

## National climate change and sustainability practice

### M&A carbon

Until recently, mergers and acquisitions (M&A) and divestitures have been – for the most part – unaffected by the green trend. But recent deals in industries from energy to retail have showed that sustainability can affect both the viability and the ultimate value of deals. Companies are seeking to gain support for acquisitions by committing to environmental action. Others are willing to pay a premium earnings multiple for companies because of their sustainability leadership.

As environmental regulations become more stringent and the spectre of new legislation looms, companies face an increasing demand for information about their defined and potential environmental liabilities. Add to these liabilities the potential value of related tax incentives, and these issues that previously affected only certain sectors are likely to have a much broader and deeper impact on valuations.

The influence of the carbon economy on the strategy and operations of companies is growing, and as it grows, it's becoming an increasingly important aspect of M&A. Acquiring companies want to know if they are taking on sustainability problems or opportunities. Divesting organisations want to know if their sustainability profile will contribute to a premium or discount price.

Making these determinations won't be easy. Evolving regulations and tax policy, fluctuating but relentlessly growing demand for energy and natural resources, and potentially game-changing technological advances may all play a role in shaping an unpredictable future.

Regardless of what's ahead, companies involved in M&A will be better prepared if they address these issues early in the process. As recent deals demonstrate, protecting the environment can benefit both the planet and the bottom line.

### Cross-border tax structuring and financing

We have extensive experience helping our clients find the optimal structures to maximise tax efficiencies. The introduction of CPRS might be new, but the evaluation and implementation of tax structures to take advantage of the opportunities arising from the regulatory changes is something we're well-versed in.

### CPRS tax incentives

With the CPRS, Deloitte's experience in helping our clients to access incentives is becoming even more important and lucrative.

We can help you to understand and access:

- Climate change incentives and allowances, including:
- Tax and deductions associated with expenditure on carbon sink forests
- Water offsets
- Tax rebates
- Grants
- Research and development concessions
- Renewable Energy Target credits – specifically, tax laws as they apply to new investment and M&A activity

### CPRS government funding

Funding carbon improvement programs can be difficult at the best of times. Deloitte helps our clients to access all relevant avenues of government funding:

- Clean Energy Initiative – \$4.5 billion initiative covering the Solar Flagships Program and Carbon Capture and Storage Program – related tax structuring opportunities and funding applications
- Business adapting to de-carbonise assets, processes, investments and make use of or develop new technologies through funding programs like Climate Ready and the Green Building Fund.



**Sydney – Climate Change and Sustainability Tax leader**

**Chris Leach**

Tel: +61 (0) 2 9322 7109

email: chleach@deloitte.com.au



**Melbourne**

**Brett Greig**

Tel: +61(0) 3 9671 7097

email: bgreig@deloitte.com.au



**Brisbane**

**Stephen Healey**

Tel: +61 (0) 7 3308 7226

email: sthealey@deloitte.com.au



**Perth**

**Fiona Cahill**

Tel: +61 (0) 8 9365 7313

email: fcahill@deloitte.com.au



**Adelaide**

**Megan Field**

Tel: +61 (0) 8 8407 7109

email: mfield@deloitte.com.au



**Climate Change and Sustainability national leader**

**Chris Wilson**

Tel: +61 (0) 2 9322 7109

email: chrwilson@deloitte.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

© Deloitte Touche Tohmatsu Ltd, August 2009. All rights reserved.

This publication is provided as general information only and does not consider your specific objectives, situation or needs. You should not rely on the information in this publication or disclose it or refer to it in any document. We accept no duty of care or liability to you or anyone else regarding this publication and we are not responsible to you or anyone else for any loss suffered in connection with the use of this publication or any of its content.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 150,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

AM\_City\_08/09\_039640

## Climate Change and Sustainability group Carbon Advisory Services – Tax



Is your business ready to take advantage of every opportunity in a carbon-constrained world? Deloitte's Carbon Advisory Service – Tax team can help your businesses to grow and adapt to climate change and the new focus on sustainability issues. While others are offering 'hypothetical' solutions to future problems, at Deloitte, we're not focused on what might happen, but on working with you to find solutions that benefit your business now.

