



Creating a more dynamic and resilient economy

Interim report



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.

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

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Publication enquiries:
Phone 03 9653 2244 | Email publications@pc.gov.au

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

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

Terms of reference

I, Jim Chalmers, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (“the Commission”) undertake five inquiries to identify priority reforms under each of the five pillars of the Government’s productivity growth agenda and formulate actionable recommendations to assist governments to make meaningful and measurable productivity-enhancing reforms.

Background

Productivity growth is the key driver of real wage growth and rising living standards over the long-term but has been slowing around the world since the mid-2000s. Australia’s productivity growth in the decade to 2020 was the slowest in 60 years.

Several long-standing factors have contributed to the productivity slowdown, including reduced dynamism and competitive pressures, and slower diffusion of technological innovations. Australia also faces new and emerging opportunities and challenges from the changing nature of our economy, including population ageing, rising demand for care and support services, technological and digital transformation, climate change and the net zero transformation, and geopolitical risk and fragmentation. How well we position for and respond to these changes will have a significant impact on our future productivity.

In 2023, the Government set out five pillars for a broad and ambitious productivity growth agenda, and it has already progressed significant reforms under each pillar of this agenda. It is now tasking the Productivity Commission to identify the highest priority reform areas under each of the five pillars which have potential to materially boost Australia’s productivity growth going forward, and the measurable impact of these reforms where possible.

Scope of the inquiries

The Commission will conduct five inquiries to identify and report on priority reforms in each of the areas under the Government’s five pillar productivity growth agenda. Specifically, these are priority reforms which enhance productivity through:

- a. Creating a more dynamic and resilient economy
- b. Building a skilled and adaptable workforce
- c. Harnessing data and digital technology
- d. Delivering quality care more efficiently
- e. Investing in cheaper, cleaner energy and the net zero transformation

The Commission should have regard to other current and recent reviews of relevance to Australia’s productivity performance including the Treasury Competition Taskforce, the National Competition Review and the House Economics Committee inquiry into promoting economic dynamism, competition and business formation; and the objectives and priorities outlined in the Intergenerational Report, the Employment White Paper, the Economic and Fiscal Strategy, the Measuring What Matters statement, and the Government’s legislated emissions reduction targets.

The inquiries should identify prospective areas for reform in the coming years, recognising the findings of recent reviews and taking into account Government reforms and reform directions.

Process

The Commission should engage widely and undertake appropriate public consultation processes, including inviting public submissions. The Commission should engage actively with Commonwealth, and state and territory governments.

The Commission's advice should clearly convey the importance of the reform opportunities identified, including quantitative analysis of the measurable benefits of the priority reforms where possible. This could include the long-run economic impacts on GDP and other measures of economic progress and national prosperity, the benefits accruing to Australian households including distributional impacts where possible, or other outcomes such as improved quality of services or living standards. This analysis should be presented in a way which acknowledges and manages the measurement challenges impacting some important reform areas.

The Commission should publish an interim report for each inquiry in the middle of 2025 that includes preliminary actionable recommendations for productivity-enhancing reforms under the relevant pillar. The final reports for these inquiries should include advice on reform implementation, including implementation feasibility and risks, and be provided to Government within 12 months of receipt of this request.

The Hon Jim Chalmers MP
Treasurer

[Received 13 December 2024]

Disclosure of interests

The *Productivity Commission Act 1998* specifies that where Commissioners have or acquire interests, pecuniary or otherwise, that could conflict with the proper performance of their functions they must disclose those interests. The Commissioners working on this report have no interests requiring disclosure.

Acknowledgments

The Commissioners express their appreciation to the staff who worked on the interim report – Assistant Commissioner Ben Mitra-Kahn, who leads the inquiry, and other team members including Daniel Arzhintar, Lawson Ashburner, Holly Creek, Rusha Das, Graeme Davis, Cameron Eren, Paul Gardner, Jeremy Kamil and Tim O'Brien. Our thanks are also extended to Yvette Goss and Tracey Horsfall for administrative and project support.

BLADE disclaimer notice

The results of these studies are based, in part, on data supplied to the ABS under the *Taxation Administration Act 1953*, *A New Tax System (Australian Business Number) Act 1999*, *Australian Border Force Act 2015*, *Social Security (Administration) Act 1999*, *A New Tax System (Family Assistance) (Administration) Act 1999*, *Paid Parental Leave Act 2010* and/or the *Student Assistance Act 1973*. Such data may only be used for the purpose of administering the *Census and Statistics Act 1905* or performance of functions of the ABS as set out in section 6 of the *Australian Bureau of Statistics Act 1975*. No individual information collected under the *Census and Statistics Act 1905* is provided back to custodians for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes and is not related to the ability of the data to support the Australian Taxation Office, Australian Business Register, Department of Social Services and/or Department of Home Affairs' core operational requirements.

Legislative requirements to ensure privacy and secrecy of these data have been followed. For access to PLIDA and/or BLADE data under section 16A of the *ABS Act 1975* or enabled by section 15 of the *Census and Statistics (Information Release and Access) Determination 2018*, source data are de-identified and so data about specific individuals has not been viewed in conducting this analysis. In accordance with the *Census and Statistics Act 1905*, results have been treated where necessary to ensure that they are not likely to enable identification of a particular person or organisation.

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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.

About this inquiry

Introduction: reset and reform

A dynamic and resilient economy stands at the heart of a society that gives opportunity to all its citizens. New firms can enter markets and challenge incumbents, while people can move to better jobs where they want to live. A resilient economy can withstand or recover quickly from economic shocks. It rewards citizens for the effort they make, while providing a safety net and a fair go. It helps to ensure that Australians live longer and better lives.

But large parts of our economy are not working in this way. In many sectors a small number of big firms exercise market power to the detriment of consumers, while ever more complicated regulatory and tax systems impose higher costs that keep new entrants from joining in or scaling up.

With fewer firms entering and exiting, the economy is not getting a productivity bounce from new firms challenging incumbents. Most businesses sit below the 'productivity frontier,' meaning they are failing to learn or implement best-practice production techniques (PC 2023, p. 4). Few grow into medium and large sized businesses. Lower rates of business investment mean less capital per person, and lower productivity growth.

The rules we play by also seem to have gotten more complicated, and things just take longer. In the ACT, the average time a house builder must wait for an outcome on a significant development application – which may or may not be an approval – is nearly six months (Lindell 2025). In New South Wales the average wait time for a decision on building a windfarm, which requires permission from multiple government departments, is now over nine years (HSF and CEIG 2023). In Brisbane, a would-be café owner has to engage with so many different approvals, licences and government departments that the City Council has created a series of checklists with as many as 31 steps before the business owner can even contemplate charging \$5.50 for a flat white (PC analysis of Brisbane City Council 2025).

It is no wonder we have lost some of the confidence, dynamism and willingness to take risks that the economist John Maynard Keynes called our *animal spirits*.

The biggest tools government have available to address this stagnation are tax settings, expenditure, and regulations (the power to set the rules). Each tool involves trade-offs. When used well, these tools support growth and other objectives. When used poorly, the trade-off between productivity growth and other objectives is too great.

This inquiry has heard that tax and regulatory settings present significant barriers to business dynamism and resilience. By ignoring or minimising the negative impacts that tax and regulatory policy can have on growth, governments have made it harder and more costly than it should be to start and operate a business, or to build housing or renewable energy infrastructure. Government has a vital role to clear and widen the path to a more dynamic and resilient economy, in which more people and businesses participate. This report sets out ways in which government, including ministers, public services, regulators and our tax system, can do that.

Pulling the big levers to create a more dynamic and resilient economy

One of the biggest levers the Australian Government has to stimulate more productive investment and create a more dynamic and resilient economy is the corporate tax system.

Current corporate tax settings distort and restrict investment, and favour incumbents over newer, and smaller, firms. They inhibit competition, growth and innovation among Australian businesses, and discourage overseas firms from setting up in Australia.

After consulting academics, tax experts, and businesses, and analysing contemporary literature and microdata from the Australian Tax Office and Australian Bureau of Statistics, the Productivity Commission recommends a set of amendments to the corporate tax system that will generate dynamism and resilience, and reward productive capital investment while not compromising government budget settings.

The corporate tax system is not delivering the best outcomes. Our statutory rate has fallen out of step with peer countries, as competition for global capital becomes more intense. Over time we should move to a form of taxing companies that treats investment better.

We recommend a way to get there by first reducing the statutory corporate tax rate to 20% while introducing a net cashflow tax of 5%. The cashflow tax allows companies to deduct their investment costs in full. In the short-term, we also recommend that companies earning above \$1 billion in revenue remain on the current 30% corporate income tax.

The tax rates and threshold have been set so the reform is revenue neutral in the medium-term, to not weaken the government's budget position. Smaller firms will receive an overall tax reduction, while large firms above the \$1 billion threshold are likely to face an overall tax increase, depending on their investments in Australia. These settings will promote investment among new and smaller firms, allowing them to grow and challenge incumbents. Our research shows that smaller and medium firms are responsive to tax changes, so the lower tax burden will fall on firms that are likely to increase their investment. The aim is to develop a package that is revenue neutral in the medium-term within the corporate tax system, while lifting productivity, investment and real wages.

The PC has modelled multiple variations of these reforms and will continue to refine the recommendations and modelling in the final report, due in December 2025. Early results from modelling, included in this report, suggest that the reforms can be revenue neutral in the medium-term while lifting private investment by \$7.4 billion (1.6%), GDP by \$14.6 billion (0.5%) and productivity by 0.4%.

The second part of this report argues that Australia's regulatory environment has become too restrictive. Thickets of often well-meaning rules add to a burden that is reducing dynamism and resilience. When it takes longer to build, or to get a decision from government, and longer just to work out what government departments and regulations one is meant to abide by, the result is slower productivity growth.

Inappropriate and ineffective regulations stem from the architecture of the regulatory system as policy-makers and regulators often give insufficient weight to growth and dynamism when creating and implementing regulation. Drawing on recent reviews of regulatory systems in Australia and overseas, and consultation with policymakers and regulators, we call for a change to the current architecture and culture. Government should clearly signal its intent, by adopting a whole-of-government statement on regulation that anchors policy and regulatory decisions to the principles of good regulation and makes concrete early moves to reduce regulatory burdens. This statement should emphasise a focus on productivity and concrete immediate measures to show the change that is wanted, and that change is possible.

This should be supported by better scrutiny of new and existing regulations and stronger expectations on regulators and policymakers to deliver growth and dynamism.

Our focus on corporate tax and regulatory reform seeks to encourage investment and enable domestic and overseas businesses to readily enter and expand in the Australian market and compete with established firms. Our recommendations will encourage the deployment of innovations that will bring the Australian economy closer to the international productivity frontier.

The words 'Taxes are what we pay for a civilized society' are carved in stone above the headquarters of the United States Internal Revenue Service. Similarly, regulations are the shared rules we collectively accept to live together as a society. Both taxation and regulation are essential, but over-taxation and over-regulation make us poorer.

The PC's recommendations have broad application and impact. They seek to restore corporate tax and regulatory systems that produce growth and prosperity, while strengthening our social compact and achieving our social and environmental objectives in ways that are consistent with a dynamic and resilient economy.

1. Corporate tax reform to spur business investment

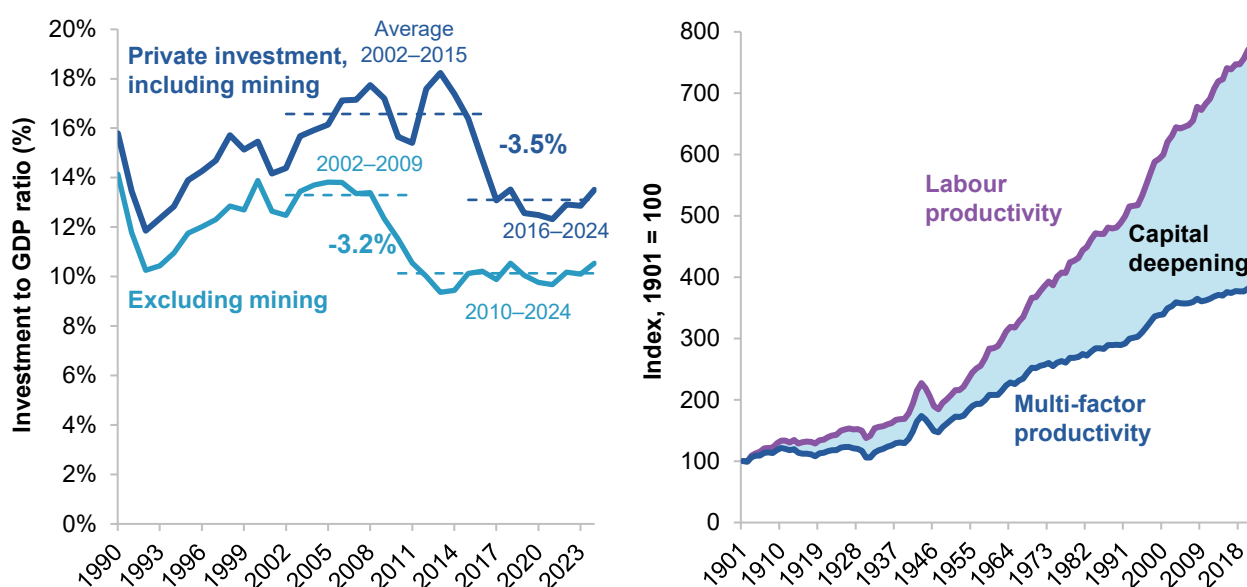
Summary

- * **Business investment is critical for economic dynamism and resilience. But it has fallen notably over the past decade, contributing to Australia's lacklustre productivity performance. To improve dynamism and resilience, Australia needs to rely less on the current company income tax system, and shift towards a corporate tax system that better encourages new investment.**
- * **The Productivity Commission recommends that Australia reorient its corporate tax system with a first step that is expected to significantly boost investment and GDP. Our proposed revenue neutral package, funded within the company tax system, would:**
 - lower Australia's statutory company income tax rate to 20% (from 30% or 25%) for companies with revenue below a \$1 billion threshold – the vast majority of companies.
 - introduce a net cashflow tax of 5% for all companies. This tax will minimise the negative impact on investment by allowing all expenditure to be deducted when it is incurred and any losses from the net cashflow tax can be used to offset company income tax liabilities.
- * **Modelling for this inquiry estimates that the PC's proposed first step would increase investment by \$7.4 billion (1.6% of investment), GDP by \$14.6 billion (0.5%) and labour productivity by 0.4%.**
- * **Further design work and modelling are needed to understand how the proposed rates would interact with the broader tax system, how the financial sector would be treated, and how to phase in the package.**
- * **Australia has some experience implementing the components that make up the net cashflow tax. By drawing on this experience, we can begin to reorient our corporate tax system towards one that better supports a dynamic and resilient economy.**
 - Over the long-term, the PC is suggesting that a combined company income tax and cashflow tax system as the optimal approach to company tax. The proposal set out in this report is a first step to achieving this goal.
 - Subsequent steps should involve growing the size of the net cashflow tax to fund broader effective reductions in company income tax, depending on an evaluation of the initial reform.

Declining business investment makes us less productive

A dynamic and resilient economy is key to prosperity, and a big contributor to economic dynamism and resilience is business investment. But the willingness of Australian business to invest in capital is declining.¹ Non-mining capital expenditure is down 3.2 percentage points as a share of GDP since the global financial crisis (figure 1.1). Rising capital per worker – known as capital deepening – has been the most important driver of Australia’s historical rises in labour productivity (figure 1.1). Capital complements workers, making them more productive (think of the far greater productivity of a construction worker who digs with an excavator rather than a shovel), and new capital embodies new technology and innovation. Declining investment, and the lack of capital deepening, contribute significantly to our stagnant productivity performance (Reserve Bank of Australia et al. 2023).

Figure 1.1 – Investment is down, and therefore capital deepening is down



Source: PC estimates using ABS (*Australian System of National Accounts*, 2023-24) and Bergeaud et al (2016; 2023).

Our corporate tax system does not optimise investment

Our consultations and a raft of previous work have shown that how companies are taxed – and by how much – impacts business investment (referred to as capital expenditure throughout this report) (Henry et al. (2010); The Treasury (2015); IMF (2018)).

Our current company income tax system (box 1.2) is not designed to optimise capital expenditure. Our statutory tax rate is high by international standards (figure 1.2), the effective rate² is also relatively high (OECD 2025a) and the system taxes both ‘normal’ and ‘above normal’ profits. All these features of company income tax distort capital expenditure decisions. The treatment of depreciation, the approach to losses, and the different treatment of debt and equity financing also distort capital expenditure decisions. These factors

¹ Capital expenditure represents company purchases of non-labour production inputs, ranging from machinery and infrastructure through to intellectual property, software and other forms of digital technology.

² The statutory tax rate is the rate imposed by law on companies’ taxable income. The effective tax rate is the rate of tax a company expects to pay, after accounting for deductions and exemptions.

ultimately make it less attractive for businesses to invest in Australia, and more difficult for new businesses to enter and challenge incumbents.

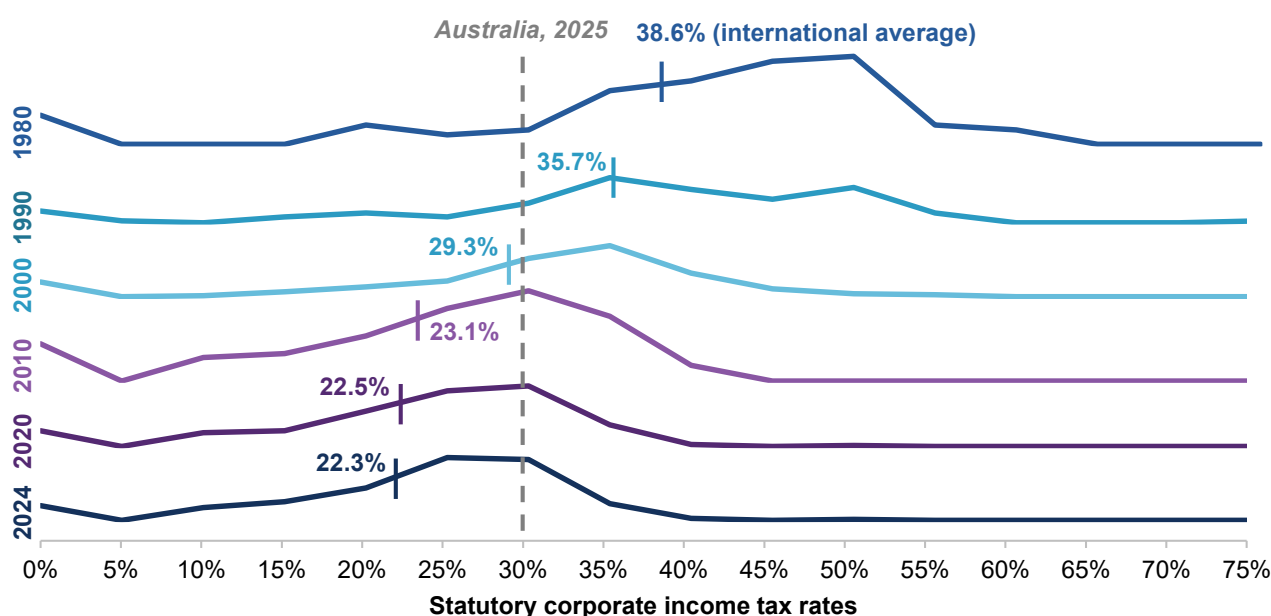
Australia's relatively high tax rate deters investment

Australia's high statutory and effective corporate income tax rates reduce investment.

As a small open economy, Australia's marginal investor is the foreign, rather than the domestic, investor. This is because international capital markets determine the required rate of return on marginal investments (Gordon 1986). A high rate dissuades foreign investors, who are more likely to invest in countries with lower statutory tax rates (Rose et al. 2021). Further, a high effective company tax rate means that companies need a higher pre-tax rate of return to undertake capital expenditure, reducing the potential projects a company will consider.

Figure 1.2 – International distribution of statutory rates by decade, 1980–2024^a

Corporate income tax, statutory rates



a. Statutory tax rates grouped in five percentage point intervals (i.e. 5% represents the count of countries with tax rates greater than 0% up to 5%).

Source: PC estimates using Enache (2024).

A system that taxes normal returns does not optimise investment

Returns on capital expenditure comprise normal and above-normal returns. The latter are called economic rents, and they can accrue due to market power or location-specific rents³ that cannot be competed away (box 1.1 and appendix B.2). Because Australia's current company tax system taxes both kinds of profits, it can deter investments that would otherwise earn normal returns, at a cost to productivity, employment and wages.

However, the more profit companies make through location-specific rents, the less likely it is that company income tax will distort their behaviour, since relatively less of their tax burden falls on normal

³ Location specific rents refer to economic rent that can only be earned in one location (Devereux et al. 2021). For example, rents could only be earned in one location if a specific natural resource is only available in one location, or if the rent is earned by providing goods or services into an uncompetitive domestic market.

returns (Garnaut et al. 2020; Kopp et al. 2019; OECD 2025b). In some Australian sectors, larger companies have access to large economies of scale (Minifie 2017) and hence are more likely to possess significant market power and/or enjoy significant location-specific rents (Garnaut 2024).

Box 1.1 – Economic rents

When individuals or companies enter a market, they aim to earn a return – known as the required rate of return – that justifies their investment. Persistent returns above this threshold are considered economic rent. While temporary economic rents or ‘quasi-rents’ (Garnaut 2024) can signal high demand and attract new entrants (which helps allocate resources efficiently), persistent economic rents often indicate barriers to competition. These barriers may stem from natural resource scarcity or policy settings that limit market entry, and they are further detailed with respect to the net cashflow tax below and in appendix B.2.

The treatment of depreciation, losses and debt financing distorts decisions

Under the current tax system, when companies undertake capital expenditure, they cannot immediately deduct its full value from current revenue when calculating their tax. Instead, they can deduct only a small portion each year. This portion is known as the ‘depreciation expense’, and it follows a depreciation schedule. Since money has a time value that declines every year, the further into the future depreciation is scheduled to be deducted from revenue, the lower the real value of the deduction. This change to the net present value of investments may cause companies to rule out some otherwise profitable capital expenditure choices.

The treatment of losses is also distortionary. Companies pay tax on profitable ventures. But if their new venture never pays off and incurs a loss, they receive limited tax relief. This also tends to discourage companies from undertaking risky capital expenditure (Garnaut et al. 2020).

Finally, the company income tax system favours debt over equity. This can disadvantage smaller or newer companies, who are more likely to rely on equity financing and retained earnings to fund capital expenditure. Where financing is sourced through debt, about a third of that debt is generated through mortgage-linked bank loans (PC 2018), and interest rates are typically higher for smaller companies than they are for larger ones (Reserve Bank of Australia 2024). In other words, the company income tax system tends to favour incumbents while restricting capital expenditure by other firms. Further details regarding the current company income tax system are provided in box 1.2.

Box 1.2 – An overview of the current company income tax system

A two-tiered tax system

The Australian company income tax system applies to companies, with partnerships and sole traders taxed separately through the personal income tax system. The company income tax rate is set at 25% for all companies with turnover up to \$50 million; companies with turnover greater than or equal to

Box 1.2 – An overview of the current company income tax system

\$50 million pay a 30% tax rate. Companies with more than 80% of income from passive sources (such as income from dividends) also pay the 30% tax rate, regardless of turnover.

Calculating profits

Companies pay tax on profits. Profits reflect the earnings of a company after accounting for operating costs, labour costs, depreciation, interest payments, as well as some vehicle and other expenses. Capital expenditure is expensed over its lifetime as it depreciates.

Companies pay tax on profits at the end of each financial year by submitting a company tax return to the ATO. When a company makes a loss, it can be carried forward into future years as a deduction on future taxes (the value of these losses is held constant – they do not increase with inflation). Losses can be carried forward indefinitely, unless majority company ownership changes.

Interactions with personal income tax

Company income tax is integrated with the personal income tax through the dividend imputation system. When a company distributes profits after paying company tax, it issues franking credits on these profits to its Australian shareholders. In other words, it prepays the personal income tax that shareholders (including owners in non-publicly listed companies) would otherwise incur on these dividends. The goal is to avoid the double taxation of income earned by companies – once through company income tax, then again through personal income tax.

A tax system for a dynamic and resilient economy would have an internationally competitive tax rate to encourage overseas firms into the Australian market. It would enable new entrants, domestic or foreign, to be better able to compete by being able to account more comprehensively in their annual taxes for the capital expenditure costs they incur. It would improve the treatment of risk for dynamic firms. Such a tax system would not deter companies from taking on debt or from expanding equity; it would be neutral towards their financing choices.

