Australian Government
Productivity Commission

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Creating a more dynamic and resilient economy

Inquiry report

No. 109 | 10 December 2025

Acknowledgement of Country

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.

About us

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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10 December 2025

The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the PC's final report for the *Creating a more dynamic and resilient economy* inquiry.

Yours sincerely

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:

- Creating a more dynamic and resilient economy
- Building a skilled and adaptable workforce
- Harnessing data and digital technology
- Delivering quality care more efficiently
- 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* (Cth) 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

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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 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.

AI disclosure

This report was prepared using the assistance of AI tools for purposes of general research, summarising material from consultations and note-taking. PC staff reviewed all AI-generated outputs for accuracy and quality.

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Executive summary

A dynamic economy enables firms and individuals to invest, learn, innovate and thrive. The key levers government has to improve dynamism and resilience are taxes, spending and regulation. We need to update our regulatory approach and change our inefficient company tax system, to a system that better encourages investment and productivity growth.

The Productivity Commission recommends that Australia shift to a hybrid corporate tax system, combining a lower company income tax of 20% for small and medium businesses earning up to $1bn, and a tax rate of 28% for larger firms, with a net cashflow tax of 5% for all companies.

This reform package is budget neutral in the long term within the company tax system and has a significant impact on investment and GDP. Modelling for this inquiry suggests a reformed company tax system could increase investment by $10 billion (2.2%), GDP by $13 billion (0.5%) and labour productivity by 0.5%, in a broadly revenue-neutral manner.

We have explored alternative proposals that relax the revenue-neutrality constraint and avoid some of the perceived complexity of an additional tax. Our preferred alternative reduces tax on normal profits by allowing investment to be partly expensed. An allowance for new corporate equity would have similar effect, if integrity and implementation challenges can be addressed. These proposals can be scaled up or down depending on available budget but would not be revenue neutral. Reducing the tax rate will also increase investment, though this is estimated to generate around half the investment response for base change options, per dollar of revenue lost.

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.

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

The government needs a more effective counterweight to the risk aversion and incentives that have created a thicket of regulations and rules. To provide direction, accountability and policy leadership, the Australian Government should adopt a whole-of-government statement that sets out a vision for more efficient regulation, sets out immediate concrete reforms as a downpayment towards meeting a targeted $10 billion reduction in net regulatory costs by 2030, and commits to broader monitoring of regulation, through a newly created ‘annual regulatory review’.

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 and broader economic growth. They should be empowered to be stewards of the regulatory systems they manage and be accountable for delivering outcomes.

Recommendations

Corporate tax reform to spur business investment

Recommendation 1.1
Pivot the corporate tax system to a more efficient mix of taxes

The corporate tax system should better support business dynamism by moving towards a system that promotes investment by reducing the tax on normal returns.

Recommendation 1.2
To implement a revenue-neutral package that promotes investment, the Australian Government should reduce company income tax for all companies and introduce a net cashflow tax.

The company income tax rate should be cut to 20% for companies with revenue less than $1 billion and be set at 28% for companies with revenue over $1 billion. The cut to company income tax rates will be funded partly by increased tax receipts due to economic growth and partly by a net cashflow tax of 5% to be applied to all companies.

Recommendation 1.3
There are other corporate tax options that could be explored, if a net cashflow tax is considered too complex. They involve trade-offs between investment, dynamism and complexity, and come at a cost to the budget.

- The preferred approach would involve partial immediate expensing of new capital combined with a counterpart reduction in interest deduction.
- A marginal allowance for corporate equity could also increase investment but would need to address integrity and implementation challenges.
- Reductions in the company income tax rate are simpler, and will increase investment, though by substantially less than other options, for similar budget impact.

Regulating to promote business dynamism

Recommendation 2.1
Set a clear agenda for regulatory reform and regulatory burden reduction

The Australian Government should adopt a whole-of-government statement on regulation that makes it clear that regulatory reform is a core government priority. The statement should set out concrete actions to reduce regulatory burdens, establish a target for regulatory burden reduction and ongoing monitoring, and specify principles of good regulation.

Recommendation 2.2
Set targets for regulatory burden reduction and commit to a comprehensive reporting regime to hold government to account for progress

The Australian Government should set a target to reduce the compliance and delay costs of its regulation by $10 billion by 2030. It should commission an annual Regulation Review that reports on a broader set of indicators of regulatory quality and burden and comments on current regulatory issues.

Recommendation 2.3
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
- mandate a post-implementation review where impact analysis suggests the effects of a policy change are highly uncertain
- expand the terms of reference of scrutiny committees of the Australian Parliament to allow them to provide stronger scrutiny of new regulations
- commission external root-and-branch reviews to reduce cumulative regulatory burdens in areas where thickets of regulation have accumulated.

Recommendation 2.4
Enhance regulatory practice to deliver growth, competition and innovation

The Australian Government should enhance the expectations placed on public servants, making it clear they should deliver growth, competition and innovation through regulatory systems in addition to their regulatory objectives.

Ministerial statements of expectation should provide guidance to regulators on how to achieve these outcomes, including (among other things) how much risk public servants 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 regular reporting on the outcomes their activities have on regulated parties and the regulatory system.

About this inquiry

Introduction: reset and reform

A dynamic and resilient economy is at the heart of a society that gives opportunity to all its citizens. It means people can move to better jobs where they want to live. It allows firms to easily enter markets and increase competition. 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 restrict and distort investment, keeping new entrants from joining or firms from scaling up.

With fewer firms entering and exiting, the economy is not getting a productivity bounce from new firms bringing new products and innovative approaches. 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 have gotten more complicated, and things just take longer. In the ACT, the median 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 for a flat white (PC analysis of Brisbane City Council 2025b).

It's 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 levers government has available 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 sets us back.

This inquiry has heard that tax and regulatory settings present significant barriers to business dynamism and resilience. By ignoring 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, to build housing and renewable energy infrastructure. Government has a vital role to clear and widen the path to a more dynamic and resilient economy. 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 on every firm in Australia and their tax and investment behaviour, 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.

Australia's corporate tax system is not delivering the best outcomes. Our statutory rate is high in comparison to peer countries, while competition for global capital becomes more intense. Over time we should move to a hybrid form of taxing companies that creates stronger incentives for investment. In our interim report, we proposed a shift to move the corporate tax system away from taxing normal returns by reducing the headline tax rate for most businesses and introducing a small cashflow tax. While the broad direction was supported by experts and academics, there was little agreement on the approach. Feedback to this inquiry highlighted that finding simple, investment-promoting reforms that are revenue-neutral within the corporate tax system is difficult.

We have considered this feedback, and modelled several proposed reforms, to arrive at a recommendation for the best option that is revenue-neutral, as well as alternative options that relax this constraint.

The best revenue-neutral option is to reduce the tax rate to 20% for all companies earning below $1 billion and to 28% for all companies earning above $1 billion. Our proposal will be funded in part by economic growth, and in part by a net cashflow tax of 5%. The tax rates and threshold have been set so the reform is revenue neutral in the long-term. The net cashflow tax allows companies to deduct their investment costs in full, to minimise distortions on investment, while the tax cut for firms will promote investment, especially among new and smaller firms with revenue below the $1 billion threshold, encouraging them to grow.

Modelling results suggest that the proposed reform can be revenue neutral in the medium-term while lifting private investment by $10 billion (2%), GDP by $13 billion (0.5%) and labour productivity by 0.4%.

We recognise the feedback on the cashflow tax proposal, which was overwhelmingly opposed to the introduction of a package involving a new tax. We heard that a new tax would increase complexity for firms. We heard that the potential tax rise for large businesses could negatively impact competition, and we heard the wedge we would create between small and large firm tax rates would encourage tax avoidance.

However, our analysis suggests this is the best revenue-neutral option for promoting investment within our corporate tax system.

Almost every party advocating against our proposal nominated preferred reforms that would come at a cost to the budget. They argued that these reforms should be paid for outside the corporate tax system, by households, GST reform or land taxes, or through offsets and spending cuts.

To help consideration of these alternatives, we have analysed different options to improve dynamism and investment through company tax reform that would come at some costs to the budget. These options are simpler and can be implemented without the addition of a new tax.

The options set out in the report are modelled to a cost of around $7 billion per year, although this can be scaled up or down, depending on government preferences. The options are:

- *A change in the tax base*: this can be done in two ways – a model which allows some portion of investment to be fully expensed (with a commensurate reduction in the debt deduction); or a model which includes an additional deduction for new equity. These are expected to generate an investment increase of 5.0%.
- *A change in the tax rate*: setting a 25% tax rate for all firms, generating an expected investment increase of 2.3%.

While all packages generate some positive response in investment and dynamism, none address all the distortions in our current system.

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 regulations you are meant to abide by, the result is slower productivity growth.

Inappropriate and ineffective regulations are made because policymakers and regulators often give insufficient weight to growth and dynamism. 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. Participant support for these reforms was overwhelmingly positive, and participants shared the many ways that regulations had added costs and burden over the past decades. There is a great appetite for making our regulatory systems better, and real economic gains to be had from doing so.

To provide direction, accountability and policy leadership, the Australian Government should adopt a whole-of-government statement that sets out a vision for more efficient regulation. The statement should make concrete early moves to reduce regulatory burdens to underpin the credibility of the change in policy orientation. It should commit the government to reducing regulatory burden by $10 billion to demonstrate its commitment and to keep government to account. This should be achieved by driving major regulatory reforms from the centre and requiring portfolios to not add more regulatory burden.

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.

Reforms to corporate tax and regulation have broad impacts across the Australia economy. 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 to creating a dynamic, resilient economy. But it has fallen over the past decade, contributing to Australia's lacklustre productivity performance. To improve investment Australia needs to shift the corporate tax system to one that reduces taxation of normal returns (the returns a company judges as necessary to invest).**
- **The best way to encourage investment through the corporate tax system is to change what we tax – the tax base. The level at which we tax (the headline rate) is also an important signal to attract capital.**
- **Our interim report proposed a hybrid tax system, with a cut to the tax rate for most companies, funded in part by a new cashflow tax.**
  - Feedback to our interim report argued that this proposal was complex, could reduce the attractiveness of investing in large firms to foreign investors, and create distortions due to the difference in the tax rate paid by large and small businesses.
- **The PC still considers that a hybrid system that shifts the base is the best revenue neutral option for improving investment. Our recommended package would:**
  - lower the statutory company income tax rate to 20% for companies with revenue below a $1 billion threshold
  - lower the statutory top rate to 28% for companies with revenue above $1 billion
  - introduce a net cashflow tax of 5% for all companies.
- **Modelling for this inquiry estimates that the PC's proposal would increase investment by $10 billion (2.2% of overall investment), GDP by $13.3 billion (0.7%) and labour productivity by 0.5%.**
- **Every alternative proposal we received for reform would come at a cost to the budget. To explore these, we assess three options.**
  - Options that move the tax base away from taxing normal returns provide the strongest investment responses for a given budget impact. Two options recommended for further exploration include **partial expensing of investment** within the existing corporate tax system, and the provision of an **allowance for new corporate equity (ACE)**. Both options involve some additional complexity relative to the current system, with several integrity and implementation issues needing to be addressed in developing an ACE.
  - Options to **reduce the company tax rate** would be simpler and potentially attract foreign investment, but are likely to provide less investment response for a given budget impact.

