



Australian Government
The Treasury

18/04/2012

First Assistant Secretary
Economic Division
Department of Prime Minister and Cabinet
PARKES ACT 2600

Dear

COMPLETION OF COSTINGS REQUESTED BY THE AUSTRALIAN GREENS

On 16 March 2012, the Treasury received a request to cost the following new policy proposals as submitted by the Leader of the Australian Greens to the Prime Minister:

1. Increase the small business entity (SBE) threshold for the cut in company tax from \$2 million to \$5 million
- 2(a). Increase the instant asset write-off for small businesses from \$6,500 to \$10,000 and keep the SBE threshold at \$2 million.
- 2(b). Increase the instant asset write-off for small businesses to \$10,000 and set the SBE threshold at \$5 million.

This costing has now been finalised and is attached to this document.

Yours sincerely

Manager
Costing and Quantitative Analysis Unit
Tax Analysis Division

APPENDIX A: COSTING REPORT — TAXATION OF SMALL BUSINESS

Name of policy costed:	Taxation of small business
Person making the request:	Senator Brown, Leader of the Australian Greens
Date received from Prime Minister's office:	16 March 2012
Summary of policy:	<p>1. Increase the small business entity turnover threshold for the cut in company tax (from 30 to 29 per cent) from \$2 million to \$5 million.</p> <p>2. Increase the threshold for determining a low-value asset for the purposes of allowing small business to write off the assets immediately from \$6,500 to \$10,000 assuming:</p> <p>(a) The current small business entity turnover threshold of \$2 million is retained.</p> <p>(b) The small business entity turnover threshold is raised to \$5 million.</p>
Additional information requested (including date):	No additional information requested.
Additional information received (including date):	No additional information requested.

FINANCIAL IMPLICATIONS (Outturn prices)(a)

Option 1:

Impact on	2011-12	2012-13	2013-14	2014-15	2015-16
Underlying Cash Balance (\$m)	0	-100	-100	0	0
Fiscal Balance (\$m)	0	-100	-100	0	0

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Option 2(a):

Impact on	2011-12	2012-13	2013-14	2014-15	2015-16
Underlying Cash Balance (\$m)	0	0	-300	-200	-150
Fiscal Balance (\$m)	0	0	-300	-200	-150

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Option 2(b):

Impact on	2011-12	2012-13	2013-14	2014-15	2015-16
Underlying Cash Balance (\$m)	0	0	-550	-450	-350
Fiscal Balance (\$m)	0	0	-550	-450	-350

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Costing assumptions:

The options will start from the 2012-13 income year.

The total underlying level of investment in depreciating assets is determined from tax return data. For option 2(a), approximately 7% of this investment was assumed to become immediately deductible (where assets costing less than \$6,500 are already immediately deductible). For option 2(b), approximately 28% of the additional investment from entities with a turnover between \$2 million and \$5 million is assumed to become immediately deductible.

Assets costing less than \$10,000 are assumed to have an effective life of 5 years on average. Assets costing more than \$10,000 are assumed to have an effective life on 10 years on average. These are currently depreciated using the diminishing value method.

All eligible businesses will opt-in to using the instant asset write-off.

Timing is 100% on assessment

Qualifications:

This costing is heavily reliant on assumptions and has a low reliability.

Option 1 provides the cost of allowing entities with a turnover of up to \$5 million to access the early start to the company tax rate cut only. The costing does not include the impact of increasing the small business entity threshold for other concessions (including the instant asset write-off and the CGT small business concessions).

Option 2(b) provides the cost of allowing entities with a turnover of up to \$5 million to access the instant asset write-off for assets costing up to \$10,000 only. The costing does not include the impact of increasing the small business entity threshold for other concessions (including the CGT small business concessions). Businesses with a turnover of greater than \$2 million but less than \$5 million currently can only instantly write-off small assets valued at less than \$300.

If the small business entity threshold were increased to \$5 million there would be additional costs to the Budget.

Further information:

- Not applicable.