Reform to help firms invest, innovate and compete**A long-term vision for the corporate tax system**

Our reforms focus on designing changes to the corporate tax system that will increase the dynamism and resilience of the Australian economy. This inquiry is not intended to be a broad review of Australia's tax system; rather it is looking for a package to support a more dynamic and resilient economy to lift productivity growth and has therefore focused on corporate taxation levers. As such, we have considered that any proposed corporate tax changes should be funded within the corporate tax system over the medium-term, necessitating trade-offs.

Corporate tax reform is one of our biggest levers to lift capital expenditure and improve market contestability. In designing these draft recommendations, we have considered principles relevant to our remit and to a range of long-standing principles for tax design (box 1.3).

Box 1.3 – Principles for tax reform

Corporate tax reform provides the single biggest lever we have for achieving capital deepening and its associated productivity growth benefits. The proposed reforms were determined in light of the remit provided to the PC to support a more dynamic and resilient economy. In proposing it, the PC seeks to:

- support a notable increase in new capital expenditure
- promote new activity, innovation, risk taking, and increased competition
- avoid windfall gains
- achieve budget neutrality over the medium-term
- promote the integrity of the company tax systems
- reduce overall distortions in the system
- be simple to understand.

These principles are each detailed further in appendix B.1.

Our consultations and submissions indicate substantial benefits to Australia from a change to the corporate tax system.⁴ A high statutory rate, among other factors, gives overseas companies and stakeholders little incentive to provide financing and enter the Australian market.

As a medium sized nation dependent on foreign investment, Australia has a very high company tax rate which makes it less competitive in attracting capital. (KPMG Australia, qr. 44, p. 1)

Consultation suggested that higher retained earnings by small- and medium-sized companies would support their ability to enter markets and compete with incumbents by accessing additional funding for capital expenditure.

Our proposed reform seeks to reduce Australia's reliance on the existing company income tax system and begin a transition to a new system that more effectively supports capital expenditure. Specifically, we propose:

1. a reduced reliance on company income tax, to increase the viability of capital financing and expenditure decisions in Australia
2. introducing a new net cashflow tax, at a modest rate, that better supports new investment relative to the current company income tax.

To encourage capital expenditure, the PC proposes that Australia's statutory company tax rate be reduced from 30%. The rate should be close to the OECD average, which is around 21%. The precise choice of this lower rate depends upon a variety of policy factors. In this report, the PC proposes setting the new rate for most companies at 20%.

A reduced rate would open up more capital expenditure opportunities by lowering the before-tax return on capital expenditure that companies require to meet their capital expenditure hurdle rates. In the short-term, the lower rate will raise the after-tax profits and retained earnings that are available for reinvestment. The lower rate will encourage Australians to take risks to establish new companies and grow existing ones. It will also encourage established foreign companies to identify Australian markets to enter, challenge incumbents,

⁴ For example, using a cut to the company income tax rate – Anonymous, qr. 19, p. 2; CIF, qr. 80, p. 3; CPA Australia, qr. 39, p. 2; EY Australia, qr. 90, p. 1; Intuit Australia, qr. 92, p. 1; KPMG Australia, qr. 44, p. 1; MEA, qr. 59, p. 1; MFAA, qr. 54, p. 1; NECA, sub. 12, p. 4; The Tax Institute, sub. 48, p. 11; Urban Taskforce Australia, qr. 100, p. 1).

increase competition, and bolster dynamism and productivity. These changes will ultimately increase employment and real wages.

Attracting foreign companies will also improve productivity by bringing in knowledge and ideas that domestic firms can learn from, bringing Australian industry closer to the global productivity frontier (Majeed and Breunig 2023).

Our current company income tax is also inefficient, with a relatively high marginal excess burden relative to other taxes in Australia (Murphy 2025).⁵ Reducing the rate therefore increases the efficiency of the tax.

At the same time, to better incentivise new capital expenditure, we propose introducing a new net cashflow tax.⁶ Such a tax treats capital expenditure more neutrally, allowing the cost of capital to be immediately written off and removing the deductibility of interest. Therefore, rather than deducting the cost of capital over time through depreciation, companies can deduct their capital costs immediately when calculating their net cashflow tax liability. That makes their capital cheaper and their propensity to invest greater.

The net cashflow tax also allows losses to be uplifted and offset against future tax liabilities, which will increase companies' incentives to take risks. The losses under the net cashflow tax can be offset not just against cashflow tax liabilities but against any corporate income tax liabilities, making the deductions available immediately in most cases. These features, alongside other measures described below, will lower the required rate of return on capital expenditure and increase the risk tolerance of companies.

We will return to this long-term vision below, but to take the first step towards it, key trade-offs and design choices need to be made. This will enable the maximum investment response while achieving fiscal neutrality over the medium-term and ensuring a stable transition to the new system. We set out these trade-offs here.

A targeted first step towards a new company tax system

Transitioning to a more optimal tax system will take time. In this report, the PC proposes a first step towards the long-term vision of a tax system that encourages greater economic dynamism and resilience. There are a range of factors and trade-offs to consider in developing this proposed first step.

The proposal should align with our mandate to promote economic dynamism and resilience, and it should address the weaknesses in the corporate tax system identified in the previous section, notably high statutory and effective rates. It should be broadly revenue-neutral within the corporate tax system over the medium-term. And the proposal needs to be measured, to allow evaluation of the new tax to inform further change and minimise the risks of unforeseen consequences.

The proposal also needs to consider how to most simply transition from the old to the new system, by best employing the existing corporate tax architecture, including the interaction with its two tiers (a different rate depending on company revenue).

A number of parameters – corporate income tax rates, the revenue threshold between tiers, and the rate applied to the cashflow tax – need to be set. The parameters can be adjusted in several different ways, but there is no free lunch; trade-offs are unavoidable when adjusting each of these policy parameters.

⁵ The marginal excess burden is a common way to measure the efficiency of a tax. It refers to the additional cost, in terms of lost economic welfare, that arises from raising one more dollar of tax revenue. A higher marginal excess burden means a higher level of inefficiency.

⁶ This is a version of what the economic literature refers to as a 'one-sided R-based cashflow tax'.

Considering these trade-offs, we propose reducing the statutory rate to 20% for all companies below a threshold of \$1 billion of revenue (domestic sales plus exports) – the bulk of all companies. Those above the threshold would continue to face a 30% statutory tax rate. The threshold figure of \$1 billion was chosen to balance setting it as high as possible – which would reduce the tax rate for the largest number of companies and generate a larger investment response – with the need to take a measured approach to introducing a new method of taxing corporate profits, and to remain revenue neutral in the medium-term. Over time, the threshold can be raised or removed, or the rates adjusted.

This threshold will mean nearly all Australian companies would pay the statutory rate of 20%. In the 2022-23 financial year, 1.2 million companies earned below \$50 million (the current threshold for the lower tax rate)⁷, while around 7,000 earned between \$50 million and \$1 billion. Just over 500 companies earned more than \$1 billion in revenue (The Treasury, personal communication, 9 July 2025).^{8,9}

A key design feature of this proposal is that the tax cut will apply only to companies that generate less than \$1 billion in domestic sales and exports; these companies accounted for most pre-COVID-19 non-mining capital expenditure in Australia (Dynan 2021).¹⁰ Both theory and evidence suggest this \$1 billion threshold will provide the biggest dynamism and investment ‘bang’ for the government’s buck. The PC’s judgement is that, based on the literature, the investment decisions of smaller companies are likely to be more responsive to changes in the company tax rate, because on average they operate under more competitive and contestable conditions than larger businesses (box 1.4). The reform will also improve dynamism by strengthening smaller companies’ ability to compete with larger incumbents.

We are aware that the use of a threshold risks distorting private sector decisions about company structure and size – that is, companies could divest to get below the \$1 billion threshold or face a disincentive to grow above the threshold. However, grouping rules and anti-avoidance rules impose limits on the extent to which firms can artificially structure to meet the threshold. To this end, a higher threshold will help with enforcement, since there are fewer companies above the threshold for the Australian Taxation Office (ATO) to monitor.

In addition, Australia already has a two-tiered system, and there is no evidence to suggest that companies bunch below the threshold to keep paying a lower tax rate. That risk may grow as the margin between the upper and lower tax rates grows; however, a commitment to broaden effective reductions in the company income tax system over time will reduce these risks.

Under our proposal, the reduction in company income tax would be accompanied by a modest cashflow tax of 5% on all companies. A cashflow tax will ultimately better support a dynamic and resilient economy relative to the current company income tax, since it provides concessional treatment to ‘normal’ profits. A more detailed discussion of the benefits of the net cashflow tax is set out below.

In principle, setting the cashflow tax at a higher rate than 5% would raise more revenue and allow for a broader cut to the company income tax rate. Yet while such a change is theoretically appealing, the limited empirical evidence available on cashflow taxes has led the PC to propose a modest rate as a first step.

⁷ This includes companies that earn 80% passive income and therefore pay the higher tax rate (currently 30%). Under our proposal these companies would continue to pay the higher tax rate.

⁸ These data are reported on entity tax filings, although some entities may be part of a larger consolidated group.

⁹ The latest data in Business Longitudinal Analysis Data Environment (BLADE) for financial year 2023-24, provides similar estimates (ABS 2025).

¹⁰ PC analysis of BLADE data suggests this trend held for all capital expenditure. Notably, disaggregated analysis of capital expenditure in Australia has become more difficult post-COVID-19 due to data limitations.

A 5% rate will introduce the net cashflow tax to businesses and overseas investors to help them better understand it. The modest rate will minimise unintended consequences and allow for evaluation and testing of the new tax, laying a base for its further expansion if that is desirable. Over the long-term, the cashflow tax will ideally grow as a proportion of the revenue base.

Comprehensive and detailed analysis commissioned for this inquiry was conducted using CGETAX (a computable general equilibrium (CGE) model commonly used to analyse the impacts of tax reform). The modelling showed that a cut in the company income tax rate to 20% for all companies earning below \$1 billion, together with a cashflow tax of 7.5%, would be revenue neutral while increasing capital expenditure by 1.6%, productivity by 0.4%, and real after-tax wages by 0.5% (Murphy 2025). However, this first round of modelling excluded the financial sector from the cashflow tax. The PC estimates that including them would bring the revenue neutral cashflow tax rate to about 5%.¹¹

Changes to this threshold and rate would change the results. For example, keeping the company income tax rate the same but raising the threshold to \$3 billion or \$5 billion increases the growth in investment to as much as 2.1%, and the productivity increase to as much as 0.7%. But these higher thresholds require a larger cashflow tax to achieve revenue neutrality and we judge that this introduces too much of a transition risk. A comparative summary of the CGE modelling results is included in appendix B.5, and is stepped out in Nassios et al. (2025) and Murphy (2025).

Over time, as we learn more about the new net cashflow tax and its impact on business, we should continue to pivot our corporate tax system towards the net cashflow tax and away from the current company income tax. This transition is discussed further in section 3.

Table 1.1 shows a stylised summary of the impact of the proposed reform on companies of different revenue sizes. The table shows that to estimate the impact on tax payable, the company income tax (CIT) and net cashflow tax (NCT) rates are not additive, as the two taxes are levied on different bases. The tax burden will fall for companies with a turnover of less than \$50 million (even though the proposed CIT plus NCT rate is the same as the current CIT rate).

Table 1.1 – Stylised summary of the proposed reforms^a

	Turnover < \$50m	\$50m-\$1bn turnover	Turnover > \$1 bn ^b
Current system			
CIT rate	25%	30%	30%
NCT rate	0%	0%	0%
Proposed system			
CIT rate	20%	20%	30%
NCT rate	5%	5%	5%
Example change in tax payable^c			
Impact to tax payable, profits at required rate of return	<i>Reduced tax payable</i>	<i>Reduced tax payable</i>	<i>Increased tax payable on existing investment^d</i>

¹¹ Estimates by Murphy (2025) indicate that the finance sector earns about 37% of rents in the economy – or 20% of all company income tax revenue. Since the net cashflow tax targets rents, early calculations undertaken by the PC indicate that including a comparable tax on the finance sector will bring the net cashflow tax rate required for revenue neutrality to be about 5%.

	Turnover < \$50m	\$50m-\$1bn turnover	Turnover > \$1 bn ^b
			No change on new investment
Impact to tax payable, profits above required rate of return	(Lower) reduced tax payable	(Lower) reduced tax payable	Increased tax payable

a. Detailed demonstrations are included in appendix B.3. **b.** This analysis excludes consideration of the funding source. Larger companies tend to fund capital expenditure through debt-financing, and this form of financing remains preferential in the company income tax, further reducing the increase in tax payable for these companies. Appendix B.3 considers this in more detail. **c.** Note the CIT and CFT are not additive. **d.** The tax payable on existing investments depends on the starting value of previous expenditure allowed as a deduction when the tax is introduced. This is discussed in box 1.5.

A deep dive into our corporate tax proposal

A lower statutory rate for emerging companies will support a more dynamic economy

Analysis by the PC identifies potential benefits from a company income tax cut that go beyond those estimated by the CGE models.

The relationship between lower company income tax rates and higher capital expenditure is well established in the economic literature. While international studies suggest that cuts to CIT produce little response in the short-term, economy-wide modelling for Australia suggests the long-run equilibrium effect of a one percentage point company tax cut could lead to an increase in capital stock of between 0.25% and 0.58% (Kouparitsas et al. 2016; Murphy 2018; Rimmer et al. 2014).¹²

Empirical analysis of the first stages of the small company tax cuts in 2015-16 and the following year appear to have had a positive effect on Australian capital expenditure. A recent study from the Reserve Bank of Australia found some *short-term* evidence of an increase in the scale of capital expenditure on buildings and structures after the 2015-16 tax cut, as well as some evidence of an increase in the number of companies investing in buildings and structures after the 2016-17 tax cut (long-term effects were not investigated) (Win et al. 2025). Further analysis from AlphaBeta found that, on average, 27% of additional profits generated by the 2015-16 tax rate cut were reinvested (AlphaBeta 2018).

Our proposed reform package, by focusing company tax cuts on companies with up to \$1 billion in revenue, will principally support business investment in small-to-medium size companies, thereby helping them to more actively compete with larger incumbents. As discussed above, PC research suggests that a tax cut for smaller firms is more likely to produce a larger investment bounce (box 1.4).

Box 1.4 – How different firms respond to company tax cuts

Companies vary by age, industry, revenue, access to finance and many other characteristics. These differences make it vital to examine whether and how company tax changes affect the capital expenditure decisions of different companies in different ways. Recent heterogeneous company literature

¹² Estimates are standardised through linear approximations for comparability.

Box 1.4 – How different firms respond to company tax cuts

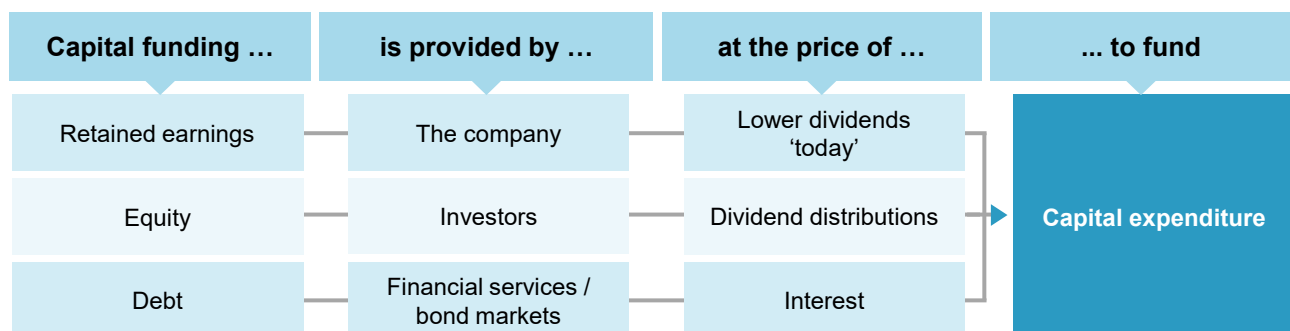
draws on the availability of administrative data to generate insights on how different firms respond to tax changes. This literature has generally found that:

- small and emerging credit-constrained firms that operate in competitive industries are generally more responsive to changes in company income taxation than firms that are not (Egger et al. 2020; Eskandari and Zamanian 2023; Freebairn 2022; Zwick and Mahon 2017)
- the domestic or foreign ownership status of a firm impacts its responsiveness to tax rates, with domestic firms being more responsive (Dobbins and Jacob 2016; Fabling et al. 2014)
- younger firms tend to be more responsive to tax rates than older firms (Albertini et al. 2024)
- firms with larger profit margins tend to be less sensitive to tax rates than firms with smaller profit margins (Kopp et al. 2019; Millot et al. 2020)
- firms operating in goods industries are more responsive to tax rates than firms from services industries (Cloyne et al. 2025).

While this variety of possible responses has not been modelled directly in the work done for this inquiry, this heterogenous company literature suggests there may be a further upside to the modelling results that has not been captured directly. In addition, it suggests potential advantages to some degree of bifurcation of the company tax system, although the advantages need to be weighed carefully against other policy trade-offs.

The proposal could lead to increased capital expenditure in two main ways: by increasing the retained earnings of companies – an important source of finance for smaller companies with domestic shareholders – and by attracting more foreign investment (figure 1.3).

Figure 1.3 – How capital expenditure is funded for small and medium companies



A lower tax rate leads to higher retained earnings and capital expenditure

International and Australian literature suggests that smaller, more credit-constrained firms are more reliant on retained earnings to fund capital expenditure (Egger et al. 2020; Eskandari and Zamanian 2023; Zwick and Mahon 2017). A reduced company income tax rate, by increasing after-tax profits and improving access to finance, will increase capital expenditure. This channel is particularly important for companies that do not rely on overseas markets for capital – and the PC estimates that only 1.2% of companies earning up to \$50 million and 28% of Australian companies earning between \$50 million and \$1 billion per year have a

significant degree of foreign ownership, indicating these companies will be more responsive to the impact of a tax cut upon retained earnings.¹³

Australia's dividend imputation system makes the relationship between retained earnings and investment weaker than it is in other countries. That's because dividend imputation and franking credits will lead some shareholders to place higher value on receiving dividends than on firms reinvesting their profits.¹⁴ Yet even after accounting for dividend imputation, modelling of Australian data suggests that an increase in after-tax profits will produce an increase in capital expenditure (Freebairn 2022; Tulipwood Economics et al. 2025).

For example, recent work by Tulipwood Economics et al. (2025) estimates that a five-percentage point cut in the tax rate would induce companies earning less than \$50 million in revenue to reinvest 9.2% of their additional after-tax profits in capital expenditure.

We calculate that if the corporate income tax rate were reduced to 20%, after-tax profits would increase by 6.7% for all companies with a 25% tax rate currently (those companies earning less than \$50 million per year) and by 14.2% for all companies with an annual turnover of between \$50 million and \$1 billion per year. Our proposed reform would make it easier for small and medium-size companies to source the finance they need. Consequently, we anticipate that the retained earnings channel will be a significant direct avenue through which companies are able to undertake additional capital expenditure.

A lower statutory tax rate will attract foreign investment

Because Australia is a small open economy, international capital markets determine the required rate of return on marginal investments in this country. Reducing the company tax rate reduces the required rate of return from an investment in Australia, increasing the availability of foreign funds and enticing foreign firms to enter Australia's domestic market.

Therefore, a reduction in Australia's statutory tax rate is expected to attract additional foreign investment – either as investment in existing companies, helping to fund their expansion and enabling them to benefit from international knowledge transfer, or as foreign companies entering the Australian market for the first time and increasing competition with large domestic incumbents.

Australia's current statutory rate of 30% sits well above the average across the OECD, as does the effective company tax rate (OECD 2025a). This means the Australian 'sticker price' – the tax rate investors see first when choosing where to invest their funds – is markedly higher in Australia than in similar countries (figure 1.4).

A country's statutory tax rate can affect the level of foreign investment (Rose et al. 2021). The reduction in Australia's statutory company tax rate would move Australia to one of the lowest statutory rates in the OECD, and would be the largest in Australia since 1988, when it fell from 49% to 39%.

¹³ There is no single robust source of information for determining the true foreign ownership rate of companies in Australia by turnover rate. These estimates are based upon the proportion of companies where at least one foreign shareholder is in the top 10 shareholders of the company in 2021-22 and the total shareholding among this group exceeds 10%. This is considered sufficiently indicative for the purpose of this analysis. Therefore, the precise interpretation is that only 1.2% of companies earning up to \$50 million turnover have any foreign shareholders in the top 10 shareholders. Weighting by economic activity measures may also be a useful way to interpret this data.

¹⁴ The removal of the double taxation of company profits (once through company tax, then again through personal income tax) increases the value of a dividend distribution relative to a tax system which does not avoid double taxation. Notably, incentives will also be different under a dual income tax system where capital and labour income are taxed separately.

The net cashflow tax is less distortionary than current company tax

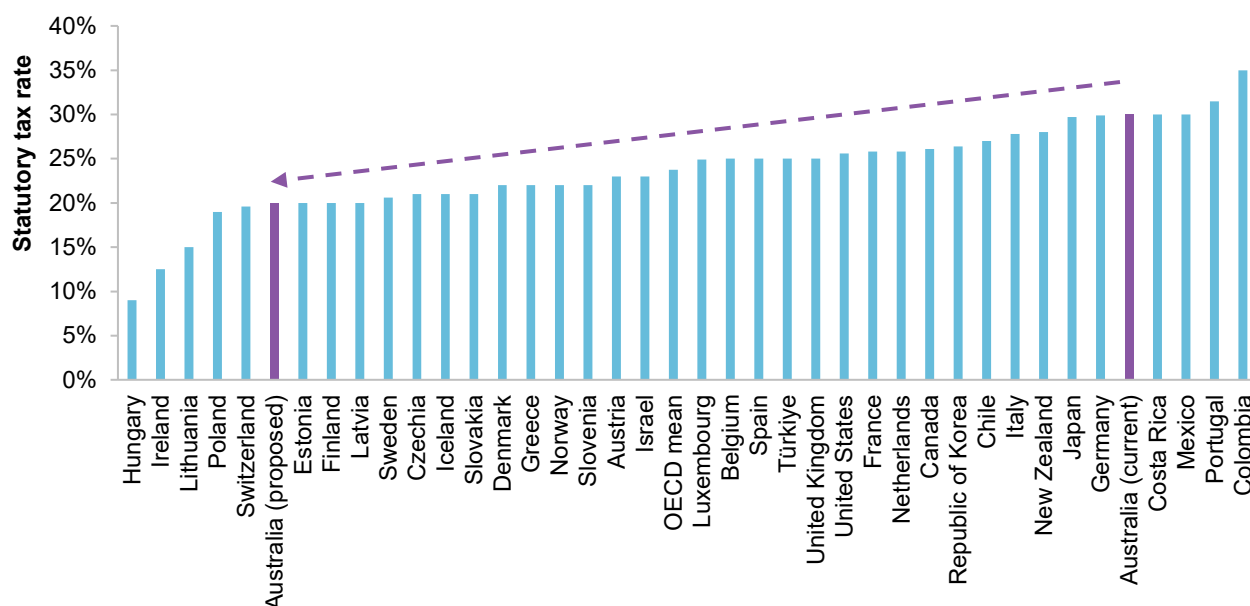
Initially, the PC is proposing that, alongside the reduced company income tax, all companies pay a 5% net cashflow tax. A cashflow tax tends to tax normal investment returns less heavily than the conventional company income tax. It allows companies to deduct the full value of their capital expenditure in the year it is made, rather than incrementally through depreciation. Interest would not be deductible, and the value of losses can be increased and used to offset tax liabilities (net cashflow tax liabilities or company income tax liabilities) in future years (box 1.5). While our initial proposal is for a 5% net cashflow rate, the precise rate of this should be determined through further consultation and dynamic modelling.

The introduction of the net cashflow tax means that while most companies will pay less tax, the total tax burden will rise for some large companies, especially those not undertaking new investment. Overall, the new tax will incentivise new capital expenditure across the economy.

Table 1.2 below sets out how the net cashflow tax would work for a smaller company facing a 20% company income tax, while box 1.5 details the key design characteristics of the net cashflow tax. A net cashflow tax brings several benefits, set out below.¹⁵

Figure 1.4 – The proposed reform will move Australia to one of the lowest statutory rates in the OECD for small and medium sized companies

OECD statutory tax rates 2024



Source: Enache (2024).

