

PRESS RELEASE

AUSTRALIA: Budget 2014 – Taxing times for the Australian economy

One of the Abbott Government's campaign slogans was to ensure Australia was once again "open for business," and with its first budget of May 13, it has begun to deliver on this promise while putting its stamp on Australia's Government finances. As was expected the budget was a tough one, with both expenditure cuts and taxation rises, but it has also been widely panned as lacking any long-term vision or strategy for Australia. More controversially, the budget contained some deeply unpopular policies that had not been part of the Government's election platform. Considering that the Government, when in opposition, ran a highly successful campaign based on the former Government's reversal of an election commitment never to introduce a Carbon Tax, breaking an election promise is a very bold thing to do. But what is really in the budget and how will it impact businesses in Australia?

The budget at a glance

Forecast underlying deficit	\$29.8 billion
Forecast economic growth	3%
Forecast inflation	2.25%
Forecast unemployment	6.25%

Overall the budget reflects the current economic situation Australia finds itself in, with low inflation, low unemployment and steady economic growth. The end of the resource boom in Western Australia and Queensland has meant a fall in large project investment, which has only been partially offset by the much larger quantity of resources being exported and increased household consumption thanks to low interest rates. This is the primary reason why the unemployment rate, although still quite low, has actually risen from 5.6% in 2012-13 to the forecast 6.25% in 2014-15.

Major budget announcements affecting business

The Government has made it clear that this budget is not an attempt to reform our taxation or financial system. The financial system enquiry along with the proposed tax white paper process are the Government's preferred methods for addressing both of these. However a number of announcements were made on budget night.

Update on other measures

The Government is also making progress on resolving the significant number of announced but unenacted taxation measures, and the budget contains

announcements on some measures including those on the exempt income of charities, multiple entry consolidated groups and the principal asset test and foreign residents. However, we note that none of these have formal legislation before the Parliament so we are not yet sure of the final details of the Government's proposal. The Government has also not been able to pass legislation for the Minerals Resource Rent Tax or the Carbon Tax through the Senate. These measures contain a large number of tax-related changes which are now in limbo with minor parties in the Senate, which hold the balance of power, refusing to pass the legislation. Overall, while there are some positive outcomes for businesses in the budget, there are a significant number of substantial changes to the taxation landscape which are, at the moment, unfinished. This creates a level of uncertainty for business which the Government needs to move quickly to remove.

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