1.3 The new Technology Investment Boost available for the cost of digitising operations

The Technology Investment Boost provides small or medium businesses with a **20% bonus deduction** for eligible expenditure incurred for the purposes of an entity's **digital operations** or **digitising the entity's operations**. According to the Explanatory Memorandum to the Bill, this temporary tax incentive has been introduced by the Government to incentivise business taxpayers to adopt digital technologies that are key to *"a stronger, productive and resilient economy"*.

The Technology Investment Boost will be available for eligible expenditure incurred between **7:30 pm** (ACT time) on **29 March 2022** and **30 June 2023**. To be eligible for the 20% bonus deduction, a business taxpayer must satisfy the following broad conditions:

(a) The taxpayer must incur **eligible expenditure** for the purpose of the Technology Investment Boost.

(b) The taxpayer must claim the Boost deduction in the **correct income year**.

The following will consider the eligibility requirements that must be satisfied by business taxpayers to claim the Technology Investment Boost.

1.3.1 When will expenditure be eligible for the Technology Investment Boost?

The Technology Investment Boost 20% bonus deduction is only available in relation to **eligible expenditure** incurred for the purpose of an entity's digital operations or digitising the entity's operations. Under S.328-455 and S.328-460, the following conditions must be satisfied for expenditure to be 'eligible expenditure' for the purpose of the Technology Investment Boost.

A. The employer must be a small or medium business for the income year in which the expenditure is incurred

To be eligible for the Technology Investment Boost, the taxpayer must be a **small or medium business** for the income year in which the underlying expenditure is incurred. The concept of a 'small or medium business' is discussed in more detail on page 5.

B. The expenditure must be incurred within the specified time period

The Technology Investment Boost deduction is a temporary measure that is only available for eligible expenditure **incurred** between **7:30 pm** (ACT time) on **29 March 2022** and **30 June 2023**. Refer to S.328-460(1)(b) and S.328-460(2)(b).

Furthermore, claims related to eligible depreciating assets also generally require the asset to be used or installed ready for use by **30 June 2023**. As a result, a depreciating asset delivered after this time (or if the taxpayer started to use the asset or have it installed ready for use for a taxable purpose after that time) is ineligible for the Technology Investment Boost. Refer to page 16.

C. Expenditure must be deductible under the taxation law

To be eligible for the bonus deduction under the Technology Investment Boost, any otherwise eligible expenditure must also be deductible under another provision of the taxation law. This is the case regardless of the income year in which the deduction can be claimed. Importantly, expenditure must necessarily be **incurred in carrying on a business** for the purpose of gaining or producing assessable income to be eligible for the bonus deduction. Refer to S.328-460(1)(c) and S.328-460(2)(c), and paragraph 5.20 of the Explanatory Memorandum to the Bill.

Finally, it should be noted that the 20% bonus deduction under the Technology Investment Boost will always be claimed **in the 2023 income year**, irrespective of the year in which the taxpayer can claim a deduction for the underlying expenditure.

TAX WARNING – Apportionment may be necessary

It is **not** necessary for the underlying expenditure to be 100% deductible to be eligible expenditure for the purpose of the Technology Investment Boost (in contrast to the Skills and Training Boost discussed above), provided it is **substantially** for digitising business operations. In such circumstances, any non-deductible proportion (e.g., private proportion of expenditure incurred by a sole trader) will **not** be considered eligible expenditure.

Where expenditure is for multiple purposes (e.g., a mix of business and private use), the 20% bonus deduction afforded by the Technology Investment Boost will only apply to the proportion of the expenditure that is for an assessable income-producing purpose.

Importantly, the Technology Investment Boost 20% bonus deduction will be available **in addition** to the usual income tax deductions available in respect of the eligible expenditure. Furthermore, the amendments will also ensure that S.8-10 of the ITAA 1997 (about no double deductions) will **not** prevent an eligible taxpayer from claiming the bonus deduction. Refer to S.328-455(4).

D. Expenditure must be incurred wholly or substantially for the purposes of an entity's digital operations or digitising the entity's operations

Any eligible expenditure is required to have a direct link to a taxpayer's digital operations for its business. This means that for the Technology Investment Boost to apply, the expenditure must be incurred **wholly or substantially** for the purposes of:

- a taxpayer's digital operations; or
- digitising the taxpayer's operations.

The Explanatory Memorandum to the Bill provides a list of four main business expenditure categories of potentially eligible expenditure on digital operations or digitising operations, as outlined below.

1. **Digital enabling items** – Including computer and telecommunications hardware and equipment, software, internet costs, systems and services that form and facilitate the use of computer networks.

2. **Digital media and marketing costs** – Including audio-visual content that can be created, accessed, stored or viewed on digital devices, including web page design.

