Parliamentary Budget Office

Policy costing

Australian Investment Guarantee	
Party:	Australian Labor Party

Summary of proposal:

This proposal would create an ongoing Australian Investment Guarantee to allow all businesses to immediately deduct 20 per cent of investment in eligible depreciable assets, except structures such as buildings.

The remaining investment in eligible depreciable assets not immediately deducted would continue to be deductible over the effective life of each asset.

The proposal would only apply to assets above $20,000 in value, no pooling of lower value assets would be allowed. The eligible assets would include tangible machinery, plant and equipment, as well as depreciating intangible assets for both upgrades and new purchases. It would not apply to passenger motor vehicles, but it would apply to:

- non-passenger motor vehicles such as lorries, vans, utes and trucks that are used to support trade businesses
- battery electric vehicles that are powered solely by batteries charged from an external power source, and hydrogen fuel cell vehicles.

The Australian Investment Guarantee would not apply to otherwise eligible expenditure currently claimed under the existing research and development tax concession.

The proposal would commence on 1 July 2021 and continue indefinitely.

Costing overview

This proposal would be expected to decrease the fiscal and underlying cash balances by $3,890 million over the 2019-20 Budget forward estimates period. This impact is entirely due to a decrease in revenue.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. The financial implications of the proposal over the period to 2029-30 are provided at Attachment A.

This proposal would be expected to decrease revenue over the period to 2029-30, reflecting the increase in allowable deductions as a result of businesses claiming an immediate deduction instead of current depreciation deductions. This impact would be expected to reduce over time from 2023-24 because the proposal would be expected to cause businesses to bring forward deductions that they would otherwise have claimed in future years. It would be expected that there would be a small increase in revenue in 2019-20 and 2020-21 due to businesses delaying purchases of eligible assets prior to the start of the proposal in order to be eligible for the immediate deduction.

The proposal would not be expected to have departmental expense implications as it would not significantly change the administrative complexity of the tax system.

Table 1: Financial implications ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	10	20	-830	-3,090	**-3,890**
Underlying cash balance	10	20	-830	-3,090	**-3,890**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.

Estimates for this proposal are very sensitive to the assumed total value of purchases of eligible assets each year. There is limited information regarding eligible asset purchases that are greater than the $20,000 threshold, therefore assumptions were required to estimate the percentage of all business asset purchases that would be eligible. Changes in this assumption could significantly affect the magnitude of the revenue impact. For example, sensitivity analysis indicates that increasing the percentage of total tangible asset purchases assumed to be eligible for the Australian Investment Guarantee by 10 percentage points (before allowing for non-taxable taxpayers) would decrease revenue by around $3,300 million over the period to 2029-30.

There is also limited information available to estimate the behavioural response of businesses to the proposal. In particular, the magnitude and pattern of the investment deferral arising from announcing the proposal ahead of its start date is uncertain. The PBO has assumed that businesses would defer some of their investments until after the start date to gain the benefits of the Australian Investment Guarantee.

There would be some increase in investment in later years as the proposal would increase the after-tax net present value of investments in eligible assets, mainly as a result of deferring tax payable. Behavioural assumptions were informed by an analysis of the impact of similar immediate deduction policies in Australia and the United States, however differences in policy specifications and economic conditions create uncertainty around these assumptions. There is also uncertainty around the proportion of the overall asset base that would be eligible for the Australian Investment Guarantee.

The PBO considers it likely that there would be a long-term impact on the level of investment, and hence gross domestic product, from this proposal, however the magnitude and timing of these impacts are highly uncertain and interact with the macroeconomic parameters that underpin the budget projections. As a result, these impacts have not been included in this costing. The dominant revenue impact from the proposal would relate to investment that would have occurred regardless of the proposal.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- There would be several behavioural responses in relation to the timing and composition of investments.