¹⁵ One risk that has been flagged for cashflow taxes is that businesses can game a cashflow tax by moving loss-making projects to Australia (on paper), so the Australian Government will subsidise the losses. While profit and loss shifting by multinationals is always a risk, the NCT is unlikely to exacerbate this risk. The tax on losses is not refunded to companies, so losses are only valuable if they can be offset against future profits made in Australia. If a firm shifts their losses to Australia, they will also need to shift their profits to Australia to realise the value of these losses. This will allow Australia to claim tax revenue in the future.

Table 1.2 – Example application of the 5% net cashflow tax

\$m	Profit & loss		Company tax	
	In	Out	CIT taxable income	NCT taxable income
Sales revenue	\$1,000		\$1,000	\$1,000
Labour costs		-\$100	-\$100	-\$100
Other input costs		-\$300	-\$300	-\$300
Depreciation		-\$50	-\$50	
Interest		-\$50	-\$50	
Capital expenditure		-\$200		-\$200
Taxable income			\$500	\$400
Current tax liability (30% CIT only)		\$150	\$150	\$0
New Tax liability (20% CIT and 5% NCT)		\$120	\$100	\$20

Box 1.5 – Design characteristics of the net cashflow tax

The net cashflow tax should have the following design characteristics:

Defining sales

All sales of goods and services would be recognised as turnover. Unlike company income tax, there is no distinction between capital and revenue items, meaning export sales and the sale of land and buildings would all be included in the calculation of turnover.

Defining expenses

All purchases would be recognised as expenses within the year of purchase, removing the need to separately account for depreciation or a capital account.

Financial transactions

To ensure that the net cashflow tax is simple, financial transactions would be excluded from both sales and expenses. The key implication of this is that interest earnings would not be recognised as turnover, nor interest payments as expenses. Therefore, some financial services would be excluded from this tax (see below for further considerations).

Loss treatment

Any loss a company reports under the net cashflow tax should be able to be offset against its company income tax liability down to zero (but not into a negative liability). This will allow quicker access to any net cashflow tax losses.

Any losses that cannot be used will be uplifted. The uplift rate compensates companies for the delayed refund of tax losses – a substantial step towards treating capital expenditure neutrally and encouraging risk-taking activity. Any unpaid losses are uplifted at a given rate. The PC is yet to finalise a view on the appropriate rate but are considering the 10-year government bond rate as an example of an economy-wide rate that maintains the relative value of the losses. This mechanism is particularly beneficial for new

Box 1.5 – Design characteristics of the net cashflow tax

companies, which may not be able to offset losses against other business activities; in this way it reduces the tax system's bias towards incumbents.

Implementation

There are transitional elements to consider with the introduction of a new tax, such as the starting balance for capital expenditure. This will be considered for the final report. Treatment of items on the capital account under company income tax would change, with the seller fully taxed but the buyer receiving immediate expensing.

The net cashflow tax could be treated either in the same way as the company income tax by having imputation credits calculated on all tax paid, or it could be treated as a final tax and not count against imputation credits or withholding taxes.

Detailed rules around the calculation and interaction with the company income tax will need to be developed to ensure the cashflow tax works as intended.

The net cashflow tax incentivises capital expenditure and more lightly taxes competitive profits

A net cashflow tax better encourages capital expenditure compared to the current company tax system because it allows companies to immediately deduct their capital expenditure costs.

Under the current system, a company could invest \$100,000 in a five-year asset today, with a depreciation schedule that allows, for example, \$20,000 annual deduction over five years. In real terms, the value of the deduction falls each year.

Note that in this example (box 1.6), the company under the current 25% company tax rate would not proceed with the investment, but under the proposed 20% company tax rate and a 5% net cashflow tax, the investment is viable. A net cashflow tax minimises distortions on capital expenditure since it more lightly taxes competitive profits.

Box 1.6 – Example of the net cashflow tax on capital expenditure

The company *Widgets Inc.* has an annual turnover of \$10 million and earns a \$500,000 profit per year. It is thinking about investing \$100,000, funded through retained earnings, in a five-year asset that is required to make a normal annualised return of 10% to be considered worthwhile. The investment is projected to earn a return of \$28,081 per year for five years, after which it will have fully depreciated. The pre-tax return on this investment is 12.5% – the discount rate required so the net-present value of the returns from Year 0 to Year 5 equals the cost of the investment.

However, for businesses earning less than \$50 million in turnover, the company income tax (CIT) rate is 25%. After accounting for depreciation, *Widgets Inc.* will be required to pay \$2,020 in tax on the investment's returns annually. This implies an after-tax profit of \$26,061, and a rate of return of 9.5%. This falls below the required return, so the investment does not occur.

Box 1.6 – Example of the net cashflow tax on capital expenditure**Tax payable under the company income tax**

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net profits from other operations	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Investment	-\$100,000					
Profits on new investment, before depreciation		\$28,081	\$28,081	\$28,081	\$28,081	\$28,081
Depreciation	\$0	-\$20,000	-\$20,000	-\$20,000	-\$20,000	-\$20,000
<i>Taxable income</i>	<i>\$500,000</i>	<i>\$508,081</i>	<i>\$508,081</i>	<i>\$508,081</i>	<i>\$508,081</i>	<i>\$508,081</i>
CIT payable (25%)	\$125,000	\$127,020	\$127,020	\$127,020	\$127,020	\$127,020
<i>CIT payable on other operations (25%)</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>
<i>CIT payable on new investment (25%)</i>	<i>\$0</i>	<i>\$2,020</i>	<i>\$2,020</i>	<i>\$2,020</i>	<i>\$2,020</i>	<i>\$2,020</i>
Before-tax profits on new investment	-\$100,000	\$28,081	\$28,081	\$28,081	\$28,081	\$28,081
After-tax profits on new investment	-\$100,000	\$26,061	\$26,061	\$26,061	\$26,061	\$26,061

Under our proposed reform, however, *Widgets Inc.* would be taxed at a CIT rate of 20%, plus a 5% net cashflow tax, which allows the full capital cost to be written off in the year the capital expenditure was made. Accounting for depreciation no longer occurs. Instead, the full new capital expenditure is offset against taxable income – similar to how labour expenses are offset against taxable income.

In this case, *Widgets Inc.* would pay \$1,616 a year under the CIT and \$1,404 under the net cashflow tax – a total of \$3,020 per year. But in the year the investment is made, an initial tax credit would be earned against the CIT to the value of \$5,000 – 5% of the initial investment, derived from the 5% net cashflow tax. In net present terms, this means the return on the investment reaches the required rate of 10% and *Widgets Inc.* will now choose to make its investment, which it would not have done under the current 25% CIT.

Additional tax payable through the net cashflow tax

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net profits from other operations	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Investment	-\$100,000					
Profits on new investment, before depreciation		\$28,081	\$28,081	\$28,081	\$28,081	\$28,081
Depreciation	\$0	-\$20,000	-\$20,000	-\$20,000	-\$20,000	-\$20,000
<i>Taxable income</i>	<i>\$500,000</i>	<i>\$508,081</i>	<i>\$508,081</i>	<i>\$508,081</i>	<i>\$508,081</i>	<i>\$508,081</i>
CIT payable (20%)	\$100,000	\$101,616	\$101,616	\$101,616	\$101,616	\$101,616
<i>CIT payable on other operations (20%)</i>	<i>\$100,000</i>	<i>\$100,000</i>	<i>\$100,000</i>	<i>\$100,000</i>	<i>\$100,000</i>	<i>\$100,000</i>
<i>CIT payable on new investment (20%)</i>	<i>\$0</i>	<i>\$1,616</i>	<i>\$1,616</i>	<i>\$1,616</i>	<i>\$1,616</i>	<i>\$1,616</i>
NCT payable (5%)	\$20,000	\$26,404	\$26,404	\$26,404	\$26,404	\$26,404

Box 1.6 – Example of the net cashflow tax on capital expenditure

<i>NCT payable on other operations (5%)</i>	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
<i>NCT payable on new investment (5%)</i>	-\$5,000	\$1,404	\$1,404	\$1,404	\$1,404	\$1,404
Before-tax profits on new investment	-\$100,000	\$28,081	\$28,081	\$28,081	\$28,081	\$28,081
After-tax profits on new investment	-\$95,000	\$25,061	\$25,061	\$25,061	\$25,061	\$25,061

This example demonstrates the mechanism through which the proposed reforms will increase capital expenditure in the Australian economy. It should be noted that the size and lifespan of the investment and the required rate of return will all vary by industry and project risk, but any combination of these factors will produce the same overarching result. It should also be noted that this example is one where the investment is funded through retained earnings; a case in which the investment is funded through debt will vary from this example. Further demonstrations of the implementation of the net cashflow tax are outlined in appendix B.3.

Companies will be encouraged to take greater risks, as they can use their losses from the net cashflow tax to offset their company income tax liability

The above example sets out the implications of the net cashflow tax for a company with established operations and with earned profits that undertakes additional capital expenditure. In cases where a company earns a loss under the net cashflow tax, they will be able to use those losses immediately to offset their CIT liability. If they do not have a CIT liability, their losses would be uplifted at a given rate (the 10-year government bond rate in our proposal) the next year, then applied as an offset against a company's net cashflow tax liability in that year. Allowing companies to use their losses under the net cashflow tax to reduce their tax liability will incentivise them to take risks, and over time will increase their willingness to enter new markets and grow their businesses.

By indexing the losses, the tax system is compensating companies for the delayed refund of tax losses, a substantial step towards treating capital expenditure neutrally.¹⁶ Worked examples are available in appendix B.3.

Interest will no longer be deductible, reducing the bias towards debt

Under the net cashflow tax, the cost of financing their investments (whether in the form of interest payments or dividend payouts) will no longer be deductible. By contrast, the current company income tax, by allowing interest payments but not dividends to be deducted, treats debt preferentially to equity financing. Removal of deductibility of interest under the net cashflow tax will reduce the tax system's bias towards debt, which will help newer and growing firms, who tend to rely more on equity financing, to compete with larger incumbents.

The net cashflow tax should be administratively simple

The net cashflow tax should be relatively straightforward for businesses and the ATO to implement. Consultation with tax experts indicated that the net cashflow tax, like recent policies relating to full expensing and instant asset write-offs, relies on data already submitted to the ATO under the company income tax

¹⁶ Notably, because the 10-year government bond rate represents the cost of the government borrowing from the private sector, and is the risk-free rate. As it is a risk-free rate it likely understates the rate of return firms require on their investments, and therefore does not fully compensate companies for the delayed refund of losses.

system. In addition, the net cashflow tax requires simpler calculations because depreciation schedules do not need to be included (investment is fully deducted straight away), and companies do not need to separate out the parts of their labour costs that went into capital formation.

Impact of the net cashflow tax on franking credits and financial services

The PC's initial view is that losses under the net cashflow tax should be deductible against profits under company income tax, with minimal change to the dividend imputation system. Franking credits would continue to be calculated based on the amount of company income tax that has been paid. Modelling undertaken by the inquiry has incorporated this assumption.



Information request 1.1

The PC is interested in views on further information about the interaction between the proposed cashflow tax (i.e. the net cashflow tax) and Australia's dividend imputation system.

The financial services sector's primary source of turnover is interest payments, which are excluded in the net cashflow tax design. Consequently, current modelling assumes that in this sector the tax will raise relatively little revenue and generate limited additional incentives.

The PC is therefore considering different approaches to addressing this design feature. The government could:

1. introduce a financial net cashflow tax that would include financial inflows and outflows in the tax base for firms in the financial services sector, or
2. levy additional company income tax. A simpler approach to raising additional revenue through financial services would be to increase the company income tax rate, equivalent to the net cashflow tax rate, on financial services above the revenue threshold.



Information request 1.2

The PC is interested in views on the most appropriate way to tax financial services in a manner that is consistent with the proposed changes and induces additional capital expenditure in a similar manner to the net cashflow tax.

Other proposals for corporate tax reform

Over the past decade a wide range of corporate tax reforms have been proposed. In consultations we heard about multiple options that might affect companies' capital expenditure decisions, and we also reviewed the considerable literature. Most prominent among the possible alternatives were full expensing or capital expenditure allowances, with or without removing the debt deduction (Deakin University, qr. 24, p. 1; MEA, qr. 59, p. 1; NECA, sub. 12; p. 4), targeted capital expenditure incentives such as expansion of R&D tax concessions (APA, qr. 35, p. 2; EY Australia, qr. 90; p. 2; MUA, qr. 82, p. 1; NECA, sub. 12; p. 5; TCA, qr. 57, p. 2; The University of Sydney, qr. 26, p. 1); and an allowance for corporate equity (Sørensen and Johnson 2010). Others raised issues of the broader tax system that were beyond the scope of this inquiry.

Appendix B.4 considers each of these further. The PC commissioned modelling on these options to understand their relative impact.

The closest alternative to the net cashflow tax proposal would be an allowance for corporate equity (ACE), which could be applied in a similar way to the way we propose a net cashflow tax. Instead of removing interest payments on debt and allowing full expensing, ACE provides an allowance for deducting the equity component of investments. Ultimately, ACE provides more favourable tax treatment of normal competitive returns in a similar manner to the net cashflow tax but does so through an additional tax deduction for equity rather than capital expenditure. Introducing an ACE on new investment will result in a high statutory tax rate to maintain budget neutrality, and could be complex to implement. Appendix B.5 discusses the ACE in greater detail.

As with a move to a full net cashflow tax, other wholesale changes to the tax system involved significant fiscal costs that were difficult to fund within the corporate tax envelope (significant increases in rates on the alternative tax base would need to be contemplated). Incremental changes may involve implementation trade-offs.

In summary: the net cashflow tax provides a means to achieve a more dynamic and resilient economy while contributing significant revenue to achieve broadly neutral fiscal outcomes over the medium-term. We sought to make the changes straightforward, so they are easy to understand for international investors, and to affect the statutory rate in a meaningful way.

Tax reform is never easy, but it can be simple

Between the 2015 and 2022 financial years, the Government progressively lowered the statutory rate for companies with revenue of less than \$50 million by a total of five percentage points. Given this experience, it should therefore be administratively straightforward to reduce the company income tax rate for most companies while maintaining the current rate for a group of very large companies.

Introducing a net cashflow tax relies largely on data already reported to the ATO. The reporting can be accommodated within the current tax filing system, using information already reported in the annual company tax return that companies make to the ATO. For example, item 9 of the annual company tax return asks companies to enter assets purchased for which they will be claiming a deduction for the first time (ATO 2024a). Under the net cashflow tax, the key difference would be that rather than claiming the depreciation of the asset in that year as a deduction, the company would claim the entire cost of the capital expenditure in the year in which it was purchased. This is the approach taken in company tax returns between 2020-21 and 2022-23 when full expensing was in operation. Some stakeholders have stated that accounting for the full capital expenditure is simpler and cheaper than applying depreciation schedules.

Immediate or phased change?

The PC is yet to form a view on whether these changes should be phased in, or whether the proposed changes should have a single changeover date. Phasing is desirable in that it allows for a planned transition, smooths revenue costs over time, and decreases the potential for windfall gains to accrue to past capital expenditure (box 1.7). However, a multi-year phase-in introduces the risk that latter phases of the reform package may not be implemented, while capital expenditure plans may be delayed as companies wait to see if the full package is introduced.

Box 1.7 – Approaches to phasing the reforms

Policy reform can typically be implemented in three ways: all at once, gradually, or through grandfathering.

Implementing the reforms all at once would see the full company income tax rate change and the net cashflow tax implemented in full at the beginning of a financial year. The United States took this approach when it reduced the statutory company income tax rate from 35% to 21%. Immediate introduction is likely to have the biggest impact on company behaviour in the short-term, although it provides potential windfall gains to companies (who will receive an increased after-tax return on all their past investment), meaning that the investment response is not commensurate with the fiscal cost.

Implementing the reforms gradually would see tax rates shift over a period, as they did when the rates of taxes on small business fell from 2015 through 2022, limiting windfall gains but softening the initial impact of the reforms on company behaviour.

A grandfathering approach – applying tax cuts only to new entrants – could minimise shocks and preserve existing revenue streams as companies transition to the new tax regime. Existing companies could either irrevocably elect into the system over a set period of time or shift into the new system through an implementation period. Garnaut et al (2020) suggested a similar approach, though in the context of a more complete shift to a form of cashflow tax.



Information request 1.3

The PC is interested in views on whether a phased or package approach to the proposed changes is preferable, and the lead time government and companies would need.

From the first step to the long-term vision

The initial step set out above will help to build experience with net cashflow tax to assess whether it should be expanded in the future. Evaluation of the reform is imperative to determining next steps – success should be assessed by the new system's ability to increase productivity-enhancing business investment while collecting broadly unchanged revenue. BLADE data should be able to inform regression analysis of firms' capital expenditure response to the tax changes. Should the reforms prove effective, Australia should continue to refine the tax systems to increase its reliance on the net cashflow tax and decrease reliance on the company income tax system.

Next steps

Between the release of this interim report and the final report in December, the PC will undertake further analysis using dynamic models as well as further engagement with literature, stakeholder feedback and consultation on the proposals and other suggested corporate tax reforms. More work is required to settle the desirable parameters of the proposal and fiscal profiles.

The modelling for this report constitutes the most comprehensive, publicly available analysis of different company tax reform options undertaken in Australia. It includes a range of parameters for company tax rates and thresholds, as the appendices elaborate. We will continue to explore various options. The trade-offs between the company income tax rate, the net cashflow tax rate, the company income tax threshold, as well as the top company income tax rate, are all interconnected, and a different combination of the settings may better promote capital expenditure and productivity growth. The PC is open to considering variations on the settings, and alternative options with a similar structure, and welcomes a debate on the best way to support private capital expenditure and productivity growth.

We will continue to engage with those who would be responsible for implementing the new tax, and analyse its budgetary sustainability and administrative simplicity. We will consider tax planning, threshold indexation, and other aspects of the tax system.

Our consultation to date suggests the net cashflow tax should be relatively simple for Australian institutions to implement and companies to adopt, although the PC welcomes feedback on this issue. Close monitoring would be essential through the initial years of implementation to ensure companies understand the new approach.

Based on the modelling to date, corporate tax reform presents an opportunity to boost capital expenditure by 1.6% relative to what would otherwise be the case. Few single reforms will have such a large impact on productivity growth. The reform should be achievable, and improve the efficiency of Australia's tax system without compromising medium-term fiscal settings.

2. Regulating to promote business dynamism

Summary

- * While regulation can protect against harms, too much, or inappropriate, regulation can disproportionately inhibit economic dynamism and resilience. Australia's regulatory burden has grown – businesses report spending more and more on regulatory compliance, and Australia has fallen on key international regulation indexes.
- * Regulators and policymakers have a broad mandate to further the public interest, but they can face incentives to be overly risk averse, to underweight the burden that regulations place on businesses, and to pursue narrow goals at the expense of broader economy-wide goals. The Productivity Commission is recommending a regulatory overhaul to provide counterweights to these incentives.
- * A clear agenda for regulatory reform is sorely needed. To commit to regulatory policy reform and provide direction, transparency, accountability and policy leadership, the Australian Government should adopt a whole-of-government statement on regulation that anchors policy and regulatory decisions to the principles of good regulation and makes early moves to reduce regulatory burdens.
- * The impact of new and existing regulation on growth and dynamism should be minimised through better scrutiny, review and evaluation.
 - To improve scrutiny of regulatory proposals, the Cabinet should adopt approaches used to scrutinise budget proposals to its scrutiny of regulatory proposals, an independent statutory commissioner should oversee the Office of Impact Analysis, and Senate scrutiny committees should examine the quality of impact analyses when reviewing legislation.
 - To improve review and evaluation of cumulative regulatory burdens, the PC should be tasked with a regular and systematically devised stream of regulatory reviews, focused on sectors or regulatory systems where complex and enduring thickets of regulation have emerged.
- * Government should set stronger expectations on regulators and policymakers to deliver growth and dynamism and hold them accountable for outcomes.
 - Ministers should issue statements of expectations to regulators and regulatory policymakers that indicate, among other things, how much risk they should tolerate in pursuit of business dynamism.
 - Government should give public servants more guidance and support to become regulatory stewards and hold them to account via key performance indicators and the costs their activities impose on businesses.

Our regulatory systems hinder business dynamism

Regulation affects almost every part of our lives. It can make us safer, healthier, happier and protect the environment. It can make markets work better so that businesses thrive, and workers and consumers benefit.

But when done badly, regulation can prevent businesses from growing, investing, adopting new technologies and competing, while not significantly reducing the harms it seeks to prevent. The fault can lie in poorly conceived individual regulations or in a pile-up of multiple regulations. For example, the Group of 100 (a business association) shared with us a list of 89 financial and corporate reports that companies are required to submit (G100 2025). These might individually be sensible, but together they clog the gears.

In the PC's consultations for this inquiry, we heard from businesses that the regulatory burden they face has increased. They're right. Over the past two decades, the amount of regulation in Australia has risen. Consider, for example, the construction industry, where all levels of government impose rules that affect where housing can be built, how it should be built and what it should look like. The National Construction Code has grown to more than 2,000 pages. While safer houses built to higher standards are important and can provide benefits, the question is whether costs now exceed benefits. This regulatory environment has contributed to 30 years of stagnant productivity in the housing construction industry (PC 2025c). Getting the balance right in construction is an example of many regulatory challenges across the economy.

Such problems can be partially addressed by paring back inappropriate regulations that already exist (the stock), and from screening out inappropriate regulations before they are enacted (the flow). To achieve this, Australian regulators, policymakers and ministers need to take a new approach to regulation; one that protects Australians, but also allows our businesses to innovate, prosper and grow.

The regulatory burden on businesses is getting worse

Trends in the regulatory burden on businesses are going in the wrong direction.

Australia is falling behind its peers on economic regulation (regulation that directly influences prices, competition, and market entry or exit). Australia slipped from fifth to 14th in the World Bank's *Ease of doing business* indicator between 2005 and 2020, and from second to 15th of 28 countries in the OECD's *Product market regulation* indicator between 2003 and 2023 (World Bank 2005, 2020, 2024). In both cases, Australia made some small improvements, but these did not keep up with the larger improvements made by other countries.

At the same time, the volume of social regulation (which protects health, safety, the environment and social cohesion) seems to have grown. The number of words and conditional terms in Commonwealth Acts of Parliament and legislative instruments grew dramatically in the two decades to 2020 (PC estimates based on QuantGov nd).¹⁷ In 2024, 50% of small businesses surveyed by the Australian Chamber of Commerce and Industry reported spending more time on regulatory compliance than 12 months prior and only 3% reported spending less (ACCI 2024, p. 13). Since there have been small improvements in economic regulation, growing social regulation would seem to lie at the heart of the increased burden.

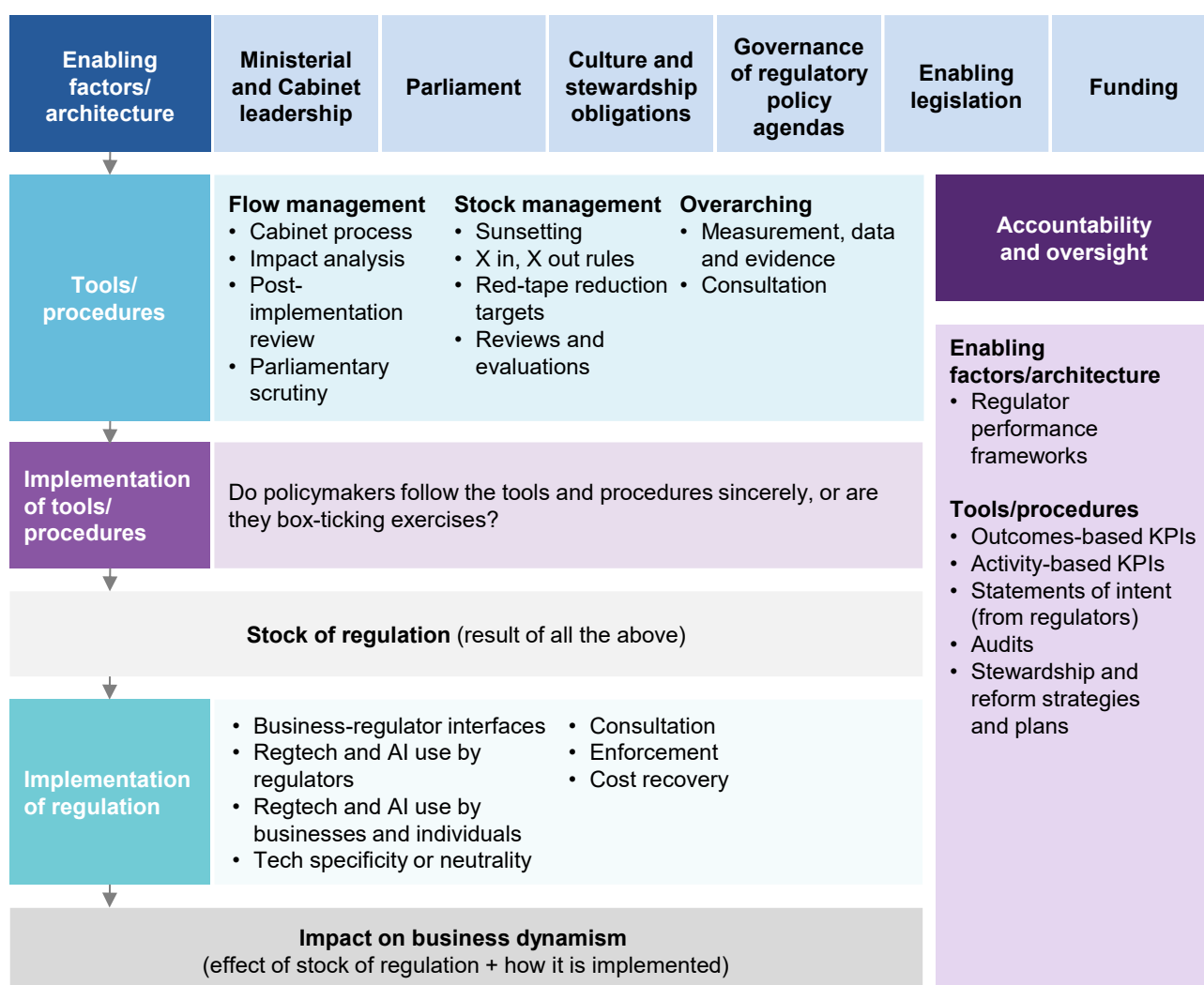
Overview of our regulatory system

Figure 2.1 outlines a framework for thinking about regulatory policy. The framework sets out the overarching **architecture**, including ministerial and Cabinet leadership, Parliament, culture and stewardship obligations, the governance of regulatory policy agencies, enabling legislation for regulators, and funding.

