

Director, Small Business Tax Unit
Treasury
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18 July 2023

Dear Sir/Madam,

Small Business Energy Incentive Exposure Draft

CPA Australia is Australia's leading professional accounting body and one of the largest in the world. We represent the diverse interests of more than 173,000 members in over 100 countries and regions. We make this submission in response to the **Small Business Energy Incentive Exposure Draft** (ED) legislation on behalf of our members and in the broader public interest.

As an overarching observation we welcome incentives that assist small and medium sized businesses save energy and reduce their energy bills.

We make the following comments and questions for your consideration which we believe would further improve the efficacy of the final legislation.

1. Bonus period

The period of the bonus lasting only the 2024 tax year (1 July 2023 to 30 June 2024) is too short. To encourage smaller businesses to improve energy efficiency to help Australia meet its net zero targets, such policies need to be available to business over a more extended period.

For reasons of supply and a known shortage of appropriately qualified and licensed tradespeople, many businesses will struggle to have the eligible asset first used or installed ready for use by 30 June 2024. Many assets that would improve efficiency need to be manufactured and imported or custom-made offshore and there is a known shortage of appropriately qualified and licensed tradespeople. The same issues apply to improvements of existing assets. This problem would be exacerbated if the law takes longer to pass Parliament than expected.

2. Size of bonus deduction

With electricity prices increasing significantly at present, we question the attractiveness and effectiveness of the tax incentive in helping small businesses swapping out fossil fuelled devices and energy sources for renewable-backed electrification of assets. The Government should reconsider and increase both the size of the bonus deduction (greater than 20 per cent) and the total eligible expenditure (greater than \$100,000) to improve business uptake of the tax incentive to decarbonise our domestic economy.

3. Compliance burden

We highlight situations where taxpayers have old, fully depreciated assets, they may no longer have receipts/invoices. Explanation and examples are required on how to prove these devices are "more" energy efficient.

Furthermore, clarification is required on how to undertake detailed comparisons and look for overseas/alternative sources when there is no energy rating, as the existing energy ratings systems is highly detailed, not comprehensive and challenging to understand for small business owners and their tax advisors.

4. Determination of 'more energy efficient'

The definition of "more energy efficient" requires clarification. The [Explanatory Materials](#) (EM) suggests "business could use the Energy Rating Label to compare energy efficiency" however Australia's [Energy Rating Label system](#) is not comprehensive and has a greater focus on consumer rather than commercial products¹. While Australia's energy rating system is well-progressed with substantial [industry guidance](#) and [comparator database](#), there remain gaps in compliance and registration requirements under the *Greenhouse and Energy Minimum Standards Act 2012* and minimum energy performance standards (MEPS). For example, a range of [commercial refrigerated cabinets](#) and [electric water heaters](#) are not covered.

5. Clarity and guidance required in the proposed legislation

We have identified a number of issues which requires further explanation or clarification in the proposed legislation. They are:

a) **Custom-made assets:** Clarification is required on how energy efficiency is determined where a business acquires an asset that has been custom-made (engineered) for it. If such a custom-made asset is not replacing another asset, then an explanation on how its energy efficiency can be compared against a 'new reasonably comparable asset'.

b) Energy Rating Labels

Clarification is required on when an Energy Rating Label is not available to compare energy efficiency between assets, examples of other sources of measuring energy efficiency a taxpayer can reasonably rely on to satisfy this tax incentive.

c) Measuring energy efficiency

Clarification is required on spending in improving the energy efficiency of an asset that already uses electricity or energy generated from a renewable source, how the taxpayer can measure energy efficiency. That is, an example on what they can reasonably rely on that will satisfy the Commissioner.

d) Minimum amount of improvement requirement

Clarification is needed on whether there a requirement that the improvement in energy efficiency has to meet a minimum amount or threshold. That is, an example in the legislation on where a very small improvement in energy efficiency will still qualify for the bonus.

6. Demand management and enabling assets

In the EM, demand management and enabling assets may also be eligible for the bonus deduction. It would help if the EM can include examples of demand management and enabling assets, so small businesses can determine what assets can qualify under this category. For example, [distribution transformers](#) or [external power supplies](#).

If you have any queries, contact Bill Leung, Tax technical Advisor on (03) 9606 9779 or bill.leung@cpaaustralia.com.au.

Yours sincerely,

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¹ Department of Climate Change, Energy, the Environment and Water, Energy ratings, energy.gov.au, Australian Government, viewed 14 July 2023