3. **E-commerce** – Including goods and services supporting digitally ordered or platform-enabled online transactions, portable payment devices, digital inventory management, subscriptions to cloud-based services, and advice on digital operations or digitising operations (e.g., advice about digital tools to support business continuity and growth).

4. **Cyber security** – Including cyber security systems, backup management & monitoring services.

Importantly, eligible expenditure on digital operations or digitising operations is **not** limited to the expenditure categories listed above, meaning *"a broad range of expenditure could be eligible for the bonus deduction, provided it meets the other eligibility requirements"*. Accordingly, taxpayers should assess any potentially eligible expenditure on its own merits, to ensure the 20% bonus deduction is not overlooked.

Refer to pages 17 and 18 for a list of the type of expenditure that will often be considered to be incurred wholly or substantially for the purposes of an entity's digital operations or digitising the entity's operations.

E. Expenditure must not be 'excluded expenditure'

Certain types of expenditure are specifically excluded from the Technology Investment Boost even where it would otherwise meet the eligibility requirements. This exclusion broadly applies on the basis that certain expenditure is not directly related to digital operations or digitising operations.

Specifically, the following costs are treated as **excluded expenditure**, and are therefore ineligible for the Technology Investment Boost:

- Salary or wage costs.
- Capital works costs (i.e., which can be deducted under Division 43 of the ITAA 1997).
- Financing costs.
- Training and education costs (which may instead be eligible for to the 20% bonus deduction under the Skills and Training Boost discussed at pages 6 to 13).
- Expenditure that forms part of, or is included in, the cost of trading stock.

Refer to S.328-460(1)(e), S.328-460(2)(e) and S.328-460(5).

F. Special rules for expenditure relating to depreciating assets

A small or medium business may potentially claim the 20% bonus deduction under the Technology Investment Boost for eligible expenditure incurred in relation to a depreciating asset. This is on the basis that the depreciating asset is to be used wholly or substantially for the purpose of the taxpayer's digital operations or digitising the taxpayer's operations.

The 20% bonus deduction may be claimed regardless of how income tax deductions for the depreciation of the relevant asset is calculated and claimed. This includes where the depreciating asset is subject to either:

- an immediate write-off (e.g., under temporary full expensing under either Subdivision 40-BB of the IT(TP)A 1997 or Subdivision 328-D of the ITAA 1997); or
- a progressive write-off over time (e.g., over the asset's effective life under Division 40 of the ITAA 1997 or under the SBE general pool in Subdivision 328-D of the ITAA 1997).

TAX TIP – Calculating the 20% bonus deduction for a depreciating asset under the Technology Investment Boost

Importantly, the 20% bonus deduction under the Technology Investment Boost is based on the total eligible expenditure incurred in relation to a depreciating asset, regardless of whether depreciation deductions are claimed immediately or over several years.

This means the bonus deduction is equal to **20%** of the **cost of the eligible asset** (i.e., in accordance with the meaning of Division 40 of the ITAA 1997) that was incurred between 7:30 pm (ACT time) on 29 March 2022 and 30 June 2023, reduced by any extent to which the asset is not used for a taxable purpose.

Furthermore, when calculating the 20% bonus deduction for expenditure on a depreciating asset, it is assumed that:

- the taxpayer will continue to hold the asset throughout its effective life; and
- the entity will use the asset for a taxable purpose to the same extent that it does in the income year it first uses the asset or has it installed ready for use.

Refer to S.328-460(4).

Finally, the Technology Investment Boost 20% bonus deduction is only available in relation to a depreciating asset if the asset is:

(a) **first used or installed ready for use before 1 July 2023** (unless the asset is in-house software allocated to a software development pool); and

(b) **not subject to a balancing adjustment event** (e.g., be sold) before the end of the income year in which the expenditure was incurred, unless the balancing adjustment event is an involuntary disposal.

Refer to S.328-460(1)(f), S.328-460(2)(f), S.328-460(1)(g) and S.328-460(2)(g).

1.3.2 Common examples of expenditure that may be eligible for the Technology Investment Boost

The following table provides a non-exhaustive list of expenditure that may qualify for the 20% bonus deduction under the Technology Investment Boost.

To be eligible for the bonus deduction, the expenditure itemised below must be incurred wholly or substantially for the purposes of an entity's **digital operations or digitising the entity's operations**. This will require a direct link to an entity's digital operations for its business.

Expenditure on digital operations or digitising operations is not limited to these categories.

