Welcome to our latest e-newsletter.
In our last issue for the year, we give our take on the recently announced National Innovation and Science Agenda. We also highlight that the SA Government has brought forward one of its stamp duty concessions previously announced in the State Budget.

Please also take note of our Christmas trading hours and closure times below.

In this edition...

Federal Government wants a national culture of innovation

The Federal Government released its Mid-Year Economic and Fiscal Outlook (MYEFO) this week - and the 'outlook' seems to be getting worse. But the accompanying announcement of the National Innovation and Science Agenda (NISA) is cause for some hope, as the Federal Government finally begins to look at encouraging development in sectors other than mining to secure the future of the nation.

In recent years the MYEFO has really served the purpose of an interim mini-budget. It's an opportunity for the Government to report on how the economy is tracking and make any necessary adjustments. Those adjustments have increasingly been more towards a greater deficit, and this year was no exception.

The projected Budget deficit for the 2015-16 year is now predicted to be $37.4 billion, up from the May announcement of $35.1 billion. For the following year, the projected deficit has grown from $25.8 billion to $33.7 billion. Significantly too, the projected 'return to surplus' date has been pushed back another year, to 2020-21.

This means that it is highly likely that Scott Morrison will never deliver a Budget surplus. When the level of Federal debt was at less than 13% of GDP under Labor, the then opposition Coalition labelled it an emergency. In this latest MYEFO, Federal debt is now predicted to peak at 18.5% of GDP, and even that seems conservative.

What it demonstrates of course is that Federal Budgets are often more about political point-scoring than anything else. The reality is that the Australian economy is mostly at the mercy of influences outside of the control of Government. Factors like world commodity prices, international demand and US monetary policy swirl around us while we hold on and hope for the best.

This MYEFO does a reasonable job of holding back on the deep style cuts we saw in the Coalition's now infamous first Budget. It wouldn't be a Coalition announcement without targeting health and welfare, but there are also public service cuts and other efficiency measures in there. Overall, while it will always be the case that you can't please all of the people all of the time, the MYEFO is more of a 'steady-as-she-goes' approach with the hope that in the longer term, developing economies will again help us to trade our way out.

One measure that will be funded as a consequence of this year's MYEFO is the recently announced National Innovation and Science Agenda (NISA). Regular readers will know that we firmly believe that genuine economic reform will occur when businesses can flourish under a less burdensome and punitive compliance regime. It's not entirely about the level of tax that is paid, but more so about the sheer cost of compliance.

While NISA may not necessarily be the innovation panacea that the Government would have us believe, it's a step in the right direction. There are initiatives to make us more of a player in the world IT revolution, and a boost for CSIRO funding through co-investment.

As business advisers however, the part that appeals most to us are the tax measures. There is a non-refundable tax offset of 20% and Capital Gains Tax exemptions for investments in startups. There is a better depreciation regime for the acquisition of intangible assets such as patents and trademarks. This will hopefully encourage investment in businesses that develop and own innovative intellectual property.

One of our favourites is a relaxation of the 'same business test' for when companies that have historical tax losses change owners. Traditionally where a company changes hands and holds tax losses, the business activities of the company must remain substantially the same for the losses to be claimed by the new owner. 'Substantially' the same has come to be defined quite narrowly, such that in many cases it means almost 'exactly' the same. It's one of those classically punitive elements of our tax system that discourages innovation. For example, what if there was a good idea there but the business needed to reshape its model to successfully exploit it? A company with existing losses will be far more attractive to a potential new owner with new ideas if they can be more certain that the cost of development to date will be fully available to offset future investment. As it currently stands, there is usually a lot of uncertainty in this situation (we have seen it first hand) and the Tax Office will usually err on the side of denying the losses where there are even small changes in tack.

There are also plans to change insolvency laws to reduce the culture of penalising and stigmatising business failure and encourage greater risk-taking, within defined limits. These include reducing the default bankruptcy period from three years to one, and protecting directors from personal liability when trading insolvent if they appoint a professional restructuring adviser.

What we like most about this statement is that it involves a level of risk on the part of Government. As we have repeatedly lamented, so much of Australian tax law is shaped by a fear of lost revenue through exploited loopholes. To protect against that, business is often weighed down by a tome of compliance legislation it must wear around its neck just to operate. In his announcement, Malcolm Turnbull said, "*We want to be a culture, a national culture of innovation, of risk-taking, because as we do that, we grow the whole ecosystem of innovation right across the economy."* It's our hope that Government becomes as willing to take on risk as it wants private enterprise to be. These new tax measures are a good first step.

SA State Government brings forward stamp duty concessions

While we're on the subject of mid-year reviews, the SA State Government handed down its Mid-Year Budget Review (MYBR) earlier this month, and it contained some welcome news.

You might remember [back in June] we applauded the State Government for boldly cutting stamp duties on particular transactions, particularly those that are

Merry Christmas and a Happy New Year

We want to take this opportunity to wish you a Merry Christmas and a safe, happy and prosperous New Year.

We thank you for the privilege of working with you. We know detrimental to business growth. In our opinion this was an unusually courageous measure, and a good start towards stimulating the State economy.

One component of those cuts was to stamp duty levied on non-residential real estate transfers. Effectively, this applies to commercial premises such as factories, offices and shops.

This was to be phased out over three years in equal one-third reductions until it was completely abolished by 1st July 2018. The first third reduction was scheduled for 1st July 2016.

The State Treasurer Tom Koutsantonis, however, announced in the MYBR that this first tranche of reductions would be brought forward to take immediate effect. This means that right now the sale of a commercial property will attract a third less stamp duty. For an average business premises, this could easily amount to a saving of tens of thousands of dollars.

The remaining instalments are still to take effect as scheduled, so the second reduction will still be introduced 1st July 2017.

Once again, it's our firm belief that new measures like this are critical in stimulating economic growth through business. This year's State Budget was radical, and it seems that the State Government has been emboldened even further since then.

there are many choices for you when it comes to engaging a business and tax adviser, and we value the responsibility you have entrusted us with. We look forward to partnering with you again in the year to come.

Office hours

We'll be closing our offices over the Christmas and New Year's break to give our team a chance to rest and prepare for the year ahead.

This year our offices will be closed from 1:00pm Christmas Eve, 24th December and will re-open on Monday 4th January 2016.

During this time you can still call the office and leave a voicemail, and we'll arrange for someone to return your call as soon as possible. Or feel free to send us an email or fax, which we'll be checking regularly. In addition, you can leave any documents for us in the locked drop box on the western wall next to reception.

In lieu of Christmas cards this year, we have made a donation to Destiny Rescue**.** Please watch this recent report on Chanel Seven's Sunday Night program to learn more about the wonderful, dangerous work they do in rescuing children from sexual exploitation and slavery.