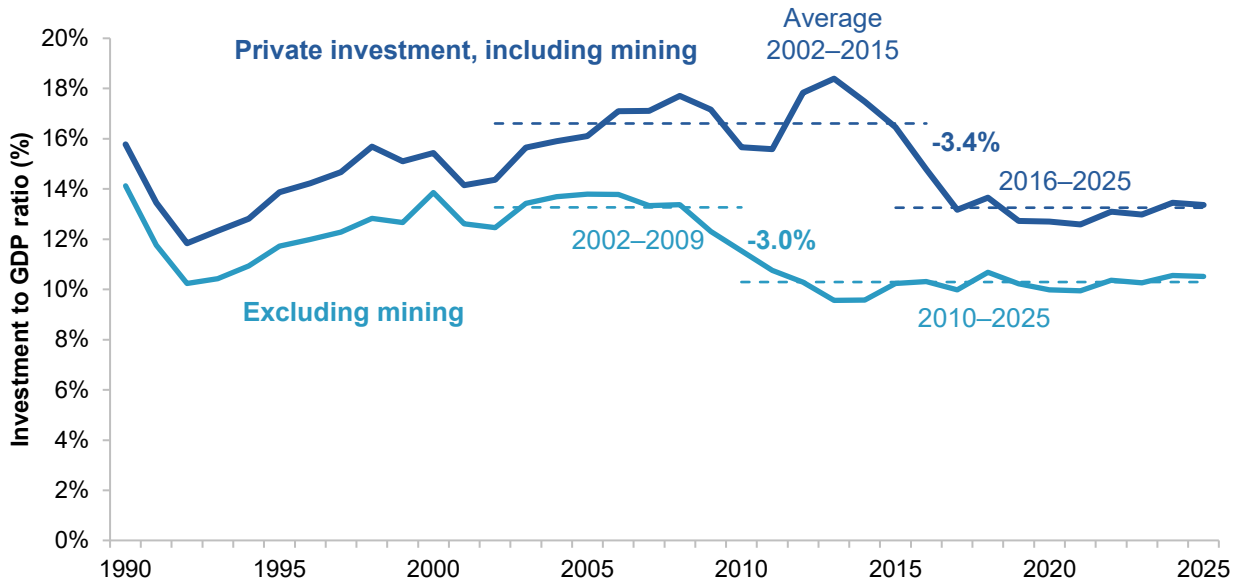
Barriers to business dynamism make us less productive

Business dynamism is fundamental to productivity growth and prosperity. In a dynamic economy, competition flourishes as emerging firms enter new markets, invest and grow. Productivity improves as resources flow to their most efficient use and firms are encouraged to adopt better technologies, innovate and take risks.

The evidence that Australia has a business dynamism problem is growing (Bakhtiari 2017; Andrews et al. 2022; Hambur and Andrews 2023). Non-mining business investment is down 3.0 percentage points as a share of GDP since the global financial crisis (figure 1.1). Our economy is slowly stagnating: fewer firms are entering and exiting markets; fewer are innovating and reaching the productivity frontier; and labour is more slowly reallocating to its most productive use (Andrews et al. 2022; Andrews and Hansell 2021; Lee et al. 2025).

The tax system provides government with a vital lever to support efficient risk-taking and investment, but the current corporate tax system exacerbates our productivity problem by acting as a barrier to dynamism.

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



Source: PC estimates using ABS (2025b).

Our corporate tax system does not optimise investment

Our consultations and a raft of previous work (for example, Henry (2010); IMF (2018); The Treasury (2012; 2015)) have shown that how companies are taxed – and by how much – impacts dynamism and business investment (referred to as capital expenditure throughout this report). Economists think of returns to capital as comprising both normal returns and above normal returns (economic rents). Normal returns are the returns on investment that firms would earn in the long run in competitive industries. They are the returns necessary to cover the cost and risk of an investment. Rents, by contrast, refer to returns firms earn that are above these normal rates.[1] Australia's current company income tax system taxes both types of returns at the same rate (box 1.1), but the tax on normal returns is more likely to affect firms' investment decisions. A tax on normal returns taxes the portion of returns deemed necessary to invest, and so results in marginal investments

[1] Appendix B.1 discusses economic rents.

becoming unviable. In contrast, a tax on rent is a tax on what a company does not deem necessary to invest. Taxing this part of a firms' profit should not affect a firm's investment decision. For further discussion of the history and current state of Australia's company income tax system, see Sobeck et al. (2022).

Box 1.1 – An overview of the current company income tax system

A two-tiered tax system

The Australian company income tax system applies to companies - partnerships and sole traders are 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, and 30% for companies with turnover greater than $50 million. 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

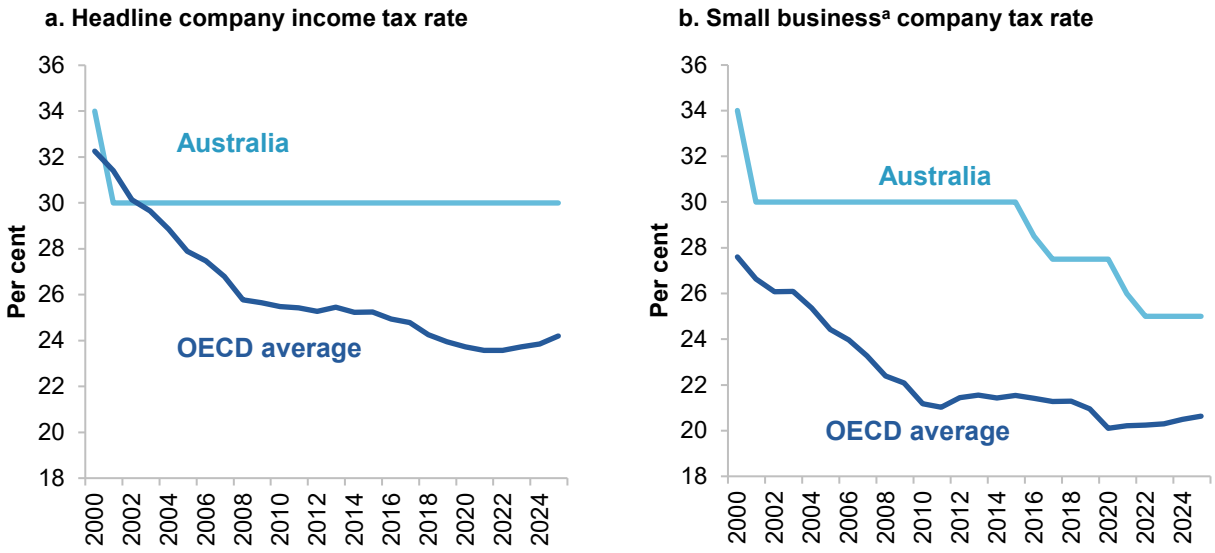
Companies pay tax on profits, not revenue. Profits reflect the earnings of a company after accounting for operating costs, labour costs, depreciation and interest, as well as other expenses. Capital expenditure is expensed over its lifetime as it depreciates. A company's taxable income is:

Taxable income = revenue – (wage expenses + operating expenses + depreciation + interest expenses + other expenses)

Companies pay tax on profits at the end of each financial year by submitting a company tax return to the Australian Taxation Office (ATO). When a company makes a loss, it can be carried forward into future years as a deduction on future taxes – but the value of these losses does not increase over time – so they lose value in real terms every year. Losses can be carried forward indefinitely, unless majority company ownership changes.

Both our statutory tax rates (figure 1.2) and effective tax rates (what companies expect to pay) are high by international standards. Australia also has some unique conditions that must be reflected in tax system design (box 1.2).

Figure 1.2 – Australia's corporate tax rate for large and small companies is above the OECD average



a. A small business has a domestic revenue of less than $50 million.

Source: PC estimates based on OECD (2025a).

Box 1.2 – Why Australia is different

While there are lessons to be learnt from corporate tax reform overseas, they should be interpreted with care in the Australian context. Our market is relatively costly for foreign firms to access, given our distance from most markets and relatively low population density (Wilkie and McDonald 2019, p. 6). And in 2022, Australia was in the top five producers worldwide of 15 minerals and metals (Geoscience Australia 2024). As a result, Australia is likely to have a higher prevalence of location-specific rents relative to other countries.

Company income tax is also integrated with personal income tax through the dividend imputation system. In other words, companies pre-pay income tax on dividends that are distributed to shareholders, to ensure that the income of Australian equity holders is taxed only once (PBO 2024, pp. 3–4).

As a result of the dividend imputation system, the taxes government loses from a company income tax cut will tend to benefit overseas investors in the first instance. As investment adjusts to the tax cut, the ultimate benefit falls mostly to domestic workers, to the extent firms operate in competitive markets. If firms have a degree of market power, the benefits of a tax cut will also accrue to the owners of these firms' capital.

All these features of the Australian economy and tax settings mean that reforms to the tax system need to account for the reality of economic rents, particularly location-specific rents.

Our company tax system does not support dynamism. It unnecessarily limits risk-taking, growth and innovation among Australian businesses, and discourages overseas firms from setting up in Australia.

Australia's high tax rate deters investment and limits competition

Australia's high company income tax rate on normal returns discourages investment and reduces productivity, employment and real wages. Inquiry participants reinforced this view in submissions (for example, ACCI, sub. 112, pp. 1-2; Ai Group, sub. 88, p. 3; Australian Investment Council, sub. 95, pp. 1-2).

High statutory and effective rates dissuade foreign investors (Rose et al. 2021) and companies from entering the Australian market. They also force domestic investors and companies to earn a higher pre-tax rate of return to undertake capital expenditure, ruling out some projects.

Taxing normal returns does not optimise investment and reduces dynamism

The current company income tax system taxes both normal returns and rents. In taxing normal returns, it deters investments, because it increases the before-tax return a firm needs before they are willing to invest. This comes at a cost to productivity, employment and wages. Further, the incidence of taxing normal returns falls more on workers than taxes on rents (Murphy 2025c).