¹⁷ Conditional terms are: 'if', 'but', 'except', 'provided that', 'when', 'where', 'whenever', 'unless', 'notwithstanding', 'in the event', 'in no event', and 'to the extent that'.

The next level in the framework comprises the **tools and procedures**, such as impact analysis and sunseting, that regulators and policymakers use to manage the stock and flow of regulation. Policymakers are responsible for designing regulation and managing regulators and regulatory systems (DoF 2024). Regulators are responsible for (among other things) administering and enforcing regulation (DoF 2024), and can sit within a government department or be an external entity.

Figure 2.1 – A framework for the regulatory system



Ultimately what matters is the **implementation** of these tools and procedures, which generate the **stock of regulation**. The **implementation of regulation** itself describes how *regulators* engage with businesses; for example, what regulators require of businesses to demonstrate compliance. All these elements together **impact on business dynamism**.

Accountability and oversight are provided by a range of frameworks, tools and agencies that sit alongside the implementation. *Central agencies* such as the Department of Finance (DoF) monitor the activities of regulators and policymakers to see whether they achieve their objectives.

Our current approach to regulation is not supporting dynamism

Consultation with stakeholders identified three core challenges facing policymakers, regulators and ministers, who experience:

- strong incentives to behave in a risk averse manner, as any mistakes on their watch tend to be highly salient, while the economic dynamism and growth foregone can go largely unnoticed
- strong incentives to undervalue the burden they place on businesses, because governments (and the fiscal budget bottom line) do not, for the most part, directly bear the burden
- a tendency for tunnel vision, as they allow their primary regulatory or policy objective to outweigh all other considerations. That may be because their enabling legislation does not permit them to consider these trade-offs, because the trade-offs are difficult to make, or because the skills and interests of those involved tend to align with the primary regulatory objective.

In responses to our regulator survey (appendix C.1), which we sent to 74 Australian Government regulators and policymakers¹⁸ (with 97 responses), regulators pointed out that:

[The c]urrent regulatory framework is overly prescriptive and often binary in nature, limiting our capacity to regulate proportionately to the harm in question ...

There is an ability to better join up and think about outcomes at a[n] output level rather than individual regimes. One of the traps we get into as regulators is not thinking about the system as a whole.

Public responses to our consultation also noted that regulators can fail to consider regulatory burden due to conflicting incentives.

While individual regulatory measures aim to enhance security, the cumulative effect of uncoordinated, layered requirements from multiple agencies has significantly complicated compliance and reporting for businesses. (AIIA, qr. 18, p. 3)

These failures by government affect business in different ways. Box 2.1 summarises a selection of the most prominent issues.

Box 2.1 – When regulation fails

Consultation and questionnaire responses have identified a variety of burdens that poor regulation imposes on businesses. The most common and impactful issues are:

- *band-aid regulation* that does not address the underlying cause of the problem
- *duplicate or inconsistent regulation* that can manifest as multiple regulations affecting businesses in a geographic area or sector
- *overly prescriptive and rigid regulation* that leaves little room for adaptation
- *overly risk averse regulation* that pushes too hard to address all harms or eliminate all risk, creating a disproportionate regulatory burden
- *regulatory delay* when regulatory bodies fail to make timely decisions or provide necessary approvals or permits within a reasonable time frame
- *cumulative burden* of multiple overlapping or conflicting regulations which is often overlooked when assessing individual regulations in isolation.

¹⁸ The survey was able to be distributed to multiple teams within each regulator and policymaker.



Information request 2.1

The taxonomy proposed above represents regulatory failures that have been raised regularly with the PC during consultation. We have heard of a number of broad examples that align with these categories – for example, duplicate and inconsistent regulations emerge when regulators are unable to adopt standards from comparable regulators from other states, or from overseas.

We would like to hear specific examples of regulations that you think align with the categories above, and that could easily be fixed by government.

Australia's regulatory policy is better on paper than in practice

Regulatory policy aims to address the challenges facing policymakers, regulators and ministers, and counter the regulatory failures set out in box 2.1. The tools and procedures for stock and flow management look attractive but are often not followed in practice.

For example, the impact analysis process requires policymakers to prepare an 'impact analysis' (previously a 'regulation impact statement') and provide it to the Office of Impact Analysis (OIA). The goal is to weigh the costs and benefits of proposed regulations that will significantly impact businesses and considers alternative options, with consultation with businesses and other affected parties a key input.

Impact analyses are intended to inform regulatory and other policy decisions, but it is widely agreed that they have little influence because they often come too late in the process and are sometimes retrofitted to support a decision that has already been made.

The formal Regulatory Impact Analysis is often done in parallel to the actual decision-making process and is not used by decision makers. Sometimes the OIA process takes place after the decision maker has made up their mind to do something, even if the formal decision takes place after the OIA analysis is completed. (response to regulator survey)

Impact analysis is the right tool, but we are not using it well. This observation is not new. 90% of regulators surveyed by the PC in 2012 said that the impact analyses had little to no impact on the regulatory proposals they brought forward. Fewer than 10% of proposals were modified or withdrawn because of the impact analysis. When we asked regulators the same question in 2025, after several iterations of regulatory costing approaches and arrangements, 80% of respondents said the same thing. The current system doesn't shape decision making. We need to create incentives for policymakers to use it to its full potential.

The problems with impact analysis reflect broader issues that regulatory policy needs to confront. Sensible tools and procedures like impact analysis swim upstream against a current of incentives for risk aversion, disregard for regulatory burdens and regulatory tunnel vision. We need counterweights to these incentives. Therefore, the parts of Australia's regulatory policy landscape most in need of reform are the culture and architecture around decision making rather than the tools and procedures themselves.

A regulatory policy that supports business dynamism

Creating these 'counterweights' is no easy task. For this reason, the PC is recommending a package of reforms that target actors across the regulatory policy spectrum, from the regulators at the coalface to the Cabinet ministers making decisions about significant regulation.

The package focuses on the Australian Government in the first instance. Each state and territory has its own unique regulatory architecture and challenges, which were considered too broad for the scope of this report. Nevertheless, the draft recommendations, while designed for the Australian Government, could be adapted and implemented by states and territories. The reforms will facilitate coordination between Australian Government and state and territory government regulators, where necessary, to boost business dynamism and resilience.

At the centre of government, the counterweights we are proposing are:

- a *whole-of-government statement* that will commit to regulatory outcomes that better promote growth and dynamism
- *enhanced scrutiny* of regulatory proposals by the Cabinet, OIA and parliamentary scrutiny committees, who each provide a check on the original decision and can address the challenges of risk aversion and tunnel vision identified earlier
- *external review and evaluation* of costly regulatory systems by the PC, which offers an opportunity to reset cumulative regulatory burdens.

For policymaking agencies, where proposals for new regulation often originate, and regulators, who implement regulations and often inform their design, the counterweights we need are shifts in culture and mindset. To this end:

- ministers should issue statements of expectations that explicitly specify the need to look for opportunities to enhance dynamism and growth, including by outlining acceptable tolerance of risk, and countering excessive risk aversion
- ministers and central agencies should support policymakers and regulators with appropriate capability support and practice guidelines. They should also require them to report against quantitative key performance indicators, agreed plans of action, and on the implications of their actions for compliance costs
- policymakers and regulators must further develop their sense of being *stewards* of the regulatory systems they manage – they must take greater account of the impact of their decisions on business dynamism and be proactive rather than reactive and excessively risk averse.

While this report focuses on reforms within government, businesses should ultimately expect to see tangible change as a result. The proposed changes will help businesses by making regulators and policymakers more responsive to their concerns about unduly burdensome regulations and poor implementation.

What would success look like? Businesses would wait shorter periods of time for regulatory decisions. They would not need to provide the same information to multiple regulators. And they would no longer need to wade through the confusing and contradictory requirements of different regulators in the same space. The reforms will help new businesses start, and existing businesses to prioritise growth and innovation.

Set a clear reform agenda by developing a whole-of-government statement on regulation

Australian Governments have long agreed with the established principles of good regulation, yet they often set them aside and prioritise the day-to-day challenges of governing. The government must tie itself to the mast by adopting an ambitious whole-of-government statement on regulation. The statement should be a high-profile declaration that commits the Australian Government to regulatory policy reform, anchors policy and regulatory decisions to the principles of good regulation, indicates how success will be objectively and independently measured, and commits to a set of immediate reforms that will at once reduce regulatory burdens.

Specifically, the statement should contain several elements.

- A clear expression of the principles of good regulation. These should be evolved from the six principles for regulation in the Regulatory Policy, Practice and Performance Framework (DoF 2024), but with:
 - more explicit reference to the need for regulators and policymakers to consider the implications of their decisions on broader economic and social objectives, including by avoiding excessive risk aversion and tunnel vision and actively seeking to promote growth and dynamism
 - more explicit reference to the need for regulators and policymakers to consider the impact on regulated parties of individual regulations and the cumulative burden of regulation (this is implicit in several existing principles but should be explicitly referenced in the statement)
 - an additional principle specifying that regulators and policymakers should, as a default, rely on trusted processes from other regulators in Australia and overseas, and only develop bespoke rules where there is a clear need to do so. What is good enough for Canada or the European Union should in nearly all cases be good enough for Australia.
- A series of quantitative proxy measures of regulatory quality and the burden of regulation that the government will track over time and aspirational targets (which should be updated periodically) for these that indicate success. The PC is seeking further information from stakeholders on what these measures should be and how the targets should be set (information request 2.2). Some candidates are:
 - improvement in survey-based measures of compliance burden, such as the Australian Institute of Company Directors' Director Sentiment Index
 - improvement in international indicators or rankings, such as the OECD's Product Market Regulation indicator
 - reductions in the dollar value compliance burdens of regulation measured and reported by regulators (see below)
 - improvement in measures based on analysis of primary and secondary legislation (for example, the RegData Australia project).
- A statement clearly setting out the roles and responsibilities for regulatory policy, reflecting existing practice and the architectural reforms recommended in this report.
- A schedule, reissued regularly, committing the Australian Government to immediate and effective regulatory reforms, to concretely demonstrate intent, progress, transparency and accountability.

The minister with primary responsibility for regulatory policy (currently the Minister for Finance) should develop the statement and secure its endorsement by the Cabinet.



Information request 2.2

Which quantitative economywide measures of the quality of regulation and the regulatory burden should the Australian Government track? How should it set targets for these?

Strengthen scrutiny, review and evaluation of regulation

Scrutiny and reviews are key avenues to ensuring that regulatory decisions take into account growth, dynamism and the government's overarching priorities.

To enhance scrutiny of new regulatory proposals, the PC recommends reforms to Cabinet's scrutiny of significant regulatory proposals, enhanced OIA oversight of impact analyses that accompany significant regulatory proposals, and stronger parliamentary scrutiny of legislation. The role and scope of each of these bodies, and the type of scrutiny they can offer, varies. The Cabinet aligns reform decisions with government objectives, the OIA promotes high quality information to inform decision making, and Senate scrutiny committees assess whether legislation meets accepted standards. Each has scope to play a stronger role.

To enhance the review and evaluation of regulation, the PC is recommending that it be tasked with an ongoing stream of regulatory reviews, focused on sectors or regulatory systems where complex and enduring thickets of regulation have emerged.

Stronger scrutiny from Cabinet, using the rigour of budget processes as a model

Cabinet scrutinises and determines key regulatory policy proposals that come before it and should ensure these are consistent with overall growth objectives. The recommended whole-of-government statement on regulation provides a mechanism for considering how to align individual decisions with broader goals. Accordingly, Cabinet's processes should be strengthened to provide the necessary levels of scrutiny.

As a guiding principle, Cabinet should seek to apply the same rigour to regulatory proposals that it applies to expenditure and taxation proposals. These are typically scrutinised by the Expenditure Review Committee with detailed input from economic ministers, and analysis incorporating central agency expertise on the merits of proposals and overall budget alignment.

While the mechanics of Cabinet are a matter for the Australian Government, processes to support regulatory decisions could include enhanced scrutiny of regulatory proposals by a Cabinet committee, including enhanced consideration of their compliance costs to businesses, which would be reported in the attached impact analysis, and advice as to the impact on the cumulative regulatory burden.

Greater Cabinet scrutiny, along with the minister responsible for regulatory policy, should draw on support and advice from the public service within a central agency. The key functions to support the minister are to:

- provide separately identified comments on significant regulatory proposals that go to Cabinet or its committee, advising whether proposals align with the government objectives and principles of good regulation as set out in the whole-of-government statement
- engage early on proposals that will eventually arrive at Cabinet so that this alignment can be more thoroughly tested before proposals reach an advanced stage, at which point room to explore lower cost regulatory or other approaches to addressing potential issues can be limited.

The Department of Finance currently performs some of these functions, but they should evolve to meet the requirements of enhanced Cabinet scrutiny.

This function should be distinct from the OIA, although the two organisations should share information on early-stage regulatory proposals. The role of the function described here is to advise the minister responsible for regulation and Cabinet more broadly on whether a proposal aligns with government's overall regulation objectives and priorities. As outlined below, the OIA should hold agencies and minister to account for the quality of impact analysis and compliance with agreed processes.

Stronger scrutiny from the Office of Impact Analysis, by bolstering its independence

To make good decisions on regulation, decision-makers need high quality information on costs and benefits. In theory, impact analyses are ideally suited to provide this information, but too often they are of poor quality or retrofitted to support decisions already made, meaning that the decision-maker, often a minister, decides

without all necessary information. Several participants identified a need to raise the status or standards of impact analysis (AIC, qr. 77, p. 7; AICD, sub. 16, p. 9; IPA, sub. 11, p. 9).

The OIA should have a stronger mandate to increase accountability for the quality of impact analyses and processes. The OIA's role is not to say whether the 'right' decision was made – that involves policy judgements that are for elected officials to comment publicly on. Instead, the increased focus on the burden of regulation suggests a public interest in having better information about whether decisions have been well-informed.

To enable it to demand greater accountability, the OIA should have more independence from government. That said, there are trade-offs to greater independence. The more independent the OIA becomes, the greater its distance might be from Cabinet processes and the development of policy proposals (PC 2012; Renda et al. 2022). Our draft recommendation balances the benefits of independence with the need to keep the OIA close to decision-making.

The OIA should remain in PM&C, but a statutory commissioner should oversee it

At present the OIA is a branch within the Department of the Prime Minister and Cabinet (PM&C). It oversees the impact analysis process by:

- supporting government departments and agencies to produce impact analyses
- publishing and publicly reporting on the quality of these impact analyses.

The OIA's location within PM&C gives it visibility of key Cabinet decision-making processes; at the same time, statutory protection could enhance its independence. The OIA indicates that it maintains 'day-to-day independence from the Australian Government in [its] decision-making', but there is no document that codifies the policies and practices that ensure this independence (ANAO 2025). Even if they were to be codified in policy, there would be no statutory protection of the OIA's functions and independence.

Accordingly, the PC recommends that the OIA remain in PM&C and continue to be staffed by PM&C employees but that an independent statutory commissioner be appointed to oversee its operations. It considered the option of the OIA becoming a separate statutory agency with its own budget and staff, or being absorbed into another statutory agency, but decided that the changes risked creating too great a separation from government.

Under the PC's proposed model, OIA staff would retain proximity to and knowledge of internal government processes, enabling them to work with policymakers to prepare impact analyses, but they would have significantly more influence through the protection the independent statutory commissioner could provide. A somewhat similar model is in place in Victoria, where Better Regulation Victoria, the agency that oversees the impact analysis process, is located within the Department of Treasury and Finance but is overseen by a non-statutory Commissioner for Economic Growth and Better Regulation. Given the need to lift the profile and standards of impact analysis, the PC considers a statutory appointment to be justified.

The statutory commissioner should create greater accountability for impact analysis

For the statutory commissioner to drive change, agencies and ministers must come to expect greater accountability for the impact analyses they produce. The commissioner, drawing on the work of the OIA, should:

- publish an assessment of the extent to which each impact analysis was drafted sufficiently early to genuinely contribute to the decision-making process
- raise the bar for what is considered an 'adequate' impact analysis (the lowest passing grade). The PC reviewed a sample of 'adequate' impact analyses published since the most recent guidelines were adopted in March 2023 and found that some had only a high-level consideration of compliance impacts on businesses (appendix C.2)
- continue to provide information on why an impact analysis was given a particular grade.

The OIA should also continue to educate and assist agencies in the production of impact analyses, especially when capability gaps exist.

The OIA should also offer advice when an impact analysis is of high quality, but the costs and benefits of the regulation are significantly uncertain. In such cases, the regulation should trigger a post-implementation review within five years. The OIA should amend its guidance on post-implementation reviews to incorporate this.

Stronger scrutiny from the Parliament, via Senate committees

Parliament is the final decision-maker on many regulatory rules, and on all legislation. As well as passing primary legislation, it reviews and can disallow regulations and some other legislative instruments.

Senate scrutiny committees advise Parliament on whether Bills and regulations meet Parliament's expectations for quality and the effect of legislation on personal and civil rights, liberties and obligations. The committees have wide representation and are usually non-partisan in their review.

Impact analyses must be attached to explanatory materials for legislation and regulations, but scrutiny committees do not review the quality of the impact analyses (SSCSB 2022; SSCSDL 2024). Scrutiny committees should have their terms of reference expanded to specifically report to Parliament on the justification for regulatory intervention, the costs, and the adequacy of the explanatory materials and impact analysis. As with other matters, the Senate Standing Committee for the Scrutiny of Delegated Legislation should consider tabling a disallowance motion for instruments with unsatisfactory impact analysis.

A more systematic approach to independent regulatory reviews

Central government can also scrutinise the stock of regulation by commissioning independent reviews of regulation.

An independent review would evaluate a whole sector or regulatory system. The PC considers that a holistic approach will be the most effective tool at governments' disposal to address the cumulative burden of regulation, or duplicate and inconsistent regulations, all of which are likely to be missed when assessing regulations in isolation. Relying on an independent reviewer, rather than internal review, will make regulators more accountable, and allow a more holistic assessment of sectors facing complex and enduring regulatory thickets (although regulator-led reviews are also an important part of the architecture, as discussed later).

Independent reviews are common. The Australian Government often commissions eminent people or panels to review either specific regulations (for example, the review of the *Modern Slavery Act 2018* (Cth) (McMillan 2023)) or areas of regulation (for example, a 2017 review of pharmacy sector regulation (King et al. 2017)). The PC also frequently undertakes regulatory reviews, either explicitly (for example, the National Transport Regulatory Reform review (PC 2020)) or as a part of a broader public inquiry or study (for example, the recent PC inquiry into early childhood education and care (PC 2024)).

Recent reviews of this kind have usually been ad-hoc, which is appropriate in some cases. But a more systematic approach would allow the Australian Government to:

- build and maintain specialised capacity (in regulatory economics, for example) in an agency that has an ongoing stream of regulatory review work
- prioritise sectors where reviews are most needed, as regulatory reviews are resource intensive.

The PC recommends that the Australian Government task the PC with a regular and systematically devised stream of regulatory reviews. The PC is well-placed to perform this function as it has statutory independence, is housed within the central portfolio of Treasury, and its primary function is already to undertake independent reviews of widely varying areas of government policy from a community-wide perspective.

To assist the Australian Government, the PC in its final report intends to propose several high priority regulatory reviews that could be commissioned immediately. It is seeking more information from stakeholders to inform these reviews (information request 2.3). Based on recent PC analysis and the consultations undertaken during this inquiry, the housing construction sector appears a primary candidate for a regulatory review (box 2.2).

Box 2.2 – The need for systematic review of housing construction sector regulations

The problem: The housing construction industry is plagued with numerous regulatory challenges that act as a handbrake on productivity (PC 2025c). Over the past years, the volume and complexity of regulations affecting the housing construction sector have increased significantly. These changes may appear inconsequential in isolation, but their *cumulative effect* has become overly burdensome. This burden is missed in regulatory impact assessments, which are not designed to capture the cumulative burdens.

The solution: To consider the combined effect of all regulation on the sector, an in-depth, independent review would be the most effective approach.

For immediate action: The Government should task the PC to undertake a review of regulation in the construction sector, including the cumulative impact of regulation and alignment across regulators.

Over the long-term: The PC should be tasked with an ongoing series of reviews of sectors or regulatory systems identified as containing embedded ‘thickets’ of regulation.



Information request 2.3

In which sectors or regulatory systems is immediate regulatory review most warranted, and why?

Enhance regulatory and policymaking practice to increase growth and dynamism

Stronger action from the centre of government is necessary, but not enough. Australia needs transformative cultural change among both the policymakers who create and manage regulations and the regulators who implement them.

We heard from many participants in this inquiry, including businesses, that regulators and policymakers often do a poor job of understanding and addressing the regulatory burden that businesses face. Issues raised include a lack of early and genuine engagement with those being regulated, narrow focus on risk and technical requirements rather than broader economic and social outcomes, and a lack of coordination between and within governments (for example, Amazon, sub. 31, p. 8; Australian Industry Group, qr. 36, p. 3; Australian Investment Council, qr. 77, p. 9; Clean Energy Investor Group, qr. 15, pp. 4–5; Insurance Council of Australia, qr. 29, p. 2). As outlined above, even with the best of intentions, the incentives of public servants do not always align with the goal of better, growth-oriented regulation.

To address these challenges, the PC recommends that ministers raise their expectations on regulators to consider growth, that central agencies have a greater role in supporting and overseeing regulators and policymakers, and that a *stewardship culture* be created among regulators and policymakers.

Ministerial statements of expectations to guide regulators and policymakers

As submitted by several participants in this inquiry, regulators should be supported to give more priority to economic growth and dynamism (AICD, sub. 16, p. 9; Deakin University, qr. 24, p. 2).

Ministers should issue a statement of expectations for each of the regulators and regulatory policymakers in regulation that they are responsible for. These statements should highlight clearly that regulators and policymakers are expected to consider growth and dynamism in their decisions and actions. Ministers should take their lead from the whole-of-government statement discussed earlier.

Ministers should also give guidance on the government's risk appetite for prioritising growth and dynamism. Wherever possible, clear identification of risk tolerances and trade-offs would establish community expectations, and ensure risk is shared between government and public servants, rather than falling solely on regulators when a problem occurs. Public servants would then have the authority to act autonomously to identify and proactively respond to regulatory issues. The PC is seeking further information on how to advance this (information request 2.4).

Central agencies to support and oversee regulators and policymakers

Central agency support is needed to build capability and provide external perspectives

Regulators and policymakers need support. While the Department of Finance issues guidance and performance expectations to regulators (DoF 2023, 2024), and there are leadership groups and communities of practice (ANZSOG 2022), central agencies can increase their support by extending existing programs of capability building and coordination between agencies.

