FOI 2543
Document 2

s 22 [redacted]

Accelerated depreciation versus a company tax cut

- Labor maintains that accelerated depreciation is 'a more efficient way of incentivising investment than changing the corporate rate'.[1]
  - Labor has announced a New Australian Investment Guarantee under which businesses will be able to immediately deduct 20 per cent of depreciable assets worth more than $20 000, except motor vehicles, structures and buildings.[2]
  - The Coalition has also expanded the instant asset write-off to medium size companies and increased the threshold to $30 000 in the 2019-20 Budget.
- The key advantage of accelerated depreciation is that it would have a smaller fiscal impact compared to a rate cut. This is because it only benefits companies which make additional investments and does not benefit the existing stock of investments.
- However, accelerated depreciation has some significant disadvantages:
  - it only benefits capital intensive industries, with labour-intensive business seeing little benefit (particularly given Labor's proposal excludes low-value assets such as computers);
  - it does not mitigate the incentive to shift profits to low-tax jurisdictions;
  - it does not reduce the debt/equity bias caused by the deductibility of interest payments; and
  - where companies are in a loss position, it has no effect; further, it may push companies into tax losses, blunting its effectiveness.

s 22 [redacted]

[1] http://www.andrewleigh.com/treasury_laws_amendment_accelerated_depreciation_for_small_business_entities_bill_2017
[2] http://www.andrewleigh.com/forget_the_trickle_down_trickery_oped_the_australian

Pages 1-3 and 5-6 are outside the scope of the request

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Document 3

s 22

[redacted]

The Australian Labour Party had a different approach to corporate tax, the Australian Investment Guarantee. There is pressure from companies for changes to the corporate tax rate, the mining sector is pushing heavily for further accelerated depreciation measures given it didn't get the corporate tax cut.

s 22

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Pages 1-5 and 6-9 are outside the scope of the request.

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- s 22 [redacted]

- **Productivity and business investment measures [1/2 page]**

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- ~~*Investment incentive*~~

~~ALP~~Opposition Australian Investment Guarantee Proposal

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- EY may raise a proposal similar to the Opposition~~ALP~~'s Australian Investment Guarantee, which would have allowed businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments ~~worth more than $20,000~~, with the balance depreciated in line with normal depreciation schedules from the first year.

- **[If raised]** Investment allowances favour some types of investments, firms and industries over others, such as capital intensive mining industries over labour-intensive intensive service industries. A corporate rate cut, in contrast, benefits all types of investment.

  – The Government previously sought to lower the company tax rate for all business, but this policy did not pass the Senate. The Government instead lowered the small to medium business tax rate to 25 per cent by 2021-22 to help businesses reinvest and grow.

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s 22

[redacted]

- s 22 [redacted] the ALP has announced an investment allowance (i.e. Australian Investment Guarantee) policy and changes to the imputation system (denying refundability of franking credits).

- According to the Opposition Leader's 25 June 2018 and 29 June 2018 press conferences, Labor will prevent the legislated future decreases in the tax rate for companies with turnover below $50 million.

Pages 1-2 and 4-11 are outside the scope of the request

ECONOMIC IMPACT OF INVESTMENT ALLOWANCES

TOP LINES:

- Investment allowances favour capital intensive industries like mining and financial services over less capital intensive activities. They will also tend to benefit larger business more than smaller ones, given that large businesses are typically more capital intensive.
- Investment allowances do not address the incentive of multinational firms to shift profits out of Australia to lower tax jurisdictions because this incentive is driven by differences in statutory tax rates.

COALITION ACTION:

- In May 2017, the Government successfully negotiated legislated company tax cuts for companies with turnovers up to $50 million and bought these tax cuts forward by around 5 years in October 2018. These tax cuts will enable small and medium business to increase investment in order to grow.

KEY FACTS AND FIGURES:

- On 13 March 2018, Opposition Shadow Treasurer, Chris Bowen, announced the Australian Investment Guarantee.
- It would allow businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments worth more than $20,000, with the balance depreciated in line with normal depreciation schedules from the first year.
- Assets such as tangible machinery, plant and equipment (for example, trucks and utes, but not buildings) and intangible investments (such as patents and copyrights) would be eligible for the immediate deduction.
- The Opposition's adoption of the Government's bring forward of small and medium business tax cuts on 12 October 2018 has delayed their Investment Guarantee policy by one year. The policy will now commence in the 2021-22 financial year.
  - The Opposition supported the Government's legislated policy to bring forward the 25 per cent lower rate for companies with turnover below $50 million. Labor claimed it would pay for the change in company tax rate policy by delaying its planned introduction of the Australian Investment Guarantee by one year to 2021-22. "And to underline that fiscal commitment we have made the decision to delay the implementation of our Australian Investment Guarantee by one year." Chris Bowen and Bill Shorten 12 October 2018 Press Conference.
- Investment allowances favour some types of investments, firms and industries over others, such as capital intensive mining industries over labour-intensive intensive service industries. Experience in Australia and internationally shows that investment allowances result in special interest lobbying for more preferential treatment, narrowing the tax base further. A corporate rate cut, in contrast, benefits all types of investment.
- Before 2001, Australia had a comprehensive accelerated depreciation regime for capital assets. The regime provided depreciation rates for assets based on effective lives adjusted by a loading of 20 per cent.

QTB Number:	QB18-000XXX	Division responsible:	Corporate & International Tax
Contact Officer:	s 22	Date and time:	23/11/2018 11:55 AM
Contact Number:		Next update:	
Office Responsible	TSR/AT/AMT&F	Office Adviser Initial and Date Cleared	

- In September 1999 the Howard Government accepted the Ralph Review recommendation to reduce the company tax rate from 36 per cent to 30 per cent. This policy change was partly funded by replacing the accelerated depreciation regime with the current approach of depreciating assets over their effective lives.

KEY QUOTE:

- It favours capital intensive industries, with the Grattan Institute describing it as reminiscent of "old economy" policies at the expense of many new economy companies that need less capital to grow such as knowledge and service industries that are more labour intensive.
  - Source: AFR, 10 April 2018, "Labor's 'old economy' plan excludes 75pc of capex"

QTB Number:	QB18-000XXX	Division responsible:	Corporate & International Tax
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Office Responsible	TSR/AT/AMT&F	Office Adviser Initial and Date Cleared	

INVESTMENT ALLOWANCE - LABOR

TOP LINES:

- Labor's policy is a poor substitute.
- **Businesses are <u>not</u> required to increase investment** under their policy. Labor's policy has no requirement of investment additionality - businesses can access the measure irrespective of whether the investment would have occurred anyway.
- It **favours capital intensive industries, with the Grattan Institute describing it as reminiscent of "old economy" policies** at the expense of many new economy companies that need less capital to grow such as knowledge and service industries that are more labour intensive.

  Source: AFR, 10 April 2018, "Labor's 'old economy' plan excludes 75pc of capex"

- Labor's policy of **maintaining a high company tax rate is out of step with the rest of the world and does not reduce incentives for companies to shift profits offshore.**
- **Australia removed policies like Labor's Investment Guarantee in the early 2000s** as they were found less effective than a company tax cut.

BACKGROUND

ALP announcement

- On 13 March 2018, Chris Bowen announced the Australian Investment Guarantee.
- It would allow businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments worth more than $20,000, with the balance depreciated in line with normal depreciation schedules from the first year.
  - Assets such as tangible machinery, plant and equipment (for example, trucks and utes, but not buildings) and intangible investments (such as patents and copyrights) would be eligible for the immediate deduction.
- The adopting of the Government's bring forward of small business tax cuts in October 2018 delayed the Investment Guarantee by one year. The scheme ~~would~~ will now commence in the ~~2020~~2021-~~21~~-22 financial year.
  - Labor supported the Opposition's legislated policy to bring forward the 25 per cent lower rate for companies with turnover below $50 million.
  - Labor claimed it would afford the change in company tax rate policy by delaying its planned introduction of the Australian Investment Guarantee by one year to 2021-22. "And to underline that fiscal commitment we have made the decision to delay the implementation of our Australian Investment Guarantee by one year." Chris Bowen and Bill Shorten 12 October 2018 Press Conference. SOURCE: http://www.billshorten.com.au/press_conference_melbourne_friday_12_october_2018

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Contact Officer:	s 22	Date and time:	18/09/2019 3:43 PM
Contact Number:		TO Approval	s 22 06/09/2018

- The Parliamentary Budget Office ~~has~~ originally costed the proposal at $3.4 billion over the forward estimates and $10.3 billion over the medium term. SF to confirm with TAD to confirm that there was no PBO costing for the delay

Global trends

- The global trend over recent decades has been to reduce company tax rates and remove investment allowances to compete more effectively for mobile investment while combating the incentive to shift profits. It has both broadened their corporate tax bases and made them more secure.

- If Australia were to adopt Labor's policy while keeping its uncompetitive corporate tax rate in place, we would heighten, not lessen, the incentive of multinational corporations to shift profits out of this country. The temptation to book expenses in Australia while claiming profits overseas would be stronger. While Australia has a number of integrity measures in place to deal with this risk, these measures would come under further pressure as a result of this change.

- Investment allowances favour some types of investments, firms and industries over others, such as capital intensive mining industries over labour-intensive intensive service industries. Experience in Australia and internationally shows that investment allowances result in special interest lobbying for more preferential treatment, narrowing the tax base further. A corporate rate cut, in contrast, benefits all types of investment.

- Before 2001, Australia had a comprehensive accelerated depreciation regime for capital assets. The regime provided depreciation rates for assets based on effective lives adjusted by a loading of 20 per cent.

- In September 1999 the Howard Government accepted the Ralph Review recommendation to reduce the company tax rate from 36 per cent to 30 per cent. This policy change was partly funded by replacing the accelerated depreciation regime with the current approach of depreciating assets over their effective lives.

The Government's investment incentives

- The Government's investment incentives for small business and innovation are targeted and complement the Government's commitment to a comprehensive company tax cut.

- **Instant Asset Write Off:** Cash flow challenges and compliance costs of estimating and then depreciating assets over several years make it more difficult for small business to invest in assets. The 'Instant Asset Write-Off' for small businesses, provides businesses with turnover less than $2 million per annum an immediate deduction (i.e. 100 per cent depreciation) for eligible assets costing less than $20,000 acquired prior to 1 July 2017. This was subsequently extended to entities with turnover of less than $10 million, and also extended to assets acquired until 30 June 2019.

- In 2015, the Government has also announced it would **give companies more flexibility to depreciate their intangible assets, making startups'** intellectual property and other intangible assets, **a more attractive investment option. However, Labor has blocked this reform,** which was meant to commence on 1 July 2017.

