KPMG Enterprise

acuity research & insights

The 2018 Mid-market Pre-budget Pulse Check

Conducted March-April 2018

April 2018

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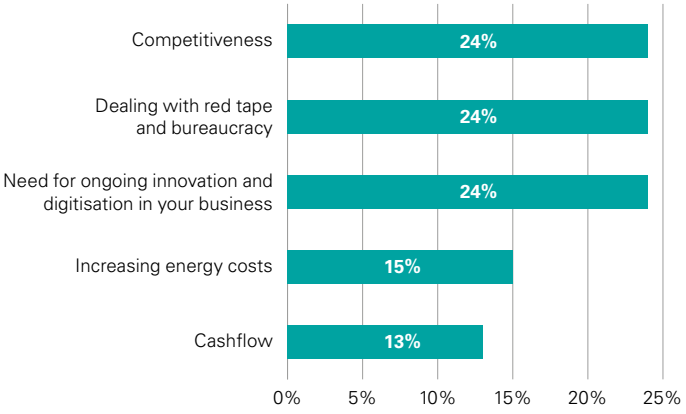
Research Methodology Overview: KPMG Acuity conducted a pulse check on behalf of the KPMG Enterprise team targeted at those running mid-market firms in order to gauge sentiment regarding salient issues before the Federal Budget is announced in May. This was completed by 84 respondents and is a valuable indicator of Enterprise clients' opinions concerning the current business and budget environment.

Overview of Key Findings

1 Issue Agenda

Respondents were asked which of five issues worried them most about being in business today and results show three key areas emerged at equal levels of concern among mid-market firms: competitiveness (mentioned by one in four, 24%), dealing with red tape and bureaucracy (24%) and the need for ongoing innovation and digitisation (24%) (see Fig.1). In ranking terms, lower-order concerns then consisted of increasing energy costs 15% and cash-flow issues 13%.

Fig 1: Concerns of mid-market firms



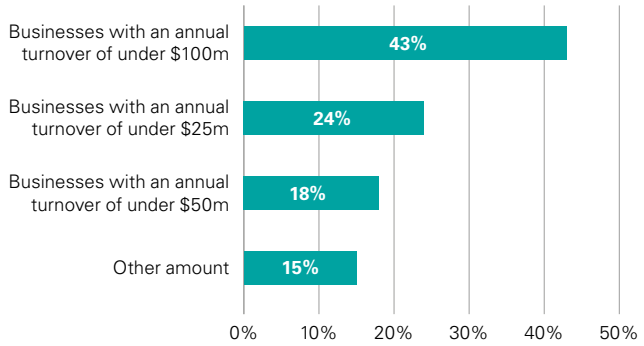
2 Tax

Respondents were asked if they felt personal income tax rates should be reduced; and in the responses, we see a sense of pragmatism among these mid-market firms, with close to one in two (46%) stating that the personal tax rate should be reduced – but only after the budget was in surplus. A further 38% said personal tax cuts should be implemented in the next tax year, while only a minority (15%) indicated that personal tax rates shouldn't be reduced at all. Overall, it appears a majority of mid-market businesses (85%) support personal tax cuts at some stage.

However, it is clear that if a choice is to be made, more mid-market firms would prioritise business over personal tax cuts – with a majority (52%) indicating business tax cuts should be prioritised over personal cuts. Only 26% believe personal tax cuts should be prioritised over business tax cuts. Note the remaining respondents (21%) selected that 'neither' should receive priority.

Respondents were asked who they think should be a beneficiary of a reduced company tax rate of 27.5% in the short term (Fig. 2). There is strongest support for a relatively broad threshold – with 43% indicating it should include businesses with a turnover of up to $100 million. 18% thought it should only affect businesses with an annual turnover of up to $50 million and 24% though it should only be applied to businesses with a turnover of up to $25 million. Interestingly, of the 15% of respondents who selected the 'other' option, around two thirds (c.10%) indicated that all businesses should be beneficiaries of a reduced tax rate.