A further role would be to extend support for reviews of regulation and policy. While relevant policymakers should regularly monitor and review regulatory systems and promote reform, results from our survey suggest many do not do so (appendix C.1). Central agency support could assist in providing oversight or capability building for reviews, including in cases where an external review will be the most effective method (draft recommendation 2.2).

Central agencies should also be responsive to the needs and advice of regulators and policymakers and devote resources and time to making improvements.

Regulators and policymakers must be accountable for their outcomes

If regulators and policymakers are to deliver on growth and dynamism outcomes, regular reporting and accountability are vital.

Regulators should continue to develop and report on quantitative key performance indicators (KPIs) for normal regulatory activities such as time to grant licences, time to decision, or enforcement (e.g. reducing levels of non-compliance). KPIs should be based on outcomes, not outputs, wherever possible (box 2.3).

Box 2.3 – Regulatory delay: speeding up infrastructure approvals

Problem: Approval processes are frequently subject to significant delays, lowering investment and economic activity. Australian Government environmental approvals can take more than 500 days for clean energy projects (HSF and CEIG 2023, p. 18).

Solutions: to minimise delay, regulators should introduce national environmental standards, better regional environmental planning, efficient and robust offsetting arrangements, and clear rules about engaging with local communities and Aboriginal and Torres Strait Islander people.

For immediate action: The Australian Government should allocate resources to ensure more efficient assessment of the agreed priority list of clean energy projects, including through a well-resourced strike team with energy knowledge, and an independent Coordinator-General with strategic oversight to work across government agencies, resolve bottlenecks, and ensure that approval processes remain on track. These recommendations will be further discussed in the PC’s report on *Investing in cheaper cleaner energy and the net zero transformation* (PC 2025d).

Over the long-term: Under bolstered regulatory accountability arrangements, regulators across many sectors will develop and report on KPIs for timelines to make key decisions.

Many activities aimed at improving regulatory systems – such as ongoing review and development, evidence gathering and consultation – are difficult to measure in meaningful quantitative terms. And existing numerical measures (such as ‘one-in, one-out’ rules, where no new regulation can be added without removing an existing rule), are often not effective at reducing regulatory burden (PC 2011, pp. 58–59).

Ultimately, what counts are clear commitments, transparency, and dialogue with the public. Regulators and policymakers should publicly and plainly set out their approaches and strategies for each regulatory system they manage. These strategies should state how the agency will:

- develop short and long-term plans for review and reform of regulation (for example, box 2.4)
- engage with stakeholders, gather and evaluate evidence
- coordinate with other regulators and policymakers
- monitor and justify the compliance costs of each regulatory change taking place and how changes are expected to add to or remove the regulatory burden
- evaluate and report on the outcomes of regulatory changes.

These strategies should be updated at least every three years in clear, accessible documents. Progress against their commitments should be reported in annual reports. The central agency area that oversees regulatory arrangements (currently located within the Department of Finance) should provide common data to allow assessment of regulator and policymaker performance against their obligations.

Box 2.4 – Effective review: APRA’s self-initiated review to promote competition

The problem: In recent years the Australian Prudential Regulation Authority (APRA) has refined its licensing framework for authorised deposit-taking institutions to support competition and innovation in the banking sector. The restricted authorised deposit-taking institution licensing pathway, introduced in 2018,

Box 2.4 – Effective review: APRA’s self-initiated review to promote competition

sought to lower barriers to entry for new banks. While changes to the licensing framework have succeeded in attracting more new entrants, some have faced challenges navigating the licensing process and developing sustainable business models.

APRA’s solution: APRA is undertaking a review of its authorised deposit-taking institution licensing framework. This review is consistent with the objectives of the Treasurer’s request that the Council of Financial Regulators (which includes APRA) and the Australian Competition and Consumer Commission examine the state of Australia’s small and medium-sized banking sector, with a focus on competition (CFR 2024).

Over the long-term: The review is an example of good regulatory practice, combined with good support from central agencies and ministers. APRA took it on itself to undertake its own review, aligned with the expectations of regulators. The Treasurer’s request that the agencies in the Council of Financial Regulators review regulatory settings for small and medium banks has provided impetus for APRA to expedite the review process.

In the longer term, regulators and policymakers should develop their own comprehensive accounting of the total compliance burden of each regulatory system they manage. This accounting can serve as a benchmark against which change is reported and used to identify problematic areas within each system for targeted review and reform. It would also form the basis for regulatory budgeting, should it be needed (discussed later).

Creating a regulatory stewardship culture to prioritise growth and dynamism

Stronger leadership and accountability are essential, but not sufficient. Australia needs transformative regulatory cultural change across the public service. One approach is to draw on the existing concept of ‘stewardship’, reflecting the new Australian Public Service (APS) value. There is opportunity to take stewardship further, sharpening its meaning, in order to embed a better regulatory culture within the APS. Effective regulatory stewardship will help close the gap between what we see on paper and what happens in practice.

Regulatory stewardship requires public servants to actively consider regulatory systems as an asset to be managed, to promote a dynamic and resilient economy, as well as to reduce harm or manage risk in line with their regulatory responsibilities. When making decisions, stewards should focus on the overall benefit to society, and not just their narrow objectives. They should work together, ensuring they are consistent in their approach, take steps to reduce duplication (box 2.5), and continually review regulatory systems.

Box 2.5 – Duplicate and inconsistent regulation in the care economy

Problem: The care economy has a host of different regulatory requirements, standards and access points for information, creating duplication and confusion for care providers, workers and users. As a result, providers and care workers can be discouraged from working or moving across sectors or providers can withdraw services, reducing user access and choice. Care users can also find it difficult to navigate the system or choose between different providers. And separate regulatory regimes, each with their own systems and processes, make it more expensive for government to regulate and more difficult to effectively oversee the care sector as a whole because the information is spread across different systems.

Box 2.5 – Duplicate and inconsistent regulation in the care economy

Solution: Governments should establish a consistent and cohesive approach to regulating safety and quality across the care sector, including better data sharing between agencies to enable more concerted action.

For immediate action: The Australian Government should pursue a six-year program of actions towards greater regulatory alignment, primarily focusing on the aged care, National Disability Insurance Scheme and veterans' care sectors. These recommendations will be discussed further in the PC's report on *Delivering quality care more efficiently* (PC 2025a).

Over the long-term: By embedding regulatory stewardship, governments can empower regulators and policymakers to identify further actions to align regulations across the care sector (and other sectors), including in response to new technologies and changing circumstances.

In 2024 the Australian Government amended the *Public Service Act 1999* to add stewardship as a core APS value (*Public Service Amendment Act 2024*, Schedule 1, Item 2). The Australian Public Service Commission (APSC) and the Department of Finance have both issued guidance on what stewardship looks like for public servants (APSC 2024; DoF 2024).

Stewardship is a practice of caring for something that we have been trusted to look after. Being a good steward means accepting responsibility for that care, and working to ensure the long-term integrity and sustainability of what has been entrusted to us. (APSC 2024, 2024)

The idea of regulatory stewardship as a specific aspect of public service stewardship, while not new, has gained traction in recent years (DoF 2024; NZ Ministry for Regulation 2024). We have had many examples of regulators who practice stewardship (see for example box 2.6). But current APS obligations could be extended to specifically address regulatory stewardship.

Box 2.6 – Stewardship in practice: IP Australia and the policy register

IP Australia, the federal agency responsible for the registered intellectual property rights system, maintains a public policy register of more than 150 regulatory and legislative issues that have been identified for potential reform. Reviews, internal sources and the public can all identify and submit issues, which are regularly reviewed and prioritised in consultation with IP Australia's stakeholders, including its standing consultation groups. The register provides an evidence base for prompt advice to government on regulatory reform, for example the deregulatory reforms enacted in the *Intellectual Property Laws Amendment (Regulator Performance) Act 2023* (Cth).

Source: IP Australia (2022, nd).

Giving public servants the power and responsibility to become stewards of 'their' regulatory systems, and acknowledging their expertise, will more closely align public servants' intrinsic motivation with the public good. It will help to address risk aversion, disregard for regulatory burdens and regulatory tunnel vision by encouraging and enabling regulators to consider the broader public good and therefore lead to better outcomes for businesses.

Management and behavioural economics literature suggests that the core elements of intrinsic motivation for knowledge workers are autonomy, mastery and purpose (Bénabou and Tirole 2003). Motivated workers are

self-directed and have control over decisions, they seek continuous improvement and development, and they want to contribute to a meaningful outcome (Pink 2018). Regulatory stewardship will speak directly to these goals.

A range of supports from government, outlined below, will help embed stewardship.

Regulatory stewardship should be defined and promoted as core business

Departments, regulators and regulatory policymakers need to make regulatory stewardship part of their business-as-usual practice. At present, they are constrained by legislation, government expectations and their operating environments from taking a broad view.

Governments should ensure that regulatory stewardship is a clear objective (set out in the statement of expectations), so that agencies, departments and regulators can prioritise it in addition to their other objectives. It should be made clear that regulatory stewardship is expected of all policymakers and regulators – it does not need explicit authorisation.

Regulatory stewardship should be defined in the government's regulation statement, as the APS has no clearly articulated definition of *regulatory* stewardship. The PC proposes the government adopt the following definition:

Regulatory stewardship is a practice of caring for a regulatory system as an asset that we have been trusted to look after for the benefit of Australians. It promotes a whole-of-system, collaborative view of regulation and requires stewards to prioritise economic growth and the broader objectives of government as well as regulatory objectives.

Clearer guidance will help stewards understand their responsibilities

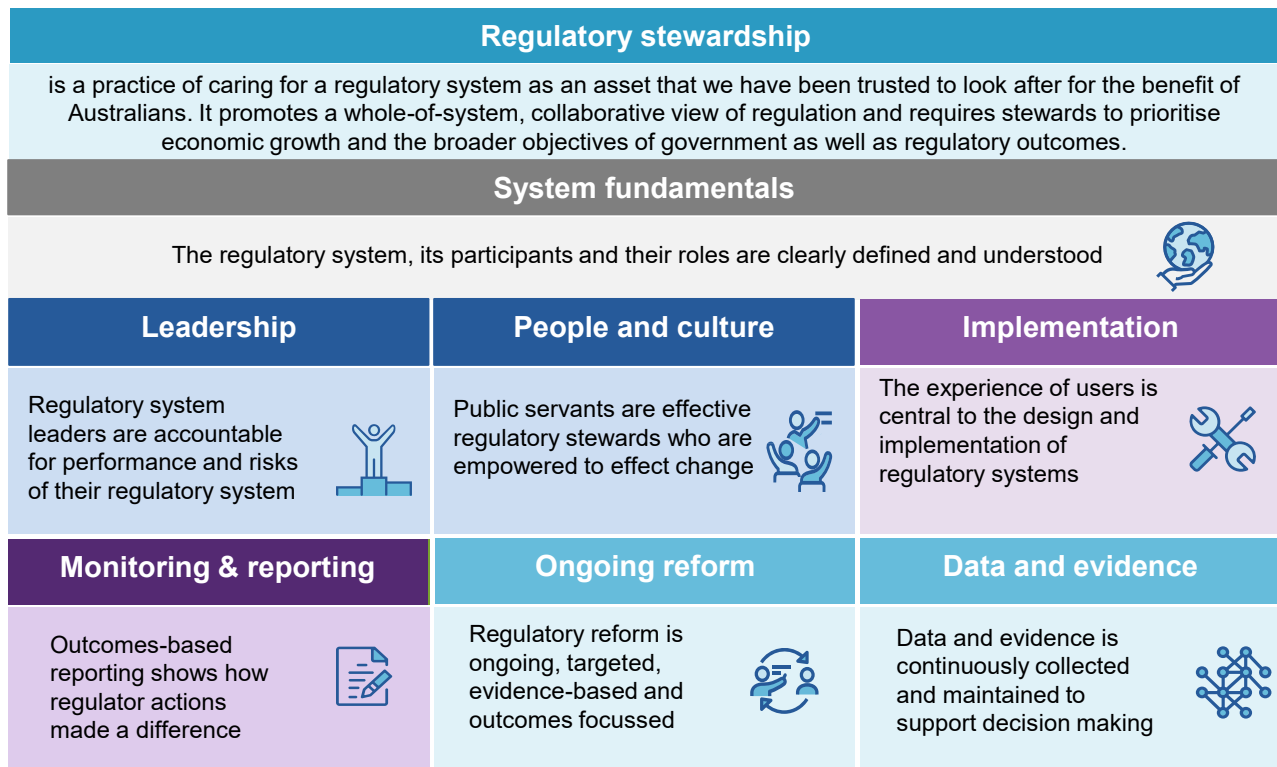
Governments should set out clear expectations and examples that help regulatory stewards understand what their task looks like. Many responses to our regulator survey noted that while current Department of Finance guidance to regulators (DoF 2023) is at least 'somewhat useful', more practical, targeted guidance, and education and training on its implementation, would be valuable (appendix C.2).

The PC has set out a short regulatory stewardship guide (figure 2.2 and appendix C.3 for more detail). The guide shows outcomes to be achieved, supporting actions to take and, importantly, what blockers could detract from stewardship. The guide is designed to align with the PC's regulatory architecture framework. The Department of Finance should develop it further and promulgate it across government.

Stewardship blockages should be addressed

Through our regulator survey, we heard that many regulators and policymakers are not confident they have the necessary resources, tools, support and capabilities to be stewards while achieving their other objectives (appendix C.2). Respondents identified some barriers to improving regulatory activities that are also barriers to stewardship, including resourcing, technological constraints, inflexible frameworks and limitations of staff capability.

Regulators need funding to be able to provide research and advice on improvements to the system, among other public good activities. However, existing cost-recovery principles can mean that to be sufficiently well resourced, a regulator may need to conduct more regulatory activities (such as licensing) or charge more for them (ACCI, sub. 17, p. 6; Croplife, sub. 10, p. 6). This pressure can lead to perverse incentives. Alternative funding such as appropriation, or pricing linked to social costs rather than cost recovery, might be more suitable for some public good activities.

Figure 2.2 – Regulatory stewardship objectives

Nine responses to our regulator survey identified examples of inadequately drafted legislation that could prevent regulators from appropriately factoring in both risk and considerations such as growth when making decisions, or from using trusted standards from other regulators as per the Australian Government's statement on regulation (draft recommendation 2.1). Regulators commented that this can also result in overly prescriptive regulation that forces regulators to focus on process and not the outcome they are seeking to achieve (box 2.7) and constrain technological options in implementing regulation or compliance.

The government should seek regulatory stewards' advice on their resourcing constraints and their legislation, and where inadequacies are identified, review should take place.



Information request 2.4

How should regulators and policymakers balance risk with growth objectives? What guidance should governments give? What are the constraints which impede regulators and policymakers from better balancing risk and growth objectives? What guidance can governments give to help?

Box 2.7 – Overly prescriptive: why we can't have nice things, digitally

Problem: While digital financial reporting has become a standard practice for companies around the world, it remains nearly non-existent in Australia. One potential reason for this is that the regulatory framework under the *Corporations Regulations 2001* (Cth) mandates that annual financial reports be submitted in hard copy or PDF format. Digital submissions are permitted, but they remain optional rather than the default mode of compliance. This means companies may choose to stick with non-digital hard copies or PDF reports, because the digital option – potentially cheaper or better in the long-run – is an additional cost.

Solution: A mandate is required to realise the benefits of digital financial reporting in Australia.

For immediate action: The Australian Government should make the necessary amendments to the *Corporations Act 2001* (Cth) and the *Corporations Regulations* to make digital financial reporting compulsory for disclosing entities (publicly listed companies and other public interest entities). The requirement to submit financial reports in hard copy or PDF format should also be removed. This will be discussed more in the PC's report on *Harnessing data and digital technology* (PC 2025b).

Over the long run: Regulatory stewards should proactively identify overly rigid regulatory requirements to reduce the compliance burden on businesses, and governments should ensure regulators are not prevented by law from updating procedures as technology evolves.

Whole-of-government processes should also be conducive to regulatory stewardship. Restrictions on information sharing so regulators can collaborate more, or restrictive processes that prevent flexible review of regulations (box 2.8), may need to be loosened.

Box 2.8 – Sunsetting of regulation could be more flexible to support regulatory stewardship

Sunsetting is a process by which legislative instruments are automatically repealed after 10 years. When instruments are due to sunset, the responsible department or regulator is required to consider the need for the instrument, review it, and either allow its repeal or have it remade, with or without changes (AGD 2020).

The PC has heard, however, that sunseting is often not useful. Our consultations indicated agencies often lack the resources to manage multiple concurrent sunseting activities, and detailed consultation requirements can result in consultation fatigue. Mechanisms to adjust the 10-year deadline are hard to access. The process is also one-size-fits-all – it does not adjust to the size, complexity or risk level of the instrument. This does not provide flexibility for agencies to prioritise the most important reviews.

A risk-based approach could help target sunseting

Stewardship requires agencies to undertake regular targeted reviews of regulation. Sunseting is an important backstop, but it should facilitate targeted and regular review of regulation rather than being the primary mechanism to remove unnecessary or poorly operating regulation.

One option would be to move to a risk-based deadline, rather than a blanket 10-year rule. While 10 years is appropriate for many regulations, high-impact regulation could sunset sooner, while low-impact, low-risk regulation could be reviewed less frequently.

Box 2.8 – Sunsetting of regulation could be more flexible to support regulatory stewardship

Sunsetting procedures can be inflexible

Departments have the option to group multiple instruments together for a single sunsetting review, known as a thematic review. Dates of sunsetting can be adjusted, if necessary, to facilitate this action. At present, however, the Attorney General must personally approve a thematic review, at two separate stages, and to get an approval to do the review, a department must provide a detailed justification, an instrument drafted by the Office of Parliamentary Counsel and an explanatory statement – then table this material in parliament (AGD 2020, pp. 16–17). This process can take many months to complete, making it an unpopular option.

This process and others relating to sunsetting could be streamlined. Instead of just involving the instrument owner and the Attorney-General’s Department, input from central agencies that can help assess the regulatory and economy-wide risks and benefits emerging from reviews of regulatory instruments, could be sought.

A roadmap to reform

Most recommendations can be implemented immediately

Many draft recommendations in this chapter are relatively straightforward changes to the machinery of government and to processes. These can be implemented immediately by unilateral decisions of Cabinet, ministers or central agencies.

Much of the work set out in this report flows from a strong statement on regulation. The Australian Government should therefore draft and issue the statement as soon as possible, with the minister with responsibility for regulation taking the lead role.

Specific reforms will demonstrate intent

This chapter has outlined several case studies where regulatory reform is required to remove unnecessary burdens on business. In some cases, the studies draw on existing work by the PC and others; the solutions have already been set out, but not yet implemented.

A concerted program of action on these case studies, and other examples from feedback to this inquiry, will be a good start to easing the burden on business, allowing the government to show it is serious about its commitments, while showing the APS that good reform will be enacted.

Government processes can be readily changed

A Cabinet decision can amend Cabinet processes immediately, drawing on support from PM&C, which would update advice, including the Cabinet Handbook, for the rest of the APS.

The terms of reference for Senate scrutiny committees are a matter for the Senate. The government should bring forward a motion to the Senate to amend the terms. If the Senate assents, Senate committees can scrutinise the impact analyses of all legislation and regulations they review from the time agreed.

Several of the recommended changes to the impact analysis process can be brought about by changing expectations and guidance placed on both the OIA and agencies undertaking impact analysis. The OIA can prepare most of these changes, with support from PM&C.

Some reforms will require sustained effort

A new Act will be required, however, to create the role of the independent statutory commissioner to oversee the OIA. Given OIA's location within PM&C, PM&C should also advise on the creation of the Act.

Regulatory stewardship means embedding an improved regulatory culture within the APS. This will take time and sustained effort – like regulation itself, it should not be a 'set and forget' exercise.

Central agencies can establish many of the initial enabling actions for regulatory stewardship within a few months. These actions include consulting on and promulgating the definition of regulatory stewardship and setting out the expectations of stewards (building on existing guidance, figure 2.2 and appendix C.3). The Department of Finance, in collaboration with other central agencies, can also support ministers to issue updated statements of expectation, and establish new KPIs and reporting requirements. Regulatory stewards – both regulators and policymaking departments – should establish their initial reporting commitments by the end of the 2025-26 financial year and report on them thereafter.

More work needs to be undertaken on the program of regulatory reviews. The Australian Government should work with state and territory governments to agree the parameters of the review process, and the Department of Finance, in consultation with other central agencies, should create an initial roadmap for regulatory reviews by the end of the 2025-26 financial year. Initial reviews can begin in 2026, but sustained effort, including regular refreshing of the roadmap, will be needed.



Information request 2.5

What levers does the government have, beyond statements of expectation and guidance from central agencies, to help promulgate and embed a culture of regulatory stewardship within the APS?

Pivot to regulatory budgeting if change fails to materialise

An alternative to some of this chapter's draft recommendations is to go even further in the direction of aligning regulatory decision making with budgetary processes and implement a regulatory budgeting approach. Under this scenario, the Australian Government would impose strict caps on the allowed compliance cost of regulations in each portfolio or regulatory system. The Australian Government and many state and territory governments have experimented with these approaches in the past (Freiberg et al. 2022), and many peer countries have adopted them (Renda 2022).

The PC is not recommending a regulatory budgeting approach at this time because it does not necessarily create first-best incentives for regulators and policymakers. The compliance burden is only one way in which regulation inhibits business dynamism – it can also distort businesses' decisions. Moreover, regulatory budgeting can spur agencies to retain regulations they would otherwise have abolished so that they can have something to repeal when they want to introduce a new regulation in future (PC 2011, p. XV).

Yet while regulatory budgeting has its drawbacks, it may be desirable in a second- or third-best setting, where other reform tools are not available or are rejected. If the approach we recommend fails to drive change

(indicated by ongoing improvement in the proxies of the regulatory burden identified in the whole-of-government statement on regulation), and regulators and policymakers cannot satisfactorily explain why change has failed to occur, the Australian Government should consider adopting a stricter regulatory budgeting approach. This report's draft recommendation that regulatory stewards collect data on the compliance costs that result from their decisions (draft recommendation 2.3) would facilitate such an approach.

Government must lead

For all the support that public service advice, government processes and the efficient implementation of regulations can provide, the buck stops with the elected government: it decides what is regulated, and how. All the high-quality impact assessment information and stewardship in the world cannot prevent poor outcomes if the letter of the law mandates them. It is easy for governments to 'talk the talk' and say they want to lower the burden of regulation, but when policy problems arise, it is also easy to not 'walk the walk' and default to a regulatory solution – because it doesn't show up in the budget bottom line. They may also be motivated by risk aversion, or simply the need to be seen to be 'doing something'.

Good regulation starts with good, robust decision-making that prioritises the right things. It starts with leaders making concrete reforms and tough trade-offs in favour of growth, while immediately reducing our regulatory burden. These decisions are in the government's hands.

Appendices



A. Public consultation

This appendix outlines the consultation process and lists the organisations and individuals who participated in the inquiry. The Productivity Commission received the terms of reference for this inquiry on 13 December 2024. The PC consulted with 59 individual organisations (table A.1). A consultation questionnaire was released on 19 May 2025 seeking feedback on specific aspects of our policy reform areas. In total, 102 responses to the questionnaire (table A.2) were received. An additional 48 submissions were received via email (table A.3). The questionnaire responses and submissions are available at: engage.pc.gov.au/projects/dynamic-resilient-economy/page/pillar-1-responses. The PC would like to thank everyone who has participated in this inquiry.

