



Mr Wayne Poels
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Office of Best Practice Regulation (OBPR)
Department of the Prime Minister and Cabinet
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Dear Mr Poels

REGULATION IMPACT STATEMENT (RIS) SECOND-PASS FINAL ASSESSMENT – BACKING SMALL BUSINESS INVESTMENT – FURTHER EXTENDING THE IMMEDIATE DEDUCTIBILITY THRESHOLD

I am writing in relation to the attached RIS prepared for the proposal to extend the \$20,000 immediate deductibility threshold for small businesses for a further 12 months.

I believe the RIS meets best practice requirements and is consistent with the ten principles for Australian Government policy makers, noting that it builds on the RIS for the 2017-18 Budget measure *Extending the immediate deductibility threshold for small businesses*.

In particular, I note that the RIS addresses the seven RIS questions:

- What is the problem?** Small businesses contribute in many ways to the Australian economy but they often deal with a range of 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.
- 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 \$20,000 immediate deductibility threshold for small businesses for a further 12 months is to continue to encourage small business investment and growth by providing cash flow benefits and reducing red tape.
- What policy options are you considering?** The RIS 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 2018). The second option is to extend the \$20,000 immediate deductibility threshold for a further 12 months until 30 June 2019. The third option is to extend the immediate deductibility threshold for a further 12 months but at a lower threshold of \$10,000.
- 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 2019 under either the \$20,000 or \$10,000 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 threshold is higher (\$2.2 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 \$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, and subsequently extended in the 2017-18 Budget by 12 months to 30 June 2018. Stakeholders have provided regular feedback on the effectiveness of the measure and support its continuation.
6. **What is the best option from those you have considered?** The best option from those considered is to extend the \$20,000 immediate deductibility threshold for a further 12 months to 30 June 2019. This option will continue to provide cash flow benefits and reduce red tape for small businesses, encouraging 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?** Legislation is required to implement the preferred policy option and is expected to be introduced into the Parliament in the second sitting week of the Winter 2018 sittings. Feedback from stakeholders will continue to be assessed on a regular basis.

I am satisfied that the RIS addresses the issues raised in your letter of 24 April 2018. Specifically, the RIS:

- provides further background on the reasons for introducing the \$20,000 threshold, the economic conditions at the time, and how it reduces red-tape costs compared with the standard arrangements;
- discusses how a temporary, rather than permanent, \$20,000 threshold has the benefit of encouraging small businesses to bring forward capital investment before the threshold reverts to \$1,000;
- for completeness, includes administration costs associated with informing small business of changes;
- incorporates evidence of benefits to the community including feedback from industry groups in the context of promoting additional small business investment and growth; and
- discusses how feedback from small businesses and further data would be used to assess the benefits of the initiative and to inform its ongoing evaluation.

I note that the OBPR has agreed that the preferred option will reduce compliance costs by an average of \$2.2 million per year, on an annualised basis.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the Australian Government Guide to Regulation.

I submit the RIS to the OBPR for formal assessment.

Yours sincerely



Maryanne Mrakovcic
Deputy Secretary
Revenue Group