    - Innovative companies are more likely to hold a high proportion of intangible or knowledge-based assets, such as patents and copyrights. Investment in these assets is crucial to innovation and growth.

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- Unlike tangible assets, however, intangible assets with a statutory effective life can't be self-assessed to bring their tax life in line with the economic life of the asset. This can reduce the depreciation benefit and increase the cost of investment in these assets.

Melbourne Economic Forum modelling

- Modelling released by Victoria University academics Janine Dixon and Jason Nassios at the Melbourne Economic Forum (10 April 2018) was reported to show that a permanent investment subsidy produces more economic benefits than a tax cut with equivalent fiscal cost.

- The Victoria University modelling does not reflect the Government's announced tax cut policy. For example, they assume different start dates for a company tax cut.

- A key drawback of an investment subsidy that is not mentioned in reports on the study is that it has no effect on the incentive to shift profits to jurisdictions with lower statutory tax rates.

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[redacted]

- The current **Opposition proposal**, known as the Australian Investment Guarantee is a form of accelerated depreciation, which would allow businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules from the first year.
  - This proposal is a hybrid of the accelerated depreciation arrangements that applied prior to 2001 and the current depreciation rules which depreciate an asset over its effective life.

Page 1 is outside the scope of the request

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s 22 [redacted]

Topic	Alternative Policies/Issue	Existing analysis (inc. related projects)/work underway	Work to be undertaken	New Resources Required ?	Key people in CITD
s 22 [redacted]					
	Introduction of an Australian Investment Guarantee	**Related Projects**: Accelerated depreciation s 22 [redacted] ETP (now completed – s 22 [redacted] **BAU** Yes. Some defensive material has been prepared. In addition, a team has been established to look into the issue of accelerated depreciation as an alternative to corporate tax cuts as a means of promoting investment	The existing project on accelerated depreciation touches on the broader policy issues raised by this alternative policy but an explicit consideration of this alternative policy is required.	No. Closely related to existing accelerated depreciation measure	s 22 [redacted]
s 22 [redacted]					

Pages 2-6 are outside the scope of the request

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Date	Narrative
Competitiveness of tax system (i.e. merits of the rate cut, investment allowance, depreciation) - s 22 [redacted]	
07 May 2019	**Company tax cuts consigned to never-never by both parties** –link Treasurer suggested the economic activity generated by the Coalition's long-term income tax cuts and friendlier industrial relations environment would suffice and therefore company tax cuts were not necessary. Shadow Treasurer opposed to further company tax relief. Coalition have ruled it out for next term if the party wins the election. The Treasurer states that businesses will still benefit under Coalition with the activity generated by income tax cut. Shadow Treasurer states Labor's Investment Guarantee Policy will reduce tax on investment down to 26 per cent and would allow businesses to deduct 220 per cent off any new eligible assets worth more than $20,000. The Business Council of Australia said it will continue to push for lower company rates for all companies but in the interim, argued for an enhanced version of Labor's Australian Investment Guarantee.

s 22
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Pages 1-7 and 9-10 are outside the scope of the request

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Document 11

Quotes

Josh Frydenberg on opportunity and encouraging aspiration

"Our values are key: encouraging the individual and their enterprise... backing entrepreneurship and small business... rewarding effort and hard work... fairness is achieved through equality of opportunity, not equality of outcomes."

Josh Frydenberg on aspiration as part of the Coalition's economic plan

"Our economic plan... has aspiration, productivity, growth and fiscal discipline at its core... Our plan, recognising that the private sector employs nine out of every ten workers, is focused on making sure that businesses stay competitive, keep investing and continue to hire more workers. This is the pathway to wealth creation, job creation and higher wages."

Chris Bowen on commitment to 5 yearly Equality of Opportunity PC reviews

"As Treasurer, I would task the Productivity Commission with producing five yearly reports on how we are going as nation in improving equality of opportunity and social mobility. These would be produced on the same timetable as the Intergenerational reports and would provide a stimulus for a proper national discussion about what is working and what is not when it comes to giving each and every Australian child a fair go at achieving their full potential. Like productivity and economic growth statistics, this report would help enshrine equality of opportunity as a central focus in the national debate about Australia's advancement and economic development... I believe passionately in equality of opportunity as a matter of social justice, of fairness. But even if I didn't, I'd believe in it as sensible economic policy, as being vital to our future to ensure that all our talents as a nation are being harnessed."

Chris Bowen on Pursuit of 'Sustainable Fairness'

'By making the tough decisions, as well as opposing the Government's corporate tax cuts, we have been setting out to do three things. Firstly: to deal with debt and deficit in a better and faster way than the incumbent government; secondly, to fund policies we regard as important for economic growth, like our Australian Investment Guarantee, investment in human capital in schools, TAFE and university and our "FutureAsia" agenda for example; and thirdly, to enable us to sustainably pursue the Labor agenda of improving the fairness of our economy and tackling inequality.'

Pages 1-5 are outside the scope of the request

s 22

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8. Encouraging domestic investment

Policy/ Issue	Size/ Type	Timing/Staging	Revenue impacts	Complementary Policy/ recommendations
Australian Investment Guarantee	May be some scope for policy development before implementation.	Start date: 1 July 2021.	$ -54 bn over forward estimates	[illegible]

Investment and Depreciation Allowance

SES responsible: Paul McCullough

Updated: 30/5/2018

What is the problem?

- The global trend over recent decades has been to reduce company tax rates and remove investment allowances to compete more effectively for mobile investment while combating the incentive to shift profits.

Why is it important?

- Investment allowances and accelerated depreciation schemes favour capital intensive industries over businesses that are developing their own intellectual property or are labour intensive.
- If Australia were to offer a capital investment allowance while keeping its current corporate tax rate in place this would be out of step with international practice and with previous Australian reforms which have sought to broaden the tax base but lower the rate.
  - This would heighten the incentive of multinational corporations to shift profits out of Australia.
- Time limited investment subsidies would only bring forward investment, rather than generate new investment. This may be appropriate as an economic stimulus response, but would not provide any long run economic benefit.
- Accelerated depreciation schemes tend to have a higher upfront Budget costs in the short run than headline rate cuts.

Who?

- On 13 March 2018 the ALP announced its Australian Investment Guarantee. This policy allows businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules from the first year.
- The US has implemented an instant asset write off for investments in plant and equipment as part of the *Tax Cuts and Jobs Act* from 1 January 2018. The write off expires in 2022.

When?

- Prior to 2001, Australia had a comprehensive accelerated depreciation regime for capital assets. The regime provided depreciation rates for assets based on effective lives adjusted by a loading of 20 per cent.
- In September 1999, the Howard Government accepted the Ralph Review recommendation to reduce the company tax rate from 36 per cent to 30 per cent. This policy change was partly funded by moving away from the former accelerated depreciation regime towards the current regime, which generally depreciates assets over their effective lives.
- Investment allowance and accelerated depreciation policies implemented after the 1999-2001 company tax rate reduction and base broadening reforms have been temporary or targeted to either expenditure on certain assets or towards certain industries.

How

- Any investment allowance or accelerated depreciation scheme would require legislation change.

Parliamentary Budget Office Estimates of ALP Australian Investment Guarantee

	2018-19	2019-20	2020-21	2021-22	Forward Estimates
Total Financial Impact	..	20	-1,790	-1,590	-3,360

Estimates are as announced by the Shadow Treasurer on 13 March 2018. PBO costing has not been released publicly.

Grattan Institute Report on Company Tax

- In February 2017, the Grattan Institute released the report *Stagnation Nation? Australian investment in a low growth world.* The report examined alternatives to a company tax cut including accelerated depreciation, investment allowances, an allowance for corporate equity, a destination based cash flow tax and limiting tax cuts to small businesses.

Treasury views on the Grattan report

- The Grattan Institute report reaffirms the consensus view among economists that a company tax cut will generate an increase in business investment.
- The report does not draw strong conclusions about the best policy alternative among a tax cut, accelerated depreciation, investment allowances or more structural changes.
- The report supports many of the arguments that the Government has used to support the company tax reforms.
- Grattan notes that a temporary allowance for investment may just bring investment forward, rather than increase it.

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ALP tax policies to encourage investment

Theme	Policy Issue		Size/Type	Timing/ staging	Revenue impacts
D. Encouraging investment	19	Australian Investment Guarantee	May be some scope for policy development before implementation	Start date: 1 July 2022	~-$4 bn over forward estimates

s 22

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Pages 1-2 and 4-5 are outside the scope of the request

10. LABOR'S INVESTMENT ALLOWANCE

Top lines

- Labor's policy is a poor substitute for the comprehensive company tax reform the Government is implementing through the Enterprise Tax Plan.

- **Businesses are <u>not</u> required to increase investment under their policy**. Labor's policy has no requirement of investment additionality - businesses can access the measure irrespective of whether the investment would have occurred anyway.

- It **favours capital intensive industries, with the Grattan Institute describing it as reminiscent of "old economy" policies** at the expense of many new economy companies that need less capital to grow such as knowledge and service industries that are more labour intensive.

  Source: AFR, 10 April 2018, "Labor's 'old economy' plan excludes 75pc of capex"

- Labor's policy of **maintaining a high company tax rate is out of step with the rest of the world and does not reduce incentives for companies to shift profits offshore.**

- **Australia removed policies like Labor's Investment Guarantee in the early 2000s** as they were found less effective than a company tax cut.

ALP announcement

- On 13 March 2018, Chris Bowen announced the Australian Investment Guarantee.

- It would allow businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules from the first year.
  - Assets such as tangible machinery, plant and equipment (for example, trucks and utes, but not buildings) and intangible investments (such as patents and copyrights) would be eligible for the immediate deduction.

- The scheme would commence in the 2020-21 financial year.

- The Parliamentary Budget Office has costed the proposal at $3.4 billion over the forward estimates and $10.3 billion over the medium term.

BACKGROUND

- The global trend over recent decades has been to reduce company tax rates and remove investment allowances to compete more effectively for mobile investment while combating the incentive to shift profits. It has both broadened their corporate tax bases and made them more secure.

- If Australia were to adopt Labor's policy while keeping its uncompetitive corporate tax rate in place, we would heighten, not lessen, the incentive of multinational corporations to shift profits out of this country. The temptation to book expenses in Australia while claiming profits overseas would be stronger. While Australia has a number of integrity measures in place to deal with this risk, these measures would come under further pressure as a result of this change.

QTB Number:	QB18-000261	QTB Category:	Taxation
Contact Officer:	s 22 [redacted]	Date and time:	18/09/2019 4:32 PM
Contact Number:	[redacted]	Next update:	
Office Responsible	TSR	Office Adviser Initial and Date Cleared	20/08/2018 s 22 [redacted]

- Investment allowances favour some types of investments, firms and industries over others, such as capital intensive mining industries over labour-intensive intensive service industries. Experience in Australia and internationally shows that investment allowances result in special interest lobbying for more preferential treatment, narrowing the tax base further. A corporate rate cut, in contrast, benefits all types of investment.