Table A.1 – Consultations

Participants

Allegra Spender MP
Associate Professor Jason Nassios (University of Victoria, Centre for Policy Studies)
Australian Banking Association (ABA)
Australian Centre for Evaluation (ACE)
Australian Competition and Consumer Commission (ACCC)
Australian Council of Social Service (ACOSS)
Australian Council of Trade Unions (ACTU)
Australian Government Department of Finance
Australian Government Department of Infrastructure, Transport, Regional Development, Communication and the Arts
Australian Government Department of Social Services (DSS)
Australian Government Department of the Prime Minister and Cabinet (PM&C)
Australian Government Treasury
Australian Industry Group (Ai Group)
Australian Institute of Company Directors (AICD)
Australian Prudential Regulation Authority (APRA)
Australian Public Service Commission (APSC)
Australian Securities and Investments Commission (ASIC)
Australian Taxation Office (ATO)
Better Regulation Victoria

Participants

Business Council of Australia (BCA)

Centre for Policy Development (CPD)

Dan Andrews (OECD)

Dr Ken Henry (ANU)

e61

First Nations Foundations

Food Standards Australia New Zealand (FSANZ)

Grattan Institute

Holly Noble

Indigenous Business Australia (IBA)

IP Australia

Mark Cully (ANU)

National Transport Commission (NTC)

New South Wales Treasury

NZ Ministry of Regulation

Office of Impact Analysis (OIA)

Office of the Queensland Small Business Commissioner

Paul Hubbard (within Department of Finance)

Professor Beth Webster (University of Melbourne)

Professor Janine Dixon (University of Victoria, Centre for Policy Studies)

Professor Justin Wolfers (University of Michigan)

Professor Miranda Steward (University of Melbourne)

Professor Steven Hamilton (GWU)

Professor Veronica Taylor (ANU)

Ralph Lattimore

RegTech Association

Reserve Bank of Australia (RBA)

RMIT

Scientia Professor Richard Holden (UNSW)

South Australian Department of Premier and Cabinet

South Australian Department of Treasury and Finance

Tax and Transfer Policy Institute (ANU)

Tax Practitioners Board (TPB)

Tech Council of Australia (TCA)

The Corporate Tax Association (CTA)

Participants

The Superpower Institute

The Tax Institute

Treidlia BioVet

Tulipwood Economics

Victorian Department of Treasury and Finance

Table A.2 – Questionnaire responses

Participants	qr no.
Accord Australasia	50
ANZ	94
ATN Universities	21
Australian Energy Producers	93
Australian Food and Grocery Council (AFGC)	31
Australian Industry Group (AIG)	36
Australian Information Industry Association (AIIA)	18
Australian Investment Council	77
Australian Logistics Council (ALC)	43
Australian Mobile Telecommunications Association (AMTA)	101
Australian Parcels Industry Forum (APIF)	72
Australian Publishers Association (APA)	35
Australian Sustainable Built Environment Council (ASBEC)	81
Australian Travel Industry Association (ATIA)	52
Australian Trucking Association (ATA)	47
Australians for Northern Development Economic Vision (ANDEV)	70
AUSVEG	95
Brett McCullagh	61
Business Council of Co-operatives and Mutuals (BCCM)	75
Cement Industry Federation (CIF)	28
Cement Industry Federation (CIF)	89
Chartered Accountants Australia and New Zealand (CA ANZ)	30
Clean Energy Investor Group (CEIG)	15
Communications Alliance	25
Community Council for Australia (CCA)	64
Consult Australia	41

Participants	qr no.
CPA Australia	39
CropLife Australia	97
David Smith	6
Deakin University	24
Diageo Australia	32
Edward Barnett	84
Energy Skills Queensland	87
ENGIE	23
EY Australia	90
Fastrack Australia	48
Fortescue	102
Franchise Council of Australia Ltd (FCA)	40
Free TV Australia	79
GW Priddle Pty Ltd	7
Heavy Vehicle Industry Australia (HVIA)	68
House of Stars Pty Ltd	85
Hubert Xiao	62
Institute for Energy Economics and Financial Analysis (IEEFA)	45
Insurance Council of Australia (ICA)	29
Intuit Australia	92
JITENDRA JAIN	66
KPMG Australia	44
Maritime Union of Australia (MUA)	82
Master Electricians Australia (MEA)	59
Medical Software Industry Association (MSIA)	78
Minerals Council of Australia (MCA)	98
Montu Group Pty Ltd	91
Mortgage and Finance Association of Australia (MFAA)	54
MYOB	69
NAS Projects building construction business	11
National Foreign Trade Council (NFTC)	80
National Growth Areas Alliance	17
NSW Small Business Commission	76

Participants	qr no.
Paul Loring	38
Paul McCullough	42
Peter Auld	10
Property Council of Australia	99
Real Estate Institute of Australia (REIA)	14
Rebecca Cannon	9, 96
Regional Australia Institute (RAI)	56
Rio Tinto	83
Skills Insight Jobs and Skills Council	22
SMSF Association	37
Spektrum Development	58
Stuart Adrian Corp	8
Super Members Council (SMC)	33
Swyftx	51
Tai-bo Cheung	2
The Australia Institute	49
The Australian Financial Security Authority (AFSA)	27
The Front Project	67
The Tech Council of Australia (TCA)	57
The University of Sydney	26
Urban Taskforce Australia	100
XBase Pty Ltd	12, 13, 16, 20, 63, 65, 86
Anonymous	1
Anonymous	3
Anonymous	4
Anonymous	5
Anonymous	19
Anonymous	34
Anonymous	46
Anonymous	53
Anonymous	55
Anonymous	60
Anonymous	71
Anonymous	73
Anonymous	88

Table A.3 – Submissions

Participants	Sub no.
Allegra Spender MP	36
Amazon AU	31
Australian Chamber of Commerce and Industry (ACCI)	17
Australian Council of Social Service (ACOSS)	22
Australian Council of Trade Unions (ACTU)	30
Australian Financial Markets Association (AFMA)	24
Australian Information Industry Association (AIIA)	4
Australian Institute of Company Directors (AICD)	16
Australian Retailers Association and National Retail Association	19
Australian Small Business and Family Enterprise Ombudsman (ASBFEO)	47
Block inc.	34
Business Council of Australia (BCA)	14
Centre for Independent Studies (CIS)	44
Chamber of Commerce and Industry Western Australia (CCIWA)	21
Chemistry Australia	9
Civil Contractors Federation Australia Ltd (CCF)	8
Coca-Cola System	15
Commonwealth Bank of Australia (CBA)	33
Copenhagen Infrastructure Partners	42
Council of Small Business Organisations Australia (COSBOA)	26
CropLife	10
Dr Anne Smith	3
Fastrack Australia	7
Financial Services Council (FSC)	2
Heavy Vehicle Industry Australia (HVIA)	5
Housing Industry Association (HIA)	29
Independent Payments Forum (IPF)	27
Institute of Public Accountants (IPA)	11
Issac Gross	46
John Seddon	1
Kirk Davis	37

Participants	Sub no.
Large Format Retail Association (LFRA)	28
Lynette LaBlack	43
Master Builders Australia	32
Mastercard (Australasia)	23
National Electrical and Communications Association (NECA)	12
NewDirection Care	18
Property Council of Australia	45
Regional Australia Institute (RAI)	13
Senex Energy	41
Soraya Kassim	39
Spektrum Development	20
Telstra	35
The Group of Eight	38
The Tax Institute	48
The Pharmacy Guild of Australia	25
Woolworths Group	6
YIMBY Melbourne	40

B. Supporting analysis for: *Corporate tax reform to spur business investment*

B.1 Tax principles

In developing these recommendations, the Productivity Commission has been guided by the overarching principles of efficiency, equity, simplicity, and sustainability (revenue adequacy). These principles have variously guided the past half century of tax system reform in Australia, through the Asprey Review (1975), the Review of Business Taxation (1999), Australia's Future Tax System (2010), Business Tax Working Group (2012), and Re:Think (2015).¹⁹ The principles have been considered through a whole-of-tax system lens, and drawn upon to identify specific factors that have guided the inquiry towards its recommendations. The PC has defined each of these principles as follows:

1. **Equity:** an equitable tax system is one that collects a similar amount of tax from people with similar capacities to pay (horizontal equity), and a greater amount of tax from those with a greater capacity to pay (vertical equity). Judgements about the equity of the tax system should consider the tax system as a whole (not each individual tax), and capacity to pay should be judged over the lifecycle, not at each point in time.
2. **Efficiency:** an efficient tax system is one that minimises the distortions it imposes on the economic decisions of individuals, households and businesses.
3. **Simplicity:** a simple tax system is one that is easy to understand, and straightforward to administer and comply with.
4. **Sustainability:** a sustainable tax system is one that is broadly resilient to economic change, enabling it to collect required revenue even as the economy evolves over time.

These general tax system principles informed the more specific criteria that were used by the inquiry to assess which company tax options could increase economic dynamism and resilience in Australia, while remaining true to good tax system design. These criteria included the degree to which each company tax reform option could:

1. Support a notable increase in new capital expenditure, relative to what would have otherwise been the case.
2. Promote new activity, innovation, risk taking, and increased competition: reforms should encourage new market entry from both domestic and foreign companies, encourage new ways of doing business, and allow for greater competition within sectors.
3. Avoid material windfall gains and sovereign risk: Tax changes should be generally targeted towards new capital expenditure, not offering material windfall gains to investments that are viable under the

¹⁹ Terminology has varied somewhat throughout these reviews.

current company tax system. In addition, changes to the tax system that would reduce the viability of the existing capital stock should be avoided.

4. Achieve budget neutrality: The reform proposal must produce budget-neutral outcomes over the medium-term, from within the company tax system.
5. Promote the integrity of the company tax systems: avoiding changes that would create integrity risks.
6. Reduce overall distortions in the system: The proposed reforms should reduce distortions in the corporate tax system.
7. The reforms should be easy to understand for both domestic and international investors.

B.2 A note on economic rent

When individuals and companies first choose to enter a market or expand their presence in an existing market they need to earn a particular rate of return. This rate of return is what is required to make it a sustainable enterprise over time, and might be reasonably linked to the income or returns from activities that the company could otherwise be doing. When a company enjoys returns above their required rate of return they are said to be earning ‘economic rent.’

Enduring economic rents, those that are sustained over a long period of time, can reduce living standards and reduce economic efficiency, to the extent that they are associated with lower quantities and/or higher prices for goods or services than is required for that good or service to be provided. By contrast, temporary economic rents can play an important role in signalling to other businesses that there is greater demand for a good or service that is currently being supplied, thereby helping to bring additional supply to the market and bringing prices back down to the required rate of return. Temporary kinds of economic rents are also known as quasi-rents or Marshallian rents (Ogilvie 1930) and can play a systemically important role in allocating societies scarce resources to where they are most valued (Mazzucato et al. 2023).

Enduring economic rents generally reflect a constraint on the supply of a specific factor of production or legal and regulatory constraints – otherwise new entrants would enter the market to try to capture some of the economic rents being earned by incumbents. These constraints can arise from natural limitations such as a scarcity of low-cost natural resources, or they can arise from policy settings that constrain competition in a market (Garnaut 2024).

Economic rent has attracted growing policy attention over recent years, with various estimates claiming that they have grown both globally and in Australia, have become more persistent, and have arisen in certain sectors or asset classes (Mazzucato et al. 2023, Garnaut 2024). Modelling undertaken by the PC for this inquiry (Murphy 2025) estimates that that 54% of the company income tax base takes the form of economic rents, an increase from Murphy (2018) which estimated the figure to be 41% at the time. Grattan (2017) has also estimated that some economic rents in the Australian economy are enduring, finding that companies in the top quintile of profitability were more than twice as likely to be there after a decade than less profitable firms.

Where there is an intrinsic or policy-based restriction on competition, there is a policy judgement to be made about trade-offs, and whether the returns from the limited competition should be predominantly enjoyed by the owners of the company or whether some of these returns should be returned to the broader community through increased taxation.

In the context of taxation, this is as much a question of equity as it is one of efficiency. Theoretically, it is appealing to tax economic rents because, being returns above and beyond what is required for an activity to be undertaken, their taxation should have a minimal distortionary impact on capital expenditure and production decisions (Garnaut 2024). This is particularly true for location-specific economic rents, those that

are generated by an activity that cannot readily move overseas (TTPI 2019). A tax system that does not distort capital expenditure and production decisions is an efficient tax system.

However, taxation need not be the first or only response to the existence of economic rents. Competition policy is likely to be the first best response to questions of insufficient competition in a market. There is also a question of how rents are identified and measured, given that the rate of return required for a company to enter a market is frequently not directly observable by policy makers.

B.3 Further implications of the net cashflow tax

The net cashflow tax is less distortionary than the company income tax

The *required* rate of return is the rate at which it becomes beneficial to a company to undertake an investment decision. If an investment decision is expected to earn less than the required rate of return, the company will not undertake the investment. Because the required rate of return is an after-tax rate of return, company income tax raises the rate of return that an investment will have to deliver before tax, and thereby reduces the number of viable investment projects available to companies. Australia's company income tax system distorts the required rate of return for companies (Henry et al. 2010; Kopp et al. 2019; Garnaut et al. 2020; Garnaut 2024; OECD 2025).

A key benefit of the net cashflow tax is that it does not distort capital expenditure decisions. This is because it explicitly taxes companies based on earnings above the required rate of return – the economic rents generated by the project. The required rate of return for companies is affected by risk, making it difficult to explicitly distinguish between the required rate of return in a sector on the one hand, and rents on the other. Theoretically, a net cashflow tax (NCT) would manage this identification process by only taxing what is left over, once all of a company's inputs, materials, and staff have been paid their required income.

This is demonstrated in a stylised manner in table B.1 which compares the required before and after-tax annual investment payoffs over a period of 5 years for a company with a required after-tax return of 10% over that period, under a 20% NCT, as well as a 20% company income tax (CIT), where:

1. the returns on an investment are at the required after-tax rate of return for the NCT and
2. the returns on an investment are at the required after-tax rate of return for the CIT.

The example in table B.1 demonstrates that, under an NCT, the minimum viable investment is left unaffected by the tax, meaning the NCT does not affect investment decisions at the margin. In comparison, under the CIT, the after-tax required return before tax is higher than the before tax rate of return, demonstrating the distortions in company investment decisions imposed by the CIT. This demonstrates the role the CIT plays in reducing investment in Australia, and ultimately the benefits of the NCT. Estimates are based upon a \$100,000 up front investment and, for simplicity, these examples assume identical investment payoffs each year, straight line depreciation and that the investment is funded from retained earnings.

Table B.1 – The impact of tax systems upon after-tax required rates of return

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Rate of return ^a
Investment	-\$100,000						
(1) Investment returns at required rate for 20% NCT							
Income from new investment		\$26,380	\$26,380	\$26,380	\$26,380	\$26,380	

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Rate of return ^a
<i>Profits (before-tax)</i>	-\$100,000	\$26,380	\$26,380	\$26,380	\$26,380	\$26,380	10.0%
<i>Profits (after-tax)^b</i>	-\$80,000	\$21,104	\$21,104	\$21,104	\$21,104	\$21,104	10.0%
(2) Investment returns at required rate for 20% CIT							
Income from new investment		\$27,975	\$27,975	\$27,975	\$27,975	\$27,975	
Depreciation		-\$20,000	-\$20,000	-\$20,000	-\$20,000	-\$20,000	
<i>Profits (before-tax)</i>	-\$100,000	\$27,975	\$27,975	\$27,975	\$27,975	\$27,975	12.3%
<i>Profits (after-tax)</i>	-\$100,000	\$26,380	\$26,380	\$26,380	\$26,380	\$26,380	10.0%

a. Rate of return is calculated based upon the net-present value of the investment between Year 0 and Year 5. b. Assumes losses on the new investment measured under the NCT are deducted from NCT tax payable from other investments.

The example in table B.1 is for a company with established operations which can absorb the initial losses of new capital expenditure. However, a company may not be able to do this, instead being left with losses in the first year under the net cashflow tax but a positive profit and therefore payable tax under the company income tax system.

This is one reason for the net cashflow tax to be implemented alongside the CIT; when this occurs, losses under the NCT can be deducted from the CIT payable. A stylised example of this with a 20% CIT and a 5% NCT is displayed in table B.2

Table B.2 – How the net cashflow tax interacts with the company income tax

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net profits from other operations	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
New investment	-\$100,000					
Income from new investment		\$26,380	\$26,380	\$26,380	\$26,380	\$26,380
Depreciation		-\$20,000	-\$20,000	-\$20,000	-\$20,000	-\$20,000
CIT payable (20%)	\$10,000	\$11,276	\$11,276	\$11,276	\$11,276	\$11,276
NCT payable (5%)	-\$2,500	\$3,819	\$3,819	\$3,819	\$3,819	\$3,819
Net tax payable	\$7,500	\$15,095	\$15,095	\$15,095	\$15,095	\$15,095

If a company makes a bigger loss under the NCT than is available to write off against tax payable under the CIT, the company will end the financial year with a negative net tax payable. In these cases, the losses under the NCT will be uplifted at a rate to maintain the real value of those losses, in effect supporting (though not offsetting) companies to make riskier business investments.²⁰ Uplifted losses are then deducted from CIT payable in the following year. A stylised example of the uplift rate, assumed at 4%, is in table B.3.

Table B.3 – How the uplift rate is applied under the proposed reform

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net profits from other operations	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
New investment	-\$100,000					
Income from new investment		\$26,380	\$26,380	\$26,380	\$26,380	\$26,380

²⁰ An ideal net cashflow tax would uplift losses at the required rate of return – something which a two-way net cashflow tax achieves. This is partially enabled through the deduction of losses to company income tax payable. Further discussion of the two-way net cashflow tax is provided in appendix B.4.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Depreciation		-\$20,000	-\$20,000	-\$20,000	-\$20,000	-\$20,000
CIT payable (20%)	\$2,000	\$3,276	\$3,276	\$3,276	\$3,276	\$3,276
NCT payable (5%)	-\$4,500	\$1,819	\$1,819	\$1,819	\$1,819	\$1,819
NCT uplifted losses	\$0	-\$2,600	\$0	\$0	\$0	\$0
Net tax payable	-\$2,500^a	\$2,495	\$5,095	\$5,095	\$5,095	\$5,095

a. Negative net tax payable in Year 0 is uplifted and deducted from net tax payable in Year 1.

The above examples assumed that investment is funded from retained earnings. The treatment of interest income and expenses is different under the NCT than it is under the current CIT. The impact and reasoning for this is most readily seen when comparing the relative rates of return from capital expenditure funded through different investment sources – equity or retained profits versus debt. If the required returns on all three sources were the same – for example, 5% over the investment's lifespan – the interest component would be deductible against the CIT while neither the interest nor dividend component would be deductible against the NCT, as shown in table B.4.

In this case, the rate of return after tax and distributions will be higher for debt-funded investments at 3.8% as compared to equity or retained earnings-funded investments at 2.7%. Notably, large companies tend to fund capital expenditure through debt, meaning their investments will remain more tax advantaged.

Table B.4 – How debt funding is treated under the proposed reform^a

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
New investment	-\$100,000					
Income from new investment		\$26,380	\$26,380	\$26,380	\$26,380	\$26,380
Depreciation		-\$20,000	-\$20,000	-\$20,000	-\$20,000	-\$20,000
Distribution component of returns, either interest or dividends payments		-\$3,190	-\$3,190	-\$3,190	-\$3,190	-\$3,190
CIT payable (20%), <i>debt funded</i>	\$0	\$638	\$638	\$638	\$638	\$638
CIT payable (20%), <i>equity or retained earnings funded</i>	\$0	\$1,276	\$1,276	\$1,276	\$1,276	\$1,276
NCT payable (5%), <i>not impacted by funding source</i>	-\$5,000	\$1,319	\$1,319	\$1,319	\$1,319	\$1,319
Retained earnings, debt funded	-\$95,000	\$21,233	\$21,233	\$21,233	\$21,233	\$21,233
Retained earnings, equity or retained earnings funded	-\$95,000	\$20,595	\$20,595	\$20,595	\$20,595	\$20,595

a. For simplicity, this example only considers the new investment and assumes the full NCT payable in Year 0 is deducted from CIT tax payable on other earnings.

The proposed reform will impact companies differently depending on their turnover

The proposed reform impacts companies differently depending on their annual turnover (less than \$50 million, more than \$1 billion and those in between these thresholds) and the extent to which a firm earn a normal or above-normal rate of return on investment.

This is demonstrated stylistically in three cameos below which considers the impact on a new capital expenditure decision. The cameos consider six companies; the three different cohorts of companies affected in different ways: those earning less than \$50 million, those earning between \$50 million and \$1 billion, and those earning \$1 billion or more. Within each cohort we present a cameo for a company earning the pre-tax

required rate of return (assumed at 10%) and above the required pre-tax rate of return (assumed at 20%). The pre-tax required rate of return is applied for ease of interpretation. Each example assumes that NCT losses under the new investment are deducted from tax on normal operations, so no uplift rate is applied.

Each cameo assumes the same capital expenditure choice – a \$500,000 expense with a 10% required rate of return and linearly depreciated over five years. All examples assume investment funding is sourced from retained earnings; if sourced from debt, the company's tax payable would be reduced further than in each example.

For the companies earning less than \$50 million, tax payable is lower under the proposed reform than in the current corporate tax system (table B.5). The company earning the required rate of return pays 20.0% less tax, while the company earning above the required rate of return pays 9.5% less tax. This reflects the five-percentage point reduction in the company income tax rate, as well as the 5% net cashflow tax only applying to returns above the required rate.

Table B.5 – The impact of the proposed reforms for a company earning less than \$50 million per year

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Net-present value
Investment	\$500,000						
Depreciation	\$0	-\$100,000	-\$100,000	-\$100,000	-\$100,000	-\$100,000	
10% rate of return							
Returns on investment	-\$500,000	\$131,899	\$131,899	\$131,899	\$131,899	\$131,899	
Current tax (25% CIT)	\$0	\$7,975	\$7,975	\$7,975	\$7,975	\$7,975	\$27,482
Proposed tax (20% CIT, 5% NCT)	-\$25,000	\$12,975	\$12,975	\$12,975	\$12,975	\$12,975	\$21,986
Change in tax payable							-20.0%
20% rate of return							
Returns on investment	-\$500,000	\$167,190	\$167,190	\$167,190	\$167,190	\$167,190	
Current tax (25% CIT)	\$0	\$16,797	\$16,797	\$16,797	\$16,797	\$16,797	\$57,887
Proposed tax (20% CIT, 5% NCT)	-\$25,000	\$21,797	\$21,797	\$21,797	\$21,797	\$21,797	\$52,390
Change in tax payable							-9.5%

As with small companies, those earning between \$50 million and \$1 billion face a lower tax payable under the proposed reform than in the current corporate tax system (table B.6). The company earning the required rate of return pays 33.3% less tax, while the company earning above the required rate of return pays 24.6% less tax. This reflects the ten-percentage point reduction in the company income tax rate, as well as the 5% net cashflow tax only applying to returns above the required rate.

Table B.6 – The impact of the proposed reforms for a company earning between \$50 million and \$1 billion per year

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Net-present value
Investment	\$500,000						
Depreciation	\$0	-\$100,000	-\$100,000	-\$100,000	-\$100,000	-\$100,000	
10% rate of return							
Returns on investment	-\$500,000	\$131,899	\$131,899	\$131,899	\$131,899	\$131,899	
Current tax (30% CIT)	\$0	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$32,979
Proposed tax (20% CIT, 5% NCT)	-\$25,000	\$12,975	\$12,975	\$12,975	\$12,975	\$12,975	\$21,986
Change in tax payable							-33.3%
20% rate of return							
Returns on investment	-\$500,000	\$167,190	\$167,190	\$167,190	\$167,190	\$167,190	
Current tax (30% CIT)	\$0	\$20,157	\$20,157	\$20,157	\$20,157	\$20,157	\$69,464
Proposed tax (20% CIT, 5% NCT)	-\$25,000	\$21,797	\$21,797	\$21,797	\$21,797	\$21,797	\$52,390
Change in tax payable							-24.6%

For the companies earning \$1 billion or more, tax payable is either unchanged or increased (table B.7). The company earning the required rate of return pays the same tax rate as under the current system, while the company earning above the required rate of return pays 8.8% more tax. This effect is representative of the impact of the net cashflow tax.

Table B.7 – The impact of the proposed reforms for a company earning \$1 billion or more per year

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Net-present value
Investment	\$500,000						
Depreciation	\$0	-\$100,000	-\$100,000	-\$100,000	-\$100,000	-\$100,000	
10% rate of return							
Returns on investment	-\$500,000	\$131,899	\$131,899	\$131,899	\$131,899	\$131,899	
Current tax (30% CIT)	\$0	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$32,979
Proposed tax (30% CIT, 5% NCT)	-\$25,000	\$16,165	\$16,165	\$16,165	\$16,165	\$16,165	\$32,979
Change in tax payable							0.0%
20% rate of return							
Returns on investment	-\$500,000	\$167,190	\$167,190	\$167,190	\$167,190	\$167,190	
Current tax (30% CIT)	\$0	\$20,157	\$20,157	\$20,157	\$20,157	\$20,157	\$69,464
Proposed tax (30% CIT, 5% NCT)	-\$25,000	\$28,516	\$28,516	\$28,516	\$28,516	\$28,516	\$75,545
Change in tax payable							8.8%

B.4 Reform options considered

The PC has recommended a decrease in the company income tax rate for all companies with up to \$1 billion in annual turnover, and the imposition of a modest net cashflow tax, with rates set to target revenue neutrality after taking into consideration the modelled productivity and growth dividend of the policy. The PC has made these recommendations after carefully investigating a number of alternative company tax options for enhancing the dynamism and resilience of Australia's economy and its corporate tax system. This appendix outlines the key alternative options considered, as well as the key limitations with respect to the principles and criteria outlined in appendix B.1.

