



Tax Breaks for Green Buildings

Julia Gillard and Labor
Let's move Australia forward



TAX BREAKS FOR GREEN BUILDINGS

From 1 July 2011, businesses that invest in eligible assets or capital works to improve the energy efficiency of their existing buildings – from 2 stars or lower to 4 stars or higher – will be able to apply for a one-off bonus tax deduction.

The incentive will enable businesses to claim a bonus tax deduction of 50 per cent of the cost of the eligible assets or capital works.

This initiative is expected to provide a boost of around \$1 billion over the life of the scheme to help 'green up' existing buildings right across the country. It will help unlock significant energy efficiency by giving businesses a clear incentive to save energy in their buildings.

This initiative is part of the Gillard Labor Government's plan to make positive changes to how we live, work and travel.

What is this policy seeking to achieve?

Tax Breaks for Green Buildings will give Australia a head start on meeting its emissions reduction targets.

Currently, commercial buildings account for approximately 10 per cent of Australia's greenhouse gas emissions. The large majority of these emissions are related to electricity consumption. Since buildings typically last for decades, action to improve the energy performance of Australia's building stock is an important step to achieving Australia's emissions reduction objectives.

The incentive will also encourage the creation of thousands of new green jobs across Australia and encourage the development, production and adoption of green building products in Australia. At the same time, the initiative will boost the competitiveness of Australian businesses, by reducing their energy costs.

How will the scheme work?

The Tax Breaks for Green Buildings initiative will be available for retrofits of existing commercial buildings. It will also be available for retrofits of office buildings, hotels and shopping centres that are currently covered by the National Australian Built Environment Rating System (NABERS) scheme.

The Tax Break will be available for eligible capital expenditure which is incurred as part of a qualifying retrofit of an existing commercial building. The scope of what can constitute eligible capital expenditure will be determined in consultation with environmental, industry and government stakeholders.

Example

The owner of a large office building obtains a NABERS Energy rating of two stars or less for the building.

After 1 July 2011, in consultation with a NABERS assessor, the building owner proposes a major retrofit of the building designed to bring its energy efficiency to at least a four star level. This proposal, which includes a NABERS commitment agreement, is submitted to the Government for official consideration and subsequently receives approval.

The owner incurs \$1 million of eligible capital expenditure as part of the retrofit project, including on new highly energy efficient lighting systems, a cogeneration system and efficient air conditioners.

After completion, the building owner obtains a post-project NABERS Energy rating (based on the required 12 months of post-project energy use data) confirming that the building's energy efficiency is at least four stars.

The retrofit is then officially confirmed as a qualifying project.

The building owner receives a bonus tax deduction of \$500,000 (50 per cent of the amount of eligible project capital expenditure). From 2013-14, the company tax rate will be 29 per cent under the Gillard Labor Government and this bonus deduction would equate to a reduction of \$145,000 (29 per cent of \$500,000) in the building owner's tax liability (assuming the owner is a company).

The building owner continues to claim the normal capital allowance deductions in relation to its expenditure, over the effective life of the acquired assets. This means that over the effective life of the eligible assets, the building owner is able to claim total deductions equal to 150 per cent of their cost.

To be eligible for the Tax Break, the retrofit will need to be assessed by an accredited NABERS assessor both before and after the project, to ensure the improvement in energy efficiency is achieved.

While the final design of the scheme will be subject to consultation, we envisage that rounds of applications would be conducted to assess the best projects against statutory criteria and within a global budget for eligible expenditure. This will ensure that projects that deliver the best environmental outcomes are prioritised, and that the scheme is managed on a sustainable and fiscally responsible basis.

What is a NABERS rating?

A key condition of eligibility for the Tax Break would be demonstrating the required improvement in energy efficiency, as measured by the NABERS energy rating tool. This tool is available for certain types of buildings, such as commercial office buildings and some hotels and shopping centres.

NABERS is a performance-based rating system for existing buildings. The NABERS energy tool benchmarks a building's greenhouse impact on a scale of one to five stars. The assessment is evidence-based and requires at least 12 months of actual energy use data.

Tax Breaks for Green Buildings builds on the Commercial Building Disclosure Act, which the Gillard Labor Government legislated this year. The Act requires that information regarding the energy efficiency of commercial buildings be provided to those who may be considering purchasing or leasing a building. In this way, it helps businesses to make informed choices about the environmental performance of the buildings they operate from.

When will the Tax Break be available?

A Gillard Labor Government would seek to introduce legislation establishing the Green Building Tax Break in the first half of 2011.

Prior to drafting the legislation, the Government will consult extensively in the second half of 2010 on the detailed design of the incentive.

Qualifying retrofit projects undertaken between 1 July 2011 and 30 June 2015 would be eligible for the Tax Break.

The Tax Break would be able to be claimed as a bonus tax deduction in the income year in which the taxpayer receives certification that the project has achieved the required energy efficiency improvement.

The \$30 million expansion of the Green Building Fund ensures this program will continue to support businesses that improve the energy efficiency of commercial office buildings prior to the implementation of the Green Building Tax Break. The expanded Green Building Fund will also be available for hotels and shopping centres currently covered by the NABERS scheme.

To date, the Green Building Fund has already provided more than \$70 million in assistance to building owners wanting to improve the energy efficiency of their buildings.

What is the cost of this initiative?

This initiative is estimated to cost \$180 million over the forward estimates, including both administration costs and \$30 million for the expansion of the Green Building Fund.

Funding for this package has already been provided for in the Budget, through the Renewable Energy Future Fund.

A significant proportion of the costs of the scheme will be incurred outside the forward estimates, given the long lead times required to upgrade a building and then confirm the planned energy efficiency improvements have been realised.

The total cost of the scheme is estimated at around \$1.0 billion out to 2018-19.

Will the scheme provide value for money?

The Tax Break has been designed to minimise the risk to Budget and maximise the environmental benefits.

First, the Tax Break is only available for major projects that deliver a substantial improvement in energy efficiency (from 2 stars or lower to 4 stars or higher).

Second, proposals need to receive official approval before they are started.

Third, after the project is completed the building owner needs to demonstrate that it actually delivered the planned improvements in energy efficiency, through a new NABERS energy rating assessment.

Fourth, the Government will implement an audit and compliance program from the outset of the program.

What about new buildings?

To improve the energy efficiency of new buildings, a Gillard Labor Government will continue developing a National Buildings Framework, which will set increasingly strong minimum performance standards over time for new buildings and major renovations.

THE LIBERALS' RECORD

Tony Abbott broke the bipartisan consensus for action on climate change the night he became Liberal Party Leader, and reneged on the Liberal Party's deal to support emissions trading.

✘ **Instead Tony Abbott is advocating a 'direct action' policy, under which emissions will actually increase.** Estimates from the Department of Climate Change and Energy Efficiency show that under Mr Abbott's policy, emissions would increase by 13 per cent from 2000 levels.

✘ **Under the former Coalition Government, Australia was part of the problem on climate change, not part of the solution.**

✘ **If elected Prime Minister, Mr Abbott has already made clear he would cut funding for renewable energy and energy efficiency.**