  - A proportion of capital expenditure would be brought forward each year as investors have an incentive to invest earlier in order to claim increased deductions. This proportion would be approximately 7.5 per cent in total over the years 2021-22 to 2029-30.
  - A proportion of capital expenditure that would otherwise occur in the two years leading up to the introduction of the proposal would be delayed to after 1 July 2021 in order to claim the Australian Investment Guarantee. This proportion would be approximately 2.5 per cent over the two years.
  - The proposal would induce a small increase of around 0.5 per cent in the level of investment in eligible assets relative to ineligible assets compared to what would have occurred in the absence of the proposal.
  - Businesses would not vary their tax instalments in the first year of the proposal to avoid the risk of incurring penalties by understating their taxes.[1]
- The value of eligible assets would be a proportion of the total value of assets acquired by businesses, based on unpublished Australian Bureau of Statistics (ABS) data and company tax return data.
  - Approximately 45 per cent of all machinery, plant and equipment investment would be eligible for the allowance. This proportion has been estimated by examining the unpublished asset categories that make up the ABS machinery, plant and equipment series, and professional judgment of the value of these assets costing more than $20,000.
  - Approximately 45 per cent of all intangible assets would be eligible for the allowance.
- Assets would be purchased evenly throughout the year.
- Approximately 50 per cent of tangible capital investment would be depreciated using the diminishing value method, and 50 per cent using the prime cost method. Intangible assets can only be depreciated using the prime cost method.
- The average effective life of eligible tangible assets would be 10 years.
- The average effective life of eligible intangible assets would be 12 years.
- The share of businesses would that pay no tax because they have negative taxable income would remain constant.
  - At present, around 20 per cent of companies with depreciation deductions pay no tax.
- This proposal would not have an effect on businesses' dividend policies and would therefore not affect dividends and imputation credits.

Methodology

The value of eligible capital expenditure by eligible businesses was estimated based on ABS data and information on depreciation and capital expenditure (excluding research and development expenditure as per the specification), including capital expenditure on intangible assets from the company tax return.

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[1] Currently, when a business varies or revises its pay-as-you-go instalments, the Australian Taxation Office will compare the business's instalments to total tax payable on the business's instalment income for the year, and, if the business's instalments are less than 85 per cent of that total, it may be subject to a general interest charge on the difference, as well as penalties.

The associated deductions were estimated with and without the Australian Investment Guarantee, taking into account the estimated behavioural responses and the impact of businesses who pay no tax because their taxable income is negative. The cost of the proposal has been calculated as the difference in taxation revenue between each case. An adjustment was made for the recently announced extension to the small-business instant asset write-off measure.

Revenue estimates have been rounded to the nearest $10 million.

Data sources

ABS, 2019. *Private New Capital Expenditure and Expected Expenditure*, Australia, Cat. No. 5625.0.

ABS provided unpublished data on detailed capital expenditures in plant, machinery and equipment in ABS catalogue number 8155.0 by ANZSIC 2006 division, with a breakdown into the specified asset types for the 2014-15, 2015-16 and 2016-17 financial years.

ABS, 2019. *Survey of Motor Vehicle Use*, Australia, Cat. No. 9208.0.

The Australian Taxation Office provided detailed tax return information for companies and individuals for the 2015-16 and 2016-17 income years.

Commonwealth of Australia, 2019, *2019-20. Budget*, Canberra: Commonwealth of Australia.

The Treasury and the Department of Finance, 2019. *Pre-election Economic and Fiscal Outlook 2019*, Canberra: The Treasury and the Department of Finance.

David Rodgers and Jonathan Hambur, 2018. *The GFC Investment Tax Break*, Research Discussion Paper, RDP 2018-07, Reserve Bank of Australia, https://www.rba.gov.au/publications/rdp/2018/pdf/rdp2018-07.pdf.

Energeia, 2018. *Australian Electric Vehicle Market Study*, Energeia: Sydney.

Eric Zwick and James Mahon, 2017. *Tax Policy and Heterogeneous Investment Behaviour*, American Economic Review 2017, 107(1): pp 217–248.

Attachment A – Australian Investment Guarantee – financial implications

Table A1: Australian Investment Guarantee – Fiscal and underlying cash balances ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	**Total to 2022–23**	**Total to 2029–30**
Total revenue	10	20	-830	-3,090	-1,850	-1,730	-1,610	-1,490	-1,360	-1,220	-1,280	**-3,890**	**-14,420**

(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.

(b) Figures may not sum to totals due to rounding.