Full expensing with interest deductibility

The possibility of implementing full expensing was considered. Full expensing allows firms to reduce their taxable income by the full value of the investment, in the year the investment was made.

This has been applied several times in the Australian context over the past decade. From 2020-21 to 2022-23, full expensing was available to all businesses earning less than \$5 billion in annual turnover (ATO 2025a). Full expensing of smaller capital expenses has been available to smaller businesses to varying degrees, with more recent changes made in 2016 under the Instant Asset Write-Off scheme (ATO 2025b).

Several submissions suggested that full expensing can boost investment (NECA, sub. 12, p. 4; MEA, qr. 59, p. 1; Deakin University, qr. 24, p. 1). Analysis of the Tax Cuts and Jobs Act in the United States suggests this may have had a positive effect (Kopp et al. 2019), though this is disputed (William G. Gale 2025).

Others noted that it was ineffective due to the unpredictable nature of its legislation and it not being made permanent (MYOB, qr. 69, p. 1; MFAA, qr. 54, p. 1; CPA Australia, qr. 39, p. 3; The Tax Institute, sub. 48, p. 9). For example, in February 2019 it was announced that the instant asset write-off threshold would be increased from \$20,000 to \$25,000 up until June 2020 (Parliament of Australia 2019). This threshold was announced to increase to \$30,000 in April 2019 and was subsequently increased to \$150,000 in March 2020 (Australian Government 2019; Parliament of Australia 2020). Win et al. (2025) found that these policies did not have a significant impact on business investment.

Modelling of full expensing for all businesses, undertaken by Murphy (2025) (Scenario PC7), estimates that while full expensing would increase business investment more than all other company tax reform options it would also come at a significant cost to government revenue. When assumed to be funded by bracket creep in the personal income tax system, the option was found to have the second lowest lower welfare gain per dollar of revenue required to fund the package (appendix B.5).

The reason for the large impact is that retaining interest deductibility alongside full expensing is effectively a subsidy for business investment. This is because companies are able to expense the required returns on their investment twice: once through the full expensing of capital (which reflects the net-present value of the capital's expected output), and once again by expensing the interest payments used to fund the capital expenditure. This subsidy is the reason that implementing full expensing while retaining interest deductibility was found to be the most expensive of all company tax options modelled in Murphy (2025).

Further, large, incumbent companies are more able to access debt financing than small firms (PC estimates using ABS 2025).²¹ Because large companies have existing income streams, they are more likely to have

²¹ Analysis of businesses is undertaken in this paper using the Business Longitudinal Analysis Data Environment (BLADE). BLADE includes data on business income tax, investment, employment and more with a capacity for population-level analysis. BLADE includes tax information from the 2002 through 2022 financial years, as well as some other business data through the 2024 financial year. Our analysis is restricted to businesses registered as companies.

income that full expensing and the debt deduction can be used against, meaning that they can access these tax benefits earlier and with greater certainty than new entrants and emerging competitors. This would risk principally benefiting established incumbents and thereby weigh on competition in the Australian economy.

Full expensing *without* interest deductibility goes some way to reducing the costs of full expensing *with* interest deductibility. The PC's proposed net cash flow tax includes full expensing as a design element, while excluding the tax deductibility of interest payments, which helps to mitigate some of the adverse implications of deductibility raised above.

Bonus and accelerated depreciation

Alternatives to the full expensing approaches discussed above include bonus depreciation and accelerated depreciation. Bonus depreciation allows businesses to immediately deduct a large percentage of the cost of eligible assets in the year they are placed in service, while accelerated depreciation enables businesses to write off assets faster than allowed under general depreciation schedules, resulting in higher deductions in the earlier years of an asset's life. Accelerated depreciation was suggested as an effective option for improving investment in a number of submissions:

The accelerated depreciation allowance provided by Government during the covid period was effective in boosting the investment in the heavy vehicle fleet (Heavy Vehicle Industry Australia, qr. 68, p. 1)

When applied, these provisions (in reference to accelerated depreciation and capital allowances) effectively encourage investment in productive assets by improving the viability of such investments (CPA Australia, qr. 39, p. 3)

However, bonus and accelerated depreciation ultimately aim to allow companies to write off capital expenditure in a faster way in order to recoup the full value sooner. Their main effect is to approach or equalise the effect of full expensing. Consequently, full expensing is likely to be a superior approach to incentivising investment than either of these approaches.

Two-sided net cashflow tax

A two-sided net cashflow tax is similar to the proposed net cashflow tax, with one key difference.

The government provides an immediate tax refund to companies that have incurred a loss, rather than a company being able to carry forward losses at an uplifted rate. In tangible terms, this means that while a company earning \$1,000 in taxable profits will pay the government \$50 on a 5% net cashflow tax, a two-sided cashflow tax would see a company losing \$1,000 receive a \$50 tax refund. The symmetrical approach to profit and loss in a two-sided cashflow tax system theoretically removes distortions on capital investments by businesses. It does so by treating debt and equity the same way, and focusing taxation on economic rents.

The benefits of a two-sided cashflow tax are explored by Garnaut et al (2020) for Australia, and have been investigated internationally (both through source and destination-based lenses) by a range of authors (Auerbach et al. 2017; Bond and Gresik 2020; OECD 2007; Patel and McClelland 2017).

Refundability and tax credits are general features of Australia's tax system. For example, in 2022-23, individuals received \$34.4 billion in personal income tax returns, and firms received \$390.9 billion in input tax credits (ITCs) (ATO 2025c, 2025d). These ITCs can be refunded to businesses that pay GST, while producing goods or services that are not subject to GST (like GST levied on freight transport services used by a fresh food producer) (Australian Government 2023).

Nevertheless, refundability can raise integrity questions. In the context of the company tax system, refundability could increase the incentive for companies to falsely declare losses (Shome and Schutte 1993).

Preventing these issues would increase the enforcement burden of the corporate tax system. Unless and until provided with guidance from Australian tax administration authorities that such integrity concerns could be managed, this interim report stops short of recommending a two-sided system, and instead recommends offsetting losses against CIT liabilities, accompanied by loss uplift, as a way of mitigating some of the potential efficiency losses that could arise from not proceeding with a full two-sided system.

Allowance for corporate equity

An allowance for corporate equity (ACE) takes the current company income tax and adds an extra deduction for required returns to equity, often proxied by long-term government bond rates. It is often cited as a way to return neutrality to debt/equity financing choices and to shift the company tax base away from normal economic returns (de Mooij and Devereux 2011).

By adding an allowance for equity, companies can effectively expense the cost of their investments through the combination of depreciation, interest payments and the equity allowance. Additionally, it would be applicable to the finance sector – something which a net cashflow tax requires additional steps to achieve.

The main drawback is that, implemented on its own, an ACE would require a much higher statutory rate to maintain budget neutrality, potentially undermining the benefits (de Mooij and Devereux 2011).

For this reason, an approach that holds the tax rate constant and introduces an ACE is the standard approach – this is the option modelled by Murphy (2025) for this inquiry. Murphy (2025) (Scenario PC6) estimates that business investment would increase by 15.5% if implemented – the third highest increase after the full expensing options.

However, the ACE creates a significant revenue loss for government. It was the second most expensive option modelled by Murphy (2025), consistent with the literature which has found that implementing an ACE can be very costly (Finke et al. 2014).²² The modelling also assumes this revenue loss is funded from outside of the company tax system, through bracket creep in the personal income tax system.

More generally, there is stronger empirical evidence for ACE's impacting the debt/equity funding choices of companies, than business investment.²³

In addition, an ACE attempts to approximate a rent tax by granting a tax deduction for the normal rate of return, proxied by a commonly referenced interest rate. However, the true normal rate of return is risk-adjusted, which varies between sectors. By restricting the deduction to be an identical normal rate of return allowance across all projects, firms and sectors, there is a material risk that an ACE could effectively act as a regressive tax on risk taking and a subsidy for more risk-averse firms. The higher the risk facing the sector, the greater will be the proportion of returns misdiagnosed as 'rents' and taxed accordingly (Kayis-Kumar et al. 2022).

Ultimately, an ACE provides more favourable tax treatment of normal competitive returns in a similar manner to the net cashflow tax but does so through an additional tax deduction for equity rather than capital expenditure. Introducing an ACE on new investment will result in a high statutory tax rate to maintain budget neutrality, and could be complex to implement.

²² The high revenue cost of the modelled ACE reflects the Murphy (2025) estimate that 46% of Australia's company income tax base is the normal rate of return.

²³ See, for example, (Branzoli and Caiumi 2020; Buggraeve et al. 2008; Hebous and Ruf 2017; Kayis-Kumar et al. 2022; Kestens et al. 2012; de Mooij and Devereux 2011; Petutschnig and R nger 2022; Portal and Laureano 2017; Staderini 2001; Van Campenhout and Van Caneghem 2013).

Allowance for corporate capital

An allowance for corporate capital is an alternative to the allowance for corporate equity and the current system of interest deductibility under the ACE. In effect, the allowance for corporate capital replaces debt deductibility and accounts for corporate equity deductibility by allowing for a deemed cost of finance deduction. The purpose is to ensure a tax system is neutral towards investment by allowing for capital deductions of the nominal cost of finance and depreciation (Boadway et al. 1983). An allowance for corporate capital has previously been recommended as an option for taxing mineral rents (Freebairn and Quiggin 2010), and was modelled as an alternative tax base as an investment-enhancing alternative to reducing the headline corporate tax rate (Murphy 2018).

While countries such as Israel and Mexico do provide allowances for inflation through their tax systems, they do not extend this to accounting for the required return on equity, so are not fully reflective of an allowance for corporate capital – so key elements of this tax have not been previously tested. Further, an allowance for corporate capital ultimately aims to achieve the same outcome as the proposed net cashflow tax or an ACE, while facing similar issues to the ACE, discussed above.

Reforms to the dividend imputation system

The dividend imputation system neutralises the tax treatment of capital and labour income for Australian shareholders, by effectively turning company tax into a pre-payment of personal income tax. When implementing the dividend imputation system, the then-Treasurer Paul Keating stated the purpose was that:

It will restore the position of the stock market as the mobiliser of investment funds and reduce the previous bias in favour of corporate debt finance over equity; it will mean that entrepreneurs trying to get new businesses off the ground should find it easier to raise equity finance; it will make investment in these enterprises relatively more attractive for investors; it will improve the climate for productive investment and enhance economic growth for Australia; and it will provide increased incentives for all Australians to participate in the ownership of Australian companies by significantly reducing taxes on dividend income. (Parliament of Australia House of Representatives 1987, p. 1944)

Given that Australia's personal income tax system is beyond the scope of this inquiry, reforms to the dividend imputation system have not been considered in this report. A principled assessment of the dividend imputation system would naturally form part of any future review of the broader Australian tax system.

Broader tax incentives

The PC also considered tax incentives and subsidies directed towards specific investment activities. There is evidence that research and development tax incentives, when well-designed, can be effective avenues through which research and development can be effectively encouraged by government (see, for example, (Becker 2015) and (OECD 2023). Further, a range of submissions cited the success of this form of incentive in encouraging capital expenditure by businesses (NECA, sub. 12; p. 5; The University of Sydney, qr. 26, p. 1; EY Australia, qr. 90; p. 2; TCA, qr. 57, p. 2).

Research and development spending contributes a relatively small share of capital expenditure, totalling 6.8% in the 2024 financial year – a relatively small contribution which has remained fairly steady over time (ABS 2024). This is true even with a pre-existing tax incentive program managed by the Department of Industry, Science and Resources and utilised by 11,542 businesses in the 2022 financial year (ATO 2024). Therefore, the PC did not consider that reform of existing research and development tax incentives would

deliver the wide-ranging dynamism and resilience outcomes that a broader reform to company taxation is expected to initiate.²⁴

Other investment incentives were cited in a number of submissions as options for improving the investment landscape in Australia, including:

A tailored tax offset for the publishing industry could encourage greater investment by reducing the upfront risk associated with developing original content (Australian Publishing Association, qr. 35, p. 22)

(Reforms to) shipping taxation incentives is (sic) a critical support measure to stimulate investment in new Australian ships and bareboat ship charters. (Maritime Union of Australia, qr. 82, p. 1)

Ultimately, these were excluded on similar grounds to the research and development tax incentives.

B.5 Overview and comparative analysis of modelling commissioned to support corporate tax design

Economy-wide modelling is a pre-requisite for credible tax reform recommendations

Australia's tax system is complex. Changes to one element of the tax system can interact with other parts of the tax system to create a range of impacts – some expected, some unexpected. These interactions can be compounded by the range of impacts that the tax system has on the economy, each of which can interact with one another. Given these detailed interactions, the PC judges that whole-of-economy modelling is a prerequisite for substantial tax policy recommendations.

To this end, the PC commissioned two Computable General Equilibrium (CGE) modellers to estimate the economy-wide impacts of various company tax options. This included Chris Murphy, who undertook the CGE modelling work for the Australia's Future Tax System Review (2010) (The Henry Review), and the Centre of Policy Studies (CoPS) at Victoria University. Both models incorporate a sufficient level of Australian tax system detail to meaningfully model company tax options.

Murphy (2025) covered the broadest range of company tax options, including an across-the-board company tax rate cut, a company tax rate cut for business with less than \$1 billion in annual revenue, less than \$3 billion in annual revenue, and less than \$5 billion in annual revenues, full expensing, an allowance for corporate equity, and cashflow taxes (Murphy 2025). Some of these options are explored in appendix B.4. The second modelling exercise, undertaken by Nassios et al. (2025), modelled only the first part of the tax reform proposal – the reduction in the company tax to 20% for all firms with revenues up to \$1 billion, while leaving the largest companies on the existing 30% company tax rate – with revenue offsets from outside the corporate tax system.

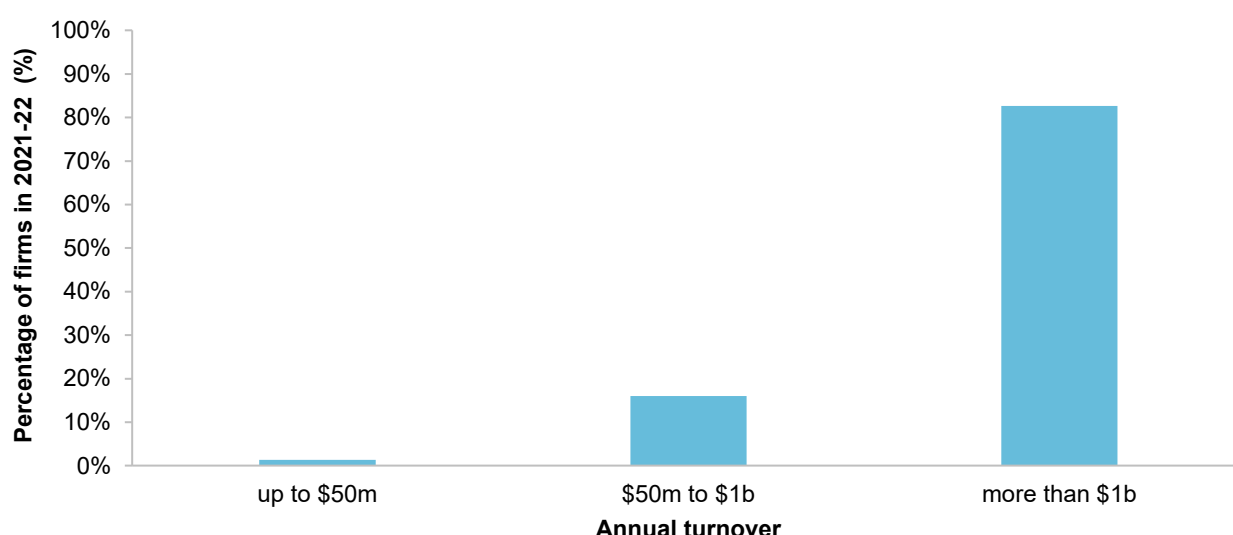
²⁴ It is also noted that the Department is currently undertaking a strategic examination of research and development in Australia.

Both modelling exercises estimate economy-wide benefits to reducing company income tax for most companies in Australia, with one caveat

Both modelling exercises estimated that a reduction in the company income tax rate to 20% for companies earning below \$1 billion would yield positive outcomes for business investment (i.e. capital expenditure), gross domestic product (GDP)²⁵, productivity and before-tax wages. The results produced by the two models have historically differed on their gross national income (GNI) impact estimates, however. This reflects a range of factors including differences in the assumed rates of capital/labour substitutability²⁶, and the degree of price-making power that Australia has globally.²⁷

Nevertheless, Nassios et al (2025) notes that all else equal, negative impacts on GNI could be lower or even avoided if companies with less than \$1 billion in revenue had notably lower rates of foreign ownership. BLADE data indicates that foreign investment in this revenue bracket is around 20% of the industry-wide average (figure B.1).

Figure B.1 – Indicative percentage of firms with substantive foreign ownership^{a,b}



a. Based on company data on the top 10 shareholders of the company at the end of the income year. If the top ten shareholders include foreign investors with a total of at least 10% ownership, the company is flagged for substantive foreign ownership. **b.** Data is weighted based upon the total amount of tax payable across cohorts.

Source: PC estimates using ABS (2025).

Nassios et al. (2025) also notes that GNI would be higher to the extent that the reduction in the company tax rate for businesses with less than \$1 billion in revenue was paid for using a less distortive tax. Key outputs from the two models, and their results from just the CIT reduction with the \$1 billion threshold, can be found in table B.8

²⁵ GDP is measured as the sum of consumption, investment, government expenditure, and net exports.

²⁶ CGE models generally require an estimate for the rate at which capital and labour can be substituted in an economy. In this modelling exercise, the Murphy model applies a higher labour-capital substitution rate than the CoPS model, and the higher the substitution rate, the more that capital expenditure will increase in response to tax cuts. More capital expenditure will increase GDP, which also flows through to an increase in GNI, all else equal.

²⁷ As businesses increase their investment in response to the reduction in the company tax rate, output increases. If Australia is a price maker in global markets, this increased output would lower the market price for not only the new output, but for all existing output, which would reduce net foreign income and GNI in the process. If, however, Australia is a price-taker, the increased output arising the company tax cut would leave world prices unchanged, avoiding this effect.

Table B.8 – Comparative modelling outputs of the Murphy and CoPS models

	Murphy model ^a	CoPS model ^b
Business investment (%)	1.4%	0.6%
Productivity (%)	0.4%	0.3%
Before-tax wages (real, %)	0.6%	0.6%
After-tax wages (real, %)	0.0%	-0.5%
GDP (%)	0.4%	0.2%
Consumer welfare (\$b)	\$2.0	-\$11.2
GNI (%)	0.2%	-0.3%

a. Refers to Scenario PC1. b. Refers to the Core Scenario. For long-run comparability, these model outputs refer to 2050 outputs under scenario 2. Revenue neutrality is achieved by a non-distorting lump-sum tax.

Sources: Murphy (2025); Nassios et al. (2025).

CGE modelling acts as an important logic test when assessing changes to economy-wide policy settings. It does so by abstracting from the full complexity of an economy and the policy settings that apply to it, and by focusing on key relationships in CGE modelling. This can mean, however, that potentially important relationships are not captured.

Potential examples include the impact of new entrants and emerging competitors bringing greater competition to the Australian economy (Nassios et al. 2025).

In addition, the models do not directly model any heterogenous response to tax changes across the business sector, such as a greater investment response from small to medium firm (Nassios et al. 2025).

The Murphy modelling provides an assessment of company tax options

By evaluating the broad range of options using the same model, the Murphy (2025) modelling allows for the comparison of long-term company tax options by considering their estimated benefits to business investment and welfare. All of these options were modelled to be revenue neutral in the medium-term after taking into consideration the growth dividend of the package.²⁸ Any remaining revenue shortfall is assumed to be funded by bracket creep in the personal income tax system.

We modelled a range of hybrid company tax options, comprising a company income tax system with a 20% rate for businesses up to either \$1 billion, \$3 billion, or \$5 billion in revenue and a scaled cashflow tax on all businesses. These were found to increase business investment and consumer welfare. The total investment and welfare benefits increase as the threshold increases; however, the benefits per dollar of additional revenue raised through the cashflow tax decline as the threshold increases. The gains in both investment and welfare from a hybrid company tax system approach were superior to an across the board 5% cut in the corporate tax rate funded through bracket creep both in terms of total gains and in terms of gains per new tax revenue required.

The modelling also considered substantial shifts in the tax base. This included considering: an across the board 5% company tax rate cut, an ACE, full expensing, and a standalone cash flow tax. All of these

²⁸ The 'growth dividend' refers to the increase in tax revenue that is modelled to flow from the business investment, productivity, and wage benefits of the reform package and any stipulated new tax (like a cashflow tax).

proposed options were introduced in place of the current company income tax system, and were funded through bracket creep in the personal income tax system and by their growth dividend.

The cashflow tax system was modelled to have the greatest business investment and welfare gains in total and per dollar of new taxation required to fund the reform (tables B.9 and B.10). This modelling suggests significant gains in both investment and welfare from moving the corporate tax base towards taxing economic rents.

As expressed in Murphy (2025):

First, if we only consider the option of reducing the base rate from 25 per cent to 20 per cent, the modelling results support the idea of raising the threshold to at least \$5 billion at the same time. Second, we can achieve higher rates of gain in both consumer welfare and investment by instead narrowing the company tax base to focus more on taxing economic rents. The best way of doing this is through a cash flow tax on an R base followed by an ACE followed by full expensing. Such a narrowing of the corporate tax base would need to be funded by a substantial shift in the tax mix towards other taxes. Here we have assumed that bracket creep is used to achieve that shift. If we wanted to reduce the scale of the shift in the tax mix, we could adopt a hybrid corporate tax system. (Murphy 2025, p19)

Table B.9 – Modelling outputs of key reform threshold options^a

	\$1 billion threshold^b	\$3 billion threshold^c	\$5 billion threshold^d
Modelled revenue neutral NCT rate (%)	7.5%	10.4%	11.7%
Business investment (%)	1.6%	2.1%	2.4%
Productivity (%)	0.4%	0.6%	0.6%
After-tax wages (real, %)	0.5%	0.7%	0.7%
GDP (%)	0.5%	0.7%	0.8%
Consumer welfare (\$b)	\$4.1	\$5.4	\$5.9
GNI (%)	0.4%	0.6%	0.6%
Company tax revenue cost (net of CFT) (\$b)	\$6.6	\$8.6	\$9.6
Business investment gain per \$ billion of revenue	0.20	0.18	0.18
Welfare gain per dollar of extra PIT/CFT revenue (cents)	49	44	43

a. These options include a cashflow tax for all sectors except the finance sector. As explained in the report, the finance sector requires an alternate to the proposed cashflow tax. **b.** Refers to Scenario PC4. Early calculations undertaken by the PC indicate that including a comparable tax on the finance sector will bring the net cashflow tax rate required for revenue neutrality to be about 5%. **c.** Refers to Scenario PC23. **d.** Refers to Scenario PC15.

Source: Murphy (2025).

Table B.10 – Modelling outputs of alternative tax reforms

	5% tax cut, all companies ^a	Allowance for corporate equity ^b	Full expensing without interest deduction ^c	Full expensing with interest deduction ^d
Business investment (%)	2.4%	15.5%	15.7%	18.9%
Productivity (%)	0.8%	4.0%	4.0%	4.8%
After-tax wages (real, %)	-0.1%	0.7%	1.3%	0.6%
GDP (%)	0.6%	3.8%	4.1%	4.6%
Consumer welfare (\$b)	\$3.0	\$14.5	\$16.8	\$15.4
GNI (%)	0.4%	2.6%	2.9%	3.1%
Company tax revenue cost (\$b)	\$22.4	\$65.4	\$57.9	\$79.1
Business investment gain per \$ billion of revenue	0.13	0.34	0.43	0.34
Welfare gain per dollar of extra PIT/CFT revenue (cents)	16	32	46	28

a. Refers to Scenario PC5. **b.** Refers to Scenario PC6. **c.** Refers to Scenario PC28. **d.** Refers to Scenario PC7.

Source: Murphy (2025).

C. Supporting analysis for: ***Regulating to promote business dynamism***

C.1 Survey of regulators and policymakers

The Productivity Commission conducted a survey of Australian Government regulators and policymaking agencies in May/June 2025 to gather evidence for this inquiry. This section details the survey methodology and summarises the responses received.

Sample selection

The survey was aimed at regulators, and policymaking areas that undertook impact analyses. It was sent to all regulators listed on the Australian Government regulator stocktake webpage²⁹ and to any other divisions of Australian Government departments that appeared to have regulatory functions (based on an assessment of their organisational charts). It was also sent to all policymaking areas that had conducted an impact analysis published on the Office of Impact Analysis's website since July 2020, when contact information was available.