If you wait to see what happens, your competitors will be acting now to take advantage of future opportunities. Our team can help you to position your business to play your hand – no matter what cards the changing environment deals you.

Every transaction you're considering in the coming years will be affected by the new carbon-constrained economy. And there's a growing focus on climate issues that means companies are facing more pressure to be responsible for carbon considerations – or risk losing business to those who are. You can act; or you can react. We can help you stay ahead of the pack.

Climate change and sustainability			
<b>Climate change regulation</b> (CPRS, NGERs)	<b>Renewables</b> (Renewable Energy Target scheme, Solar Credits)	<b>New technology /energy efficiency</b>	<b>Sustainability</b> (corporate social responsibility)
<ul style="list-style-type: none"> <li>Carbon footprint</li> <li>CDM/JI projects</li> <li>Carbon trading</li> <li>Emissions caps</li> <li>Forestry</li> </ul>	<ul style="list-style-type: none"> <li>Solar</li> <li>Hydro</li> <li>Wind</li> <li>Biofuels</li> <li>Clean energy</li> </ul>	<ul style="list-style-type: none"> <li>Carbon capture and storage</li> <li>Power Engineering</li> <li>Green Buildings</li> <li>Water treatment</li> </ul>	<ul style="list-style-type: none"> <li>Carbon packaging</li> <li>Reputation risks</li> </ul>
<b>Deloitte Carbon Advisory Services – Tax</b> Climate change tax considerations Advisory, structuring and incentives – renewables CPRS consulting and compliance			

Deloitte's team combines technical experience and services that can help your business across the board.

Whatever your motivation to address climate change issues, Deloitte's Tax team has the expertise to help your business take advantage of the opportunities in transitioning to a low-carbon economy.

Deloitte's Carbon Advisory Services – Tax team is part of our Australian Climate Change and Sustainability team, and provides world-class tax services across corporate and international tax, transfer pricing, research and development tax incentives, indirect taxes like GST and customs duties, and employment issues including remuneration.

### Climate change and sustainability

Climate change and government initiatives to reduce its effects don't just affect tax – that's why our team looks at tax and climate change & sustainability in the context of your whole business.

We can help you understand, evaluate and find tax opportunities including:

- Climate change incentives and allowances – research & development incentives, tax deductions for carbon sink forests, water offsets, tax rebates and grants
- Accessing funding from programs under the Australian Government's recently-announced Clean Energy Initiative, like the Carbon Capture and Solar Flagships programs
- Preparing for tax laws expected to be introduced as part of Australia's Carbon Pollution Reduction Scheme (CPRS) and other climate change initiatives
- Cross-border taxation implications of international trading as well as structures for establishing trading desks

Climate change and sustainability strategy	Climate change and sustainability in operations	Carbon trading and finance	Compliance in a carbon economy
Carbon risk assessment and readiness analysis	Carbon footprint reduction (products, supply chain, processes)	Cross-border carbon trading under CPRS and related corporate tax	Treasury/cash flow/company tax
CPRS/tax laws (domestic and international)	GHG emissions inventory	Capital management funding structures	Systems/CPRA permit reporting
M&A activity/renewable energy target	Internal audit of carbon management systems	Carbon taxing and financial advisory services	Tax versus accounting recognition treatment
Clean energy initiative/tax/structuring /funding/R&D	Climate change reporting and communication	Employee incentives and non-resident taxes	

### Tax considerations of climate change

There are a lot of questions you need to ask about tax when it comes to carbon and sustainability in Australia, like the funding and tax treatment of renewable power generation facilities or the 'de-carbonisation' of building and processes. Can you get additional credits for expenditure on research and development, or utilise accelerated tax depreciation rates for depreciable assets that form part of Carbon Readiness changes? What are the tax implications for investors? How should the project be structured, or financed?

