

Monday, 1 May 2023

## 2023-24 Federal Budget

### Small Business Energy Incentive

- As we suggested in our fiscal insights note released last Friday (28 April), the Government's "electrification package" was likely to include support for small businesses.
- Over the weekend the Federal Treasurer announced the Small Business Energy Incentive.
- The Incentive allows small businesses with annual turnover of less than \$50 million to claim an additional 20% income tax deduction on eligible investments that support electrification and the efficient use of energy.
- This means that small businesses will be able to deduct 120% of the amount they spend on eligible investment from their taxable income, which reduces the amount of tax they are required to pay. In effect, this measure means that the Government will be subsidising and supporting the green transition.
- Further details will be provided in the Budget.
- Reporting to date suggests that eligible investments are likely to include items that reduce emissions such as more efficient appliances, installing batteries and heat pumps, and electrifying heating/cooling systems.
- At this stage the Incentive will be in place for assets used or installed ready for use between 1 July 2023 and 30 June 2024. Eligible total expenditure will be capped at \$100,000 per business. This means that the maximum bonus tax deduction a business can claim is \$20,000 per business. Given the small business tax rate of 25%, this means that a small business that spends \$100,000 and uses the incentive will reduce their tax bill by an additional \$5,000.
- The Government estimates that the Incentive will cost the Budget around \$314 million.
- This is a measure that will help small businesses accelerate some of their green transition, including by helping bring forward investment in this space.
- The Government is yet to announce what they will do with several tax incentives that expire at the end of this financial year – such as the temporary full expensing and loss carry back measures.

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