Taxing rents is a little different. Rents can be firm-specific (when a firm's unique attributes allow it to generate above normal returns) or location-specific (when they are confined to a place due to a natural resource). Rents can also exist if a firm possesses (and uses) market power, when its goods or services are sold into an uncompetitive market (Devereux et al. 2021).

Taxing firm-specific rent may deter innovation and growth, but taxing *location-specific rents* is less likely to distort firm behaviour, since by definition firms cannot earn these rents if they choose to invest elsewhere (Devereux et al. 2021).

In submissions to this inquiry, tax experts and academics broadly agreed that shifting the tax mix away from taxing normal profits was the right direction for corporate taxes, although participants preferred different ways of shifting the tax mix (Sobeck, sub. 99). There is some evidence that rent tax bases can be more variable (Land 2008, p. 9). This means that there is a balance – relying on taxing normal returns distorts investment; but relying on taxing rent makes government revenue less predictable.

The treatment of losses deters innovation and risk-taking

The treatment of losses in the current tax system is distortionary. Companies pay tax on profitable ventures. But if their new venture never pays off and incurs a loss, they receive limited tax relief: in other words, the nominal value of losses can be carried forward but they are not uplifted, so their real value declines over time.[2] This treatment tends to discourage companies from undertaking risky capital expenditure (Garnaut et al. 2020). It also tends to disadvantage new and emerging companies as it takes time before they are able to earn profits against which to deduct their losses, whereas larger companies generally have other revenue streams they can offset with losses.

The treatment of debt is distortionary

The company income tax system treats debt financing more favourably than it does equity financing. This can disadvantage smaller companies, who are more likely to rely on equity financing or retained earnings to fund capital expenditure (The Treasury 2015). Where small or medium businesses source finance 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 (PC 2021; RBA 2024). International evidence suggests that this kind of bias can affect some of the most innovative growth firms (de

[2] Uplifting refers to the process of increasing the nominal value of the losses.

Mooij 2011; OECD 2015). In other words, differential tax treatment of different forms of financing also discourages firm entry, innovation and growth.[3]

Treatment of depreciation is also distortionary

Under the current tax system, when companies undertake capital expenditure, the treatment of capital is inconsistent. For tax purposes, some is treated as depreciable, some is fully expensed, some is treated as capital gains, and the rest treated through trading stock rules. This causes a distortion *between* asset types.

The depreciation rules themselves are also distortionary. Capital is deducted from taxable income in small portions each year as a 'depreciation expense', following an accounting schedule that does not align with economic depreciation. Since money has a time value that declines every year, the further into the future depreciation is written off, the lower the real net present value of the deduction. This approach reduces the value of investments, leading businesses to forgo investment opportunities.

Finally, depreciation rules are complicated: the ATO's Guide to depreciating assets 2025 runs to 92 pages (2025c).

A corporate tax system for the future

A tax system for a dynamic and resilient economy would decrease the tax burden on normal returns to promote investment. It would have an internationally competitive tax rate on normal returns to encourage overseas firms into the Australian market. It would have fewer distortions than the current system. It would improve the treatment of risk for all firms. It would not limit investment from innovative and growing companies. Such a tax system would be neutral towards financing choices faced by business. Designing the optimum tax system requires trade-offs, which our reform principles help to navigate (box 1.3).

Box 1.3 – Principles for tax reform

The principles guiding our reform choices are as follows, and detailed further in appendix B.2:

- support dynamism by promoting new activity, innovation, risk taking, and increased competition
- support a notable increase in new capital expenditure
- achieve budget neutrality over the medium term within the corporate tax system
- minimise windfall gains and losses
- propose reforms that are simple to understand and implement
- reduce overall distortions in the system.

[3] The Modigliani-Miller invariance theorem suggests that the financing structure of a firm does not impact its valuation, and therefore this bias in the company income tax system is not relevant (Modigliani and Miller 1958). However, the authors state that this relationship does not hold when interest is a deductible expense - which is the case in Australia. Therefore, the value of a company increases with debt (Modigliani and Miller 1958, p. 294) and as companies grow and become more able to take on debt financing, their effective tax rate falls while their valuation appreciates.

Recommendation 1.1
Pivot the corporate tax system to a more efficient mix of taxes

The corporate tax system should better support business dynamism by moving towards a system that promotes investment by reducing the tax on normal returns.

Reform to help firms invest, innovate and grow

Our proposed reform seeks to pivot Australia's tax system to a more efficient mix of taxes, by reducing the tax on normal returns.

The corporate tax system can be reformed in two ways: change the tax base or the tax rate. The base refers to the taxable part of a companies' revenue; the rate refers to the percentage of taxable income that is paid to government. The government can reduce the tax on normal returns by 'narrowing' the base or reducing the rate. Each option requires trade-offs: changes to the base will address distortions within the tax system more directly but are more complex to implement. By contrast, reducing Australia's high tax rate – the 'sticker' price – is simpler, but addresses distortions indirectly.

Changes to both the base and the rate will increase investment and dynamism. However, per dollar of government revenue, changes to the base are likely to generate more substantial improvements, as existing distortions weigh more heavily on firm investment decisions.

To pivot the system in a way that improves investment and dynamism, we first focus on changing the tax base to reduce taxable income for firms that invest; and then on reducing the tax rate for small and medium companies, which are more responsive to tax cuts.

We considered it important to focus on revenue-neutral packages – packages that do not require an increase in other taxes, or a reduction in government spending. Fiscal sustainability is a central policy objective, and this has been reinforced by government (Chalmers 2025a). In the first instance, we also limit our reform to the corporate tax system, as funding our proposal outside it would require assessment of changes to other taxes and spending programs (each of which meet different needs and come with their own unique set of objectives) – which is beyond the scope of this inquiry. Even with broader tax reform options on the table, there are many calls on fiscal resources, so it is important to explore all options for efficient tax reform.

Formal government budget costing generally includes only 'first round' effects – the direct budget impact of a policy – to ensure disciplined budget costing. Exceptions are sometimes made for large packages for which strong behavioural responses would be expected. Therefore, in meeting revenue neutrality constraints, this report allows for the budget impact of 'second round' effects – the change in tax revenue that can be attributed to behavioural responses to the policy change. For example, if firms invest more in response to a policy change, they will earn more revenue and therefore pay more tax, and the estimated broader lift to economic activity can increase other revenue sources. The extent to which second round impacts are included in formal budget costing is a matter for government.

The proposal has also been designed to deliver real impact while being a manageable transition from current arrangements. This will minimise the risks of unforeseen consequences and allow for evaluation of the new tax to inform further change.

Working within these constraints, our interim report proposed a package with a 20% company income tax rate for companies earning less than $1 billion, a 30% company income tax rate for companies earning more

than $1 billion and a 5% net cashflow tax (NCT) to be levied on all companies. These changes would have reduced the overall corporate tax as a percentage of GDP, with both the cashflow tax and induced growth contributing to broad fiscal neutrality over the medium term.

- Submissions to this inquiry highlighted four possible risks and challenges with this proposal.
- First, introducing a new tax was seen to be problematic due to the administrative and other complexities of dealing with an additional tax. Further, we heard that an additional tax would impact investment decisions due to businesses' limited understanding of how the two taxes interact.
- Second, an additional tax for large businesses was thought to limit Australia's attractiveness to foreign investment.
- Third, the proposal also introduced a larger wedge between the tax rate faced by companies above and below the threshold, increasing the incentive for gaming and tax avoidance (appendix B.9).
- And last, we received feedback that removing franking credits would dampen investment.

Revenue-neutral reform packages almost always require trade-offs between competing objectives. No participants in this inquiry presented a revenue-neutral proposal which achieved the overarching policy objective. Given a revenue-neutral constraint within the corporate tax system, some participants in our consultations simply preferred no changes to the corporate tax system.

While government can always adopt a business-as-usual approach, we consider that corporate tax reform is an important lever to improve dynamism, investment and productivity.

We have responded to the feedback by first exploring how to adjust our original proposal to address as many of the points raised as possible within a revenue neutral constraint, also taking account of updated modelling. Our analysis suggests this proposal is the best revenue-neutral option for promoting investment within our corporate tax system. We then explore further options and trade-offs if the revenue-neutral constraint is modestly relaxed.

A summary of our preferred proposal

In light of updated modelling and feedback, we have retained the overall structure of our draft proposal, and considered a number of adjustments (table 1.1).

Our view remains that the structure of our proposal set out in the interim report remains the optimal way to boost business investment while remaining revenue neutral. This is formed in part by our assessment that concerns with complexity of the NCT, and its limited attractiveness for foreign investors, while valid, are likely to be overstated. There is limited evidence of reduced investment, or lower inflows of foreign investment where similar taxes have been introduced – for example in Australia with the Petroleum Resource Rent Tax (Callaghan 2017) or Norway with its Petroleum Rent tax (Lund 2014), although this may be industry specific.

Our preferred option (table 1.1) results in a company tax rate of 20% for companies that earn below $1 billion in revenue, a tax rate of 28% for companies that earn above $1 billion, and an NCT of 5% on all companies.

Unlike in the interim report, our proposal includes a cut in company income tax for all companies, not just small and medium-sized ones. This can be achieved while maintaining revenue neutrality partly because updated modelling suggests the NCT would collect more revenue than previously anticipated once the financial sector is fully included, and in part due to improvements in how the modelling incorporates franking credits.

We prioritised lowering the top rate with additional modelled revenue, rather than moving the threshold. This decision was based on feedback about lowering the tax rate for all businesses to attract foreign investment and reducing the wedge between the tax rate for firms above and below the threshold. The change, however, does not address the complexity of managing two taxes.

In the optimal formulation (within our constraints) the NCT would be unfranked, and the NCT liability would be deducted from company income tax (in the same ways as occurs under the petroleum resources rent tax (PRRT).

Table 1.1 – Summary of key revenue-neutral corporate tax reform scenarios

	Rates[a]			Specifications		Key impacts[b]		
	CIT (lower)	CIT (upper)	NCT	Base rate threshold	Deductible tax[c]	Investment	Labour productivity	GDP
Preferred	**20%**	**28%**	**5%**	**$1b**	**NCT**	**2.2%**	**0.5%**	**0.7%**
Scenario 2	20%	30%	5%	$5b	NCT	2.2%	0.5%	0.7%
Scenario 3	20%	30%	5%	$1b	CIT	2.0%	0.4%	0.6%
Scenario 4	24%	28%	5%	$1b	CIT	1.7%	0.4%	0.5%

Underlines indicate differences between the preferred model and other modelled scenarios. **a.** CIT (lower) represents the base rate entity company income tax rate, while CIT (upper) represents the CIT rate applied to all other companies. The NCT is applied to all companies. **b.** Key impacts represent the long-term impact of the policy against the baseline where there is no change in the tax make-up of the Australian economy. **c.** The annual liability under the listed tax is treated as a deduction under the alternative tax (for example, NCT suggests the NCT tax liability will be a deduction under the CIT).

