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Budget to have minimal impact on Australian equities market

The 2016 Budget, released in early May, was expected to have a generally neutral impact on the domestic equity market, with some positives evident for media companies and discretionary retailers, while the aged care sector looked to suffer some mild setbacks.

There were some minor tax cuts for those earning above $80,000, which essentially addressed bracket creep, while a reduction in superannuation concessions was predominantly targeted at the wealthy. Neither of these developments will have a material impact on the share market.

The primary beneficiary of the budget was the media sector following a 25% reduction in the television licence annual fee, which is paid to government, from FY2017 onwards. The fee currently represents 4.5% of revenue and the industry had been lobbying the government to go further. While further cuts are possible, greater importance is likely to be placed on the media reform changes due later this year.

The small tax cuts were perceived as a very minor positive for retailers and the GST will be applied to low value imports of less than $1,000 from July 1st 2017, which should provide a minor advantage for importers of electronics and cosmetics. The impact of the cut in official interest rates in early May will probably have a far more significant impact on retail spending than the aforementioned budget changes.

The Budget also included further changes to the Aged Care Funding Instrument (ACFI), where savings measures were increased from $472 million last December to $1.2 billion over the period FY2017 to FY 2020. This is expected to have a negative impact on earnings per share within the sector of about 3% to 5%.

Overall, the Budget avoided taking hard decisions about achieving a surplus with the path to positive territory remaining long-dated, while a lower company tax rate of 25% for all companies was ultimately targeted for the year 2026. This last point is quite pertinent for the longer term net earnings growth of domestic corporates.