- Before 2001, Australia had a comprehensive accelerated depreciation regime for capital assets. The regime provided depreciation rates for assets based on effective lives adjusted by a loading of 20 per cent.

- In September 1999 the Howard Government accepted the Ralph Review recommendation to reduce the company tax rate from 36 per cent to 30 per cent. This policy change was partly funded by replacing the accelerated depreciation regime with the current approach of depreciating assets over their effective lives.

The Government's investment incentives

- The Government's investment incentives for small business and innovation are targeted and complement the Government's commitment to a comprehensive company tax cut.

- **Instant Asset Write Off:** Cash flow challenges and compliance costs of estimating and then depreciating assets over several years make it more difficult for business to invest in assets. The 'Instant Asset Write-Off' for small businesses, provides businesses with turnover less than $2 million per annum an immediate deduction (i.e. 100 per cent depreciation) for eligible assets costing less than $20,000 acquired prior to 1 July 2017. This was subsequently extended to entities with turnover of less than $10 million, and also extended to assets acquired until 30 June 2018.

- In 2015, the Government has also announced it would **give companies more flexibility to depreciate their intangible assets, making startups'** intellectual property and other intangible assets, **a more attractive investment option**. **However, Labor has blocked this reform,** which was meant to commence on 1 July 2017.
  - Innovative companies are more likely to hold a high proportion of intangible or knowledge-based assets, such as patents and copyrights. Investment in these assets is crucial to innovation and growth.
  - Unlike tangible assets, however, intangible assets with a statutory effective life can't be self-assessed to bring their tax life in line with the economic life of the asset. This can reduce the depreciation benefit and increase the cost of investment in these assets.

Other investment incentives

- Since the phased removal of a broad accelerated depreciation regime in 2001, various Australian Governments have implemented temporary or targeted accelerated depreciation regimes and investment allowances.

- Small businesses can access the small business depreciation pooling provisions. Eligibility criteria for businesses and assets have varied over time, but currently assets costing more than $20,000 are added to the small business pool and written off at an accelerated rate, being 15 per cent of the cost in the first year and 30 per cent of the cost in all subsequent years. The balance of the small business pool can also currently be written off at the end of an income year if its balance is less than $20,000.

- The Abbott Government also introduced new accelerated depreciation for primary producers, which allows taxpayers to immediately deduct the cost of fencing and water facilities (rather than depreciate them over time) and deduct the cost of fodder storage assets over three years.

- The Rudd Government's stimulus response to the Global Financial Crisis included an investment allowance, being an additional tax deduction. This deduction was in addition to the ordinary depreciation deductions taxpayers could claim for these assets. The investment allowance applied to certain new tangible depreciating assets costing $10,000 or more that businesses committed to investing in between 13 December 2008 and 30 June 2009 and installed ready for use by 31 December 2010.

Melbourne Economic Forum modelling

- Modelling released by Victoria University academics Janine Dixon and Jason Nassios at the Melbourne Economic Forum (10 April 2018) was reported to show that a permanent investment subsidy produces more economic benefits than a tax cut with equivalent fiscal cost.
  - The Victoria University modelling does not reflect the Government's announced tax cut policy. For example, they assume different start dates for a company tax cut.
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QTB Number:	QB18-000261	QTB Category:	Taxation
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Office Responsible	TSR	Office Adviser Initial and Date Cleared	20/08/2018 s 22

LABOR'S INVESTMENT ALLOWANCE

Top lines

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- **Businesses are <u>not</u> required to increase investment under their policy**. Labor's policy has no requirement of investment additionality - businesses can access the measure irrespective of whether the investment would have occurred anyway.

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BACKGROUND

- The global trend over recent decades has been to reduce company tax rates and remove investment allowances to compete more effectively for mobile investment while combating the incentive to shift profits. It has both broadened their corporate tax bases and made them more secure.

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- The Government's investment incentives for small business and innovation are targeted and complement the Government's commitment to a comprehensive company tax cut.

- **Instant Asset Write Off:** Cash flow challenges and compliance costs of estimating and then depreciating assets over several years make it more difficult for business to invest in assets. The 'Instant Asset Write-Off' for small businesses, provides businesses with turnover less than $2 million per annum an immediate deduction (i.e. 100 per cent depreciation) for eligible assets costing less than $20,000 acquired prior to 1 July 2017. This was subsequently extended to entities with turnover of less than $10 million, and also extended to assets acquired until 30 June 2018.

- In 2015, the Government has also announced it would **give companies more flexibility to depreciate their intangible assets, making startups'** intellectual property and other intangible assets, **a more attractive investment option. However, Labor has blocked this reform,** which was meant to commence on 1 July 2017.
  - Innovative companies are more likely to hold a high proportion of intangible or knowledge-based assets, such as patents and copyrights. Investment in these assets is crucial to innovation and growth.
  - Unlike tangible assets, however, intangible assets with a statutory effective life can't be self-assessed to bring their tax life in line with the economic life of the asset. This can reduce the depreciation benefit and increase the cost of investment in these assets.

Other investment incentives

- Since the phased removal of a broad accelerated depreciation regime in 2001, various Australian Governments have implemented temporary or targeted accelerated depreciation regimes and investment allowances.

- Small businesses can access the small business depreciation pooling provisions. Eligibility criteria for businesses and assets have varied over time, but currently assets costing more than $20,000 are added to the small business pool and written off at an accelerated rate, being 15 per cent of the cost in the first year and 30 per cent of the cost in all subsequent years. The balance of the small business pool can also currently be written off at the end of an income year if its balance is less than $20,000.

QTB Number:	QB18-000	QTB Category:	Taxation
Contact Officer:	s 22 [redacted]	Date and time:	06/09/2018 2:43 PM
Contact Number:	[redacted]	Next update:	
Office Responsible	TSR/AT/AMT&F	Office Adviser Initial and Date Cleared	

- The Abbott Government also introduced new accelerated depreciation for primary producers, which allows taxpayers to immediately deduct the cost of fencing and water facilities (rather than depreciate them over time) and deduct the cost of fodder storage assets over three years.

- The Rudd Government's stimulus response to the Global Financial Crisis included an investment allowance, being an additional tax deduction. This deduction was in addition to the ordinary depreciation deductions taxpayers could claim for these assets. The investment allowance applied to certain new tangible depreciating assets costing $10,000 or more that businesses committed to investing in between 13 December 2008 and 30 June 2009 and installed ready for use by 31 December 2010.

Melbourne Economic Forum modelling

- Modelling released by Victoria University academics Janine Dixon and Jason Nassios at the Melbourne Economic Forum (10 April 2018) was reported to show that a permanent investment subsidy produces more economic benefits than a tax cut with equivalent fiscal cost.
  - The Victoria University modelling does not reflect the Government's announced tax cut policy. For example, they assume different start dates for a company tax cut.
  - A key drawback of an investment subsidy that is not mentioned in reports on the study is that it has no effect on the incentive to shift profits to jurisdictions with lower statutory tax rates.

QTB Number:	QB18-000	QTB Category:	Taxation
Contact Officer:	s 22 [redacted]	Date and time:	06/09/2018 2:43 PM
Contact Number:	[redacted]	Next update:	
Office Responsible	TSR/AT/AMT&F	Office Adviser Initial and Date Cleared	

s 22

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TREASURY PORTFOLIO

AUSTRALIAN LABOR PARTY - ELECTION COMMITMENTS THAT MAY REQUIRE LEGISLATION

Please click on yellow cells below to select input

Output

Row No.	Commitment ID (PMC	Date Announced	Title	Announced Date of Effect	Group	Package or Grouping	KIB Package or Grouping	Commentary	Probability of delay	Revenue Impact of delay	Overall risk
s 22 [redacted]											
20	C-0290	13/03/2018	Australian Investment Guarantee	1/07/2020	RG	Key Revenue Measure	Tax System				
s 22 [redacted]											

s 22

s 22

DEPARTMENT OF THE TREASURY
LEGISLATION LIST - LABOR INDICATIVE LIST

Election Commitments
Measures lapsed at dissolution of 45th Parliament
Measures on 45th Parliament Legislation Program

* unquantifiable

Row No.	PMO Commitment ID/ Treasury ID	Measure Title	Legislation Type	Law Effect Date	Election Commitment already on Treasury Program	168 Packaging or Grouping/Initiative Type	Division	Commentary	AM/M	Financial Impact	Bi-partisan	Non-controversial
s 22 [redacted]												
10	C-0290	Australian Investment Guarantee		1/07/2021		Tax System	RG	Note - start date revised back from 1 July 2020 to 1 July 2021		$830m		
s 22 [redacted]												

Pages 2-8 are outside the scope of the request and have been deleted

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Document 19

Note: The Coalition commitments were all announced at Budget 2019-20 and form part of the PEFO baseline. The ALP commitments are presented here as departures from this baseline.

	ALP commitments	Details (as publicly stated, and recorded in the election commitment tracker)	Original date
1	Australian Investment Guarantee	"The ALP will enable businesses (from 1 July 2020) to deduct up to 20 per cent of the value eligible depreciable assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules from the first year." ($10.3 billion over the [illegible]	[illegible]

s 22

[redacted]

s 22

FOI 2543
Document 20

s 22 [redacted]

From: s 22 [redacted]
Sent: [redacted]
To: s 22 [redacted]
Subject: Chat with s 22 [redacted]treasury.gov.au

10 April 2019

s 22 [redacted]@treasury.gov.au

Hi s 22 [redacted] there is a new ECM commitment (ECM C290, Australian Investment Guarantee). We're thinking it belongs to CITD, as it is part of a small business policy package. Is that right?	09:50

s 22 [redacted]

Hi	09:51
Yes, that one is us - at least, largely us but we'll collaborate with IITD on any small business angle	09:51

s 22 [redacted]

ok, will send through a request soonish	09:52

s 22 [redacted]

thanks 🙂	09:58

s 22 [redacted]

On further reflection, do you think it makes sense to cover off on this commitment as part of the small bus policy package implementation brief?	10:56

s 22 [redacted]

Ah, good question. I think keep it separate for now, but I'll raise it with the relevant teams (IITD is leading on small business)	10:58
I think it'll be based on whether/how much alternative approaches might want to be discussed (ie, cutting the corporate rate)	10:58
but i havent actually spoken to them yet	10:58

FOI 2543
Document 21

s 22

From: s 22
Sent: Tuesday, 16 April 2019 5:00 PM
To: s 22
Cc: McDonald, Hamish; s 22
Subject: RE: IDC on Climate Change [SEC=OFFICIAL]

Hi s 22

The ALP AIG policy does not cover passenger motor vehicles, but it would apply to non-passenger motor vehicles such as lorries, vans, utes and trucks that are used to support trade businesses where there value is greater than $20,000.