We have considered other revenue neutral options by adjusting the parameters of our policy, including the upper and lower company income tax (CIT) rate, the 'small business' base rate threshold, and the sequencing of the CIT and the NCT (table 1.1).

Dividend imputation is a feature of Australia's company tax system, and participants in this inquiry argued that not franking the NCT would bring negative investment implications.[4] We consider the implications of franking the NCT, which, in the modelling, produces modest investment increases, and costs the government about $2 billion, depending on other parameters (Murphy 2025b).

Sequencing the taxes in the least distortionary way (where the deductible tax is the CIT in table 1.1) would cost $2 billion (Murphy 2025b). Although the optimal sequence is modelled to yield a small investment increase, achieving budget neutrality means the tax rates have to be higher as in scenarios 3 and 4, which reduces the investment impact (appendix B.3 contains further discussion on implementation considerations).

None of these options are superior to our proposed option.

Setting out the details of our preferred proposal

The PC is proposing a company tax cut for all companies, while substantially raising the 'small business' threshold. Companies below the threshold of $1 billion in domestic revenue (including export earning) would face a 20% tax rate, while companies above the threshold would face a 28% tax rate.

The revenue shortfall would be funded partly by economic growth and partly by a net cashflow tax of 5% for all companies. The goal is a hybrid company tax system involving both a company income tax and a cashflow tax, similar to that faced by natural resources industries in Australia, Canada, Denmark, and (previously) the United Kingdom, and faced by several industries in Norway.

The PC received feedback about the complexity of a cashflow tax. To ensure clarity, a net cashflow tax defines taxable income in the same way as the existing company tax system, with four differences:

[4] For example: BCA, sub. 200, p. 10; Chamber of Minerals and Energy WA, sub. 104, p. 3; CPA Australia, sub. 109, p. 3; Paul McCullough, sub. 77, p. 1.

- all forms of capital expenditure are fully expensed at the time the investment is made (rather than depreciated over time)
- the definition of capital expenditure is broadened to include non-depreciable capital and inventories as well as depreciable capital
- interest is no longer a tax deduction for non-financial services companies
- if a company generates negative taxable income, these taxable losses are still carried forward but are now uplifted at the long-term government bond rate year-to-year.

The changes from the current company income tax system can be summarised as:

Taxable income = revenue – (wage expenses + operating expenses + investment ~~+ depreciation + interest expenses~~ + other expenses)

Under the NCT, financial services companies will be taxed on interest income and expenses while also receiving a deduction for financial capital expenditure (i.e. transfers of financial assets and securities).[5] We recommend that the Taxation of Financial Arrangements (TOFA) framework be used to identify financial transactions.

Importantly, the net cashflow tax should not be confused with a tax on a company's accounting cash flows. Companies would not be required to run separate accounts for tax purposes, although discussions with the ATO have suggested companies will face some additional administrative burden in accounting for and managing the two taxes.

We heard feedback that removing the interest deductibility would increase the cost of capital and therefore work against our objective of increasing investment (Paul McCullough, sub. 77, p. 1). However, retaining interest deductibility alongside full expensing would effectively subsidise investment, and this would introduce new distortions and be an inefficient use of government funds (appendix B.5). Further, modelling for this inquiry finds that the increased investment created by full expensing would be far greater than the decline in investment created by removal of the interest deduction.

The net cashflow tax (NCT) is not simply added to the current company tax rate, as the tax bases differ. Companies facing the 20% CIT rate and a 5% NCT would *not* face a 25% effective tax rate. Table 1.2 shows a stylised summary of the impact on companies depending on their revenue and circumstances.

A typical company earning some normal and above-normal profits and turning over between $50 million and $1 billion currently faces a 30% company tax rate. Under our proposal, its effective tax rate falls to between 19% and 24% depending on the above-normal profits it is making – a sizeable reduction in the company's effective tax rate. For the largest firms, depending on their investment activities, the effective tax rate would range from 26.7% up to 31.6%. Two key points to draw from the table are:

1. the NCT and CIT have different tax bases, and the combined tax rate is not the sum of the two
2. some large companies will pay more tax, but the additional tax will not fall on normal returns from new investments and therefore should have a minimal impact on their investment decisions.

[5] This would be reflective in the literature of an R base for non-financial services and an R+F base for financial services.

Table 1.2 – Change in effective corporate tax proposed reforms

	Turnover < $50m	$50m-$1bn turnover	Turnover > $1bn[a]
New CIT rate	20%	20%	28%
NCT rate	5%	5%	5%
Effective combined tax rate[b]	19.0% – 24.0%	19.0% – 24.0%	26.7% – 31.6%
Current CIT rate	25%	30%	30%

a. Companies that do not pass the passive income test to be a base rate entity would also fall into this cohort. **b.** Rates reflect the upper and lower-bound effective tax rate in terms of a CIT tax base. The lower-bound rate approximately reflects the tax rate on firms undertaking the marginal investment, adjusted proportionally based upon the OECD's estimate of Australia's headline effective marginal tax rate of 28.56% (Hanappi 2018; OECD 2025c). The upper-bound rate reflects the tax rate for a company which does not undertake any investment, calculated as the NCT rate + CIT rate * (1 – NCT rate) to reflect deductibility.

Overall, the proposal reduces the overall tax burden on business, reducing company tax from 5.0% of GDP to 4.6% of GDP (Murphy 2025b). But some companies, particularly larger companies that earn above-normal profits and do not invest, will face a higher effective tax rate. To the extent the changed arrangements target location-specific, above-normal profits (as opposed to firm-specific rents), it would have less impact on investment. But in practice we recognise that identifying different rent-types is not practical, so there is some risk that increased effective tax rates could impact investment incentives for the small share of businesses impacted.

Modelling commissioned for this inquiry demonstrates that the proposal will increase investment and boost dynamism. Our primary proposal was modelled by both CGETAX and VURMTAX – two computable general equilibrium (CGE) models commonly used to analyse the impacts of tax reform. Both models agreed that our preferred proposal would improve investment and welfare across Australia. CGETAX found our proposal would lead to an increase in investment of 2.2%, GDP by 0.7%, and productivity by 0.5%, while VURMTAX showed investment increases by 0.8%, GDP by 0.4% and productivity by 0.4% when the NCT is franked (Dixon and Nassios 2025; Murphy 2025b). Appendix B.7 contains a summary of the CGE modelling results.

The benefits of our proposal

A lower tax rate will support a more dynamic economy

Our proposed reform package cuts company tax rates for all companies. This is expected to increase capital expenditure in two main ways: by attracting more foreign investment and by increasing the retained earnings of companies (an important source of finance for smaller companies with domestic shareholders). The extent to which the tax cuts affect these two channels will vary by several factors – for example, smaller companies largely do not attract foreign investment and so will benefit more from the retained earnings channel, while large mining and technology companies are among those with the highest degree of foreign ownership and may benefit more through the foreign investment channel. International evidence supports the importance of company tax cuts to encourage investment, although the Australian evidence is mixed (box 1.4).

Importantly, our proposal targets large tax cuts for medium-sized firms – those earning between $50 million and $1 billion. The 20% rate also brings the marginal excess burden, or the economic cost of tax, down from one of the highest in Australia, to be around the burden of the GST (Murphy 2025a, p. 13). International research suggests that a tax cut for these firms is more likely to produce a larger response in terms of investment (appendix B.9), relative to a tax cut for larger firms.

Box 1.4 – Australian evidence show that firms respond to company tax cuts

International evidence tends to support a negative relationship between tax rates and investment (for example Hanappi et al. (2023)) but empirical evidence is more scant and less compelling in the Australian context, possibly due to limited changes in the tax rate. 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, although long-term effects were not investigated (Win et al. 2025). Analysis from AlphaBeta (2018) found that, on average, 27% of additional profits generated by the 2015-16 tax rate cut were reinvested. PC analysis of the tax cuts from 2015-16 to 2018-19 was inconclusive, although insufficient time has passed to assess the long-term impacts of these cuts (appendix B.9).

To understand the longer-term implications of tax cuts, Australia largely needs to look towards economy-wide modelling. Analysis prior to this inquiry suggested 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% (Rimmer et al. 2014; Kouparitsas et al. 2016; Murphy 2017b). Further, analysis submitted to this inquiry suggested that a 10-percentage point reduction in company income tax could increase investment by 2% after five years and 3.5% in the long run (Macro Public Finance Lab at the ANU, sub. 73). Further implications, such as those upon welfare and gross national income, vary across studies.

A lower statutory tax rate will attract foreign investment

A country's statutory tax rate affects the level of foreign investment (Rose et al. 2021). Australia's current statutory rate of 30% sits well above the OECD average, as does the effective company tax rate (OECD 2025b, 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.

> 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)

Since our proposal reduces the 'sticker price' for all companies, and markedly so for companies with turnover between $50 million and $1 billion, we expect an increase in foreign investment. Reducing the company tax rate reduces the required rate of return from an investment in Australia, increasing the viability of foreign investor-financed investment and enticing foreign firms to enter Australia's domestic market.

Notably, as a small open economy, the marginal investor in Australia is typically assumed to be the foreign investor rather than the domestic investor,[6] an assumption supported by empirical analysis (Murphy 2018). Foreign investment should flow into Australia either as investment in existing companies, helping to fund their expansion and enabling them to benefit from international knowledge transfer, and as foreign companies entering the Australian market and improving competition.

[6] KPMG and Econtech (2010); Kouparitsas et al. (2016); Macro Public Finance Lab at the ANU, sub. 73; Tran and Wende (2017).

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

International and Australian literature suggests that smaller and more credit-constrained firms rely more on retained earnings to fund capital expenditure and grow (Egger et al. 2020; Zwick and Mahon 2017).[7] A lower company income tax rate, by increasing after-tax profits, will increase capital expenditure – a particularly important change for companies that do not rely on overseas markets for capital. The PC estimates that 99.0% of companies earning up to $50 million and 68.6% of Australian companies earning between $50 million and $1 billion per year had no significant degree of foreign ownership in 2022-23 (ABS 2025e). These companies may find a reduced tax bill (and thus increased retained earnings) to be the best available mechanism for increasing investment.[8]

Analysis of recent tax cuts in Australia undertaken by the PC was not conclusive (appendix B.9). Consultation also supported the idea that higher retained earnings by small- and medium-sized companies would assist them to enter new markets and grow by increasing their access to additional funding for capital expenditure.

