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 RBAs 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….*

However, an increase in the GST requires the agreement of the States and as a result, all parties involved will be savaged by voters for any increase. If the Government acts on the reform measures set out in the Tax White Paper they have until mid 2016 to sell the concept to voters (according to the ABC's Antony Green, the first possible date for a normal House and half-Senate election is 6 August 2016).

So, what does all this mean to you?

What now for your business?

The key to survival and growth this year is constant monitoring and adjustment. The environment we started with on 1 July 2014 is already quite different. Keep an eye on top line growth as much as the growth of your bottom line. Keep your focus on increasing your market not just cost cutting to make the numbers look right.

Importers need to look at the price impact of the fluctuating currency on profit margins. Do you need to put your prices up or are there other strategies to mitigate the impact? It is important to understand that anything that impacts on your margins will have a magnified impact on net profit.

If you are not already doing it and your business is impacted by currency fluctuations - and this could be as simple as having all your software licensed from US providers, explore hedging options to protect against further falls in the dollar. If you are using debt, there are numerous products from offset accounts to local currency overdrafts. But, don't try to be a currency trader. It's unlikely you will win. Business is tough enough without trying to make decisions in areas you are not experienced in. Even the pros get it wrong.

Exporters also need to consider their pricing. Can you hold your price and maintain margins or should you move your price to attract volume? Price, volume and margin are critical to work through when the currency is volatile.

In general, if your business has debt, do your housekeeping and ensure you are getting the best available deal. The financiers are hungry for business right now so if you have not had your debt mix reviewed in a while, now is the time.

What now for your superannuation?

A positive this year is the reform of excess contributions tax that is currently before Parliament. If passed, the amendments will enable individuals the option of withdrawing contributions in excess of the non-concessional contributions cap and 85% of the earnings. If you choose this option, no excess contributions tax will be payable and any related earnings will be taxed at your marginal tax rate. That's quite a difference to the current system that can apply a tax of up to 93%. And, the changes apply retrospectively to excess contributions from the 2013/2014 financial year.

For those with SMSFs, make sure your fund is acting within the rules. There is too much money tied up in SMSFs for the Tax Commissioner to take a gentle approach to non-compliance. Key issues include borrowings, unlawful interactions with related parties, overseas members and maintaining the residency of your fund, and ensuring that where pensions are being paid, they meet the maximum and minimum requirements. Plus, if your SMSF auditor has flagged issues with you, you must act to correct these.

There is talk of changes to the way superannuation is taxed and how and what funds can invest in, but there is no point reacting to these recommendations until there is more certainty about reform.

What now for you?

The impact of Government policy is likely to be the biggest issue for many individuals but at this stage, it is unclear how and when the Government will seek to recoup the deficit. That leaves the regulators to try and plug the hole. A key target is individuals with overseas sourced income – if this is you, you need to be absolutely certain about what income is taxable in Australia.

But what the Government and regulators are likely to do to us is nothing compared to what we're doing to ourselves. Figures released by the RBA in mid January show that credit card debt is sitting at $50.5bn with $33bn of that accruing interest. Having credit card debt is never a good idea. It's a short term lending option not a long term one. Get rid of it.

Quote of the month

"It is no use saying, 'We are doing our best.' You have got to succeed in doing what is necessary."
Winston Churchill