The survey was sent to 74 distinct regulators and policymaking areas. Participants were emailed a request to participate in the survey and a survey link (to a Microsoft Forms questionnaire). In some cases, the survey was sent to the head(s) of the relevant function, in others it was sent to a shared email address for that function. Participants were also encouraged to pass on the survey link to other relevant teams and agencies.

The PC agreed to not publish information that could identify the responder or their agency.

Responses

The PC received 97 responses, with some regulators and policymaking areas responding multiple times and some not responding. The responses are not a representative sample of Australian Government regulators and policymakers and so should be treated with caution.

The survey had 10 questions. Questions 1, 2, 4 and 9 required a response, while other questions did not require a response.

The remainder of this section outlines the responses to each question.

²⁹ <https://www.regulatoryreform.gov.au/priorities/regulator-best-practice-and-performance/regulator-stocktake>

Question 1

Please specify which agency, department or team you are from and your team's role (for example, regulatory, policymaking, etc). [open text response]

Open text responses were collated and categorised according to the type of role of the respondent's team (table C.1) and the type of agency of the respondent (table C.2). Where the response did not clearly specify the types of roles performed by the respondent or the type of agency, the PC conducted desktop research and analysed the respondent's other question responses to determine how to categorise the respondent's functions.

Table C.1 – Question 1 responses – respondent's role

	No.	% share
Regulator only	21	22%
Policymaker only	38	39%
Regulator and policymaker	38	39%
Total	97	100%

Table C.2 – Question 1 responses – type of agency of respondent

	No.	% share
Within a government department	67	69%
External agency	27	28%
Unknown	3	3%
Total	97	100%

Question 2

To what extent do you agree with the following statement? *We have the tools, support, capabilities and resources to effectively manage the regulatory system we are responsible for. This includes minimising the burden on those we regulate, subject to meeting our objectives.*

Table C.3 – Question 2 responses

	No.	% share
Strongly agree	2	2%
Agree	37	38%
Neutral	27	28%
Disagree	18	19%
Strongly disagree	6	6%
Not applicable	7	7%
Total	97	100%

Question 3

Please specify any shortcomings in the tools, support, capabilities or resources you have available, and provide examples of how your regulatory activities could be improved without these impediments. [open text response]

The PC received 80 responses to this question, and has categorised the responses into themes, which are outlined below from greatest to least frequency.

Resourcing constraints

Respondents identified resourcing constraints as a key barrier to improving their regulatory activities, most commonly a lack of staff and a lack of funding (or insufficient flexibility in funding). Some of the reported consequences of resourcing constraints were that respondents reported having less ability to:

- innovate and conduct research
- regulate proactively and be responsive to new risks and conditions in the regulated sector
- conduct thorough impact analyses
- monitor regulated entities and pursue compliance actions
- engage with and educate stakeholders
- progress reforms, reviews and system improvements.

Some participants raised cost recovery settings as a contributing factor to resourcing constraints, noting that they did not give enough flexibility to make longer-term investments in improvements to technology and systems.

Information technology (IT) and other technological constraints

Respondents highlighted that inadequate IT and other technological capabilities in their agency constrained their regulatory functions. Some of the most common issues included:

- IT systems lacking flexibility
- fragmentation of IT systems and other systems
- scope to make more use of artificial intelligence (AI) and other digital tools
- lack of tools to support data analysis
- insufficient or out-of-date digitisation of platforms and processes
- inability to support data sharing.

Respondents perceived that these barriers had various consequences for how they performed their regulatory functions. This included reduced responsiveness to regulatory issues, using significant staff time that could be spent on other tasks, slower processing of information from regulated entities, missed opportunities for data access and analysis that would improve regulatory decisions, increased risks of human error and data loss and less visibility and management of workflows.

Some participants also suggested that IT and technological constraints also contributed to unnecessary burdens on those they regulate; for example, out-of-date forms that were cumbersome or could be streamlined, or digital tools that could help stakeholders understand their compliance requirements.

Regulatory frameworks, systems and processes

Respondents highlighted that their frameworks, systems and processes sometimes prevented them from regulating effectively. Some key concerns included:

- regulatory frameworks were overly prescriptive and limited their ability to regulate proportionately to risk, and in some cases the government or the public's risk appetite created incentives for regulators to disproportionately minimise risks

- predisposition within government to opt for regulatory rather than non-regulatory measures, and prioritisation of drafting resources favoured the creation of new instruments for an issue rather than amendments to existing regimes
- lack of accepted benchmarks and indicators to measure and assess the performance of regulators, and limited insights into how regulatory activities impact outcomes and contribute to regulatory burden
- lack of clarity about how to initiate reforms where costs and benefits are difficult to quantify
- lack of a common framework and code of conduct for regulator office holders.

Staff capability

Respondents cited difficulties sourcing staff with the appropriate regulatory, policy and compliance expertise and experience, and observed longer term declines in regulatory capability within government agencies with regulatory roles. Some participants considered that it took time for staff to develop the capability to be able to design and implement policies and regulations and emphasised the need for more staff with comprehensive knowledge of the regulated industry. Respondents suggested that improved staff capability would help with greater regulatory responsiveness and increase the likelihood of proportionate regulatory responses.

Other common themes

Other common issues raised by participants included:

- a need for greater data and information access and sharing
- regulatory fragmentation and overlap, including where multiple regulators have overlapping responsibilities, and jurisdictional differences in regulatory approaches
- regulations that need updating, modernising or simplifying. Some legislation was not easily enforceable, was too inflexible or granted inadequate information-gathering powers
- a need for more guidance and support to improve regulatory practices. For example, guidance on regulatory best practice, reform, ministerial statements of expectations, and support for innovation (such as regulatory sandboxes)
- limitations on stakeholder consultation and engagement due to tight timeframes, lack of resourcing to increase education and communication with stakeholders, and inconsistencies in how stakeholders are consulted.

Question 4

How useful do you find the Department of Finance's guidance to regulators, and performance reporting requirements for regulators?

Table C.4 – Question 4 responses

	No.	% share
Extremely useful	4	4%
Somewhat useful	41	42%
Neutral	21	22%
Somewhat not useful	6	6%
Extremely not useful	3	3%
Not applicable to our team	22	23%
Total	97	100%

Question 5

What impact has the Department of Finance’s guidance to regulators, and performance reporting requirements for regulators had on your regulatory processes? What changes or other guidance to regulators or agencies with regulatory oversight would be useful? [open text response]

The PC received 73 responses to this question, and has categorised the responses into themes.

Most commonly, respondents said that the guidance was generally helpful and had been used to help inform their agency’s processes and work, including determining roles and responsibilities and approaches to engagement, data collection and analysis. This was perceived to have had some benefits including strengthening accountability and transparency in their activities.

However, some participants said that the guidance had a limited or negligible impact on their approach to regulatory work. Many of these participants attributed this to the guidance being fairly standard or high level, or that the guidance told them to do what they were already doing.

Participants suggested various improvements to the guidance to regulators to make it more nuanced, practical and tangible. This included:

- case studies and examples
- more outreach, education and engagement from the Department of Finance, and create a centralised repository of guidance
- clearer, more nuanced performance metrics that are relevant to different sectors
- greater guidance on some of the practical challenges regulators face, including risk-based regulation and risk management, utilisation of data to make evidence-based decisions, interactions between policy and regulatory practice, division of roles where regulators have overlapping responsibilities and use of AI and digital adoption.

Some participants said they found the Department of Finance’s community of practice for regulators to be helpful, and some suggested they would like more communities of practice to better connect regulators and share ideas.

Question 6

What processes do you have in place to review the regulations that you are responsible for, and to coordinate with other regulators and agencies, to minimise regulatory burden and overlap? How could these processes be improved? [open text response]

The PC received 84 responses to this question, and has categorised the responses into themes.

The most common ways that respondents looked to minimise regulatory burden were:

- regular evaluation and review of their regulations, including legislated reviews, internal reviews and external audits to ensure regulations were fit for purpose
- collaborating with other agencies and regulators to share ideas, and to identify opportunities to streamline and coordinate related regulations
- stakeholder engagement, for both new regulations and ongoing consultation about existing regulations.

While many respondents highlighted the benefits of collaboration with other regulators and agencies, some noted that collaborations had room for improvement. Others wanted more regulatory forums for specific sectors and areas of regulation. Some participants said they used the Regulatory Initiatives Grid to help them understand regulatory developments and consider cumulative effects on stakeholders.

Some participants also felt that they could do more to consider regulatory burden. For example, some indicated they were reactive and largely informed by stakeholder and community feedback, and others indicated that resourcing and priorities of decision makers meant that they could not conduct regular regulatory reviews.

Question 7

How do you ensure that the regulations you are responsible for minimise compliance costs for regulated entities, subject to meeting your regulatory objectives, and what evidence do you gather to inform this process? [open text response]

The PC received 81 responses to this question and categorised the responses into themes.

The most common measures that respondents used to minimise compliance burdens were:

- stakeholder consultation, including through forums, meetings and surveys
- the impact analysis process, and related guidance from the Office of Impact Analysis. For example, this prompted agencies to consider the size of regulatory burden and consult with affected stakeholders
- data, research and expert advice to estimate how proposed and existing regulations were affecting regulatory burden
- reviews of regulations and processes for implementing them, such as identifying ways to streamline reporting requirements
- work with other regulators and agencies to reduce overlap, and leverage existing regulatory regimes to improve consistency in compliance requirements.

Question 8

If you have been issued a statement of expectations, how has it affected your processes? [open text response]

The PC received 45 responses to this question and categorised the responses into themes.

Less than half of respondents were in an agency that had been issued a statement of expectations (SoE).

Of those with an SoE, views on the effect and usefulness of the SoE on their regulatory processes were mixed.

- very few responses indicated that their SoE had led to substantive changes in their agency's processes
- most respondents said that their SoE had been somewhat useful to affirm or set regulatory action and priorities, but had led to little change to processes
- some respondents said the SoE was sufficiently high-level that their agency was already doing what the SoE instructed them to do.

Question 9

Approximately what proportion of the regulatory proposals that you have put forward in the last 5 years have been modified in a significant way or withdrawn because of regulatory impact assessment processes?

Table C.5 – Question 9 responses

	No.	% share
Less than 10%	42	43%
10-30%	7	7%
31-50%	1	1%
More than 50%	2	2%
Not applicable	45	46%
Total	97	100%

Question 10

In your agency, how could the regulatory impact assessment process or other government decision making and accountability processes be changed to improve regulatory decision making and/or regulatory outcomes? [open text response]

The PC received 77 responses to this question and categorised the responses into themes.

Some respondents thought that the impact analysis process was working well – it enhanced transparency, prompted their team to think through the rationale for a new regulatory proposal and consider a range of options, and guided stakeholder consultation. Some also suggested that they had productive interactions and support from the Office of Impact Analysis (OIA).

However, many participants raised aspects of the impact analysis process that had room to improve. Common concerns were:

- the impact analysis process was not being used by decision makers, as impact analyses were undertaken after a decision was made or were considered a ‘box-ticking’ exercise
- impact analyses were applied too broadly and were not flexible enough for different situations and needs
- difficulties conducting impact analysis when costs and benefits were not easily quantifiable, including over-emphasis on quantification
- the impact analysis process did not adequately consider cumulative regulatory burden, nor impacts on competition and market structure.

Respondents also made a large number of suggestions to improve the impact analysis process. These included:

- faster processes and flexibility to be responsive to urgent issues
- improved staff capability and regulatory resources
- better guidelines, training and clarity for the impact analysis process and framework, specifically for quantifying costs and benefits with a consistent framework, measurement of cumulative regulatory burden and assessing costs and benefits when quantification is not possible
- changes to the way in which impact analyses are assessed, including to consider whether the options and analysis are genuinely weighed up and the quality of public consultation and options presented
- greater outreach by the OIA to encourage agencies to engage earlier with the OIA in the policy development process.

C.2 Review of ‘adequate’ impact analyses

About the review

The PC reviewed 10 randomly selected impact analyses (IAs) that were rated by the Office of Impact Analysis (OIA) as ‘adequate’, the lowest passing grade. The sample was taken from the 33 IAs published between March 2023, when the OIA’s guidance on IAs was last updated, and March 2025. The purpose of the review was to gauge the quality of IAs at the minimum passing grade.

The PC has not thoroughly assessed the policy interventions in the IAs.

Methodology

Criteria

The review criteria were based on the criteria the PC used for a similar review in its 2011 Regulatory Impact Analysis: Benchmarking study. In that study, the PC examined 182 IAs from all Australian jurisdictions against five broad criteria (with many sub-criteria in each) (PC 2012, pp. 359–363).³⁰ This review used the same broad criteria.

1. *Problem identification* – how thoroughly the IA discusses and justifies the nature of the problem and the rationale for government intervention.
2. *Options* – the number and breadth of options considered, and whether any non-regulatory options were genuinely weighed up.
3. *Impact analysis* – the extent to which the impacts of each option were assessed and quantified and the rigor of the analysis.
4. *Consultation* – the thoroughness of the consultation, and the extent to which views of those consulted were reflected in the IA and taken into account.
5. *Implementation and review* – the level of detail on how the proposal will be implemented, enforced and monitored, use of risk-based approaches to design and enforcement, and details on ex-post review.

These criteria are consistent with the themes of the seven impact analysis questions in the OIA’s *Australian Government Guide to Policy Impact Analysis* (OIA 2023, p. 9).

Selection of the IA sample

Using a random number generator, the following random sample of 10 IAs was taken from the 33 Australian Government-level IAs that had been assessed by the OIA as ‘adequate’ since March 2023:

- *Build-to-rent – Managed Investment Trust withholding tax rate for residential developments*
- *Unpaid Superannuation Guarantee Package*
- *Critical Minerals Production Tax Incentive*
- *Anti-Siphoning Scheme Reform*
- *Australia Post Modernisation and Long-Term Financial Stability*
- *Supporting Remote Cost-of-Living and Food Security*
- *Legislating the Australian Government Digital ID Program*
- *Capacity Investment Scheme*

³⁰ The PC’s 2012 work also considered a sixth category, ‘other’, which included the page length of the IA and whether it contained an executive summary. This was not deemed relevant to the present analysis and was excluded.

- *Proposal to Adopt the Australia/New Zealand Sunscreen Standard*
- *Reforms to the Safeguard Mechanism*

These IAs cover a mix of regulatory and non-regulatory policy options.

Results

How clearly is a legitimate problem identified?

This criterion considers how clearly a legitimate problem is characterised and how strong the justification for government intervention to remedy the problem is.

Of the 10 IAs sampled, two did not quantify the policy problem they sought to address. The remaining IAs partially quantified the policy problem. For example, the *Build-to-rent* IA estimated the cost of housing affordability for essential workers, but no broader estimates of the cost of the issue. In some instances, the lack of quantification reflected a lack of available data to estimate the size of the problem.

The justifications for government intervention were of mixed quality. Some arguments were reasonably clear, such as for the *Unpaid Superannuation Guarantee Package* IA, which outlined how policy and administrative settings within government were contributing to unpaid superannuation, and the *Supporting Remote Cost-of-Living and Food Security* IA which highlighted equity and positive externality justifications for intervention. Others seemed somewhat reasonable but lacked detail or made some arguments that were unclear, such as the *Capacity Investment Scheme* IA. A few IAs contained less clear reasoning. For example, the *Build-to-rent* IA argued that government should mandate a percentage of build-to-rent homes that are ‘affordable housing’ to improve housing affordability, while not recognising the risks to project feasibility or that increasing housing supply would have a positive impact on affordability regardless of whether some new homes have a mandated ‘affordable’ price.

Are reasonable alternative options considered?

All IAs sampled included a ‘do nothing’ option. However, the extent to which this was genuinely considered as an option varied. Most IAs included at least some detail on the expected impacts under a ‘do nothing’ scenario, though this option was often quickly dismissed.

All IAs in the sample considered at least one alternative to the preferred option and ‘do nothing’. Several of these IAs presented multiple options that were similar variants of the same option – for example, the *Build-to-rent*, *Proposal to Adopt the Australian/New Zealand Sunscreen Standard* and *Critical Minerals Production Tax Incentive* IAs. In the latter case, the IA said that other options existed but were out of scope without justifying why and framed the options considered as the only way to address the issue. The *Reforms to the Safeguard Mechanism* IA also considered variations of the same options, but this was shaped by prior stakeholder consultation.

Several IAs were finalised after an election commitment or budget announcement had been made – including the *Build-to-rent*, and the *Unpaid Superannuation Guarantee Package* – but it was not clear how often a decision was made before the IA had been substantially drafted or the analysis underpinning it was undertaken. Many participants to this inquiry told the PC that IAs are often produced after a decision has been made but this is generally not clear from the published IA.

How thoroughly are the likely impacts of the preferred option assessed?

All IAs analysed included some discussion of the impacts on various groups, including businesses, governments and the community, where relevant. The level of detail varied – from quite high-level and general to more detailed consideration of the possible impacts on different groups.

The extent to which expected costs and benefits of policy options were quantified or at least discussed varied. For example, the *Legislating the Australian Government Digital ID Program* IA included some quantification of costs and benefits, and qualitative discussions of effects that could not be easily quantified. And the *Anti-siphoning Scheme Reform* IA claimed that it was unable to quantify any effects due to the nature of the impacts but included a reasonably thorough qualitative discussion weighing up the impacts of each option. In contrast, some IAs were less clear about expected impacts, especially where they could not be quantified – the *Build-to-rent* IA estimated fiscal costs to government but otherwise had a fairly broad discussion of possible effects on businesses and society.

All IAs analysed explicitly considered the expected compliance burden of the options on businesses. Eight included at least some quantification of compliance costs of the different options for businesses. The costs largely covered administrative and transition costs – for example, the *Proposal to Adopt the Australia/New Zealand Sunscreen Standard* IA estimated the costs to the sunscreen industry of sunscreen testing, reformulation, production of new labels and writing off of labels and products that no longer meet the standard. Other IAs had partially quantified compliance costs – the *Reforms to the Safeguard Mechanism* IA estimated administrative costs for businesses quantitatively, but other costs (including the cost to businesses of managing excess emissions) were roughly gauged. The *Critical Minerals Production Tax Incentive* did not show how the assumed compliance costs per claimant were estimated. Others had entirely qualitative discussions of the expected magnitude of compliance costs for businesses, due to claimed difficulties quantifying the costs – for example, *Build-to-rent* and the *Anti-siphoning Scheme Reform* IAs.

None of the IAs in the sample were able to calculate a thorough estimate of the net benefit, as significant impacts were not quantified. However, all of them gave a qualitative gauge of the magnitude of effects under each option.

The *Capacity Investment Scheme* IA was the only IA that included sensitivity analysis.

The extent to which the IAs considered how existing regulations would interact with the proposed regulatory interventions were limited. Some identified existing regulatory schemes that new proposals might align with or interact with, but did not consider the effects of such interactions in detail (such as how this could affect compliance burden).

How thorough and influential was the consultation with affected parties?

Most of the IAs included a high-level summary of the views of stakeholders from the consultations undertaken. The *Unpaid Superannuation Guarantee Package* IA included moderate detail on the views of those consulted, but did not consult with many organisations due to claimed concerns about market sensitivities (only one organisation that represented businesses was consulted, which opposed the proposal on compliance burden grounds).

Most IAs were not clear about how the views gathered from consultations were taken into consideration and many showed little evidence that stakeholder consultations had influenced the selection of a preferred policy option. There were some exceptions – the *Anti-siphoning Scheme Reform* IA was undertaken after a review of the existing scheme, with various stages of consultations outlined in the document. In this instance, it appeared that the options put forward were shaped by earlier consultations as part of the scheme review,

and that stakeholder views did influence the preferred option. Similarly, the *Reforms to the Safeguard Mechanism* considered options that were shaped by earlier stakeholder consultations.

In the *Proposal to Adopt the Australian/New Zealand Sunscreen Standard*, the preferred option was selected based on lowest compliance burden.

How thoroughly are implementation and review issues considered?


Most IAs included limited detail about how the preferred option would be implemented and enforced. The IAs with the most detail were the *Proposal to Adopt the Australian/New Zealand Sunscreen Standard*, *Reforms to the Safeguard Mechanism* and the *Australia Post Modernisation and Long-Term Financial Stability* IAs, which outlined timelines with stages of implementation and identified implementation risks.

Almost none of the IAs included much discussion of the likelihood and likely impacts of non-compliance with the proposed reform. In some instances, enforcement considerations were less relevant where a proposal was not regulatory (or deregulatory) such as some of the options in the *Australia Post Modernisation* IA.

Most IAs did not show clear evidence of a risk-based approach to the design and enforcement of the preferred option. One counter example was the *Proposal to Adopt the Australian/New Zealand Sunscreen Standard* IA, which selected an option that would create the lowest compliance burden for the industry while still targeting the policy issue and related safety concerns. It included less detail on how the enforcement of the option would take a risk-based approach.

The PC also considered the extent to which the IAs included plans for reviews of the policy after it had been implemented. Most IAs did not include a discrete review in the proposal (such as an embedded statutory review). The *Antisiphoning Scheme* Reform IA included a fiveyear review with some highlevel detail about what the review should consider. The *Reforms to the Safeguard Mechanism* IA noted that a review was scheduled for 2026²⁷, and the *Legislating the Australian Government Digital ID Program* IA stated that the program would be reviewed after two years but contained no further detail. And the *Buildtorent* IA did not include an embedded review but suggested that the Treasury and the Australian Taxation Office would continue to review, monitor and conduct consultations on the policy.

C.3 Regulatory stewardship guide

Outcome	Enabling actions	Blockers
System fundamentals The regulatory system, its participants and their roles are clearly defined and understood 	Define system leg. objectives, scope, boundaries Identify stewards and establish roles Ensure stewards can consider broader public good, not just regulatory risk Establish governance for decision making Create collaborative mechanisms between stewards and public	Siloed/parochial approach Narrow objectives Internal/process focus
Leadership Regulatory system leaders are accountable for performance and risks of their regulatory system 	Lead by action – demonstrate stewardship Allocate organisational attention and resources Identify risks tolerances - proportionate response Link stewardship to staff roles and expectations Ensure intentions flow to change on the ground	Focus on organisational rather than system-wide risk Reactive leadership
People and culture Public servants are effective regulatory stewards who are empowered to effect change 	Empower public servants at all levels to identify problems and participate in decision-making Set clear performance expectations Establish processes for identifying improvements Identify and learn from good practice	Strict hierarchies / authorisation protocols Lack of knowledge sharing
Data and evidence Data and evidence is continuously collected and maintained to support decision making 	Establish data sources and metrics; identify gaps Seek opportunities to link government data Succession planning and record keeping Create ongoing formal and informal stakeholder consultation and feedback mechanisms Use the latest analytical tools, inc. AI Collect and publish data on compliance costs	Only seeking evidence when a problem arises Fragmented consultation
Ongoing reform Regulatory reform is ongoing, targeted, evidence-based and outcomes focussed 	Monitor, review and report on existing regulations Impact assessments are system-wide Be aware of reform issues & opportunities Plan and scope reviews according to risk Early and ongoing stakeholder engagement Focus on outcomes of change	Output focus 'Set and forget' Regulation focussed solely on risk avoided
Implementation The experience of users is central to the design and implementation of regulatory systems 	User-centred design and testing Continuous improvement and iteration Share data and reduce duplicative requirements Integrate design, implementation and delivery Technology neutral requirements	Siloed design and implementation Cost/risk to regulator the primary focus
Monitoring & reporting Outcomes-based reporting shows how regulator actions made a difference 	Undertake and publish evaluation of initiatives, reforms, processes and continuous improvement Identify outcomes of actions taken Transparent in approach and outcomes: set out stewardship strategies and report on progress Use outcomes based KPIs Assess regulator maturity and performance and look for improvement opportunities	Inappropriate quantitative output metrics (what was done and how many)

Abbreviations

ABS	Australian Bureau of Statistics
ACE	Allowance for corporate equity
AGD	Attorney General's Department
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ATO	Australian Taxation Office
BLADE	Business Longitudinal Analysis Data Environment
CFR	Council of Financial Regulators
CGE	Computable General Equilibrium
CIT	Company income tax
DoF	Department of Finance
GDP	Gross Domestic Product
IMF	International Monetary Fund
KPI	Key Performance Indicator
NCT	Net cashflow tax
OECD	Organisation for Economic Co-operation and Development
OIA	Office of Impact Analysis
PC	Productivity Commission
PDF	Portable Document Format
PM&C	Department of the Prime Minister and Cabinet
QR	Questionnaire response

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