

TAX SNAPSHOT

Understanding the 20% Boost Deduction Rules

On 29 August 2022, Draft Legislation regarding the proposed [Technology Investment Boost](#) and the [Skills and Training Boost](#) was released for consultation by Treasury. The Draft Legislation commences implementation of a [2022/23 Federal Budget announcement](#) made by the former Federal Government on 29 March 2022 to provide a temporary 'boost'/additional deduction, for specified eligible expenditure by Small-Medium Business Entities with < \$50 Million Aggregated Turnover (< **\$50 Million SBE**).

IMPORTANT NOTE

It is noted that further changes may arise ahead of the drafting and introduction of final legislation to Federal Parliament including, but not limited to, practical outcomes from the Treasury Consultation process and the September 2022 Jobs and Skills Summit.

Where available to a < \$50 Million SBE, the boost deduction will effectively be a separate and additional tax deduction with its own eligibility requirements and timing rules. The boost deduction will usually be based on 20% of the main/standard eligible deduction claimed (see below) but only if a number of specific eligibility requirements have been satisfied regarding both the main/standard deduction incurred and the extra boost deduction. There are two distinct types of boost deduction proposed comprising:

- the **Technology Investment 20% Boost Deduction** (for eligible expenses with direct links to the < \$50 Million SBE's digital business operations – see further details below); and
- the **Skills/Training 20% Boost Deduction** (for eligible expenditure on specified Higher Education and Vocational Education and Training-type courses provided by eligible Higher Education Providers and Registered Training Organisations for the < \$50M SBE's' employees – see some summary details on page 6)

IMPORTANT NOTE

The Technology Investment 20% Boost Deduction is the primary focus of this Tax Astute Snapshot overview. However, brief comments have been provided regarding the Skills/Training Boost in the recordings provided below and on the comparison table at page 6, with numerous further details to be provided to Tax Astute clients in their next training session.

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How will the new Boost deduction operate in practice?

The table below illustrates how the Technology and Investment Boost Deduction will be claimed in practice in addition to eligible 'standard/main' deductible digital-related expenditure which can give rise to an additional boost deduction (see the second table below for details of potentially eligible standard/main deductible costs).

To watch Tax Astute Training's online explanation of the below table, please use this link to the Adobe Connect* website (*Adobe are a trusted software developer and are the makers of PDF):

<http://taxastute.adobeconnect.com/pshlynemaly0/>

OR Click on the table to access MP4 recording (once open double click for full screen access)

Technology & Investment Boost Deduction Example (normal or late balancers)				
Income Year in which deductible expenditure incurred	Standard Deductible Amount (GST-Exclusive)	Maximum Possible BOOST Deduction	Boost Deduction Amount Claimable	Total Deduction for year
TIME PERIOD 1 2021/22 (ONLY if incurred between 29/3/22 & 30/6/22)	\$100,000 (incl. \$25,000 incurred from 29/3/22)	\$5,000 (A) (20% x \$25,000 incurred from 29/3)	NIL	\$100,000
TIME PERIOD 2 2022/23	\$150,000	\$5,000 carried forward from 2021/22	\$5,000 from 2021/22 (see A)	\$175,000 (incl. \$25,000 total boost deduction)
		\$20,000 (B) (\$150,000 x 20% exceeds \$20,000 cap)	\$20,000 from 2022/23 (see B)	

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Key features of the additional boost deduction shown above include that:

- For 2021/22, some apportionment will generally be required for any eligible standard deductions incurred because only the costs incurred since 29/3/22 (the Federal Budget announcement date) are eligible for additional boost deduction treatment – this may also result in reduced boost deduction claims for 2021/22 due to the lack of certainty regarding the deduction at that time.
- While a boost deduction can be calculated for 2021/22, it can only be carried forward and claimed in the 2022/23 tax return (as shown in the ‘Boost Deduction Amount Claimable’ column above);
- A maximum cap of \$20,000 additional boost deduction per each time period applies to the technology/boost deduction (see B above for an illustration).

GUIDANCE TIP

In practice, while it is linked to an eligible standard/main deductible expense (which is deducted in the normal manner – see the next table below for more standard/main deduction details) treat the boost deduction as a separate and additional deduction with its own special calculation, timing and eligibility requirements.

IMPORTANT NOTE

- The above example deals with normal 30 June balancers or late substituted accounting period (SAP) balancers for tax purposes. While similar overall principles apply to early SAP balancers, a very different timing approach is used. There are also numerous additional relevant issues beyond the scope of this Tax Astute Snapshot overview which will be explained in forthcoming Tax Astute Training client training sessions and materials.
- Application of the 20% Skills and Training Boost has numerous broad similarities to the above approach but there are also important differences including, but not limited to, different time periods 1 and 2 and no \$20,000 or other cap applying. See the table on page 6 for a comparison between Technology Investment and Skills and Training Boost requirements.

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Which Standard/Main deductions can give rise to a Technology/Investment Boost Deduction?

The table below illustrates

- the broad range of digital deductible expenditure likely to be included as potentially eligible for calculating a boost deduction (subject to the timing and other rules shown in the example above) is shown in the left-hand column below, including some more specific illustrations from the Draft Explanatory Memorandum (EM) and the [29/3/22 Federal Budget Announcement](#). (see the **left-hand column**); and
- specifically excluded expenditure which will be made specifically ineligible for boost deduction treatment (see the **right-hand column**).