Our Carbon Advisory Services – Tax team can help your business find the answers you need.

### Research & development concession

The research & development (R&D) tax concession is an Australian Government incentive to increase R&D activity in Australia. Companies can claim a 125% deduction for eligible expenditure or, under certain circumstances, a tax offset for small companies or a 175% premium deduction.

Deloitte's R&D Tax and Incentives group leads the field in accessing R&D concessions for our clients. Whatever your industry, you could access the benefits of the R&D concession for the work to make your products, processes or services carbon-ready and to adjust to climate change. The advantages of the concession and maximising your deduction may mean the difference between a sustainability project going ahead or being infeasible.

As part of the 2009-10 Federal Budget, the Treasurer announced the replacement of the R&D concession with R&D tax credits, from 1 July 2010.

Deloitte actively participates in the Federal Government's policy consultation process, has representation on the ATO working committee on R&D and has made submissions to the Cutler review.

### Accelerated depreciation

If you're acquiring new assets as part of your climate change or sustainability activities, for example as a power generator investing in renewable energy plant like solar, you could accelerate tax depreciation deductions for depreciable assets you use as part of the plant by using the diminishing value method (DVM) of depreciation, which lets you double the depreciation deductions in the first year that the asset is held ready for use, compared with the prime cost method.

### Advisory, structuring and incentives – renewables

Deloitte's Carbon Advisory Service – Tax team had helped many clients to identify, apply for and access incentives and grants. We know how to navigate the government funding schemes – in fact, we actively participate in the policy formulation process behind them. Recently, Deloitte has been appointed external auditor to the Global Carbon Capture and Storage Institute (GCCSI), which is administered by the Department of Resources, Energy and Tourism (DRET).

Some of the schemes we can help you with include:

#### Clean Energy Initiative

Announced in the 2009-10 Federal Budget, the CEI supports the research, development and demonstration of low-emission energy technologies, including industrial scale carbon capture and storage (CCS) and solar energy.

The CEI has three components:

- CCS Flagships program:** To support construction and demonstration of large-scale integrated carbon capture and storage projects in Australia, including gasification, post-combustion capture, oxy-firing, transport and storage technologies. The target is 1000MW of low emission fossil fuel generation
- Solar Flagships program:** To support construction and demonstration of large-scale solar power stations in Australia, including solar thermal, photovoltaic and energy-storage technologies. The target is 1000MW of electricity generation
- Renewables Australia:** To establish a new body, Renewables Australia, which will promote the development, commercialisation and deployment of renewable technologies, through a commercial investment approach.

#### Climate Ready

Climate Ready provides grants from \$50,000 to \$5 million on a matched funding basis to support projects that address the effects of climate change. The program is designed to support R&D, proof of concept and early stage commercialisation activities to develop solutions to climate change challenges.

#### Re-Tooling for Climate Change

Re-tooling for Climate Change provides small and medium-sized manufacturers with grants of between \$10,000 and \$500,000 on a matched funding basis for projects that improve energy and/or water efficiency in production processes.

There are also various state schemes (including state feed-in tariffs) being implemented across Australia – we can help you find the scheme that matches your needs.

### CPRS consulting and compliance

#### CPRS advisory

To find tax opportunities in a carbon-constrained world, you need to know where to look. Our team has expertise across:

- Tax laws introduced as part of the CPRS
- Current tax law (domestic and international) on cross-border permit trading
- Offshore abatement activity, restructuring international supply chains/manufacturing, related-party transfer pricing
- Employment taxes, including incentives, training and expatriates
- Capital management – funding structures, emissions permits and derivative trading operations, domestically and internationally
- The impact on treasury and related corporate tax liabilities
- Current and deferred tax treatment for accounting purposes
- System related issues with record retention for tax purposes