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

A hybrid net cashflow tax system will improve investment

The second part of our proposal is the introduction of a net cashflow tax. Compared with the current company income tax, it brings four main benefits. The net cashflow tax would:

- reduce the disincentive to invest by taxing normal profits less heavily
- improve cash flow and incentives for investment by allowing immediate full-expensing
- encourage greater risk taking, as companies can use their losses from the net cashflow tax to offset their company income tax liabilities
- reduce bias towards debt financing by removing interest deductibility.

While we are confident that the proposal will generate these benefits (outlined below), we have heard that a risk of the proposal is that cashflow taxes are experimental and evidence to support their use is lacking (for example, ACCI, sub. 112, p. 3; Sobeck, sub. 99, p. 3). While these taxes are not widespread, they are commonly used overseas to tax location-specific rents (appendix B.4), with evidence to support their economic merits (box 1.5).

[7] Notably, when studying US manufacturing firms, Eskandari and Zamanian (2023) found that large firms responded more and funded investment with debt and retained earnings, while small firms funded their additional investment through debt in response to a marginal tax cut.

[8] This estimation is based on total companies rather than total business groups which may include multiple companies. By significant we mean the proportion of companies where at least one foreign shareholder is in the top 10 shareholders of the company in 2022-23 and the total shareholding among this group exceeds 10%.

Box 1.5 – What does the evidence say about of the impacts of cashflow taxation?

Cashflow taxation has been used as a mechanism for taxing specific industries and location-specific rents in Australia, the United Kingdom, Canada, Denmark, and Norway.

Australia's Petroleum Resource Rent Tax is a cashflow tax on petroleum production. It is often criticised for alleged weaknesses in its design – particularly regarding uplift rates – that have reduced its ability to generate tax revenue. The tax has nonetheless generated more than $33 billion in revenue since its inception in 1987 without deterring offshore petroleum resource investment (Callaghan 2017). Similarly, Norway's petroleum rent tax has been assessed as highly effective in collecting tax revenue in a manner that is attractive to international investment despite the 78% sticker price (Lund 2014).

That said, the imposition of a new tax (regardless of whether it distorts long-term decisions) can lead to short-term weakening of investment (Hassett and Metcalf 1999; Guceri and Albinowski 2021). There is evidence that the recent implementation of aquaculture and onshore wind power rent taxes in Norway may have driven an initial period of uncertainty for affected businesses -though it remains too early to determine the medium-to-long term implications (Åm 2021; KPMG 2023; Misund et al. 2025).

Several countries, including Mexico, Estonia, Latvia, Poland, Georgia, and North Macedonia, have also implemented cashflow taxation as a form of company income taxation.

Evidence from Estonia's S-based cashflow tax (which is analytically equivalent to a two-sided R+F cashflow tax) suggests it to be an effective tax at neutralising financing biases (Hazak 2009; Masso et al. 2013), increasing investment (Masso et al. 2013), improving liquidity and capital buffers (Masso et al. 2013; OECD 2024, p. 29; Hazak 2009), and providing an internationally competitive system of company taxation (Mengden and Nieder 2025). Estonia's cashflow tax, implemented in 2000, has been the blueprint for models implemented in Latvia, Poland and Georgia. Importantly, these taxes have been established to significantly reduce the effective marginal tax rate of company tax systems - particularly in the cases of North Macedonia's S-based cashflow tax (Gruevski et al. 2013) and Estonia and Latvia's S-based cashflow taxes (OECD 2025b).

Appendix B.4 outlines the different forms of cashflow taxation internationally in more detail.

The NCT reduces the disincentive to invest and it more lightly taxes normal profits

A net cashflow tax removes the biases against capital expenditure within the current company tax system because it allows companies to immediately deduct their capital expenditure costs.

Under our proposed hybrid system, the total tax paid, in net present value terms, will be less than under the current CIT system, making more investments viable (appendix B.6).

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 liabilities

A company that earns a loss under the net cashflow tax will be able to use those losses immediately to offset its CIT liability. A company that does not have a CIT liability would uplift its losses at a given rate (the 10-year government bond rate in our proposal) in the next year, then apply the losses as an offset against its cashflow tax liability in that year. By uplifting the losses, the tax system is compensating companies for the

delayed access to tax losses, which differs from the current treatment of losses. Appendix B.6 contains worked examples of the change in loss treatment, and appendix B.3 has further discussion on the uplift rate.

Allowing companies to use their losses under the net cashflow tax to reduce their CIT liabilities will encourage them to take risks, and over time increase their willingness to enter new markets and grow.

One risk with this approach that has been raised is that businesses can game a cashflow tax by moving loss-making projects to Australia (on paper), forcing the Australian Government (and ultimately all taxpayers) to effectively subsidise these losses. While multinationals can always shift profits and losses to some degree, the NCT is unlikely to exacerbate this risk. Any firm that shifts its losses to Australia will also need to shift its profits to Australia to realise the value of these losses, allowing Australia to claim tax revenue in the future.

The NCT allows for immediate full expensing, improving cashflow and investment

Full expensing – one of the most widely cited company tax policy options in feedback (for example, COSBOA, sub. 110, p. 2; WA AI Hub, sub. 168, p. 15; Wesfarmers, sub. 191, p. 7) – is a key component of the NCT. Under full expensing, any company purchase of an asset is immediately treated as an expense in the tax base. Full expensing encourages business to invest, as it will lead to better cash flow because company tax is reduced for every dollar invested. A business does not have to consult complex depreciation schedules and calculate depreciation from year to year. Appendix B.6 provides worked examples.

Full expensing, in isolation, can be expensive (other, broader, options are considered below), but the hybrid system the PC proposes is a fiscally neutral way to introduce some measure of full expensing.

Interest will no longer be deductible under the NCT, reducing the bias towards debt and allowing emerging companies to grow

Under the net cashflow tax, companies will not be able to deduct the cost of financing their investments on the NCT element of their tax bill although. They will still be able to do so under the CIT component. Because current company income tax allows deductions of interest but not of dividends, it treats debt preferentially to equity financing. Removing the interest deduction under the net cashflow tax reduces this bias towards debt, which will help newer and emerging firms, who tend to rely more on equity financing to invest and grow.

We have heard that removing the debt deduction will disadvantage debt financing (Australian Finance Industry Association, sub. 181, p. 3; KPMG, sub. 96, p. 7). However, as the current tax system favours debt over equity, this proposal will not create a new bias; on the contrary, it reduces an existing one. Further, allowing full expensing alongside debt deductibility effectively amounts to an investment subsidy for companies.

Design considerations

The interim report identified several features of a cashflow tax that required further consideration. In determining the specification of each feature, the PC reflected on submissions, as well as consultation with tax experts. Determining the optimal settings gave rise to several trade-offs.

The PC has tried to balance the ‘optimal’ design against a simple and practical design. For example, the textbook cashflow tax allows losses to be refunded immediately, but such a design raises integrity risks as recognised in the literature. In preliminary consultation with the ATO we consider it more practical to avoid tax refunds and instead allow losses to be carried forward and deducted against future profits. The final design specifications are set out in table 1.3, and a more detailed discussion in appendix B.3.

Table 1.3 – Summary of proposed reform design features

Key features	Proposed design
Operational definitions of NCT	
Sales revenue	All sales of goods and services would be recognised as turnover.
Operating expenses	All purchases would be recognised as expenses within the year of purchase.
Treatment of financial sector	NCT to include financial accounts of companies subject to Taxation of Financial Arrangements requirements.
Dividend imputation	The NCT would not be franked. It could be franked, at a cost about $2b per year.
Sequencing of CIT and NCT	NCT estimated first and deducted against CIT, consistent with the PRRT. This does raise some distortions, and could be reversed, at a cost of about $2b per year.
Treatment of losses	Carried forward at uplift rate and deducted against CIT liabilities.
Uplift rate	Long-term government bond rate.
Phasing of reforms	Immediate full implementation of CIT changes and NCT.
Starting balance (of capital expense)	Starting balance is $0, which in part reflects the windfall gains firms will receive from the CIT cut. A starting balance can be introduced, to avoid windfall losses on past investments, but this would come at a revenue cost.
Tax rate at the threshold	No special treatment for firms that transition above the threshold, although there are some ways to smooth tax rates to reduce bunching if this becomes a problem.

A hybrid company income tax and net cashflow tax system

This report proposes a first step towards taxing normal returns less.

Our long-term vision involves a hybrid corporate tax system with both the NCT and CIT, with a greater proportion of the corporate tax mix coming from the NCT. Determining the extent and timeframe over which this change could take place creates trade-offs.

- International obligations, such as the OECD's Pillar Two obligations, may limit the reduction of the CIT to no less than 15%.
- Retaining the CIT base will increase the likelihood that companies can immediately access their losses under the NCT (by deducting them against their CIT liability). This will incentivise risk-taking.
- The relative efficiency of the corporate tax system (both the CIT and NCT) against other key sources of government revenue will change. A CIT rate of around 20% is about as efficient a tax as the current GST, making the corporate tax system (with a rate of 20%) a very efficient tax (Murphy 2025). A CIT around 20% should therefore not be replaced by other taxes.

The optimal mix of the CIT and NCT over time is a public financing choice that will depend on evaluation of the efficacy of the NCT, as well as further consideration of its costs and benefits. The PC is not arguing that Australia use only a cashflow tax, or only a company income tax. We propose that a combination of the two is a better corporate tax system for Australia.

Modelling for this inquiry supports this view, with Dixon and Nassios (2025) noting that the NCT 'can play a pivotal role in modernising Australia's business tax system by providing a robust revenue base, alleviating pressure on domestic taxpayers, and enabling CIT reform while strengthening national income and welfare.'

Recommendation 1.2
To implement a revenue neutral package that promotes investment, the Australian Government should reduce company income tax for all companies and introduce a net cashflow tax

The company income tax rate should be cut to 20% for companies with revenue less than $1 billion and be set at 28% for companies with revenue over $1 billion. The cut to company income tax rates will be funded partly by increased tax receipts due to economic growth and partly by a net cashflow tax of 5% to be applied to all companies.

