy based on new technologies and innovation including:

- Increasing access to equity capital for innovative new businesses by providing attractive tax incentives to Australian angel investors and venture capital funds
- Removing features of Australia's tax system that can impose extra costs on innovative businesses, including allowing greater access to tax losses and improving the tax treatment of intangible assets, such as patents, which are increasingly important in our knowledge-based economy
- Improving Australia's insolvency laws to facilitate the restructure of financially stressed companies and reducing the stigma of business failure.

BDO comment

We will leave the commentary on the budgetary and fiscal position to the political commentators. However, BDO supports the Government's desire to stimulate and recalibrate the Australian economy, which has been initially evidenced through the Innovation Statement. BDO encourages the Government to continue in this positive manner in its approach to reforming the tax system through the White Paper and the subsequent consultation period which will follow. BDO intends to contribute to this process, and will actively promote positive discussion on tax reform as we move into 2016.

It promises to be an interesting New Year.

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