Parliamentary Budget Office

**ECR-2025-6120**

| **Creating a small business and primary producer energy incentive** | |
|---|---|
| Party: | Independent Member for Indi |
| Summary of proposal:<br>The proposal would reintroduce the Small Business Energy Incentive (SBEI) and extend the duration of SBEI for 3 years. The proposal would also increase the bonus tax deduction up to $30,000 for eligible technology and assets that make their businesses more energy efficient.<br>The proposal is eligible for small and medium businesses (including all primary producers) with turnover up to $50 million.<br>The policy start date would be 1 July 2025. | |
| Additional information (based on further advice provided):<br>The reintroduced SBEI would apply to assets installed ready for use before 1 July 2028. As per previous SBEI policy settings, a cap of $100,000 in asset value a year applies to the bonus deduction of 30%, with the maximum bonus tax deduction being $30,000.<br>Eligible fixed assets would be as defined in the previous SBEI and would be extended to include assets directly linked to emissions efficiency on farms (e.g. direct carbon capture) and assets for the monitoring of such emissions. Eligible technology must demonstrate a measurable reduction in greenhouse gas emissions or energy use compared to conventional methods. | |

# Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around $423 million over the 2025-26 Budget forward estimates period (see Table 1). This impact mainly reflects a decrease in taxation revenue, as well as a small increase in departmental expenses

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

## Uncertainties

This costing is sensitive to the projected level of future business investment, and especially the level of energy efficient, emission efficient and emission monitoring investment.

When compared to the estimated cost of the 2023-24 Budget measure *Small Business Support – Small Business Energy Incentive*[1], the estimated impact of the proposed SBEI on the Budget for a single year is lower. This is largely due to updated tax data used in modelling and updated growth parameters which have led to a lower estimate of eligible investment and impact to the Budget.

[1] 2023-24 Budget, Budget Paper No.2, *Small Business Support – Small Business Energy Incentive*, page 138.

**Table 1: Creating a small business and primary producer energy incentive – Financial implications ($m)[(a)(b)]**

| | 2025-26 | 2026-27 | 2027-28 | 2028-29 | **Total to 2028-29** |
|---|---|---|---|---|---|
| Fiscal balance | -4.4 | -110.3 | -151.3 | -157.4 | **-423.4** |
| Underlying cash balance | -4.4 | -110.3 | -151.3 | -157.4 | **-423.4** |

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

## Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- The utilisation of business investment in depreciating energy efficient, emissions efficient, and emissions monitoring assets is estimated to be around 30% of total investment in depreciating assets. The ATO data does not split asset investment by type.
- Deductions related to economic activity in a given financial year will be first recognised in the following financial year, when company income tax returns are lodged.
- That 60% of tax receipts reductions associated with a given financial year's (i.e. 2025-26) SBEI deductions will be realised in the following financial year (i.e. 2026-27), and 20% will be realised in the financial year after that (i.e. 2027-28)
  - The remaining 20% will be unutilised.
- The effective tax rate of eligible businesses would be equivalent to the base rate entity company tax rate of 25%.
- Investment in depreciating energy efficient, emission efficient and emission monitoring assets will grow in-line with the average forecast growth of investment in Machinery and Equipment, and Non-dwelling Investment.
- There will be no additional investment over and above what currently expected that results of this policy. A change to this assumption would effect the costing.

## Methodology

The policy was costed in the following manner:

- Business income and depreciating assets first deducted (representing new investment in a given income year) for Individuals (sole traders), Companies, Partnerships and Trusts from de-identified unit tax return data from 2022-23 were identified and limited to businesses below $50 million a year in turnover, and grown over the medium term.
- Growth parameters for depreciating assets were Treasury forecasts for Machinery and Equipment and Non-dwelling Investment.
- Associated bonus deductions were calculated and capped at the proposed thresholds and multiplied by the base tax rate as per the assumptions.
- The Budget impacts of the bonus deductions were timed to occur when businesses lodge their income tax returns, this occurs the financial year after the investment activity has occurred.
- Not all businesses that invest in SBEI eligible assets will result in a Budget impact. This occurs when the business is not in a tax-paying position (loss position). We refer to this as unutilised in the *Key Assumptions.*

Financial implications were rounded consistent with the PBO's rounding rules.[2]

## Data sources

Australian Taxation Office (2024) Small Business Energy Incentive, ATO website, accessed 27 May 2025.

The Australian Taxation Office provided de-identified unit record 2022-23 business income tax data for companies, partnerships, trusts and individuals (sole traders) as at July 2024.

Commonwealth of Australia (2023) *Budget 2023-24,* Commonwealth of Australia.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

[2] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

# Attachment A – Creating a small business and primary producer energy incentive – Financial implications

### Table A1: Creating a small business and primary producer energy incentive – Fiscal and Underlying cash balances ($m)[(a)]

| | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | 2033-34 | 2034-35 | 2035-36 | Total to 2028-29 | Total to 2035-36 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Receipts** | | | | | | | | | | | | | |
| ***Administered tax*** | | | | | | | | | | | | | |
| *Small Business Energy Incentive* | - | *-110.0* | *-151.0* | *-157.0* | *-40.0* | - | - | - | - | - | - | ***-418.0*** | ***-458.0*** |
| **Total – receipts** | - | **-110.0** | **-151.0** | **-157.0** | **-40.0** | - | - | - | - | - | - | **-418.0** | **-458.0** |
| **Payments** | | | | | | | | | | | | | |
| ***Departmental*** | | | | | | | | | | | | | |
| *Australian Taxation Office* | *-4.4* | *-0.3* | *-0.3* | *-0.4* | *-0.4* | - | - | - | - | - | - | ***-5.4*** | ***-5.8*** |
| **Total – payments** | **-4.4** | **-0.3** | **-0.3** | **-0.4** | **-0.4** | - | - | - | - | - | - | **-5.4** | **-5.8** |
| **Total (excluding PDI)** | **-4.4** | **-110.3** | **-151.3** | **-157.4** | **-40.4** | - | - | - | - | - | - | **-423.4** | **-463.8** |

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

\- Indicates nil.

### Table A2: Creating a small business and primary producer energy incentive – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

| | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | 2033-34 | 2034-35 | 2035-36 | Total to 2028-29 | Total to 2035-36 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Fiscal balance*** | *-0.1* | *-2.6* | *-8.5* | *-15.8* | *-20.8* | *-22.7* | *-23.7* | *-24.7* | *-25.9* | *-27.0* | *-28.3* | ***-27.0*** | ***-200.1*** |
| ***Underlying cash balance*** | *-0.1* | *-2.0* | *-7.1* | *-14.0* | *-19.6* | *-22.2* | *-23.4* | *-24.5* | *-25.6* | *-26.7* | *-28.0* | ***-23.2*** | ***-193.2*** |

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[3].

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

[3] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)