The policy does not focus on investment in energy efficient technologies, but on investment generally. It would be strange to limit it to energy efficient non-passenger motor vehicles, but then allow it to also apply to investment in coal mines, for example.

I am happy for you to give them my contact, if necessary, or if you need more information to pass along to them, please let me know.

s 22

From: s 22
Sent: Tuesday, 16 April 2019 4:08 PM
To: s 22
Cc: McDonald, Hamish s 22
Subject: RE: IDC on Climate Change [SEC=OFFICIAL]

Hi s 22

Thank you for your time just now! As discussed, understand that you're aware of the Australian Investment Guarantee (AIG) which we understand to be a broad based policy the ALP have designed to incentivise greater business investment in the economy.

The AIG came up in a conversation that we had with Department of the Environment and Energy, Dept of Infrastructure Regional Development and Cities (DIRDC) and other agencies in an IDC earlier this morning. The AIG was discussed, in the context of being a means for accelerating investment in lower emissions vehicles to deliver on the ALPs economy wide emissions reduction target.

But the relevant agencies did not seem to be aware that the ALPs policy is broad based in nature and we have advised DEE and DIRD that Treasury's Revenue Group is the lead agency on the AIG.

Please let me know if you would like to get in touch with DIRD or DEE to influence their thinking on what effect the policy may have on incentivising more efficient vehicles – given it is just as likely that businesses may use this program to invest in inefficient vehicles – if the eligibility doesn't include an efficiency criterion. Alternatively, we're just as happy to pass this message on to those agencies.

Alternatively, if we get any further questions from relevant agencies on this policy – we will direct them on to you guys.

Cheers

s 22 [redacted]

From: McDonald, Hamish <Hamish.McDonald@TREASURY.GOV.AU>
Sent: Tuesday, 16 April 2019 2:00 PM
To: s 22 [redacted]@environment.gov.au>
Cc: s 22 [redacted]@infrastructure.gov.au; s 22 [redacted]@TREASURY.GOV.AU>
Subject: RE: IDC on Climate Change [SEC=OFFICIAL]

Hi s 22 [redacted]

Thanks for the meeting earlier today.

I have one extra change to the spreadsheet: "3.3 Australian Investment Guarantee" sits with Treasury's revenue group to lead, rather than DIRD, please. Tsy will of course need to work closely with DIRD on the vehicle related parts of it.

Cheers
Hamish

From: s 22 [redacted]@environment.gov.au>
Sent: Monday, 15 April 2019 4:57 PM
To: s 22 [redacted]
s 22 [redacted]
Subject: IDC on Climate Change [SEC=OFFICIAL]

Colleagues

For tomorrow's Climate Change IDC, we have prepared the attached spreadsheet of measures announced as part of the ALP's Climate Change Action Plan (see: https://www.alp.org.au/media/1692/labors_climate_change_action_plan.pdf).

FOI 2543
Document 22

s 22 [redacted]

From: s 22 [redacted]
Sent: [redacted]
To: s 22 [redacted]
Cc:
Subject: Australian Investment Guarantee question [SEC=PROTECTED]

Hi s 22 [redacted]

Earlier you asked a question about the Australian Investment Guarantee, specifically what assets were eligible. Whilst what I said was broadly correct, s 22 [redacted] has pointed out that the ALP has specified further detail in their AIG Fact Sheet – important parts copied below (for which, thanks Jack!).

The scope and key design features of the new Australian Investment Guarantee are:

- Eligible assets **will** include tangible machinery, plant and equipment for both upgrades and new purchases (for example, farm tractors and food processing machinery)
- Depreciable intangible assets (often referred to as "knowledge assets") which make up an increasingly larger component of non-mining investment **will** also be eligible (for example, patents and copyrights)
- Investments in structures and buildings are **excluded**, consistent with previous accelerated depreciation policies used in Australia
- It would **not** apply to otherwise eligible expenditure currently claimed under the existing research and development tax concession
- It would **not** apply to passenger motor vehicles, but it would apply to non-passenger motor vehicles such as lorries, vans, utes and trucks that are used to support trade businesses
- It would **only** apply to eligible investments valued at over $20,000 (with no pooling of assets allowed) to ensure it is well-targeted at productivity-enhancing investments

Happy to discuss if you have any questions,

s 22 [redacted]

Policy Analyst

Corporate and International Tax Division
The Treasury, Langton Crescent, Parkes ACT 2600
AUSTRALIA
phone s 22 [redacted]
email: s 22 [redacted]@treasury.gov.au

FOI 2543
Document 23

s 22 [redacted]

From: s 22 [redacted]
Sent: Tuesday, 30 April 2019 2:27 PM
To: s 22 [redacted]
Subject: Chat with s 22 [redacted]

24 April 2019

s 22 [redacted]

Hi, are you there?

s 22 [redacted]

Yep

Sure am

What's up?

s 22 [redacted]

ah s 22 [redacted] asked in passing a question about the AIG brief

mainly about what constitutes an eligible asset

i said that to date labor statements have been fairly broad, but only ruling out certain things like buildings

but would need to be determined later

he seemed broadly OK with that, but if I have made an error, grateful if you could correct me

s 22 [redacted]

That is almost correct

In addition to buildings/structures, it also excludes passenger vehicles (non-passenger vehicles like trucks, utes etc are inclu

s 22 [redacted]

ah, ok

but did labor issue a formal list?

or was this just described in general terms

s 22 [redacted]

yes

s 22 [redacted]

or a link to a particular part of the existing tax law

s 22 [redacted]

they were pretty specific

I'll send you the relevant link

s 22 [redacted]

thx

s 22 [redacted]

https://d3n8a8pro7vhmx.cloudfront.net/australianlaborparty/pages/7652/attachments/original/1520894754/180313_Fact_S

on page 5

• Eligible assets will include tangible machinery, plant and equipment for both upgrades and new purchases (for example, farm tractors and food processing machinery)

• Depreciable intangible assets (often referred to as "knowledge assets") which make up an increasingly larger component of non-mining investment will also be eligible (for example, patents and copyrights)

• Investments in structures and buildings are excluded, consistent with previous accelerated depreciation policies used in Australia

• It would not apply to otherwise eligible expenditure currently claimed under the existing

research and development tax concession
• It would not apply to passenger motor vehicles, but it would apply to non-passenger motor vehicles such as lorries, vans, utes and trucks that are used to support trade businesses
• It would only apply to eligible investments valued at over $20,000 (with no pooling of assets allowed) to ensure it is well-targeted at productivity-enhancing investments

s 22 [redacted]

OK, thanks 🙂

s 22 [redacted]

No worries

Anytim!

any time*!

s 22 [redacted]

lol

29 April 2019

s 22 [redacted]

H s 22 [redacted] ou may be aware we have had a problem with our wikis and we're doing a rollback

can you have a look at this budget wiki to see if it was essentially where you left it?

http://tweb/sites/rg/citd/restor/citd/Budget.aspx

s 22 [redacted]

Hey s 22 [redacted] unfortunately I'm getting a permissions issue>?

?*

Anyone else getting this problem

s 22 [redacted]

yeah, sorry about that

helpfully, i can put it up on my screen

didnt realise that others couldnt see it til s 22 [redacted] came over

s 22 [redacted]

No worries

s 22 [redacted]

From: s 22 [redacted]
Sent: Friday, 3 May 2019 2:53 PM
To: s 22 [redacted]
Subject: Chat with s 22 [redacted]

18 April 2019

s 22 [redacted]

Hi s 22 [redacted] just making sure that you're receiving the CITD briefings that i've been putting on your sharepoint	14:17
Just added another on Build to Rent	14:17

s 22 [redacted]

Yes, thank you. They are looking good. Will take a look at build to rent soon. Also, are you here next week?	15:02

s 22 [redacted]

yes, i'm here	15:02
alas	15:02

s 22 [redacted]

Good from our perspective!	15:02

s 22 [redacted]

	15:02

24 April 2019

s 22 [redacted]

Hi, please be advised that I've dropped an updated Australian Investment Guarantee briefing in the SSU's CITD folder	10:56
There are a few general improvements, but the key from a messaging perspective is that the AIG is an 'investment incentive' not an investment deduction	10:57

s 22 [redacted]

Great, thanks!	10:57

s 22 [redacted]

Later today, there will be an updated Tax Transparency briefing, given the press in the AFR this morning (among other things)	10:57
and ideally today there will also be a briefing on thin cap, just solving some techincal issues	10:58
*technical	10:58
I'll let you know when those go in	10:58

01 May 2019

s 22 [redacted]

Hi s 22 [redacted] FYI CITD will be at a planning day tomorrow	14:03

From: s 22 [redacted]
To: McCullough, Paul
Cc: s 22 [redacted] Francis, Geoff; s 22 [redacted]
Subject: Hor inquiry - impediments to business investment [SEC=UNCLASSIFIED]
Date: Tuesday, 4 June 2019 12:06:10 PM

Hi Paul

The recommendation in the House of Reps inquiry into impediments to business investment that we need to respond to by 20 June is:

Recommendation 8
The committee recommends that the Australian Government reduce the company tax rate in Australia to 25 per cent for all companies by 2026-27.
There is a dissenting report with a recommendation about the Australian Investment Guarantee, but the Government is not required to respond to dissenting recommendations from the House Inquiries, and so we are not being asked to draft a response to that one.
s 22 [redacted]

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s 22 [redacted]

From: s 22 [redacted]
Sent: Tuesday, 28 August 2018 2:41 PM
To: Brine, Matthew
Cc: McCullough, Paul
Subject: Summary of Opposition's policy [SEC=UNCLASSIFIED]

Matt
If you need it for backpocket, a short summary of the Opposition's Australian Investment Guarantee is below:

The Australian Investment Guarantee is intended to be a permanent feature of the tax system. From 1 July 2020, all businesses operating in Australia will enjoy a new Australian Investment Guarantee. It is a form of accelerated depreciation that allows businesses to immediately expense 20 per cent of the value of eligible assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules from the first year. Eligible assets valued at over $20,000, such as tangible machinery, plant and equipment (both for upgrades and new purchases), non-passenger motor vehicles, computerised technology and intellectual property such as patents and copyrights, are able to access the guarantee.

s 22 [redacted]
Senior Adviser

Large Corporates Unit
Corporate and International Division
The Treasury, Langton Crescent, Parkes ACT 2600
phone: s 22 [redacted]
email: s 22 [redacted]@treasury.gov.au

FOI 2543
Document 27

s 22 [redacted]

From:	s 22 [redacted]
Sent:	Tuesday, 29 May 2018 9:40 AM
To:	[redacted]
Cc:	s 22 [redacted]
Subject:	RE: Special requests for Tuesday [SEC=UNCLASSIFIED]
Attachments:	12-04-2018 Domestic history of tax incentives to encourage investment - ....docx; 12-04-2018 Domestic history of tax incentives to encourage investment -f....docx

Hi Paul

The attached notes reflect our thinking on the investment allowance/accelerated depreciation merits prepared at the time of the ALP Australian Investment Guarantee policy announcement.

