

Save money and energy

with accelerated depreciation
for small businesses

The Federal Government's Accelerated Depreciation for Small Business Entities initiative is an excellent opportunity to upgrade equipment, save energy and help your small business long-term.

About the initiative

Your business is considered a small business if you have an aggregated turnover of less than:

- \$10 million from 1 July 2016 onwards
- \$2 million for previous income years.

Under the instant asset write off option, assets costing less than the instant asset

write-off threshold of \$20,000 can be written off in the year they are bought and used, or installed ready-for-use. This applies irrespective of whether the asset is purchased new or second-hand.

It is possible to use this \$20,000 option multiple times, however, the cost of each item must be under the threshold.

Assets that cost \$20,000 or more are deducted over time using the general small business pool option. Under the pooling mechanism a deduction for 15 per cent of the cost is allowed in the first income year and a 30 per cent deduction each year after the first year. When the balance of your small business pool is less than \$20,000, you can write-off the entire balance at the end of that income year.

Energy efficiency makes sense

It makes sense for businesses to be energy efficient. As well as reducing your business' energy costs, greater energy efficiency can increase profitability and competitiveness, improve product quality and output, reduce risks and liabilities, enhance resilience and enable new business opportunities.

It has been estimated that many small businesses can cost effectively save 30 percent of their energy demand. Much of this saving can be achieved through simple operational changes – such as turning off equipment and appliances when not needed – and better maintenance and settings at little or no cost.

And, investing in relatively low cost improvements – such as sensors, automation, variable speed drives and other energy efficiency and renewable energy technology – can realise your full energy saving potential.

More money back to your small business

By taking advantage of the Accelerated Depreciation for Small Business Entities initiative when costing and implementing your energy saving projects, your tax savings can be added to the energy cost savings, amplifying the financial benefits and getting more money back to your small business.

How could this work in your business?

Pablo & Rusty's is a specialty coffee roaster based in North Ryde, Sydney and operator of espresso bars in the CBD of Sydney and Brisbane. They also work closely with cafés across the country supplying sustainable coffee and education.

Sustainability is a major focus for Pablo & Rusty's, recently achieving BCorp certification and previous winner of NSW Green Globe award for excellence in sustainability.

An opportunity was identified to upgrade every light in the factory including high bays, bathroom oyster lights, fluorescent tubes and standard bulbs to LEDs.

In NSW, Pablo & Rusty's has been able to take advantage of the Energy Savings Scheme and claim Energy Saving Certificates (ESCs) for the lighting project amounting to \$1,084.

Accounting for savings from energy, maintenance and ESCs, the project returned a simple payback of 2.1 years.

As the full value of the lighting project was below the \$20,000 threshold, the full value can be written-off in the first year, reducing the tax liability by \$3,678. Adding in this saving reduced the simple payback to 1.45 years.

Initiative	Lighting upgrade and installation sensors
Capital Outlay	\$13,376
Energy Savings (MWh/yr)	19,386 KWh
Energy Savings (\$/yr)	\$4,857
Other rebates	\$1,084
Maintenance savings (pa)	\$1,095
Tax offset (Year 1)	\$3,678
Payback (years) Without tax incentive	2.1
Payback (years) With tax incentive	1.45

For more information

Further information is available from the Australian Tax Office:

www.ato.gov.au

You should consult your own tax, legal and accounting advisors before engaging in any transaction or project.

Financial disclosure statement

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- The calculations have assumed that the purchase of plant and equipment has occurred in the 2017/18 tax year
- The assumed Company tax rate for small business used in the examples is 27.5%
- The calculations have assumed a straight-line depreciation method throughout. Some businesses may already use a diminishing balance methodology. Consult your tax, legal or accounting advisor to determine which methodology applies to your business
- The asset life for normal depreciation calculations has been assumed as 20 years for refrigeration
- For demonstration purposes the assumption is that there is no other equipment or remaining value in the Pool
- The "Accelerated Depreciation for Small Business" Pool method assumes the following: depreciation of 15% in the first year (year of purchase), and then 30% depreciation deduction in subsequent years. Once the balance decreases below \$20,000 the remainder can be depreciated fully in that year
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Fleurieu Milk Company is located in Myponga, at the foothills of the Fleurieu Peninsula in South Australia, and was established in 2004 in a desire to unite local dairy farmers.