Alternate company tax reform options

Feedback to our interim report identified risks and challenges with our proposed package. There are always trade-offs with tax reform, and we could not identify alternate reform packages that address all the concerns we heard, while achieving our objectives and remaining revenue neutral. Indeed, to remain revenue neutral within the corporate tax system, a new tax would need to be introduced, or, in the case of a base narrowing, the CIT headline rate raised. These were the main criticisms of our interim proposal.

This section explores the implications of relaxing the requirement for revenue neutrality within the corporate tax system. It also considers what relaxing the revenue neutrality constraint can mean for policy trade-offs, particularly on investment and implementation complexity. Any reform that is not revenue neutral would need to be part of a broader package to achieve sustainable fiscal outcomes, and while analysis and discussion of these broader fiscal issues are important, this is out of scope for this exercise.

For illustrative purposes we have scaled options to cost approximately $7 billion per year in the long run, which is large enough to observe the range of potential policy trade-offs. In the event government has smaller (or larger) budget for reform, the parameters can be decreased (or increased). While the impacts on investment and GDP may not be linear, the relative economic impact from the different approaches is likely to hold. Further modelling would be needed to estimate the impacts of options with different budget costs.

We have sought to develop alternate options by incorporating specific aspects of our primary proposal while exploring trade-offs. Reform options focus on the two main features of the primary proposal – changing the tax base, or lowering the tax rate – to reduce taxation on normal returns. For completeness, we also include an option with a long run cost of $7 billion annually, that aligns structurally with primary proposal.

We identify a reduction in the rate and two options to change the base to reduce taxation on normal returns – a partial immediate-expensing model, and a ‘marginal’ allowance for corporate equity (ACE).[9] Further consultation will be needed to fully understand the relative costs and benefits of these options, as well as implementation considerations.

The modelling results strongly favour a change in the tax base: for a similar cost (in these simulations, about $7 billion) the increase in investment is more than twice as large when there is a change in the tax base (as opposed to a rate reduction) (table 1.4). For a cost of about $7 billion per year, a tax rate cut to 25% will increase investment by 2.3%, whereas a change in the tax base (either by implementing a partial immediate-expensing

[9] Both options reduce the effective tax rate as determined by the OECD Pillar Two minimum taxation obligations. Therefore, the ACE rate and the partial immediate-expensing rate will need to be determined such that the effective company tax rate does not fall below 15%.

regime or introducing a marginal ACE) would increase investment by around 5%. A variant of our preferred package, for an annual cost of $7 billion, would allow for an NCT to be paired with a 20% tax rate for all companies, and produce similar results. The choice depends on the weighting of different policy objectives and the degree to which the government could address potential concerns around administrative complexity.

Table 1.4 – Modelling results

	Annual cost to government (in equilibrium)	Investment	Labour productivity	GDP
CIT rate 25% for all companies	$6.1b	2.3%	0.7%	0.7%
Partial immediate-expensing	$7.0b	4.9%	1.2%	1.3%
Marginal ACE (2.5%)	$6.9b	5.0%	1.2%	1.3%
Preferred proposal with 5% NCT and 20% CIT for all companies	$7.9b	5.0%	1.4%	1.4%

Source: Murphy (2025c).

Partial immediate expensing

Under full expensing, capital would be treated as an immediate expense rather than a depreciable expense over time. While many submissions suggested different forms of full expensing, there was little consideration of the fiscal cost of such packages. Our modelling shows a complete full-expensing model (such as proposed in Holden (2025)) would cost $33 billion per year in the long run. The Council of Small Business Organisations Australia proposed increasing the instant asset write-off limit to cover all capital valued up to $150,000 (COSBOA, sub. 110, p. 2). This results in an investment increase of 2.9%, but at a cost of $3.8 billion to government, while biasing investment towards smaller or lower-value capital (appendix B.7).

The PC does not consider full expensing to be viable: its cost to government revenue would be too high, among other limitations (box 1.6).

An alternative approach is an integrated partial immediate-expensing model, similar to that proposed by Murphy (2025c). This approach embeds key aspects of the NCT within the current company income tax system – specifically, the ability to immediately expense capital, broadening the capital-base to include all types of capital, proportional removal of the debt deduction, and the uplift and carry-forward of losses. The objective is to reduce the extent to which the company income tax system taxes normal returns, with minimal additional administrative requirements. In our modelled case, to achieve a long-term cost of $7 billion per year, we have set immediate expensing to be 33% of investment, with proportionate changes to other elements. This means that 33% of the tax system would shift towards the proposed system, with the remaining 67% remaining unchanged. However, this ‘X-percent’ could be scaled both immediately and over time, depending on fiscal considerations and implementation experience.

This approach would maintain many of the benefits of our proposal while avoiding the potential complexity of administering and explaining a new tax. Since it would be implemented without a revenue-neutrality constraint, this proposal would reduce tax on all companies, particularly those investing.

Box 1.6 – An assessment of full expensing

Full expensing improves the incentive to invest by treating capital as an immediate expense rather than through depreciation, capital gains or trading stock rules.

Many inquiry participants supported full expensing (for example, BCA, sub. 200, p. 10; Chamber of Minerals and Energy WA, sub. 104, p. 3; CPA Australia, sub. 109, p. 3) because it is simple to administer, directly incentivises investment and has been implemented in the past. Under these proposals, there are no other changes to the system – notably, deduction of interest expenses remains. Modelling commissioned for this inquiry estimated that full expensing would boost investment by 16.3%, but it would come at a net cost to government of $30 billion every year in the long run ($68 billion in foregone company income tax revenue partly offset by expected additional economic activity that would add $38 billion to revenue collected through personal income tax). The PC does not consider this to be a viable option.

Many submissions argued that full expensing would be budget neutral as it simply brings forward future deductions. This is not the case. First, the time value of money means the value of the deduction is larger if it occurs immediately. Second, bringing forward the depreciation deductions allows for a bigger deduction in the year an investment is made. This leaves an initial revenue gap which is never recovered as firms can fully expense their future investments for as long as full-expensing remains government policy.

Last, full-expensing does not address current biases in the company tax system. It would further distort the differential treatment between depreciable and non-depreciable capital (Adam and Miller 2023).

Key features of the proposal

The proposal would work, in our modelled example, as follows.

- First, 33% of all capital expenditure would be allowed to be fully deducted from CIT assessable income as an upfront expense, with the remaining capital value treated in accordance with current company income tax rules. Appendix B.6 provides worked examples of this approach.
  - All assets treated under depreciation, capital gains and trading stock rules would be deductible, removing distortionary treatment between asset classes.
- Second, interest deductibility would receive similar treatment, with 33% of interest expenses no longer deductible.[10]
- Third, 33% of any company's losses would receive an uplift rate at the long-term government bond rate. Australia's company income tax already allows for loss carriage, so the change would add a simple layer on top of this pre-existing mechanism.

New Zealand has introduced a similar proposal, although it incorporates only the first part (the expensing component). Our proposal costs government less and avoids a direct subsidy for capital expenditure by removing 33% of the interest deduction, and also provides an uplift for losses which supports risk taking. The tax base under the partial immediate-expensing model compared with the CIT is defined as follows:

*Taxable income = revenue – (wage expenses + operating expenses + (33% * investment) + ((67% * depreciation) + (67% * interest expenses)) + other expenses)*

[10] To capture financial services, when the net of interest income and interest expenses is positive, this is counted as taxable income.

Benefits and downsides of this proposal

Under this approach, 33% of the company income tax would effectively be taxed on the same basis as a cashflow tax. Therefore, a portion of the system would shift away from normal returns – meaning many of the benefits of our proposal (optimising capital expenditure and encouraging risk-taking and innovation) would apply. This approach could be embedded in the current company income tax system, meaning no new tax is levied, enhancing the proposal's administrative simplicity. Modelling commissioned by the PC suggested that a 33% partial immediate-expensing model could increase investment by 4.9% and GDP by 1.3%.

On the downside, the partial-immediate expensing model is unlikely to reap the same dynamism benefits as the primary proposal, as it does not address all the distortions in the corporate tax system. It also does not lead to a reduction in the statutory tax rate. An unchanged rate may not result in significant inflows of foreign investment and overseas competitors entering the Australian market – though it will nonetheless reduce the cost of capital, and thus the effective tax rate.[11]

Marginal ACE

An ACE is an alternative approach to shifting the tax base away from taxing normal returns. As with a cashflow tax and the expensing model, an ACE reduces the extent to which normal returns are included in the tax base. While a cashflow tax and expensing models reduce the base by allowing investment costs to be deducted and removing the allowance for debt and depreciation, the ACE goes a different way, reducing the base by providing a deduction for the cost of equity. An ACE is an additional deduction from the current CIT system.

In principle, an ACE introduces greater equivalence between debt and equity than exists in the current system because it makes the cost of equity also deductible. The ACE incentivises investment by allowing all financing costs (debt and equity) to be expensed, and by eliminating the distortion caused by depreciation (Sobeck et al. 2022). This means any investing firm can reduce their tax payable, incentivising investment.

However, applying an ACE to all equity comes at substantial cost to government while providing significant windfall gains to companies. Modelling estimates suggested that an ACE implemented with the rate set at the long-term government bond rate would reduce company income taxation by $39 billion, although $26 billion would be recouped through the personal income tax system due to reduced value of franking credits.

Consequently, a 'marginal' or 'soft' ACE model – where the ACE deduction is applied only on new equity – is a cheaper way to introduce an ACE (Kayis-Kumar et al. 2022). This could be implemented in a targeted manner by requiring companies to report 'new' equity and providing an ACE on this portion of their balance sheet.[12] Over time, though, a marginal ACE will become a full ACE deduction on all equity, so while it looks lower cost in the short term, the fiscal implications are large as the size of the equity deduction increases over time, meaning any offsets also need to grow over time. This fiscal cost can be limited by lowering the ACE allowance rate below the bond rate, increasing the tax rate, or limiting the time period within which equity receives the benefit – such as in Türkiye (PwC 2025b). Yet, all three approaches would have implementation issues and would limit the investment, efficiency and other benefits of the ACE.

[11] The immediate-expensing share (33%) of the CIT would shift further towards an effective marginal tax rate of 0%.

[12] Appendix B.5 contains further discussion of the marginal ACE.

Key features of the proposal

The ACE works by multiplying the total value of equity by an 'allowance rate'. The marginal ACE works the same way but applies only to the value of new equity issued. In effect, this changes the tax base as follows:

*Taxable income = revenue – (wage expenses + operating expenses + depreciation + interest expenses + (ACE rate * new equity) + other expenses)*

The rate can be set at different levels – see Kayis-Kumar et al. (2022) for a detailed discussion of the key elements for consideration. Conceptually, to best target economic rents it should approximate the 'normal return' to equity. But international implementations of an ACE have been lower than this. Putting this into practical terms, if the government set an ACE rate at 2.5%, a company that received $100,000 in new equity would obtain a deduction of $2,500 on its tax return.