Thomas is putting this into the new Senate Estimates format now, but happy to discuss in the meantime.

s 22 [redacted]

Manager | Large Corporates Unit
Corporate and International Tax Division Treasury, Langton Crescent, Parkes ACT 2600 T s 22 [redacted]
s 22 [redacted]@treasury.gov.au

-----Original Message-----
From: McCullough, Paul
Sent: Saturday, 26 May 2018 6:12 AM
To s 22 [redacted] Francis, Geoff; s 22 [redacted]
Cc [redacted]
Subject: [SEC=UNCLASSIFIED] Special requests for Tuesday

Hi s 22 [redacted]

s 22 [redacted]

s 22 [redacted] can you please get a few people together and get me a position on what we think about investment allowances and accelerated depreciation? Are they a good idea now? Also, what are the key features of labor's IA policy?

s 22 [redacted]

Thanks all.

Sent from my iPhone

BUSINESS INVESTMENT TAX INCENTIVES

KEY POINTS

- Aside from changing the company tax rate, tax measures to encourage business investment generally take one of two forms; investment allowances and accelerated depreciation.
  - Accelerated depreciation regimes generally bring forward the timing of depreciation deductions that would normally arise in later years, whereas investment allowances provide an additional tax deduction over and above the cost of the asset (which is generally deductible over time).
- Since the phased removal of a broad accelerated depreciation regime in 2001, various Australian Governments have implemented temporary or targeted accelerated depreciation regimes and investment allowances.

ADDITIONAL INFORMATION

- Prior to 2001, Australia had a comprehensive accelerated depreciation regime for capital assets. The regime provided depreciation rates for assets based on effective lives adjusted by a loading of 20 per cent. Depreciation rates were then broadbanded into one of seven rate groups.
- In September 1999 the Howard Government accepted the Ralph Review recommendation to reduce the company tax rate from 36 per cent to 30 per cent. This policy change was partly funded by moving away from the former accelerated depreciation regime and towards the current regime, which generally depreciates assets over their effective lives.
- Investment allowance and accelerated depreciation policies implemented after the 1999-2001 company tax rate reduction and base broadening reforms have been temporary or targeted to either expenditure on certain assets or towards certain industries.
  - Small businesses can access the small business depreciation pooling provisions. Eligibility criteria for businesses and assets have varied over time, but currently assets costing more than $20,000 are added to the small business pool and written off at an accelerated rate, being 15 per cent of the cost in the first year and 30 per cent of the cost in all subsequent years. The balance of the small business pool can also currently be written off at the end of an income year if its balance is less than $20,000.
  - The Rudd Government's stimulus response to the Global Financial Crisis included an investment allowance, being an additional tax deduction. This deduction was in addition to the ordinary depreciation deductions taxpayers could claim for these assets. The investment allowance applied to certain new tangible depreciating assets costing $10,000 or more that businesses committed to investing in between 13 December 2008 and 30 June 2009 and installed ready for use by 31 December 2010.

  - A higher rate of support was provided for small businesses with turnover less than $2 million per annum. These businesses received a 50 per cent additional tax deduction for eligible tangible depreciating assets costing $1,000 or more acquired between 13 December 2008 and 31 December 2009, and installed ready for use by 31 December 2010.
  - For all other taxpayers, the additional deduction was worked out using a rate of either 30 per cent or 10 per cent depending on when the taxpayer committed to investing in the asset. The additional deduction was claimed in the income year that the asset is first used or installed ready for use.

- The Abbott Government introduced a new temporary accelerated depreciation regime, the 'Instant Asset Write-Off' for small businesses, which provided businesses with turnover less than $2 million per annum an immediate deduction (i.e. 100 per cent depreciation) for eligible assets costing less than $20,000 acquired prior to 1 July 2017. This was subsequently extended to entities with turnover of less than $10 million, and also extended to assets acquired until 30 June 2018.
- The Abbott Government also introduced new accelerated depreciation for primary producers, which allows taxpayers to immediately deduct the cost of fencing and water facilities (rather than depreciate them over time) and deduct the cost of fodder storage assets over three years.

- The current **Opposition proposal**, known as the Australian Investment Guarantee is a form of accelerated depreciation, which would allow businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules from the first year.
  - This proposal is a hybrid of the accelerated depreciation arrangements that applied prior to 2001 and the current depreciation rules which depreciate an asset over its effective life.

ALP'S INVESTMENT SUBSIDY PRIMED FOR THE OLD ECONOMY

ALP investment subsidy

- **On 13 March 2018 the ALP** announced the Australian Investment Guarantee.

- It would allow businesses to immediately expense 20 per cent of the value of eligible depreciable assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules from the first year.

- **The ALP's policy release reports the Parliamentary Budget Office has estimated the proposal to have a cost of $3.4 billion over the forward estimates and $10.3 billion over the medium-term.**

Key deficiencies of ALP's proposal compared to a company tax cut

- An investment subsidy (also known as investment allowance) is a poor substitute for the comprehensive company tax reform the Government is implementing through the Enterprise Tax Plan.

- **It favours capital intensive industries (old economy)** at the expense of many new economy companies that need less capital to grow such as knowledge and service industries that are more labour intensive.

- **It does not reduce incentives for companies to shift profits offshore** to low tax jurisdictions.

  - The clear trend across the globe is reductions in the corporate tax rate to attract investment and address profit shifting. An investment subsidy cannot achieve both of these objectives.

- **Maintaining a high company tax rate is out of step with the rest of the world.** The global trend over recent decades has been to reduce company tax rates and remove investment allowances to compete more effectively for mobile investment while combating the incentive to shift profits. This trend has increased the pressure to adopt similar reforms.

  - If Australia were to offer a capital investment allowance while keeping its uncompetitive corporate tax rate in place, we would heighten, not lessen, the incentive of multinational corporations to shift profits out of this country. While Australia has a number of integrity measures in place to deal with this risk, these measures would come under further pressure as a result of this change. The temptation to book expenses in Australia while claiming profits overseas would be stronger. This is why most OECD countries over recent decades have instead moved to cut their headline corporate tax rates. By doing this, they have both attracted mobile global investment (and the domestic economic benefits it brings), but at the same time also reduced their exposure to profit shifting. In other words, they have both broadened their corporate tax bases and made them more secure. No other corporate tax change can do this.

Commented s 22 The Opposition policy document notes that the AIG will apply to depreciable intangible assets (like software). So the specific criticism is that companies that use their own labour to develop intangible assets or that buy intangible assets that are currently expensible are not assisted by the AIG (only those that buy depreciable assets from external developers can potentially be covered).

- **Australia removed these types of subsidies in the early 2000s** as they were found less effective than a company tax cut.
  - Prior to 2001, Australia had a comprehensive accelerated depreciation regime for capital assets. The regime provided depreciation rates for assets based on effective lives adjusted by a loading of 20 per cent. Depreciation rates were then broadbanded into one of seven rate groups.
  - In September 1999 the Howard Government accepted the Ralph Review recommendation to reduce the company tax rate from 36 per cent to 30 per cent. This policy change was partly funded by moving away from the former accelerated depreciation regime and towards the current regime, which generally depreciates assets over their effective lives.
  - **Investment subsidies necessarily favour some types of investments, firms and industries over others. Depreciation allowances favour capital intensive industries that tend to be made up of larger firms like mining at the expense of labour-intensive sectors like retail and new economy activities which employ intangible capital. Experience in Australia and internationally shows that investment allowances result in special interest lobbying for more preferential treatment, narrowing the tax base further. A corporate rate cut, in contrast, benefits all types of investment, regardless of its composition.**

The Government's investment incentives for small business and innovation are targeted and complement the Government's commitment to a comprehensive company tax cut

- **Instant Asset Write Off:** The 'Instant Asset Write-Off' for small businesses, provides businesses with turnover less than $2 million per annum an immediate deduction (i.e. 100 per cent depreciation) for eligible assets costing less than $20,000 acquired prior to 1 July 2017. This was subsequently extended to entities with turnover of less than $10 million, and also extended to assets acquired until 30 June 2018. By bringing forward the timing of deductions, the instant asset write off improves cash flow, helping small businesses grow and succeed.

- In 2015, the Government has also announced it would **allow depreciation of acquired intangible assets, making startups'** intellectual property and other intangible assets, **a more attractive investment option. However, Labor has blocked this reform.**
  - Innovative companies are more likely to hold a high proportion of intangible or knowledge-based assets, such as patents and copyrights. Investment in these assets is crucial to innovation and growth.
  - Unlike tangible assets, however, intangible assets with a statutory effective life can't be self-assessed to bring their tax life in line with the economic life of the asset. This can reduce the depreciation benefit and increase the cost of investment in these assets.

Other investment incentives

- Since the phased removal of a broad accelerated depreciation regime in 2001, various Australian Governments have implemented temporary or targeted accelerated depreciation regimes and investment allowances.

- Small businesses can access the small business depreciation pooling provisions. Eligibility criteria for businesses and assets have varied over time, but currently assets costing more than $20,000 are added to the small business pool and written off at an accelerated rate, being 15 per cent of the cost in the first year and 30 per cent of the cost in all subsequent years. The balance of the small business pool can also currently be written off at the end of an income year if its balance is less than $20,000.

- The Abbott Government also introduced new accelerated depreciation provisions for primary producers, which allows taxpayers to immediately deduct the cost of fencing and water facilities (rather than depreciate them over time) and deduct the cost of fodder storage assets over three years.

- The Rudd Government's stimulus response to the Global Financial Crisis included an investment allowance, being an additional tax deduction. This deduction was in addition to the ordinary depreciation deductions taxpayers could claim for eligible assets. The investment allowance applied to certain new tangible depreciating assets that businesses committed to investing in between 13 December 2008 and 30 June 2009 and installed ready for use by 31 December 2010. The assets had to have a cost of $1,000 or more (for small businesses with turnover below $2 million per annum) or $10,000 or more for other businesses. A number of different rates of additional deduction, from 10 per cent to 50 per cent, were provided over the life of the policy.

