19 September 2022

Director

Small Business Tax Unit

Treasury

Langton Cres

Parkes ACT 2600

By email to:

TechBoost@treasury.gov.au

SkillsBoost@treasury.gov.au

Dear Sir/Madam,

Technology Investment Boost

Skills and Training Boost

On behalf of the Institute of Public Accountants I submit our comments on the exposure draft legislation to introduce a *Technology Investment* and *Skills and Training Boost* to help small businesses operate digitally, and to train and upskill their employees.

We are supportive of initiatives that encourage small businesses to operate digitally and welcome these tax measures. The support for digital adoption and upskilling and training of employees by small businesses (with aggregated annual turnover less than $50 million) through the provision of a bonus 20 per cent tax deduction for eligible expenditure is something that the IPA has been in support of and has advocated for previously. We believe these measures are productivity enhancing as they encourage small businesses to adopt new technologies to operate more efficiently and grow.

We welcome the opportunity to provide feedback and make the following comments for consideration.

General Comments

Digital technology is almost part of every business. It is almost virtually impossible to run a small business today without using some form of technology, whether that be digital data storage, marketing to customers, payment services for customers, managing inventory, payroll software, or just having a website and social media channels. It's also more a case of how much technology has been integrated into the business.

For some businesses, having digital technology in place enabled them to adapt their business model rapidly during the challenging COVID pandemic period. Others had to quickly convert to digital ways of doing business in order to survive. Digitisation has the potential to make businesses more productive and resilient to economic headwinds.

Operating in a digital world with the increased uptake of technology comes with a greater vulnerability to cyber security threats. The technology investment and skills and training boost initiatives encourage small business owners and their staff to equip themselves with the skills needed to protect themselves from cybercrime. These initiatives will incentivise them to invest in items such as cyber security systems, cloud-based services, accounting or e-invoicing software, and hardware such as laptops and portable payment devices.

For a small business, the cost of training staff can be quite significant, and this deduction will incentivise owners to make an investment in upskilling staff to drive productivity and competitiveness. The '*Technology*' and '*Skills and Training Boost'* work well together as digital uptake normally requires training, so having both measures covered, is important.

It is pleasing to see this former Government policy initiative progress, and we look forward to Parliament enacting the enabling legislation as soon as practically feasible, given that these measures are retrospective applying from budget night (29 March 2022). The *Technology Boost* applies for a shorter time frame namely from 29 March 2022 to 30 June 2023. Whilst the *Skills and Training Boost* applies from 29 March 2022 to 30 June 2024.Given their temporary nature, the legislation needs to be well designed to minimise complexity and be capable of being administered practically. Businesses and their advisers will need to understand the eligibility criteria for these tax concessions that will have a relatively short shelf-life so there is a cost associated with its administration which will be borne mostly by tax practitioners.

Specifically, in relation to the exposure drafts our comments are:

A. Technology Investment Boost exposure draft

The draft explanatory material explains, that to be eligible for the bonus deduction, expenditure must be incurred wholly or substantially for the purposes of an entity's digital operations or digitising the entity's operations. That is, the eligible expenditure must have a direct link to the entity's digital operations for its business. There are no examples to illustrate or clarify the policy intent of the words 'digital operations'. Given that this is the key eligibility prerequisite, more guidance would be useful.

The explanatory material does however state that expenditure on items and depreciating assets that support digital operations or digitising operations may include, but is not limited to, business expenditure on:

- digital enabling items — computer and telecommunications hardware and equipment, software, systems and services that form and facilitate the use of computer networks
- digital media and marketing — audio and visual content that can be created, accessed, stored or viewed on digital devices
- e-commerce — supporting digitally ordered or platform enabled online transactions.

A lack of clarity around what constitutes eligible expenditure is the primary issue that has surfaced, based on feedback received from our members to date. Some practical examples in the explanatory material would be most helpful, particularly around subscriptions for cloud-based accounting software.

This additional content in the explanatory material will guide the practical guidance material from the ATO which is expected to be released once the measure is enacted.

B. Skills and Training Boost exposure draft

The bonus deduction is only available in relation to expenditure incurred on external training for the employees of small businesses. Expenditure for training of persons other than employees, is specifically not eligible for the bonus deduction.

This requirement effectively means that the bonus deduction is not available for training of non-employee business owners, such as sole traders, individual partners in a partnership and independent contractors (who are not 'employees' of the business within the ordinary meaning of this term).

This condition discriminates against sole traders and individual partners in a partnership, and independent contractors who spend money upskilling themselves and precludes them from being able to claim the bonus deduction. If the policy intent is to enhance skills so those trained can contribute to the growth of the business, why should this be confined only to those businesses that employ staff?

Another concern is the requirement that the training can only be provided by certain registered training providers.

The policy intent is to encourage small businesses to spend money on external training for employees and to address skills shortages by upskilling existing staff or training new staff. Limiting the pool of providers of training and education to registered entities, limits the policy outcomes. Professional and trade associations have CPD requirements for membership and provide important skills training for upskilling existing staff or training new staff. There is limited exposure to integrity risks associated with related party dealings if such associations were included as part of registered providers.

From an integrity perspective, we understand the reason why the bonus deduction is tied to certain registered training providers, as there is already an accreditation process in place. Using this accreditation process reduces the potential integrity risks as only eligible providers who are regulated by government authorities are eligible. Notwithstanding, there is scope to refine the existing proposed requirement to include existing professional or trade associations without unduly introducing integrity concerns. Any such inclusion of training by trade or professional associations would need to ensure that there are course outcomes for any training undertaken.

Professional bodies are highly regulated bodies which have the responsibility to ensure their members attain relevant current knowledge and to learn other contemporary areas that are deemed to be beneficial and necessary for practice. In accounting a relatively stringent requirements of continuing professional development hours on technical, professional, ethical and leadership skills are stipulated as necessary on-going learning every year. On the other hand, professional bodies are actively improving these learning opportunities as relevant to the profession. Excluding the professional or trade associations in the execution of the policy is therefore an unnecessary deterrent for the policy to be effective and diverse for Australia's future professional workforce.

Lastly, this measure is temporary in nature. There are strong grounds for this tax incentive to be a permanent feature of our tax system, particularly for smaller entities with turnover below $2 million. The current eligibility turnover is aggregated annual turnover of less than $50 million. These smaller entities would benefit from incentives that enhance the skills of their employees to contribute to the growth of the small business on an ongoing basis. If there is any opportunity to reduce the turnover eligibility threshold for this measure to ensure that it continues beyond 30 June 2024, we would be supportive of any such proposal. This is particularly important as smaller entities have to compete with larger entities for talent and this is one way to address some of the current imbalances.

If you would like to discuss our comments, please do not hesitate to contact me.

Yours sincerely

Tony Greco

General Manager, Technical Policy

Institute of Public Accountants