Fleurieu Milk Company has steadily grown and now produces and packages a range of products including milk, cream, and yoghurt.

The upgrade journey

Fleurieu Milk has a solar system installed that supplements 30% of their electricity needs, however, a 2017 energy audit identified a range of further energy efficiency initiatives. The refrigeration unit was over 40 years old and is using inefficient technology.

Replacing the refrigeration will greatly increase electricity efficiency leading to significant electricity savings.

The new unit has been installed with an ice bank, which acts as a thermal storage unit. The idea behind the ice bank is that ice is generated at night when electricity prices are lower and refrigeration more efficient. Also, it can use excess electricity from the solar system and transfer this into thermal energy rather than exporting electricity back to the grid.

This ice storage is then used to cool the milk during the day when milk is processed. This thermal storage has several benefits including a smaller compressor unit, an increase in

A project case study: Fleurieu Milk Company

production capacity, and greater protection from heat waves.

The upgraded refrigeration system has not only lowered our electricity bills, but has also provided us with additional refrigeration capacity needed to increase production.

- Nick Hutchinson, General Manager

Energy saving/renewable energy actions

- Refrigeration upgrade



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Under the instant asset write off option, assets purchased by eligible small businesses costing less than the instant asset write-off threshold of \$20,000 can be written off in the year they are bought and used, or installed ready-for-use.

Assets that cost \$20,000 or more are deducted over a shorter time using the general small business pool option.

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Project Financials:

Justification for implementing energy saving projects are typically assessed using the simple payback method where the business owner calculates how many years of energy and maintenance savings will be required to pay back the original investment.

The refrigeration upgrade included several components assessed as stand-alone:

- Two (2) x Compressors - \$19,000 each
- Two (2) x 22,500 L tanks, coils and connection - \$18,500 each
- Two (2) x 5,000 L tanks, coils and connection - \$15,000 each

As the full value of each of these components was below the \$20,000 threshold, the full value of each component can be written-off in the first year, reducing the tax liability by \$28,075.

However, as remainder of works totalling \$84,000 cannot be treated as stand-alone and exceeds the \$20,000 threshold it cannot be fully written off in the first year. The assets must be "pooled" with other depreciating assets that cost more than \$20,000. All the assets in the "asset pool" are depreciated by 15% in the first year and then 30% each year thereafter. Once the remaining balance

Initiative	Refrigeration upgrade
Capital Outlay	\$189,000
Energy Savings (MWh/yr)	150
Energy Savings (\$/yr)	\$49,500
Tax Liability Offset (Year 1)	\$32,340
Payback (years) Without tax incentive	3.75
Payback (years) With tax incentive	3.16

decreases below \$20,000 the remainder can be depreciated in that year.

The combination of these two depreciation methods results in significant reduction in the tax liability, especially in Year 1.

Only the Year 1 reduction in the tax liability of \$32,340 is included in the payback calculations, however a further tax liability reduction of \$19,635 can be realised over Years 2 to 4.

No rebates were obtained for the project and no maintenance costs factored in.