FOI 2543
Document 28

s 22 [redacted]

From: s 22 [redacted]
Sent: Tuesday, 16 April 2019 5:00 PM
To: s 22 [redacted]
Cc: McDonald, Hamish; s 22 [redacted]
Subject: RE: IDC on Climate Change [SEC=OFFICIAL]

Hi s 22 [redacted]

The ALP AIG policy does not cover passenger motor vehicles, but it would apply to non-passenger motor vehicles such as lorries, vans, utes and trucks that are used to support trade businesses where there value is greater than $20,000.

The policy does not focus on investment in energy efficient technologies, but on investment generally. It would be strange to limit it to energy efficient non-passenger motor vehicles, but then allow it to also apply to investment in coal mines, for example.

I am happy for you to give them my contact, if necessary, or if you need more information to pass along to them, please let me know.

s 22 [redacted]

From: s 22 [redacted]
Sent: Tuesday, 16 April 2019 4:08 PM
To: s 22 [redacted]
Cc: McDonald, Hamish s 22 [redacted]
Subject: RE: IDC on Climate Change [SEC=OFFICIAL]

Hi s 22 [redacted]

Thank you for your time just now! As discussed, understand that you're aware of the Australian Investment Guarantee (AIG) which we understand to be a broad based policy the ALP have designed to incentivise greater business investment in the economy.

The AIG came up in a conversation that we had with Department of the Environment and Energy, Dept of Infrastructure Regional Development and Cities (DIRDC) and other agencies in an IDC earlier this morning. The AIG was discussed, in the context of being a means for accelerating investment in lower emissions vehicles to deliver on the ALPs economy wide emissions reduction target.

But the relevant agencies did not seem to be aware that the ALPs policy is broad based in nature and we have advised DEE and DIRD that Treasury's Revenue Group is the lead agency on the AIG.

Please let me know if you would like to get in touch with DIRD or DEE to influence their thinking on what effect the policy may have on incentivising more efficient vehicles – given it is just as likely that businesses may use this program to invest in inefficient vehicles – if the eligibility doesn't include an efficiency criterion. Alternatively, we're just as happy to pass this message on to those agencies.

Alternatively, if we get any further questions from relevant agencies on this policy – we will direct them on to you guys.

Cheers

s 22 [redacted]

From: McDonald, Hamish <Hamish.McDonald@TREASURY.GOV.AU>
Sent: Tuesday, 16 April 2019 2:00 PM
To: 'Kristin Tilley' <Kristin.Tilley@environment.gov.au>
Cc: s 22 [redacted]@infrastructure.gov.au s 22 [redacted]@TREASURY.GOV.AU>
Subject: RE: IDC on Climate Change [SEC=OFFICIAL]

Hi Kristin

Thanks for the meeting earlier today.

I have one extra change to the spreadsheet: "3.3 Australian Investment Guarantee" sits with Treasury's revenue group to lead, rather than DIRD, please. Tsy will of course need to work closely with DIRD on the vehicle related parts of it.

Cheers
Hamish

From: Kristin Tilley <Kristin.Tilley@environment.gov.au>
Sent: Monday, 15 April 2019 4:57 PM
To: s 22 [redacted]
s 22 [redacted]
Subject: IDC on Climate Change [SEC=OFFICIAL]

Colleagues

For tomorrow's Climate Change IDC, we have prepared the <u>attached</u> spreadsheet of measures announced as part of the ALP's Climate Change Action Plan (see: https://www.alp.org.au/media/1692/labors_climate_change_action_plan.pdf).

The purpose of the IDC is to:
1 – agree responsible portfolio/s for each measure
2 – share initial views on how to implement each measure (timing, process, difficulties, linkages)
3 – identify contacts across departments to continue discussions during caretaker
4 – general update on climate change messaging in red and blue books

We will ask each portfolio lead to provide their early views on implementation of the measures for which they are responsible (e.g. process, indicative timeframes, interdependencies, challenges). We certainly don't expect detailed answers at this early stage, so initial reactions is fine.

Also, given the size of the spreadsheet, we suggest you select the columns shaded pale red and print in A3 portrait format. The remaining columns are not important for the purpose of tomorrow's discussion.

Looking forward to seeing you tomorrow morning.

Those in JGB – please note the venue change to Banksia Room on Level 4.

Cheers
Kristin

Kristin Tilley
First Assistant Secretary
Climate Change Division

Department of the Environment and Energy
John Gorton Building, King Edward Terrace, Parkes ACT 2600
T: 02 6159 7601 | M s 22 [redacted]
E: kristin.tilley@environment.gov.au

FOI 2543
Document 29

s 22 [redacted]

From: s 22 [redacted]
Sent: Tuesday, 13 March 2018 11:08 AM
To: s 22 [redacted]
Subject: RE: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

And another – the *Australian Investment Guarantee*

"In a second announcement to be made Tuesday by Bill Shorten, the Labor leader will promise to introduce an Australian Investment Guarantee in which all businesses in Australia will be able to immediately deduct 20 per cent off any new eligible asset worth more than $20,000.

The balance will be able to be depreciated in line with normal depreciation schedules after the first year.

The policy is a turbocharged version of the government's instant asset write-off which enables business to immediately write-off assets capped at $20,000. That scheme is expected to be extended for at least another year in the May budget.

Labor's scheme will be permanent and analysis by the Parliamentary Budget Office shows it will cost the budget about $1.8 billion a year."

Read more: http://www.afr.com/news/labor-promises-new-tax-writeoffs-for-business-20180312-h0xduq#ixzz59aBtfhLu

From: s 22 [redacted]
Sent: Tuesday, 13 March 2018 9:37 AM
To: s 22 [redacted]
s 22 [redacted]
Subject: RE: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

"It builds on a Labor policy agenda which already includes curbing negative gearing and capital gains tax deductions for investors, clamping down on the tax treatment of trusts, boosting the top marginal tax rate and limiting the tax deduction which can be claimed for preparing a tax return."

From: s 22 [redacted]
Sent: Tuesday, 13 March 2018 9:32 AM
To: s 22 [redacted]
s 22 [redacted]
Subject: RE: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

Perhaps the first of the flagged announcements:

"Opposition leader Bill Shorten will announce today that [dividend imputation related] cash refunds will be abolished from July 1, 2019, if Labor wins the next federal election.

More than one million shareholders, including self-funded retirees, who pay little or no tax would lose cash refunds for excess dividend imputation credits, under a proposed crackdown by Labor that would reap an estimated $59 billion in revenue over the next decade.

Mr Shorten will stress that those affected – about 200,000 of the 600,000 who use self-managed superannuation funds along with another 1.2 million taxpayers – will not pay any more tax. But they will not be entitled to a cash refund if their imputation credit on their dividend is more than their total tax bill."

Read more: http://www.afr.com/news/labor-to-end-share-dividend-cash-perk-in-59b-grab-20180312-h0xcxp#ixzz59ZnaDzS1
Follow us: @FinancialReview on Twitter | financialreview on Facebook

From: s 22 [redacted]
Sent: Tuesday, 6 March 2018 9:12 AM
To: s 22 [redacted]
s 22 [redacted]
Subject: RE: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

And some reported post-speech statements:

> Mr Bowen would not be drawn on specific tax concessions when quizzed by reporters after his speech.
>
> "If there's things in the budget which benefit high-income earners in particular then they need to be considered," he said.
>
> "That's the approach we've taken with family trusts, with negative gearing, with capital gains tax, and we will continue to do that and we have more to say in terms of detailed policy announcements."

https://www.sbs.com.au/news/labor-s-tax-agenda-not-finished-bowen

From: s 22 [redacted]
Sent: Monday, 5 March 2018 2:52 PM
To: s 22 [redacted]
s 22 [redacted]
Subject: RE: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

Not tax-related, but something that jumped out at me was the assertion that the NDIS and Gonski were funded in the Budget by the Gillard government. With regards to the Gonski funding in particular, the $2.8b funding across the first four years (the FEs) came from cutting funding to the Higher Education sector, however the funding across the fifth and sixth years (beyond the FEs, so 'out of sight' as far as the Budget is concerned) was to be roughly $7b. I have never seen any explanation for how that was supposed to be funded beyond the HE sector cuts (but that's not to say there isn't a good explanation that I'm unaware of). The Gonski –related funding is legislated and therefore not easily reduced by a government that doesn't control the Senate.

From s 22 [redacted]
Sent: Monday, 5 March 2018 2:27 PM
To: s 22 [redacted]
s 22 [redacted]
Subject: RE: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

A quick summary

- **Guiding ethos:** "Restraint with equity" was [the Hawke-Keating Government's] central theme"…"Relying on a carbon copy of 1983 policies would be exactly equivalent of Hawke and Keating in 1983 proposing the same policies as Labor in 1948. The ethos remains but the context is different. This is what I mean when I talk about our approach to modern government being "Hawke-Keating refurbished."

- **Tax settings mentioned:**

    - *Opposition to planned corporate tax cut*: "At the end of the Government's proposed 10 year reduction in corporate tax, the tax cut will be costing the Budget a staggering $15 billion a year. It is a fiscal ram-raid."

- *Tax concessions:* "An important part of any sensible fiscal strategy is identifying those tax concessions which eat away at the revenue base and reform them or abolish them"

- *Capital gains, negative gearing, and trusts:*

  - "Reforming negative gearing and family trusts in particular has been in the too hard basket for many years. We've taken them from the too hard basket and put them on the to-do list."

  - "By the end of the decade our negative gearing and capital gains tax reforms will together be adding $8 billion to the Budget"

- **Policy detail:** "...you'll be hearing more from us in the future in terms of more detailed policy announcements which meet the policy objectives I've outlined today.

From: s 22 [redacted]
Sent: Monday, 5 March 2018 1:08 PM
To: s 22 [redacted]RG Tax Framework Division
Subject: RE: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

Speech is now online

https://www.chrisbowen.net/transcriptsspeeches/address-to-per-capita-reform-agenda-series/

s 22 [redacted]

From: s 22 [redacted]
Sent: Monday, 5 March 2018 9:39 AM
To: RG Tax Framework Division
Subject: Heads up | Shadow Treasurer Bowen to deliver 'Hawke-Keating Refurbished" speech today [SEC=UNCLASSIFIED]

"Shadow treasurer Chris Bowen will pave the way for more policies targeting the wealthy and possibly paring back legislated company tax cuts in a speech in which he will badge Labor's approach as "Hawke-Keating refurbished."

In a scene-setting address to Per Capita to be delivered today, Mr Bowen says Labor will build on its announced plans to curb negative gearing, halve capital gains tax exemptions for investors, increase the top rate of income tax, and change the tax treatment of trusts.

He said the medium-term assumptions that have the budget staying in surplus beyond 2020-21 are "crude" and, to shore up the nation's finances, Labor will target the structural deficits left over from the days of the Howard government."