Digital category	Examples of Technology Investment Boost eligible expenditure
1. **Digital enabling items**	**Computer hardware and equipment** • Desktop and laptop computers • Digital tablets • Computer keyboards • Webcams • Computer mouse, trackpads and stylus • Computer cables • Powerpacks • Electrical cords and power adapters • Repair and improvement costs to computer hardware and equipment
	Telecommunications hardware and equipment • Landline phones • Mobile phones • Smart watches • Telephone accessories • Repair and improvement costs
	Software • Initial purchase • Annual or monthly subscriptions
	Internet costs • Usage costs • Connection costs • Repair costs
	Systems and services that form and facilitate the use of computer networks • Subscriptions to support digital capabilities • Help desk support fees and charges • IT support charges • Repair and improvement costs

Digital category	Examples of Technology Investment Boost eligible expenditure
2. Digital media and marketing	**Audio and visual content** Content on digital services that can be: • created; • accessed; • stored; or • viewed.
	Web page design
	Web page update costs
	Search Engine Optimisation ('SEO') fees
	Pay-per-click advertising
	Email marketing fees
	Photo stock commissions (used for digital media and marketing)
	Music royalty fees (used for digital media and marketing)
3. E-commerce	**Goods and services supporting digitally ordered or platform-enabled online transactions** • E-commerce website set-up • E-commerce website optimisation • Set-up of social media store (i.e., purchase) functionality • Costs associated with setting up online methods of payments • Photography costs for online display • Photo stock and other royalty fees associated with website costs, etc.
	Portable payment devices
	Digital inventory management
	Subscriptions to cloud-based services
	Advice on digital operations or digitising operations • Advice about digital tools to support business continuity and growth • Advice on integrating digital tools with current systems
4. Cyber security	**Cyber security systems** • Cyber security consultant fees • Cyber security software • Cyber security installation and implementation costs
	Cyber security backup management
	Cyber security monitoring services
	Cyber security upgrade services

1.3.3 How do business taxpayers claim a deduction for the Technology Investment Boost?

The amount of the Technology Investment Boost is calculated as 20% of the total amount of eligible expenditure incurred during the period from 7:30 pm (ACT time) on 29 March 2022 to 30 June 2023, up to a **maximum bonus deduction of $40,000** in the **2023 income year**.

However, this cap essentially operates as two separate $20,000 caps, whereby the $40,000 maximum bonus deduction is calculated as the **sum** of:

- $20,000 that is referable to eligible expenditure incurred during the period from 7:30 pm (ACT time) on 29 March 2022 to 30 June 2022 (the **'first time period'**); **plus**
- $20,000 that is referable to eligible expenditure incurred during the 2023 income year (the **'second time period'**).

Effectively, the amount of the bonus deduction is capped at 20% of $100,000 of eligible expenditure **per relevant time period**. Note that eligible taxpayers claim their bonus deduction in the 2023 income year, regardless of when the eligible expenditure was incurred.

EXAMPLE 2 – Claiming the Technology Investment deduction

Grimpop Pty Ltd ('Grimpop') operates on an income year that begins on **1 July** and ends on **30 June** the following year (i.e., Grimpop is a 'normal balancer'). For the purpose of this example, it is assumed that Grimpop is a 'small or medium business' at all times (refer to page 5).

Grimpop incurs the following technology-related expenditure, all of which qualifies as 'eligible expenditure' for the purpose of the Technology Investment Boost:

(a) On **25 May 2022**, Grimpop incurs **$80,000** for its cloud service subscription.

(b) On **15 January 2023** (i.e., during Grimpop's 2023 income year), Grimpop also incurs **$110,000** on various items of computer hardware and equipment. These depreciating assets were delivered on 29 January 2023 and were immediately installed ready for use for a taxable purpose. Grimpop is eligible to apply Temporary Full Expensing to fully deduct the cost of the depreciating assets in its 2023 income year.

What is the amount of Grimpop's Technology Investment Boost deduction?

The 20% bonus deduction under the Technology Investment Boost for the eligible expenditure incurred by Grimpop during the 'first time period' is **$16,000** (i.e., $80,000 x 20% = $16,000). The Technology Investment Boost cap does not affect this amount as the total claim is less than the $20,000 cap.

Eligible expenditure incurred by Grimpop during the **2023 income year** (i.e., the 'second time period') multiplied by 20% is equal to $22,000 (i.e., $110,000 x 20% = $22,000). However, as this amount exceeds $20,000, the deduction for the second time period is **capped at $20,000**.

Accordingly, the **total** Technology Investment Boost deduction for the 2023 income year is **$36,000** (i.e., $16,000 + $20,000 = $36,000).