Project Participants



Business
Fleurieu Milk
Company
fleurieumilkco.com.au



**Energy
Assessor**
2XE
2xe.com.au



**Refrigeration
Upgrade**
Matrix Process Solutions
matrixps.com

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- The calculations have assumed that the purchase of plant and equipment has occurred in the 2017/18 tax year
- The assumed Company tax rate for small business used in the examples is 27.5%
- The calculations have assumed a straight-line depreciation method throughout. Some businesses may already use a diminishing balance methodology. Consult your tax, legal or accounting advisor to determine which methodology applies to your business
- The asset life for normal depreciation calculations has been assumed as 20 years for refrigeration
- For demonstration purposes the assumption is that there is no other equipment or remaining value in the Pool
- The "Accelerated Depreciation for Small Business" Pool method assumes the following: depreciation of 15% in the first year (year of purchase), and then 30% depreciation deduction in subsequent years. Once the balance decreases below \$20,000 the remainder can be depreciated fully in that year
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A project case study: Pablo & Rusty's Coffee Roasters

Pablo & Rusty's is a specialty coffee roaster based in North Ryde, Sydney and operator of espresso bars in the CBD of Sydney and Brisbane. They also work closely with cafes across the country, supplying sustainable coffee and education.

With a mission to help solve both social and environmental problems and to make a lasting impact in the coffee industry, Pablo & Rusty's work closely with coffee farms and source many coffees directly. Innovation is considered a key to success and the business is constantly seeking change and adopting the best environmental practices.

The upgrade journey

Sustainability is a major focus for Pablo & Rusty's, recently achieving BCorp certification and previous winner of NSW Green Globe award for excellence in sustainability.

An opportunity was identified to upgrade every light in the factory including high bays, bathroom oyster lights, fluorescent tubes and standard bulbs to LEDs.

Coupled with the installation of a 30kWh solar PV system that would meet 100 per cent of factory electricity needs with renewable energy, an important step towards a goal to be 100 per cent carbon neutral.

Pablo & Rusty's

COFFEE ROASTERS

Switching to solar has been one of the best decisions for us because it both aligns with our environmental objectives as well as being a great investment on its own with a fast return on capital. Our smart system gives us clear insights and shows exactly how much we are saving and also maximises the performance of the system. Switching to LEDs also has been a great saving and only wish we had done it sooner. I would encourage every business to go solar and start improving their footprint.

- Saxon Wright, CEO

The Federal Government's Accelerated Depreciation for Small Business Entities initiative is an excellent opportunity to upgrade equipment, save energy and help your small business long-term.

Under the instant asset write off option, assets purchased by eligible small businesses costing less than the instant asset write-off threshold of \$20,000 can be written off in the year they are bought and used, or installed ready-for-use.

Assets that cost \$20,000 or more are deducted over a shorter time using the general small business pool option.

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Energy saving/renewable energy actions

- Lighting upgrade
- Solar PV installation



Project Financials:

Justification for implementing energy saving projects are typically assessed using the simple payback method where the business owner calculates how many years of energy and maintenance savings will be required to pay back the original investment.

In NSW, Pablo & Rusty's has been able to take advantage of the Energy Savings Scheme and claim Energy Saving Certificates (ESCs) for the lighting project amounting to \$1,084.

As the full value of the lighting project was below the \$20,000 threshold, the full value can be written-off in the first year, reducing the tax liability by \$3,678.

For the Solar PV project, Pablo & Rusty's has also been able to claim Small-scale Technology Certificates (STCs) under the Small-scale Renewable Energy Scheme for the Solar PV project amounting to \$23,750.

However, as the full value of the Solar PV project exceeds the \$20,000 threshold it cannot be fully written off in the first year. The assets must be

Initiative	Lighting upgrade and installation sensors	Solar PV
Capital Outlay	\$13,376	\$68,712
Energy Savings (MWh/yr)	19,386 KWh	NA
Energy Savings (\$/yr)	\$4,857	\$12,006
Other rebates	\$1,084	\$23,750
Maintenance savings (pa)	\$1,095	NA
Tax offset (Year 1)	\$3,678	\$2,834
Payback (years) Without tax incentive	2.1	3.74
Payback (years) With tax incentive	1.45	3.51

"pooled" with other depreciating assets that cost more than \$20,000. All the assets in the "asset pool" are depreciated by 15% in the first year, and then 30% each year thereafter. Once the remaining balance decreases below \$20,000 the remainder can be depreciated in that year.