Read more: http://www.afr.com/news/labor-vows-to-step-up-assault-on-the-wealthy-20180304-h0wyuj#ixzz58p3HNDgq

s 22 [redacted]

Tax Framework Division
The Treasury, Langton Crescent, Parkes ACT 2600
phone: s 22 [redacted]
mobile:
email: s 22 [redacted]reasury.gov.au

BACKGROUND INFORMATION

Jobs

- Other design considerations include the definition of 'new employee', what employee costs are covered, and whether unincorporated small businesses should also be eligible.
- Integrity measures will help the policy meet its intended objectives. These could include: rules to address companies 'firing and rehiring' employees; pre-approving eligible jobseekers to reduce the risk of incorrect claims; and rules to ensure a company has genuinely operated in prior income years.
- However, integrity measures will need to be balanced against the additional complexity and compliance costs they impose on small businesses and jobseekers.

Collaboration

- Feedback from industry has indicated that financial factors are not major impediments to collaborative R&D, rather incentive structures and cultural factors in the research sector are acting as barriers (e.g. resistance to confidentiality due to funding being tied to publishing research. Confidentiality of research is critical for firms commercialising R&D).
- Eligibility criteria - be subject to a new, specific definition of eligible collaborative R&D activities to ensure that only genuinely collaborative activities are eligible for support. Should also be accompanied by integrity rules to ensure it is well targeted and achieves its intended policy objectives.

Clinics

- Clinics provide free tax advice and assistance to vulnerable individuals and small businesses, and provide opportunities for university students to develop their skills.
- From 1 January 2020, 10 tax clinics would receive funding of $150,000 per year (indexed to CPI). The tax clinics could choose to register as tax agents in their own right, and would receive Deductible Gift Recipient (DGR) status.
- A pilot program comprising ten tax clinics commenced in March 2019 and is due to be evaluated by the ATO (as the administrator) towards the end of 2019. Existing funding for most tax clinics will run through to March 2020. This evaluation will help inform issues around the level of funding required to support each tax clinic, the appropriate body to administer the tax clinics, and whether tax clinics require separate tax agent registration status or DGR status.

- Tax clinics being able to register as tax agents in their own right is also being considered as part of a broader review of the Tax Practitioners Board, due to report by 31 October 2019.

- A cost of around $4 million over the forward estimates
  - from 1 January 2020, 10 tax clinics would receive funding of $150,000 per year (indexed to CPI);
  - the tax clinics could choose to register as tax agents in their own right; and
  - the ten tax clinics would receive Deductible Gift Recipient (DGR) status.
- Funding could be provided through the *Mid-Year Economic and Fiscal Outlook 2019-20.* Informed by ATO's evaluation.
- A pilot program comprising ten tax clinics commenced in March 2019 and is due to be evaluated by the ATO (as the administrator of the pilot program) towards the end of 2019.
  - Existing funding for most tax clinics will run through to March 2020.
- This evaluation will help inform issues around:
  - the level of funding required to support each tax clinic;
  - the appropriate body to administer the tax clinics moving forward;
  - whether tax clinics require separate tax agent registration status; and
  - whether tax clinics would benefit from DGR status.
- Briefing and meeting by August 2019.

Beneficial ownership

- TBA.

Appeals

- Appoint a takes six to nine months.
- Brief in August.
- Under the ATO's existing organisational structure there are three Second Commissioners: for the Client Engagement Group, the Law Design and Practice Group, and the Enterprise Solutions and Technology Group.

- Require amendment to section 4 of the *Taxation Administration Act 1953* to increase the number of Second Commissioners from three to four.
  - Following legislative amendments would need to be advertised and filled.
  - We note with the impending retirement of Second Commissioner Neil Olesen, Client Engagement Group (20 September 2019), there will be a vacancy that will need to be permanently filled. It may be possible to fill both ... at the same time.
  - However if the timing does not align (depending on when legislation is passed for example) it may be possible at a later date to draw on the merit list established for the process to replace outgoing Second Commissioner Neil Olesen.
  - Appointments would require Cabinet consideration and appointment by the Governor-General.

Investment

- Is it 20,000 or more? I.e. what happens to $20,000 asset? They wouldn't be covered by the IAWO as those have to be less than $20K?
- The 2019-20 Budget increased the Instant Asset Write-Off (IAWO) threshold to $30,000 and expanded access to businesses with annual turnover less than $50 million. These arrangements have been legislated and will apply until 30 June 2020.
- There will be a gap between the end of the current IAWO (30 June 2020) and the commencement (1 July 2021). Stakeholders may pressure you for an interim measure, as the IAWO asset value threshold will revert from $30,000 to $1,000 and the annual turnover threshold will revert from less than $50 million to less than $10 million from 1 July 2020.
- Furthermore, stakeholders may pressure you to lower the eligible x threshold below $20,000, arguing that such investment may also be productivity enhancing.
- The main beneficiaries of the x will be capital-intensive industries, in particular, mining. By value, mining accounted for around 40 per cent of all depreciating assets (including those ineligible for the AIG) purchased in 2016-17. Loss-making companies (one-third of companies in 2016-17) will receive no immediate benefit, and may not benefit at all.

- The current legislated arrangements for the instant asset write-off (IAWO) is set to end on 30 June 2020. On 1 July 2020, the asset value threshold will revert from $30,000 to $1,000 and the annual turnover threshold will revert from less than $50 million to less than $10 million.

- Companies with annual turnover less than $50 million will have their tax rate lowered from 27.5 per cent to 26 per cent in 2020-21 and then to 25 per cent in 2021-22.

- This means there is a gap between the end of the current IAWO and the start of the X between 1 July 2020 and 30 June 2021). Given this gap, there may be pressure from stakeholders to extend immediate deductibility arrangements or make them permanent.
- Consideration will need to be given to interactions between the X and small business asset pooling rules, including whether accessing the X would preclude small businesses from accessing pooling arrangements for other assets.
  - Currently, small businesses can place assets which cannot be immediately deducted into the simplified depreciation pool and depreciate those assets at an accelerated rate. There are also rules that prevent small businesses from re-entering the simplified depreciation arrangements for five years if they have opted out.
- Noting the difficulty in unwinding accelerated depreciation in the past, it may be more appropriate to implement the X on a temporary basis. A temporary investment allowance would encourage investment in the short-term while providing flexibility to target investment more broadly (for example, the introduction of company tax rate cut) in the medium-term.

- The 2019-20 Budget increased the instant asset write-off threshold to $30,000 and expanded access to medium-sized businesses with an aggregate annual turnover less than $50 million. These changes have been legislated and apply from 7.30pm (AEDT) on 2 April 2019 until 30 June 2020.

Australian Investment Guarantee – Key Questions

What does the proposed policy do?

The Australian Investment Guarantee (AIG) will allow all businesses to immediately deduct 20 per cent of the value of depreciable assets costing more than $20,000, in the first year of new investments, with the balance depreciated in line with normal depreciation schedules, also from the first year.

When is the start date?

- The Australian Investment Guarantee is proposed to **start from 1 July 2021,** as per ALP's media release from 12 October 2018.
- The current legislated arrangements for the instant asset write-off (the higher 30,000 threshold, expanding access to business with turnover less than 50 million, suspending 'lock-out' rules) is **set to end on 30 June 2020.**
- This means that **there is a gap between the end of one scheme and the start of the other (between 1 July 2020 and 30 June 2021).**
- We need to clarify what the asset depreciation system will look like **between 1 July 2020 and 30 June 2021**

How might the asset depreciation system look like from 1 July 2021?

- Assets costing less than $1,000
  - Currently, the instant asset write-off threshold is set to revert to $1000 from 1 July 2020. This means that all purchases by **small businesses** (with turnover less than 10 million) of eligible assets costing less than $1000 can be immediately deducted. **Businesses with turnover greater than $10 million** will depreciate assets according to normal depreciation rules.
  - The ALP position paper states that the AIG does not apply to assets costing less than $20,000. In the absence of further changes to depreciation rules, assets costing less than $1,000 will be able to be immediately deducted. However given the year between the termination of the higher IAWO and the commencement of the AIG, there may be pressure from stakeholders to extend current arrangements.
- Assets costing more than $1,000 and less than $20,000
  - The ALP position paper does not mention how assets costing more than $1,000 but less than $20,000 will be treated.

- Under the assumption that the small business pooling arrangements remain unchanged, **small businesses** can place assets costing more than $1,000 but less than $20,000 into the small business depreciation pool and depreciate them at 15% in the first year and 30% in each following year.
- There may be pressure from stakeholders to provide further concessional treatment to investments in new assets costing more than $1,000 and less than $20,000.
- **Businesses with turnover greater than $10 million** are not able to access these pooling arrangements, and will depreciate assets costing between $1,000 and $20,000 according to normal depreciation rules.

• Assets costing more than $20,000

- **All businesses** will be able to deduct 20% of the value of eligible depreciable assets in the first year of all new investments, with the balance depreciated in line with normal depreciation schedules, also from the first year. This means that in effect, the business will be able to deduct more than 20% in the first year as they can deduct 20% and then also deduct some of the remaining balance based on normal depreciation rules, both in the first year.
- All businesses would depreciate these assets costing more than $20,000 under the AIG.

• Asset pooling

- Asset pooling arrangements would continue to apply to assets costing more than the IAWO threshold, as asset pooling arrangements are outlined in their own section on the tax law and the position paper does not articulate any changes to these arrangements.
- We will need to consider whether there is merit in amending 'lock out' rules for asset pooling, as under current arrangements, small businesses would be locked out of asset pooling if they opt into the AIG.

Interactions with small business pooling arrangements and normal depreciation rules

- There may be some cases where small businesses purchasing an asset costing more than $20,000, who would otherwise have had access to the small business simplified depreciation pool (deducting 15% in the first year and 30% in each following year), are made worse off under the AIG.
- However, we envisage all new assets costing more than $20,000 being deducted under the AIG, to ensure the simplicity of the policy.

Which assets are eligible under the Australian Investment Guarantee?

- **Tangible machinery**, plant and equipment for both upgrades and new purchases (for example, farm tractors and food processing machinery)
- Investments **in structures and buildings are excluded**, consistent with previous accelerated depreciation policies used in Australia
- **A key difference** between IAWO and AIG is that depreciable **intangible assets** (for example, patents and copyrights) are covered by the AIG, where they were not by the IAWO.

Commente s 22 **CITD - may be worth talking to Brian McKay who we understand has done some work on intangible assets.**

Do the same rules for GST apply to the AIG?

- The GST rules for calculating thresholds have not been explicitly addressed in policy statements to date. It would make sense for the GST rules to be the same under the AIG as under the IAWO.
  - If you are a GST-registered business, GST is **not included** in the cost of the asset
  - If you are not GST-registered, GST **is included** in the cost.