Benefits and downsides of the proposal

The marginal ACE has a number of benefits that align with our proposal. Chiefly, it taxes normal returns less heavily, which should support investment across the economy (aus dem Moore 2014; Klemm 2007; Zeli 2018).[13] Modelling commissioned by the PC suggests a marginal ACE with a 2.5% rate would be limited to a fiscal cost of $6.8 billion per year in the longer term, once firms have adjusted their investment behaviour in response to the policy change and we account for secondary impacts. The modelling suggests it would increase investment by 5% and GDP by 1.3%. It would also reduce the distortion between debt and equity financing, which should support growth of newer and smaller companies, which tend to rely more on equity.

Another key benefit relative to the PC's proposed reform is that an ACE can be introduced within the current tax system – it is an additional deduction, not an additional tax, and it does not require significantly different treatment of the financial sector.

Yet, a marginal ACE has trade-offs. First, like the partial full expensing model, it does little to address the high statutory tax rate and is unlikely to attract foreign investors based on the 'sticker price'. Nevertheless, the effective tax rate would still decline.

Second, international experience suggests an ACE tends to do more to balance the debt-equity bias rather than boost investment or firm growth.[14] The international evidence does find a better investment response among smaller companies (aus dem Moore 2014; Zeli 2018). This is potentially because an ACE affects investment choices indirectly, by reducing tax payable when a company increases its equity holdings. This has a larger effect on how companies fund their investments. NCT and partial immediate-expensing models, by contrast, directly reduce tax payable when a company invests.

Third, to effectively shift the system away from taxing normal returns, the ACE rate needs to reflect an economy-wide estimate of the 'normal' return on equity. As normal returns on investment vary by industry and project, a single rate of return will subsidise projects with low 'normal' return (low-risk projects) but tax projects with a high 'normal' return (high-risk projects).[15] In other words, relative to the cashflow tax, the ACE is less likely to encourage risk-taking and innovation, as risky projects still face a relatively higher tax rate.

[13] See Kayis-Kumar et al. (2022) and Sobeck et al. (2022) for a summary.

[14] Princen 2012; Panier et al. 2015; Petutschnig and Rünger 2017; Branzoli and Caiumi 2020; Petutschnig and Rünger 2022.

[15] A similar issue exists for the NCT, and the 'uplift rate' set for losses. However, the issue is only present when a company needs to carry forward their loss (which is when a company makes a loss under the NCT and cannot offset that loss against a CIT liability).

Finally, an ACE may be difficult to implement. Preliminary consultation with the ATO suggested that the introduction of a marginal ACE may lead to integrity concerns. This is supported by international experience (European Commission 2022; Hebous and Ruf 2017). This is likely to expand the cost of compliance for companies and administrative costs for the ATO and could require additional elements to avoid incentivising tax planning (Kayis-Kumar et al. 2022; Sobeck et al. 2022). Appendix B.5 discusses these issues further. However, the PC has not consulted widely on this proposal, and further work can be done to better understand and minimise some of these challenges.

Overall, a marginal ACE represents a step towards the PC's long-term vision because it lowers tax on normal returns and is likely to improve investment and dynamism. The partial expensing model, and ACE has been estimated to produce much the same economic impact. However, our initial consultation indicates that an ACE is a more complex policy to implement than partial expensing options.

A cut to the company tax rate

If the revenue-neutral requirement were relaxed, cutting the CIT rate would reduce the taxation of normal and above-normal returns. A tax cut would be simpler to understand and administer than a new tax or a tax base change.

To compare with the base narrowing options, we have scaled the rate cut option to cost a similar amount in the long run – up to $7 billion per year. This allows for an option setting the statutory tax rate at 25% for all companies, producing a reduced 'sticker price' that would attract foreign investment and generate improvements in investment and dynamism. Modelling undertaken for the PC estimates that a tax rate of 25% for all companies would cost the government $6 billion in revenue annually once firms have responded to the tax cut (after accounting for the growth dividend) and increase overall investment by 2.3%.

Reducing the taxation of normal returns for all companies will make some investments more attractive, and go some way to boosting capital expenditure and dynamism. Removal of the current $50 million threshold would remove any disincentives for growth that exist in the current system.[16]

However, the benefits of this proposal (a 2.3% investment increase and a 0.7% GDP increase) are less than under reform options that change the tax base to favour investments earning normal profits. The proposal reduces some distortions and biases in the existing CIT system, but not by as much as the principal proposal. It therefore provides smaller incentives to take risks and innovate, and more limited increases in investment.

It is also worth noting that if government had a smaller funding envelope, this option can be scaled down in a variety of ways – by cutting the rate by a smaller amount; or by raising the threshold from $50 million so more companies pay the 25% rate, or a combination of both. Of these options, raising the threshold, and providing a tax cut to medium sized companies, is more aligned with our objective of improving dynamism.

[16] Bunching in the company income tax system is investigated in appendix B.9. The presence of bunching at tax thresholds is well established in the personal income tax system (Carter and Breunig 2023; Johnson et al. 2024).

Recommendation 1.3
There are other corporate tax options that could be explored, if an net cashflow tax is considered too complex. They involve trade offs between investment, dynamism and complexity, and come at a cost to the budget.

- The preferred approach would involve partial immediate expensing combined with a counterpart reduction in interest deduction.
- A marginal allowance for corporate equity with similar long-term costs could also increase investment but would need to address integrity and implementation challenges.
- Reductions in the company income tax rate are simpler, and will increase investment, though by substantially less than other options, for similar budget impact.

Comparing the reform options

To understand the trade-offs and policy implications, it is worth comparing our preferred option (the NCT hybrid) with the base-narrowing proposals that come at some cost to government (partial-expensing model and the marginal ACE).

All proposals generate investment benefits though they are modelled at different fiscal cost which means the results are not directly comparable. The primary proposal improves investment by 2.2%, with a broadly neutral long-term cost to the budget. The partial-expensing proposal increases investment by 4.9%, the marginal ACE by 5.0%, and the non-revenue neutral NCT hybrid also improves investment by 5%.

The non-revenue neutral models all generate more investment relative to our primary proposal, but they also come at greater cost to government. They require government to raise or save an additional $7 billion per year, and different funding approaches would have economic implications which impact on these headline results.

All proposals remove distortions in the system by shifting the tax base away from normal returns, and will therefore support firm growth, innovation and risk-taking. Our primary proposal also offers more targeted tax relief by focussing tax cuts on businesses earning below $1 billion, which make it more likely to support dynamism and firm growth.

Finally, the partial-immediate expensing model and marginal ACE can be embedded within the current company tax system, making them simpler to implement and easier for firms and investors to understand.

On balance, our primary proposal remains the best reform option if government prefers revenue neutral reform.

Relaxing this constraint opens more options. The marginal ACE and the NCT hybrid both have some implementation complexities that may deter or distort investment decisions. In particular, there are design and implementation issues with an ACE that require further examination, while the hybrid system introduces a second tax that creates its own challenges. If there is fiscal capacity to pursue non-revenue neutral reform options (for example, as part of a broader set of tax and spending reform), we lean towards the partial immediate expensing option unless the implementation challenges with the ACE and NCT hybrid can be resolved.

All options that ‘narrow’ the base, by focussing tax reductions on investments earning normal returns, produce superior economic responses than options which reduce tax rates. This is because reductions in rates do not focus on the key source of inefficiency in the CIT system – the taxation of normal returns. However, reductions in tax rates are simpler to implement and more salient to international investors as they more directly compare with comparator rates.

Further modelling will also highlight the investment and budget impact of each option over time.[17] Our preferred proposal, while being revenue neutral in the long term, will have a cost to the budget in the short term. Company tax revenue will initially decline, before total tax receipts rebound as increases in investment generate increased economic activity.

And while we have proposed three options with a similar budget cost in the long term (modelled to $7 billion in this report) the transition path to this long-term state differs for all three options. The allowance on new equity is likely to have the least budget impact in the short term, and this will gradually increase in cost as firms issue new equity. The tax rate cut will have the largest budget impact in the short term, with the full cost felt almost immediately. The partial expensing option is a middle ground. The short-term annual cost to the budget is likely to exceed the long run cost – the reduced company tax will generate economic growth, which will recover over time some of the revenue lost.

The investment path is likely to be the inverse of the budget path – so the largest response in the short term will come from the tax cut, but this is then out-performed by the base change reforms in the long run, while the smallest investment response in the short term will come from the marginal ACE.

The best policy choice will depend on how government weights trade-offs between policy objectives, further examination of the practical challenges associated with options, and additional evidence of possible behavioural responses of different firm and investor types.

Tax reform is never easy

From the first step to the long-term vision

The proposals set out in this report will help to build experience with changes to the tax base. Evaluation of the reform is imperative to determining next steps – success should be assessed by the new system's ability to increase productivity-enhancing capital expenditure while collecting broadly unchanged revenue. Data from the Business Longitudinal Analysis Data Environment (BLADE) should be able to inform analysis of firms' capital expenditure response to the tax changes. Should the reforms prove effective, Australia should continue to refine the tax systems to decrease reliance on taxing normal returns.

Next steps

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. 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.

In publishing the modelling and detailed appendices, the PC hopes that the debate on corporate tax reform can be progressed, and based on rigorous, transparent and publicly available modelling. Further work is required to fully explore the full range of implementation issues.

The PC considers a starting point for this work should be a hybrid net cashflow tax system as an effective way to boost investment and inject more dynamism into the Australian economy. Other options that address elements of this preferred approach could also be examined if fiscal circumstances permit.

[17] Dynamic modelling commissioned as part of this inquiry undertaken by Chris Murphy will be available on the PC website in early 2026.

