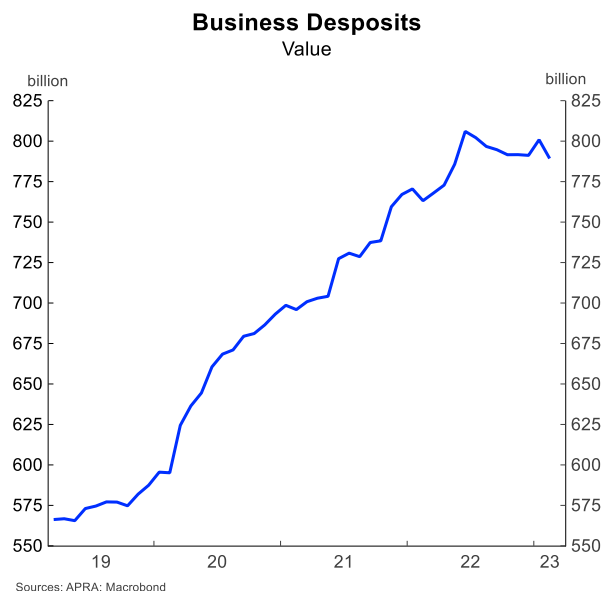
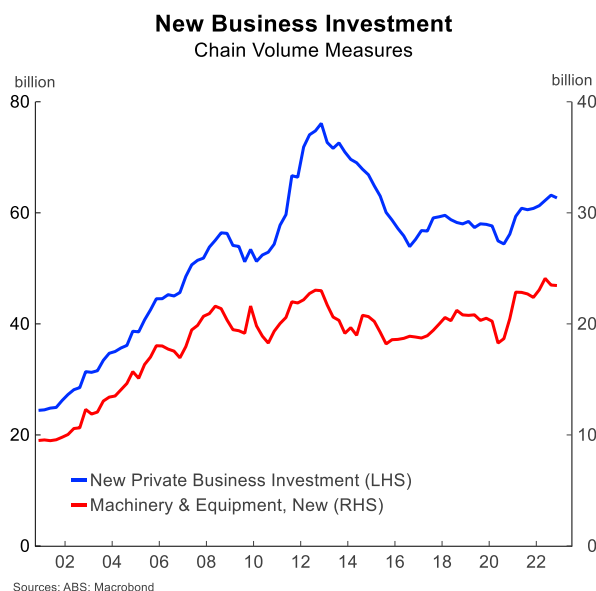


Friday, 28 April 2023

Fiscal Insights

The Last of the COVID Support Measures

- Policy makers have been unwinding the unprecedented set of emergency support measures as the economy has recovered from the COVID-induced recession. The bonus low- and middle-income tax offset (LMITO) will not be extended. Administrative measures, such as the ability to defer tax liabilities more easily, have also largely come to an end.
- While a lot has been made of LMITO, little has been said of the generous business tax measures which are due to expire this financial year. Immediate investment expensing, the loss carry back scheme, the skills boost, and the technology boost were costed to provided businesses a combined \$22.25 billion of support this financial year – more than double the size of LMITO.
- The emergency support measures have supported businesses and a sizable pick up in business investment has occurred. Allowing these measures to expire will help the Government strengthen the balance sheet, providing the firepower to respond to future shocks.
- But a balance needs to be struck. The economy is slowing and slowing quickly and encouraging investment will boost the supply side of the economy. At the same time businesses are in a strong financial position, providing the capacity to weather the slowdown. Limiting investment growth will also help ease inflationary pressures in the short-term.
- On balance, we expect the immediate investment expensing threshold to return to pre COVID levels. This is more generous than where it would go in the absence of a policy change this Budget. In addition, the announced energy subsidies and the “electrification package” are also likely to support SMEs weather the economic slowdown and accelerate the green transition.
- This is the second report in our pre-Budget insights series, which we plan to publish in the lead up to the 9 May Federal Budget.



The final tranche of COVID emergency support measures are due to expire this financial year. Immediate investment expensing, the loss carry back scheme, the skills boost, and the technology boost were costed to provided businesses a combined \$22.25 billion of support this financial year. Given the lags in the tax system, the cash impacts resulting from these measures are likely to be lasting and will boost business cash flow in later financial years.

Immediate investment expensing

The immediate expensing measure is by far the most generous of the business tax incentives. Generally, where a business invests in a piece of equipment (such as an IT cyber security system), the business will claim a deduction for the depreciation of the assets' value over its useful life – this can be up to a 20-year period. These deductions reduce taxable income and tax payable.

To encourage investment and reduce tax compliance costs, in the pre COVID period small and medium-sized enterprises (SMEs) were able to immediately deduct a certain amount of investment – this was known as the Instant Asset Write Off. In 2019, all businesses with annual turnover of less than \$50 million were able to immediately deduct up to \$30,000 of an assets value. This means that they received the tax benefit up front, instead of over time.

These thresholds changed in the decade leading up to the pandemic – from \$1,000 in 2011 for businesses with annual turnover of less than \$2 million, to \$20,000 in 2015 also for businesses with annual turnover of less than \$2 million – see table below.

In response to COVID the rules changed. Businesses with turnover of up to \$5 billion were allowed to immediately deduct the value of any eligible asset they purchased from 6 October 2020 to 30 June 2023, with no value cap. This contributed to a significant increase in business investment, particularly in machinery and equipment.

In the absence of any policy change this Budget, the current regime will automatically expire, and the original settings will apply. This means that SMEs will be able to immediately deduct up to \$1,000 of their eligible investments. This represents a big change from the uncapped amount available today.

Immediate deduction thresholds

Date range	Eligible businesses	Threshold
1 July 2011 to 30 June 2012*	Less than \$2 million	\$1,000
12 May 2015 to 30 June 2016*	Less than \$2 million	\$20,000
1 July 2016 to 28 January 2019*	Less than \$10 million	\$20,000
29 January 2019 to 2 April 2019*	Less than \$10 million	\$25,000
2 April 2019 to 6 October 2020**	Less than \$50 million	\$30,000
6 October 2020 to 30 June 2023**	Less than \$5 billion	Uncapped

* Thresholds for small businesses that apply simplified depreciation rules.

**Thresholds for all eligible businesses, no restriction on depreciation rules.

Other business tax measures

The loss carry back scheme allowed businesses with turnover of \$5 billion or less to use losses to obtain a tax refund for tax paid in previous financial years. This was designed to bring forward cash flows. Without this measure, businesses that made losses during the pandemic would have to carry their losses forward to future years, delaying any cash flow support. This measure expires at the end of the 2022-23 income year.

The skills boost and the technology boost allowed businesses to claim an additional 20% deduction on the cost of investing in technology and/or courses and training programs to reskill staff. This provided businesses with a subsidy through the tax system to invest in technology and skills.

Are these measures likely to be extended?

Given the strength in the economy and that these were temporary measures, it seems appropriate for the Government to allow these emergency support measures to expire as originally designed. However, it's a balancing act. The economy is slowing and slowing quickly and encouraging investment will boost the supply side of the economy.

We expect immediate expensing to be extended in some form. One way this could be done is returning it to 2019 settings, where SMEs (with turnover of up to \$50 million) could immediately deduct up to \$30,000 of an assets value. This is more generous than the policy baseline if the Government were to make no policy change this Budget.

In addition, the announced energy subsidies and the “electrification package” are also likely to support SMEs weather the upcoming economic slowdown and accelerate the green transition.

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