Worked Example

Company A buys a $10 million piece of machinery.

- **Under normal depreciation** rules for this piece of machinery (assuming a straight line depreciation method) manufacturing company A is allowed to deduct 10 per cent or **$1 million** of the $10 million in each year over the effective 10 year life of the asset.
- Under Labor's Australian Investment Guarantee, manufacturing company A will be able to **immediately expense 20% ($2 million)** of its investment in the first year. The remaining 80% ($8 million) would then be depreciated over the effective life of the asset **from the first year** in line with the original depreciation schedule (in this case 800,000, assuming straight line depreciation.
- This means Manufacturing company A can write off a **total of $2.8 million** in the first year ($2 million plus $800,000) of its investment (instead of $1 million under existing arrangements).
- Note: the worked example assumes that the straight-line depreciation method is used. Alternative methods such as the diminishing value method could also be used. This would change the numbers in the example but not the intuition/broad outcomes.

Stakeholder Support for the AIG

- "The Investment Guarantee would provide a significant boost for businesses to invest particularly for longer-lived investments. As a measure designed to lift investment, the Investment Guarantee would increase the stock of invested capital, boost the quantity of capital per worker, raise productivity and underwrite an acceleration of real wage growth." – Innes Willox, Ai Group Chief Executive, 13 March 2018
- "Business welcomes this commitment from the Opposition – it's good policy. What's particularly positive is the proposal to make this a permanent feature. This is important as policy certainty and policy consistency is critical for business." – James Pearson, Australian Chamber of Commerce and Industry CEO, 13 March 2018
- "A new Federal Labor policy that gives an immediate tax deduction to businesses that invest in energy saving equipment would help slash energy bills" – Energy Efficiency Council, 13 March 2018
- "The Australian Investment Guarantee would be a powerful tool for accelerating energy efficiency gains across different industries, but especially in the built environment....We welcome Federal Labor's announcement of this policy and the potential it has to help reduce costs for consumers." – Ken Morrison, Property Council of Australia Chief Executive, 13 March 2018
- "Labor's announcement is a welcome one as it would make it easier for Australian businesses to invest and grow. The fact that this measure is available to all businesses, big and small, is also very positive as it will help small businesses directly as well as encouraging larger businesses to invest in the products sold by small business." – Peter Strong, COSBOA CEO, 13 March 2018
- "This initiative will go a long way to encouraging investment in high tech and high skilled projects to enhance efficiency and increase scale. We are particularly supportive of the Australian Investment Guarantee's inclusiveness across the industry sector. The opportunity to use this Investment Guarantee towards energy saving projects is also very important." – Tanya Barden, Australian Food and Grocery Council CEO, 13 March 2018
- This targeted and direct approach will stimulate investment," she said. "It is something we've proposed for several years and we're pleased the ALP has picked up something really similar." Tanya Barden, Australian Food and Grocery Council CEO
- "An across-the-board corporate tax cut gives away too much money, whereas an investment allowance encourages investment, boosts jobs and wages without a big

cost to the budget and national income" - Janine Dixon, Victoria University Centre of Policy Studies Senior Research Fellow

FOI 2543
Document 31

s 22 [redacted]

From: s 22 [redacted]
Sent: [redacted] 2018 10:25 AM
To: s 22 [redacted]
Cc:
Subject: FW: Australian Investment Guarantee - Asset depreciation policy announcement from ALP [SEC=PROTECTED]

Labor's initial announcement

s 22 [redacted]

From: s 22 [redacted]
Sent: [redacted] 2018 11:43 AM
To: Purvis-Smith, [redacted]
Cc: Fraser, Bede; s 22 [redacted]
Subject: Australian Investment Guarantee - Asset depreciation policy announcement from ALP [SEC=PROTECTED]

Marisa, as discussed –

New opposition policy that companies will be able to claim deductions of up to 20 per cent in the first year on investments in depreciable assets over $20,000.

[Labor promises new tax write-offs for business](#)
[ALP Fact Sheet](#)
[Labor's asset write-offs no substitute for company tax cuts: Business](#)

Bede – a this stage no Blue to be drafted on the IAW s 22 [redacted] s 22 [redacted]

Happy to discuss.

s 22 [redacted]
Policy Analyst
Individuals and Indirect Tax Division | The Treasury
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Langton Crescent | Parkes | ACT | 2600

s 22 [redacted]

From: s 22 [redacted]
Sent: Monday, 3 September 2018 10:33 AM
To: s 22 [redacted]
Cc:
Subject: FW: Chris Bowen MP > AUSTRALIAN INVESTMENT GUARANTEE TO DELIVER JOBS & TAX RELIEF [SEC=UNCLASSIFIED]
Attachments: 180312 - IAWO and Australian Investment Guarantee - Draft 2.docx

Hi s 22 [redacted]

Please see attached for a quick write-up I did when the AIG was announced.

Best
s 22 [redacted]

-----Original Message-----
From: s 22 [redacted]
Sent: Wednesday, 14 March 2018 5:59 PM
To: Fraser, Bede; s 22 [redacted]
Cc: RG IITD Small Business Entities and Industry Concessions Unit
Subject: RE: Chris Bowen MP > AUSTRALIAN INVESTMENT GUARANTEE TO DELIVER JOBS & TAX RELIEF [SEC=UNCLASSIFIED]

Hi Bede s 22 [redacted]

Please find attached the document with some extra detail on the pooling arrangements (through simplified depreciation rules for small businesses). I haven't been able to find Labor's position on assets less than $20,000 in their media releases, news articles or through liberal use of Google.

Hope this helps!

Kind regards,
s 22 [redacted]

-----Original Message-----
From: Fraser, Bede
Sent: Wednesday, 14 March 2018 4:22 PM
To: s 22 [redacted]
Cc: RG IITD Small Business Entities and Industry Concessions Unit
Subject: RE: Chris Bowen MP > AUSTRALIAN INVESTMENT GUARANTEE TO DELIVER JOBS & TAX RELIEF [SEC=UNCLASSIFIED]

Thanks - can you provide a bit more information about the current pooling arrangements and how it works. Also, do we know Labor's positon on assets under $20K?

-----Original Message-----
From: s 22 [redacted]
Sent: Wednesday, 14 March 2018 12:37 PM
To: s 22 [redacted]
Cc: RG IITD Small Business Entities and Industry Concessions Unit; Fraser, Bede

Subject: RE: Chris Bowen MP > AUSTRALIAN INVESTMENT GUARANTEE TO DELIVER JOBS & TAX RELIEF [SEC=UNCLASSIFIED]

Hi s 22

Please find attached a first draft. It's just over half a page, but the second page has a little table that summarises the main points, which may be useful.

Kind regards,
s 22

-----Original Message-----
From: s 22
Sent: Wednesday, 14 March 2018 9:16 AM
To: s 22
Cc: RG IITD Small Business Entities and Industry Concessions Unit; Fraser, Bede
Subject: Chris Bowen MP > AUSTRALIAN INVESTMENT GUARANTEE TO DELIVER JOBS & TAX RELIEF [SEC=UNCLASSIFIED]

Hi s 22
Could you please do a half pager in this this morning - what are they are proposing for assets less than $20k compared to our $20K instant asset write off?
https://chrisbowen.net/media-releases/australian-investment-guarantee-to-deliver-jobs-tax-relief/
Thanks
s 22

Comparison: Extension of the IAWO with Labor's Australian Investment Guarantee

Labor's Australian Investment Guarantee proposes an immediate 20 per cent reduction of any new eligible asset worth more than $20,000, with the balance depreciated in line with normal depreciation schedules from the first year. The proposed deduction is a permanent policy, with an estimated negative impact to the Budget of $3.36 billion over forward estimates. This change would be funded by Labor's proposed policy to disallow dividend imputation refunds.

The Instant Asset Write-Off (IAWO) allows businesses to immediately deduct the full value of an asset, where the value of the asset is under the threshold, in the year it is purchased. The threshold of $1,000 was increased to $20,000 from 12 May 2015 to 30 June 2018. The negative Budget impact of the temporary extension of the IAWO threshold for 2017-18 is estimated to be $650 million over forward estimates.

Labor's Australian Investment Guarantee targets its support towards established businesses making new investments, as the deductions would only be available for assets purchased over $20,000. More established businesses are likely to be purchasing more assets over $20,000 in value, and may already have access to finance which eases the cash flow impact of making an investment. The plan does not provide support for asset purchases under $20,000. As a result, businesses that are starting up and beginning to grow by purchasing smaller assets may have difficulty accessing these deductions. These businesses have growth potential, encouraging employment, and must contend with cash flow limitations as they may have restricted access to finance.

The Labor proposal does not address how the Australian Investment Guarantee would interact with simplified depreciation rules. Simplified depreciation rules can be used by small businesses with turnover less than $10 million. These depreciation rules allow eligible small businesses to depreciate assets by 15 per cent in the year of purchase and then add these assets to their depreciation pool, which depreciates at a rate of 30 per cent. Once the value of the depreciation pool is less than the instant asset write-off threshold (currently $20,000) the entire pool can be deducted. The small business must apply these depreciation rules to all of their asset purchases. The Labor proposal states there would be "no pooling of assets allowed", which suggests that small businesses with less than $10 million in aggregated turnover would need to choose between the 20 per cent immediate deduction for asset purchases over $20,000 and the simplified depreciation rules for future purchases of assets (the simplified depreciation rules would have a 5 year lock-out for businesses that opt-out).

The IAWO reduces accounting complexity by allowing businesses to immediately expense assets less than $20,000, rather than tracking and calculating depreciation over multiple years. The Australian Investment Guarantee does not provide this simplicity.

IAWO	Australian Investment Guarantee (assuming IAWO threshold returns to $1000)
Assets <=$20,000	
Instant write-off of full amount	Normal depreciation schedules Instant write-off for amounts <=$1,000
Assets>$20,000	
Normal depreciation schedule	Normal depreciation schedules for 80 per cent of the asset's value from the first year Immediate deduction of 20 per cent of the asset's value
Simplified Depreciation Rules (<$10million aggregated turnover)	
15 per cent deduction in first year (when the asset is added to the pool) 30 per cent deduction thereafter (for the assets in the pool) Instant write-off of the remaining amount once the value of the pool is <=$20,000	Small businesses may need to opt-out of simplified depreciation to access the 20 per cent immediate deduction
General comments	
Targets businesses making smaller investments • Particularly beneficial for smaller businesses and start-ups, who are more likely to be purchasing assets that are less than $20,000	Targets businesses making larger investments • More beneficial for larger and established businesses, compared to IAWO extension, as these businesses are more likely to be making larger purchases
Reduces bookkeeping complexity for purchase of smaller assets	Increased bookkeeping complexity for purchase of smaller assets, compared to IAWO