Total deductions claimed by Grimpop in relation to the technology-related expenses are summarised as follows:

	2022 income year	2023 income year
Cloud service subscription	$ 80,000	$ Nil
Computer hardware and equipment	$ Nil	$ 110,000
Technology Investment Boost	$ N/A	$ 36,000 ❶
Total	**$ 80,000**	**$ 146,000**

❶ *The Technology Investment Boost deduction is claimed entirely in the 2023 income year, based on eligible expenditure incurred in the 2022 and 2023 income years.*

Timeline for claiming technology-related expenses and the 20% Technology Investment Boost – Normal balancers

29 March 2022
7:30pm (ACT time)

30 June 2022

30 June 2023

Expenditure incurred before this time is **not** eligible for the Technology Investment Boost

29 March 2022 – 30 June 2022

Eligible expenditure incurred during this period is generally deductible in the 2022 income year. ❶

The Technology Investment Boost on eligible expenditure incurred during this period is claimed as an **additional deduction in the 2023 income year.** ❷❸

The Technology Investment Boost deduction referable to eligible expenditure incurred during this period is calculated as the **lower** of:

- 20% of the eligible expenditure incurred during this period; and
- $20,000. ❸

30 June 2022 – 30 June 2023

Eligible expenditure incurred during this period is generally deductible in the 2023 income year. ❶

The Technology Investment Boost on eligible expenditure incurred during this period is claimed as an **additional deduction in the 2023 income year.** ❷❸

The Technology Investment Boost deduction referable to eligible expenditure incurred during this period is calculated as the **lower** of:

- 20% of the eligible expenditure incurred during this period; and
- $20,000. ❸

Expenditure incurred after this time is **not** eligible for the Technology Investment Boost

❶ *Note that depreciation deductions for depreciating assets (including under temporary full expensing) are generally first claimed in the income year in which the taxpayer starts to use the asset (or has it installed ready for use) for a taxable purpose.*

❷ *If the expenditure is on a depreciating asset, to qualify for the Technology Investment Boost, the taxpayer must generally start to use the asset (or have it installed ready for use) for a taxable purpose before 1 July 2023 (unless the asset is in-house software allocated to a software development pool).*

❸ *The Technology Investment Boost is claimed by normal balancers as an additional deduction in their 2023 income year, regardless of whether the eligible expenditure is incurred in the 2022 or 2023 income year. Note that the $20,000 cap applies independently in each of the two separate periods, effectively meaning that a **maximum** bonus deduction of $40,000 can be claimed in the 2023 income year.*

1.3.5 Technology Investment Boost eligibility checklist

The following table summarises the eligibility requirements to ensure employers are correctly claiming the 20% bonus deduction under the Technology Investment Boost.

Eligibility condition	Discussion
1. Taxpayer must be a 'small or medium business'	Eligibility to the Technology Investment Boost is restricted to taxpayers that are small business entities ('SBEs') or taxpayers that would be an SBE if the aggregated turnover threshold was (less than) \$50 million (i.e., rather than the \$10 million threshold that applies for SBEs). Such taxpayers have been referred to as a **'small or medium business'** in the seminar materials. Importantly, the taxpayer must be a 'small or medium business' for the income year in which the underlying expenditure was incurred. Refer to page 5.
2. Expenditure must be incurred within the specified time period	The Technology Investment Boost 20% bonus deduction is only available for eligible expenditure incurred from **7:30 pm** (ACT time) on **29 March 2022** to **30 June 2023**. Refer to page 14.
3. The Technology Investment Boost cap	The amount of the bonus deduction is capped at **20%** of **\$100,000 eligible expenditure** (i.e., **\$20,000**) per relevant time period. Refer to page 19.
4. Eligible expenditure must be deductible	The relevant **expenditure must be deductible** under another provision of taxation law, irrespective of whether it is deductible wholly in the income year it is incurred or over a number of income years. Eligible expenditure includes the purchase of certain depreciating assets. Refer to pages 14 and 15, and point 5 (below).
5. Additional rules for depreciating assets	If the expenditure is on a depreciating asset, additional eligibility criteria need to be satisfied. Namely, the depreciating asset must: • be first used or installed ready for use for a taxable purpose **before 1 July 2023** (other than when the asset has been allocated to a software development pool); and • not be subject to a balancing adjustment event before the end of the income year in which the expenditure was incurred, unless the balancing adjustment event is an involuntary disposal. Refer to page 16.
6. Eligible expenditure must digitise a business	Any eligible expenditure must be incurred wholly or substantially for the purposes of a taxpayer's digital operations or digitising their operations. Refer to page 15.
7. Expenditure must not be excluded expenditure	Eligible expenditure does **not** include salary or wage costs, capital works expenditure that is deductible under Division 43 of the ITAA 1997, financing costs (including interest, payments in the nature of interest and expenses of borrowing), training or education costs, and expenditure incurred that forms part of the cost of the taxpayer's trading stock. Refer to pages 15 to 16.
8. Claim must be made in the correct income year	Once a taxpayer has incurred eligible expenditure for the purpose of the Technology Investment Boost (i.e., the eligibility requirements in Points 1 to 7 above have been satisfied), **special rules determine which income year the 20% bonus deduction is claimed**. Refer to pages 19 to 20.