



# Creating a more dynamic and resilient economy

## Interim report

### Executive summary



This is an interim report prepared for further public consultation and input. The PC will finalise its report after these processes have taken place.



July 2025



The Productivity Commission acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to their Cultures, Country and Elders past and present.

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## The Productivity Commission

The Productivity Commission (PC) is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long-term interest of the Australian community.

The PC's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

For more information, visit the PC's website: [www.pc.gov.au](http://www.pc.gov.au)

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## Opportunity for comment

The PC thanks all participants for their contribution to this inquiry and now seeks additional input for the final report.

You are invited to examine this interim report and comment on it by written submission to the PC, preferably in electronic format, by 15 September 2025.

Further information on how to provide a submission is included on the website:  
[www.pc.gov.au/inquiries/current/resilient-economy](http://www.pc.gov.au/inquiries/current/resilient-economy)

The PC will prepare the final report after further submissions have been received, and it will hold further discussions with participants.

### Commissioners

Alex Robson

Deputy Chair

Barry Sterland

Commissioner



## Executive summary

A dynamic economy enables firms and individuals to invest, learn, innovate and thrive. Government's role in producing a more dynamic and resilient economy can be achieved through taxation, spending, or regulation. This inquiry recommends changes to the company tax system, and to the way government regulates, to spur more investment and productivity growth.

Business investment has fallen notably over the past decade, which has contributed to Australia's lacklustre productivity performance. One of our biggest levers to encourage investment and productivity growth is the corporate tax system. To improve dynamism and resilience, Australia needs to reduce its use of the current, inefficient company tax system and shift to a system that better encourages investment. The Productivity Commission's draft recommendations begin this reorientation of the company tax system. The PC proposes that Australia lower its company income tax rate to 20% for companies with revenue below \$1 billion (the majority of Australian companies). At the same time, a new net cashflow tax of 5% would reward companies for capital expenditure by reducing their taxable income by the value of their investments. Over time, there is scope to expand the net cashflow tax to fund broader effective reductions in company income tax.

This first step is expected to have a significant impact on investment and GDP. Modelling for this inquiry suggests the benefits of a reformed company tax system could increase investment by \$7.4 billion (1.6%), GDP by \$14.6 billion (0.5%) and labour productivity by 0.4%, in a broadly revenue-neutral manner.

This report includes extensive modelling of these reforms. The final report will have further dynamic modelling and elaboration on design of the new tax, which the PC will consult on before releasing the report.

While the tax system can directly impact the investment incentives faced by firms, the ever-growing burden of regulation puts a significant brake on productivity growth that is more difficult to address.

Businesses report spending more time on regulatory compliance. Australia has fallen on key international regulation indices. While regulation can make us safer, healthier and happier, too much regulation inhibits economic dynamism and resilience. We have most of the tools and procedures we need to regulate well, but they are just not working.

The government needs a more effective counterweight to the risk aversion and other incentives that have created a thicket of regulations and rules. It should adopt a whole-of-government statement to commit to regulation outcomes that better promote growth and dynamism, and lead by example by outlining a series of productivity enhancing reforms including the ones set out in this, and other, pillar inquiries.

There should be increased scrutiny of regulatory proposals from Cabinet, parliament and a newly appointed independent statutory commissioner for the Office of Impact Analysis.

Regulators and policymakers should more proactively manage regulations and better consider the trade-offs between their regulatory objectives, risk tolerance, compliance costs, and broader economic growth. They should be empowered to regard themselves as stewards of the regulatory systems they manage, and be accountable for delivering outcomes.

Significant changes to corporate tax and regulation can have a substantial beneficial impact on productivity growth in Australia. This interim inquiry report shows how.

## Draft recommendations

### Corporate tax reform to spur business investment



#### Draft recommendation 1.1

##### Pivot the corporate tax system to a more efficient mix of taxes

The corporate tax system should be made more efficient by moving towards a system with a lower company income tax combined with a new net cashflow tax.



#### Draft recommendation 1.2

##### Lower the headline company tax rate to 20%

Lowering Australia's headline company tax rate to 20% would increase investment by increasing retained earnings, attracting foreign capital into Australia, and boosting the after-tax return companies receive on their investments.

Under our proposal, the company tax rate for Australia's largest companies, with turnover above \$1 billion, would remain at 30%. In the long-term, the government should seek to fund broader effective reductions in company income tax, depending on an evaluation of the initial reform.



#### Draft recommendation 1.3

##### Introduce a net cashflow tax of 5%

The initial reform should be revenue neutral in the medium-term and funded from within the company tax system. The Productivity Commission is therefore proposing a net cashflow tax of 5% to be applied to company profits.

This tax allows companies to deduct the full capital expenditure costs from their profits in the year they are incurred. Consequently, the net cashflow tax is more encouraging of capital expenditure than the current system, thereby helping to produce a more dynamic and resilient economy.

The new net cashflow tax is expected to create an increased tax burden for companies earning over \$1 billion. The proposed cashflow tax is designed to minimise any negative impact on investment.



## Regulating to promote business dynamism



### Draft recommendation 2.1 Set a clear agenda for regulatory reform

The Australian Government should adopt a whole-of-government statement that commits to new principles and processes to drive regulation that supports economic dynamism.

The statement should identify immediate concrete reductions in regulatory burden (including in areas the Productivity Commission has identified in this report and in other pillar reports), and it should set out quantitative targets for government to achieve. Additional schedules to the statement should be issued periodically to update these targets and specify new reductions in regulatory burdens.



### Draft recommendation 2.2 Bolster high-level scrutiny of regulations

The Australian Government should scrutinise regulation to ensure that its impact on growth and dynamism is more fully considered. The government should:

- strengthen Cabinet's scrutiny of regulatory proposals by applying similar methods used to scrutinise budget proposals
- appoint an independent statutory commissioner to oversee the Office of Impact Analysis and raise the standards for impact analyses
- expand the terms of reference of Commonwealth parliamentary scrutiny committees to allow them to provide stronger scrutiny of new regulations
- make greater use of external sectoral reviews to reduce cumulative regulatory burdens.



### Draft recommendation 2.3 Enhance regulatory practice to deliver growth, competition and innovation

The Australian Government should enhance the expectations placed on public servants, making them accountable for delivering growth, competition and innovation through regulatory systems.

It should do so through ministerial statements of expectation, which should indicate (among other things) how much risk they should tolerate in pursuit of business dynamism.

Central agencies should give public servants more guidance and provide capability building to help them become regulatory stewards, and hold them to account through key performance indicators and an assessment of the costs their activities impose on businesses.