



17 July 2023

Director  
Small Business Tax Unit  
Treasury  
Langton Cres  
Parkes, ACT 2600

*By email to: [SBEI@treasury.gov.au](mailto:SBEI@treasury.gov.au)*

Dear Sir/Madam,

**Treasury Laws Amendment (Measures for Consultation) Bill 2023: Small business energy incentive**

On behalf of the Institute of Public Accountants I submit our comments on the exposure draft legislation to introduce the *Small Business Energy Incentive*.

The IPA is one of the three professional accounting bodies in Australia, representing over 50,000 members and students in Australia and in over 100 countries. Approximately threequarters of the IPA's members work in or are advisers to small business and small to medium enterprises. We welcome the opportunity to provide feedback and make the following comments on the exposure draft legislation to introduce the Small Business Energy Incentive.

We are supportive of initiatives that encourage and help small business entities to transition to electrification from fossil fuels and/or more energy efficient assets or improvements that lead to more efficient energy use.

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

Specifically, in relation to legislative amendments:

**Bonus period**

The measure is temporary in nature (one year) and it needs to be longer in duration. The measure being temporary is not ideal, as this transition is a long term objective to help with achieving our greenhouse emission goal. Small businesses entities need all the help they can to move to more energy efficient alternatives which will also hopefully reduce their operating costs in the long term to make them more efficient and reduce their carbon footprint.



This bonus deduction aimed at Small Business entities has good, intended policy objectives and are worthy of extended concessional tax treatment. With the cost of doing business rising faster than revenue for many small business entities, these tax incentives assist this sector in keeping their head above water. Their purposefulness extends beyond their current limited legislative timeframe. The bonus deduction is particularly important for smaller micro businesses and therefore if necessary to lengthen the duration of this measure, we encourage the government to lower the aggregated annual turnover threshold from \$50m to \$10M to ensure this initiative goes beyond its scheduled life span of one year.

### **Substantiation requirements Item 1, paragraph 328-465(3) (e) of the IP(TP) Act 1997**

This initiative requires taxpayers to prove additional eligibility criteria over and above existing substantiation requirements such as:

- uses electricity and there is a new reasonably comparable asset that uses a fossil fuel available in the market;
- uses electricity and is more energy efficient than the asset it is replacing or, if it is not a replacement, a new reasonably comparable asset available in the market; or
- is an energy storage, demand management or efficiency-improving asset.

. Ideally this information should be recorded at the time of purchase or as part of the evaluation process for selecting the purchase of the asset. An example showing what level of documentation is required to meet eligibility would be useful in the explanatory memorandum.

These additional eligibility requirements will impose additional compliance burdens on taxpayers claiming the bonus deduction depending on what level of substantiation is required from the ATO to prove eligibility. We assume the ATO will provide more web guidance on this particular aspect once the law is enacted.

### **Calculating and claiming the bonus deduction - Depreciation and the instant asset write-off**

It is encouraging to see that a small business entity can claim the bonus deduction even if they qualify for instant asset write-off, which is confirmed at para 1.71 - The bonus deduction is equal to 20 per cent of the eligible first and second element costs worked out under the incentive. This means that regardless of the method of deduction that the entity takes (i.e. whether immediate or over time), the bonus deduction in respect of a depreciating asset is calculated based on the asset's cost. The addition of an example showing the interaction of the bonus energy deduction and the instant asset write-off would be useful.

### **Item 1, paragraph 328-465(6) of the IP(TP) Act 1997 Excluded assets and expenditure**

There is a list of exclusions that are ineligible for the bonus deduction. One that is disappointing to see is in relation to assets which have the sole or predominant purpose of generating electricity (such as solar panels). This seems at odds with the fact that batteries



that store renewable energy are included in the bonus deduction. Many State-based energy incentives exclude small business participating in any subsidised cost of solar installation. Businesses should also be incentivised to reduce their energy bills by investing in assets that generate renewable energy.

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

Yours faithfully

Tony Greco

General Manager, Technical Policy

Institute of Public Accountants

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