Only the Year 1 reduction in the tax liability of \$2,834.37 is included in the payback calculations, however a further tax liability reduction of \$16,061 can be realised over Years 2 to 4.

Project Participants



Business

Pablo & Rusty's
pabloandrustys.com.au



Lighting Provider

LEDified
ledified.com.au



Solar Provider

SCE Energy Solutions
sce-energy.com.au

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To take the next step,
visit www.eec.org.au

Or you can contact us directly on
info@eec.org.au or phone 03 8327 8422.



This project has been funded under the City of Sydney Knowledge Exchange Sponsorship program.



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Penola IGA Fresh is a locally owned and operated supermarket located in the Penola / Coonawarra district in southeast South Australia.

Operating for 27 years and trading 12 hours a day, seven days a week, Penola IGA Fresh pride themselves on offering a range of fresh, locally produced products such as apples, yoghurts, cheeses and honey along with all the grocery essentials to customers.

The upgrade journey

Any energy audit undertaken in May 2017 identified refrigeration used to chill or freeze (70 per cent) and lighting (12 per cent) as the largest consumers of electricity in the business.

The audit report also identified a likely increase of 60 per cent in electricity costs in the next contract period due to the nature of the South Australian electricity market.

A range of energy efficiency and renewable energy opportunities were identified and the business decided to pursue two: replacement of shop floor standard double-tube fluorescent lighting with highly efficient LED lighting and a significant upgrade to refrigeration cabinets through the installation of hinged, frameless doors and new unit lighting.



A project case study: Penola IGA Fresh

The savings we will realise from these upgrades will help us thrive in a market that is becoming more competitive every year. For us it was really important to access available government support to improve the project viability.

- Shane McPherson, Owner

Energy saving/renewable energy actions

- Refrigeration door and lighting upgrade
- Lighting replacement - LED



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Project Financials:

Justification for implementing energy saving projects are typically assessed using the simple payback method where the business owner calculates how many years of energy and maintenance savings will be required to pay back the original investment.

Being in South Australia, the Penola IGA Fresh lighting project has qualified for a rebate of \$4,455 under the Retailer Energy Efficiency Scheme.

As the full value of the lighting project was below the \$20,000 threshold, the full value can be written-off in the first year, reducing the tax liability by \$5,314.

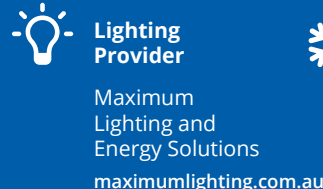
However, as the full value of the refrigeration project exceeds the \$20,000 threshold it cannot be fully written off in the first year. The assets must be "pooled" with other depreciating assets that cost more than \$20,000. All the assets in the "asset pool" are depreciated by 15% in the first year, and then 30% each year thereafter. Once the remaining balance decreases below \$20,000 the remainder can be depreciated in that year.

Initiative	Replace shop-floor lighting with LEDs	Installation of doors on all open cabinets
Capital Outlay	\$19,325	\$115,966
Energy Savings (MWh/yr)	72,182	61,105
Energy Savings (\$/yr)	\$11,549	\$9,777
Other rebates	\$4,455	NA
Maintenance savings (pa)	\$3,733	NA
Tax offset (Year 1)	\$5,314	\$4,784
Payback (years) Without tax incentive	0.97	11.86
Payback (years) With tax incentive	0.63	11.37

Only the Year 1 reduction in the tax liability of \$4,783.60 is included in the payback calculations, however a further tax liability reduction of \$27,107 can be realised over Years 2 to 4.

Penola IGA Fresh also received support from the South Australian Energy Productivity Program in undertaking the initial assessment and implementing these initiatives.

Project Participants



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