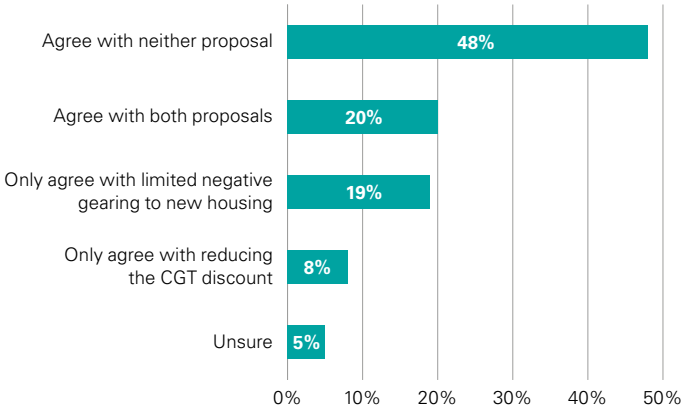
Fig 2: Opinion regarding potential beneficiaries of the 27.5% company tax rate



3 Reaction to Budget Proposals

Respondents were asked whether they agreed with Labor's proposals to reduce the CGT discount from 50% to 25% and limit negative gearing to new housing only. In response, the proposals were met with a lukewarm reaction (see Fig. 3) – with only 20% agreeing with both proposals, and almost one in two (48%) indicating that they agree with neither proposal. One in five (19%) only agree with the proposal to limit the scope of negative gearing and a small proportion (8%) only agree with a reduction in the CGT discount; in total, this means a minority agree with limiting the scope of negative gearing (39%) and/or agree with a reduction in the CGT discount (28%). The remaining 5% were unsure of how they felt regarding the proposals put forward.

Fig.3: Response to Labor's budget proposals

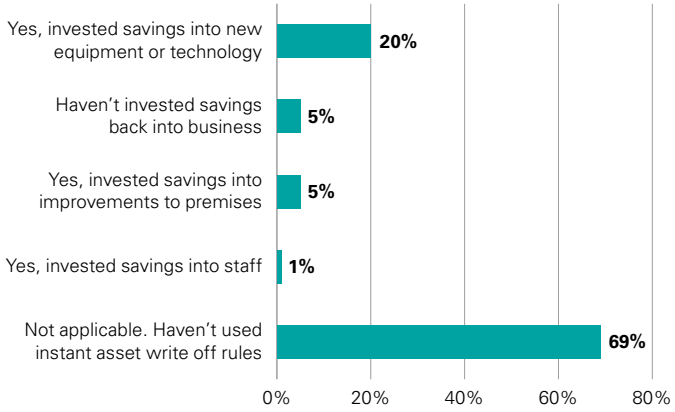


The government's handling of the 'black economy' was also looked at. Respondents were asked whether amnesty from penalties would be a sensible approach for the government to take when it comes to businesses in the tax system who have not reported income fully or correctly. A majority (60%) – but not an overwhelming majority – believe businesses should be shown amnesty, while a sizeable minority of 40% indicated an aversion to a potential reprieve.

4 Current Initiatives

In terms of the instant asset write-off rules, 69% of those surveyed indicated that they had not utilised the increased threshold and therefore questions on the topic didn't apply to them (Fig.4). Of those remaining, some indicated that they had used savings from the instant asset write-off rules to further invest in their business: 20% said they invested their savings into new equipment or technology; 5% invested in improvements to the premises and 1% invested savings into staff. Overall, only a small minority (<5%) did not invest savings made back into the business.

Fig.4: Use of asset write-off rules among mid-market businesses



Finally, when respondents were asked whether they believed the federal government's R&D incentives encouraged investment/innovation in the right places, 49% were unsure or didn't think the question applied to them. Of those remaining, 31% selected 'no', while only 20% selected 'yes'. From this survey we can infer that current measures to encourage innovation in the business sector aren't yet being significantly perceived as having an impact on future-orienting operations by this cohort.

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