



BARKER & JENNINGS  
CHARTERED ACCOUNTANTS

# Knowledge

## What to expect in 2015

### The economy

It's almost impossible to predict what the local and global economic environment has in store for us in 2015. The 'who knows' factor is adding to uncertainty and in general, business is not ramping up for growth but maintaining a 'steady as she goes' approach – meaning low investment and jobs growth.

The Reserve Bank of Australia (RBA) meets again in early February with economists torn on whether interest rates will fall at that point. Previously, the Reserve Bank Governor stated that inflation was an impediment to cutting interest rates. But back when he said this, the RBA was looking at a crude oil price of USD \$86 (Brent crude), compared to current levels of around \$50. For Australians, other than a general enthusiasm about filling up for around \$1 a litre, oil prices have had a dramatic impact on inflation. The latest figures released late January put inflation at 1.7% - well below the RBA's target of between 2% and 3%. The markets have already factored in an 80% chance of an interest rate cut in 2015; it's just a question of when.

In January, the Australian dollar slipped to its lowest point since July 2009 falling to under USD \$0.80. This financial year, the dollar reached its highest point at USD \$0.93 in early September 2014 and its lowest in late January 2015 with a difference between the two of just over 16%.

On top of that, commodity prices have dropped dramatically by around 20% and unemployment is edging up.

So, we have a low interest environment with a falling Australian dollar and stilted economic growth - Australian growth levels have been below trend for over 6 years and are likely to continue that way. The question is, what now?

### Politics & taxes

The last Federal Budget contained a series of severe cuts. Some of those have passed Parliament and become law while others are pending the outcome of negotiations with the minor parties, while others have died a slow and protracted death. Keeping track of what announcements are now law is difficult. Here's a quick summary:

- **Carbon Tax** - abolished.
- **Mining Tax** - abolished along with the associated business initiatives such as the loss carry back rules, accelerated depreciation for motor vehicles and the instant asset write off.
- **Superannuation guarantee (SG)** - rephased as part of the mining tax repeal. Now, the SG rate will remain at 9.5% until 1 July 2021.
- **School kids bonus** - was to be abolished as part of the mining tax repeal but is now means tested until 31 December 2016, before being abolished.

- **2% Debt tax** - applies between 1 July 2014 until 30 June 2017 to those with annual taxable incomes over \$180,000. In line with the debt tax, FBT rates will also increase from 47% to 49% from 1 April 2015 until 31 March 2017.
- **Biannual indexing of fuel excise** – introduced by stealth as a tariff proposal.

There are a series of other announced reforms that have either been rejected or stalled in the Senate. These include Family Tax Benefit reform, the \$7 fee for GP visits, an increase in the pension age to 70, the 6 month wait for unemployment benefits, and deregulation of University fees. The Coalition's paid parental leave scheme also seems to have faded from view.

The problem for the Government is that national debt is increasing – the mid year economic review revealed a \$10.6bn blowout. Falling commodity prices and sluggish growth mean that the deficit is not going to be plugged any time soon.

To bring debt under control, the Government needs to cut spending somewhere or increase taxes. At this stage, it's uncertain what and how this might be achieved. Cutting spending will rely on amending legislation passing the Senate with agreement by the minor parties - something the Government has not been able to achieve to date. On the tax front, the Government's Tax White Paper is due out within weeks. The much anticipated review of the tax system is reported to outline the need to change the current system's reliance on personal and corporate taxes including broadening the base and increasing the rate of GST, and changing how superannuation is taxed. *Continued over....*