



Ms Tanja Cvijanovic
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Dear Ms Cvijanovic

CERTIFICATION OF ASSESSMENT – EXTENDING THE IMMEDIATE DEDUCTIBILITY THRESHOLD FOR SMALL BUSINESSES

This letter certifies that the attached assessment of the proposal to extend the immediate deductibility threshold for small businesses ('the assessment') meets the standards of a Regulation Impact Statement (RIS).

I believe the assessment meets best practice requirements and is consistent with the ten principles for Australian Government policy makers, noting that it builds on the Regulation Impact Statement approved by the Office of Best Practice Regulation (OBPR) for the 2015-16 Budget measure *Growing Jobs and Small Business – expanding accelerated depreciation for small businesses*.

In particular, the assessment addresses the seven RIS questions as follows:

1. ***What is the problem?*** Small businesses contribute in many ways to the Australian economy, but they often deal with various operational challenges including cash flow problems and disproportionately higher compliance burdens. This is illustrated by the typically higher failure rates for small businesses compared to larger businesses.
2. ***Why is government action needed?*** There is a clear role for government to create the right policy settings for Australian small businesses. The objective of extending the immediate deductibility threshold for small businesses for a further 12 months is to continue to stimulate small business investment and growth by providing cash flow benefits and reducing red tape.
3. ***What policy options are you considering?*** The assessment considers three options. The first option is no policy change (that is, the current \$20,000 immediate deductibility threshold would lapse and revert back to \$1,000 from 1 July 2017). The second option is to extend the \$20,000 immediate deductibility threshold for an additional 12 months until 30 June 2018. The third option is to extend the immediate deductibility threshold for 12 months but at a lower rate of \$15,000.
4. ***What is the likely net benefit of each option?*** Under the no policy change option, small businesses would not be able to access additional cash flow benefits and red tape savings. Extending the immediate deductibility threshold until 30 June 2018 under either the \$20,000 or \$15,000 options would provide a net benefit to small businesses by increasing their cash

flow and reducing red tape, encouraging them to reinvest in and grow their businesses. The compliance saving from extending the \$20,000 is higher (\$2.4 million per annum compared to \$0.2 million per annum) as small businesses would not need to understand and adjust to a change in the threshold and have access to more generous immediate deductibility rules.

5. ***Who will you consult and how will you consult them?*** The current \$20,000 immediate deductibility threshold was introduced in the 2015-16 Budget following extensive stakeholder consultation including with the Board of Taxation, the Australian Taxation Office, small business stakeholder groups and professional tax and accounting bodies . Stakeholders have provided regular feedback on the effectiveness of the measure. There is strong stakeholder support for extending the immediate deductibility threshold.
6. ***What is the best option from those you have considered?*** The best option is to extend the \$20,000 immediate deductibility threshold for small businesses for an additional 12 months to 30 June 2018. This option will continue to provide cash flow benefits and reduce red tape for small businesses, stimulating small business investment and growth. This is an appropriate balance between the benefits to small business and the revenue cost to government.
7. ***How will you implement and evaluate your chosen option?*** Legislative change is required to implement the preferred policy option and is expected to be introduced into the Parliament in the winter 2017 sittings. Evaluation of this proposal will be ongoing, with feedback from stakeholders continuing to be assessed on a regular basis.

Finally I note that the OBPR has agreed to the costings of the \$15,000 and \$20,000 immediate deductibility threshold options referred to above.

Should the OBPR have any queries in relation to this matter, please contact Tina Smith on 02 6263 2807 or Tina.Smith@treasury.gov.au.

Yours sincerely



Maryanne Mrakovic
Deputy Secretary
Revenue Group