Likely INCLUDED and EXCLUDED Expenditure for Technology & Investment Boost Deduction	
Likely INCLUDED Expenditure with DIRECT link to Digital Operations (Draft EM para 1.14)	EXCLUDED Expenditure (proposed s 328-460(5) ITAA 1997)
Digital Enabling Items <i>(e.g. computer/telecommunications hardware and equipment, software and services which form/facilitate computer network use)</i>	Salary or Wage Costs
	Associated Financing Costs <i>(e.g. interest, borrowing costs etc.)</i>
Digital Media and Marketing <i>(e.g. audio and visual content able to be created accessed stored or viewed on digital devices)</i>	Amounts Included in Trading Stock Cost
E-commerce <i>(e.g. supporting digitally ordered or platform enabled online transactions)</i>	Div 43 ITAA 1997 Capital Works Costs
Specific Examples from DRAFT EM and 29/3 Budget Announcement include Laptops (from EM Examples) & portable payment devices, cyber security systems, subscriptions to cloud-based services from Budget Announcement)	Training/Education Costs <i>(POTENTIALLY limited to costs eligible for Skills/Training boost – see Note to s 328-460(5))</i>

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What after-tax saving can be expected from the Technology/Investment Boost Deduction?

The table below illustrates the maximum tax saving which could be achieved from the technology investment boost deduction, assuming that the < \$50 Million SBE was eligible for the maximum \$20,000 boost deduction for the boost time period involved (see the first table above for boost time period details). Subject to all boost deduction eligibility requirements being met, the maximum possible after-tax dollar savings for corporate taxpayers are shown below. For other entity types, the after-tax dollars saved will depend on the marginal or other tax rates applicable to the relevant sole trader, trust beneficiaries or partners relevant to the < \$50 Million non-corporate SBE.

Relevant < \$50M SBE Tax Rate	MAXIMUM after-tax dollars saved from Technology Investment Boost Deduction (per each boost time period) (assuming \$20,000 maximum boost deduction achieved for time period)
25% Corporate Tax Rate for year	\$5,000 saved (\$20,000 additional deduction x 0.25)
30%* Corporate Tax Rate for year	\$6,000 saved (\$20,000 additional deduction x 0.3)
Sole Trader, Trust or Partnership SBE scenarios	Varies per relevant individual, beneficiary or partner marginal and other tax rates

* In relatively rare cases, a 30% corporate tax rate may arise for a < \$50 Million SBE due to rent, royalty, licence fee or similar BRE Passive Income being derived as business income or a large capital gain and/or due to timing differences for testing aggregated turnover between corporate tax rate and SBE status. A 25% corporate tax rate is expected to be the most common tax rate for boost deduction purposes.

IMPORTANT NOTE

To the extent that the maximum possible \$20,000 boost deduction has NOT been achieved for a given time period, there will be a corresponding reduction to the above after-tax savings amounts shown above. See the example in the first table above for further details.

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What are the key differences between the Technology/Investment Boost Deduction and the Skills and Training Boost Deduction?

While most of this Tax Astute Snapshot relates to the Technology and Investment Boost Deduction, both types of boost deduction have some similarities but also some important differences. The table below provides an overview comparison of the two types of boost deduction. Note that blue highlighted items indicate that arguably more concessional treatment applies to that item in comparison to the other boost deduction column.

To watch Tax Astute Training's online explanation of the below table, please use this link to the Adobe Connect* website (*Adobe are a trusted software developer and are the makers of PDF):

<http://taxastute.adobeconnect.com/p3bn25jbtgah/>

OR Click on the table to access MP4 recording (once open double click for full screen access)

SUMMARY COMPARISON of Boost Deduction Issues (if Normal or Late Balancer)	Technology/Investment Boost Deduction	Skills/Training Boost Deduction
NOTE - Non-Exhaustive Issues		
Type of Eligible Standard Deduction	Deductible Expenditure wholly/substantially for purposes of digital operations or digitising operations (subject to exclusions)	Specified Deductible Higher Education/Vocational Education and Training type Costs for employees
SBE Aggregated Turnover Requirement	< \$50 Million Aggregated Turnover	
Period within which eligible expenditure may be incurred	29/3/22 to 30/6/23	29/3/22 to 30/6/24
Boost Percentage	Maximum 20% uplift to standard deduction	
Maximum Boost Cap per Time Period	\$20,000	NO Cap
Time Period 1 (for first boost calculation)	29/3/22 to 30/6/22	29/3/22 to 30/6/23
Time Period 2 (2nd calculation)	2022/23	2023/24
First tax return in which boost deduction can be claimed	2022/23	

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WANT MORE DETAILS?

In addition to details available at www.taxastute.com.au, Tax Astute Training clients receive more information and specific details, interactive questions and answers underlying this snapshot summary above as a part of their:

- Tax Astute Online or Face to Face/Hybrid Training Seminar;
- Tax Astute Training Seminar Reference Notes; and
- Tax Astute Training Online Multimedia Recording.

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