

Small Business Energy Incentive

The Small Business Energy Incentive was [announced earlier this year](#) as a part of the Federal Budget. Despite the measure taking effect from 1st July 2023, legislation to enact the scheme is still currently before Parliament. The incentive provides for a bonus 20% deduction on eligible expenditure for small businesses that helps to improve energy efficiency. Motor vehicles and solar panels are, however, explicitly excluded.



Who is eligible?

Eligible entities are those whose group turnover is less than \$50 million in the financial year that the expenditure was incurred.

When does expenditure become eligible?

Expenditure must be incurred between 1st July 2023 and 30th June 2024, and in the case of depreciable assets, they must be 'installed and ready for use' during that same period. One implication of this strict timeline is that assets used prior to 1st July 2023, even if paid for subsequent to that date, are ineligible.

What expenditure is eligible?

To be eligible for the bonus deduction, a cost must be either:

1. incurred for an eligible depreciating asset (including those that can be instantly written-off, i.e. costing less than \$20,000 ex GST) or;
2. incurred for an eligible improvement to an existing depreciating asset.

The incentive is intended to encourage the purchase of business assets that fit one of the following criteria:

1. **Assets that use electricity instead of fossil fuel** - In this context there must be a reasonably comparable asset that uses fossil fuel available in the market, so that the incentive encourages the choice of the electric alternative. The example provided is the installation of a reverse cycle air-conditioner instead of a gas heater.
2. **Assets that use electricity more efficiently** - An asset may still be eligible for the bonus even if there is not a reasonably comparable fossil fuel alternative if it is relatively more energy efficient. If the asset is replacing an existing one, the new asset must be more energy efficient than the one it is replacing. Where it is a brand new asset and not replacing anything, the new asset must be more energy efficient than other options that are available on the market. For example, when buying a new fridge for business purposes, one with a higher energy star rating than others that are available would likely qualify.
3. **Assets that facilitate energy storage, efficiency or demand management** - This includes batteries, thermal storage systems (such as solar hot water systems), assets that allow energy to be consumed at a different time and those that enable energy use to be monitored.

In addition, expenditure related to improving existing assets to make them more energy efficient may also qualify. This may allow a depreciating asset to use electricity instead of fossil fuel, make it more energy efficient or simply facilitate storage or monitoring where that was not previously possible.

The purchase of any asset that uses fossil fuel is explicitly excluded, even if the asset predominately uses electricity. The cost of improvements that convert an existing asset from using fossil fuel to using electricity would, however, qualify. Other exclusions include solar panels and motor vehicles, as well as capital works and financing costs related to the purchase of eligible assets (e.g. interest, borrowing costs, etc.).

What is the bonus amount?

The bonus amount is calculated as 20% of the total eligible cost of the asset or improvement, up to a maximum total bonus across all eligible expenditure of \$100,000. This effectively caps the bonus deduction at \$20,000. In the case of a company paying 25% income tax for example, this means the maximum tax benefit available, if the full \$100,000 value of the limit is expended, is \$5,000. Of course, in many cases additional savings will follow in the form of energy efficiency. Plus there is an added bonus in knowing that you're effectively getting paid to help save the planet.

If you would like more information about this measure please [contact us](#).

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