2. Regulating to promote business dynamism

Summary

- **While regulation can protect against harms, too much or inappropriate regulation can inhibit economic dynamism and resilience. Australia's regulatory burden has grown. Businesses report spending more on regulatory compliance, and Australia has fallen on key international regulation indexes.**
- **Regulators and policymakers 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 economy-wide goals. The Productivity Commission recommends a regulatory overhaul to counterweight these incentives.**
- **To provide direction, accountability and policy leadership, the Australian Government should adopt a whole-of-government statement that sets out a vision for more efficient regulation, sets out immediate concrete reforms as a downpayment towards meeting a targeted $10 billion reduction in net regulatory costs by 2030, and commits to broader monitoring of regulation.**
- **The impact of new and existing regulation on growth and dynamism should be minimised through better scrutiny, review and evaluation.**
  - To improve oversight of regulatory proposals, the Cabinet should adopt processes similar to those used to scrutinise budget proposals, anchored by the commitments in the whole-of-government statement and supported by improved impact analysis processes overseen by an independent statutory commissioner.
  - Senate scrutiny committees should also examine the quality of impact analyses when reviewing legislation.
  - To improve review and evaluation of cumulative regulatory burdens, the government should commission a 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.**
  - Government should provide guidance to regulators and regulatory policymakers on how much risk they should tolerate to balance their regulatory outcomes and business dynamism.
  - Regulators and portfolios should not increase the net compliance and delay costs of regulation. In other words, they should operate under 'regulatory burden offsetting' going forward.
  - Government should also give public servants more guidance and support to become regulatory stewards and hold them to account through key performance indicators and reporting on the outcomes of their actions.

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, in a pile up of multiple regulations, or regulators engaging in practices that unnecessarily constrain growth and dynamism. 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 reports 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 are 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 2025d). Getting the balance right in construction is an example of many regulatory challenges across the economy.

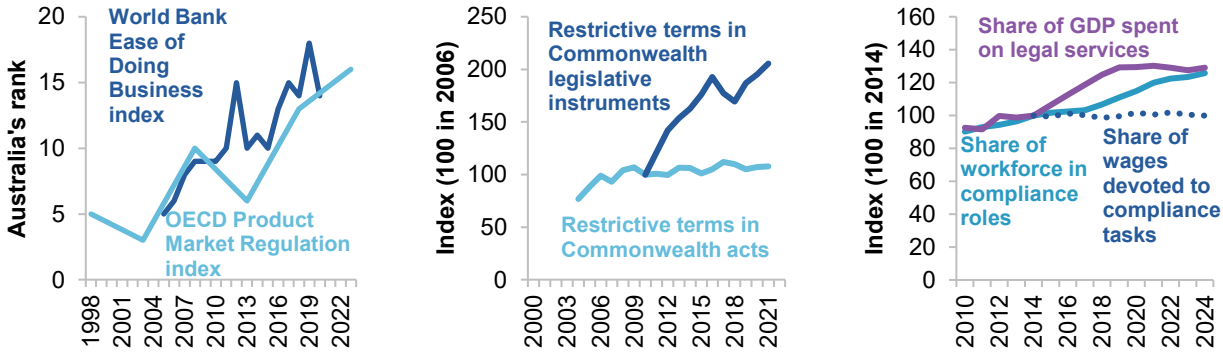
Such problems can be partially addressed by paring back inappropriate regulations that already exist (the stock), and from screening out inappropriate regulations before they are enacted (the flow). To achieve this, Australian regulators, policymakers and ministers need to take a new approach to regulation;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

The regulatory burden on businesses is getting worse

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 index between 2005 and 2020, and from third to 16th in the OECD's Product Market Regulation index between 2003 and 2023 (figure 2.1, panel a). In both cases, Australia made some small improvements, but these did not keep up with improvements made by other countries.

At the same time, most indicators suggest the volume and burden of social regulation (which protects health, safety, the environment and social cohesion) has grown. The number of restrictive terms in Commonwealth Acts of Parliament and legislative instruments grew dramatically in the two decades to 2020 (figure 2.1, panel b). Employment-based indicators, which are subject to greater measurement error, provide a more mixed picture. External legal services have accounted for a greater share of the economy and specialised regulatory compliance roles have accounted for a greater share of the workforce since 2010, but the share of wages devoted to compliance tasks (a more general measure) has been flat since 2014 (figure 2.1, panel c). Corporate boards reported devoting about 55% of their time to risk and compliance issues in 2025, up from 24% in 2015 (Mandala 2025). Since there have been small improvements in economic regulation, growing social regulation would seem to lie at the heart of the increased burden.

Figure 2.1 – Regulation trends are headed in the wrong direction



'Restrictive terms' are: 'shall', 'must', 'may not', 'prohibited' and 'required'. The OECD Product Market Regulation index ranking is among the 28 countries that reported data in every period. 'Legal services' includes external legal services only.

Source: Number of restrictive terms in Commonwealth acts and legislative instruments: PC estimates based on QuantGov (nd), OECD Product Market Regulation Index: World Bank (2024), share of GDP spend on external legal services and share of workforce in compliance roles: Mandala (2025), share of wages devoted to compliance tasks: OECD (2025d), World Bank Ease of Doing Business Index: World Bank Doing Business annual reports, 2005 to 2020.

Our current approach to regulation does not support dynamism

Consultation with participants identified three core challenges facing policymakers, regulators and ministers (PC 2025a, pp. 14–15):

- strong incentives to behave in a risk averse manner, as the costs of any mistakes on their watch tend to be highly concentrated and salient, while the economic dynamism and growth foregone can be more dispersed and 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 observe or bear the burden
- a tendency for tunnel vision and risk of unintended consequences 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.

These affect business in different ways with box 2.1 summarising the most prominent issues.

Regulatory policy – the rules and institutional arrangements governing how regulation is made and implemented (appendix C.1) – aims to address the challenges facing policymakers, regulators and ministers, and counter the government failures that fall on businesses. In Australia, however, it is often ineffective. While the tools and procedures to manage regulations look sound on paper, they are often not followed in practice. Regulatory policy is too focussed on honing these tools and procedures, and not enough on addressing the fundamental incentive challenges facing policymakers, regulators and ministers. Sensible tools and procedures, like impact analysis, can only go so far – they swim upstream against a current of incentives for risk aversion, disregard for regulatory burdens and regulatory tunnel vision. 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.

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, or businesses that work across multiple states, territories or countries facing needlessly different requirements in each jurisdiction
- 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.

Regulatory policy that supports business dynamism

The PC is recommending a package of reforms that target actors across the regulatory policy spectrum, from the Cabinet ministers making decisions about significant regulation to the regulators at the coalface.

The package focuses on the Australian Government. 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 recommendations, while designed for the Australian Government, could be adapted and implemented by states and territories. The reforms will lay the basis for coordination between Australian Government and state and territory government regulators, where necessary, to boost business dynamism and resilience, which could be built on over time through intergovernmental cooperation.

At the centre of the Australian Government, the counterweights we propose are:

- *a whole-of-government statement* to specify the responsibilities and expectations of regulators, set a goal of reducing the burden on business led by the centre of government, commit to broader monitoring of regulation and commit the government to a set of reforms identified in this inquiry to promote growth and dynamism and contribute materially towards the reduction goal
- *enhanced scrutiny of regulatory proposals* by the Cabinet and parliamentary scrutiny committees, complemented by enhanced assessment of the accompanying impact analysis by the Office of Impact Analysis (OIA). Together, these provide checks on decisions and can address the challenges of risk aversion and tunnel vision identified earlier
- *external review and evaluation* of costly regulatory systems by the PC or another independent agency, which offers an opportunity to reset cumulative regulatory burdens.

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

- government should strengthen the expectations on regulators and policymakers to look for opportunities to enhance dynamism and growth in addition to their regulatory objectives. This includes outlining the

government's acceptable tolerance of risk, setting an expectation of not increasing the burden on business and countering excessive risk aversion through their statements of expectations
- ministers and central agencies should support policymakers and regulators with appropriate capability support and practice guidelines
- 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. They should also report against quantitative key performance indicators (including any changes in the burden they impose on business) and agreed plans of action for regulatory stewardship.

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 people start new businesses, and existing businesses to prioritise growth and innovation. Ultimately, these benefits should flow through to consumers in the form of better goods and services at lower prices and employees in the form of higher wages. At the same time, the environment would remain protected, and the public would remain safe.

Make a whole-of-government statement on regulation

Australian Governments have long agreed with the established principles of good regulation, but they often set them aside to respond to immediate crises, siloed priorities and to avoid emphasising the diffuse and often hidden costs of their regulatory action.

We need to do better. Government must take good regulation more seriously, both now and in the future. It should tie itself to the mast by adopting a high-profile whole-of-government statement on regulation. The statement should demonstrate that government will prioritise removing or improving inappropriate regulation, and apply a growth mindset to adopting new regulations. It will specify strong principles to ensure regulation supports growth and dynamism, commit to a $10 billion reduction in annual regulatory burdens by 2030 to anchor policy and decisions, establish ongoing monitoring and reporting on regulation and set out concrete actions to reduce regulatory burdens.

Set out concrete actions to reduce regulatory burdens

The statement is meant to commit the Australian Government to immediate and effective regulatory reforms and reviews that are expected to generate reductions in regulatory burdens. These concrete commitments will show that government means business and strengthens the credibility of the statement's other commitments. This will build on the recently agreed reforms to environment laws which have demonstrated early progress.

The statement should include a schedule, reissued regularly, specifying the next set of reform areas, and the initial statement should include the following:

- The reforms to reduce duplicate and inconsistent regulation in the care economy from the PC's inquiry into *Delivering quality care more efficiently* (PC 2025b).
- The reforms to entrench digital financial reporting from the PC's inquiry into *Harnessing data and digital technology* (PC 2025c).

- A commitment to commissioning the PC or another independent agency to undertake substantial regulatory reviews into housing construction, corporate reporting and telecommunications (discussed further in a later section).
- A commitment to smaller-scope (possibly departmental) review into mandatory climate reporting requirements for businesses, having regard to business threshold sizes in other countries and ways to minimise unnecessary regulatory burden on disclosing and non-disclosing entities under the policy.

Commit government to reduce regulatory burdens

Our interim report flagged that we would consider further how the whole-of-government statement on regulation should include quantitative indicators of regulation. And following the August 2025 Economic Reform Roundtable, the Treasurer asked the PC for the best ways to measure progress on better regulation (Chalmers 2025b). Appendix C.2 assesses the merits of the different indicators of regulatory quality and burden used around the world.

In considering how to measure progress, we heard feedback from many participants who called for regulatory reduction targets based on dollar value estimates of regulatory costs – essentially asking for the government to reduce the costs of regulatory burdens on businesses. The recent commitments by the United Kingdom (UK) and European Union (EU) to reduce administrative costs of regulation by 25% by 2029 (European Commission 2025a; United Kingdom Treasury 2025) were often cited as inspiration by these participants (ACCI, sub. 112, p. 5; AICD, sub. 180, p. 6; BCA, sub. 200, p. 15).

After considering these submissions, consulting further and reviewing the available evidence, the PC is recommending a two-pronged approach to better measure regulation and reduce regulatory burdens to be set out in the whole-of-government statement:

- a whole-of-government target for reducing the compliance and delay costs of regulation
- broader annual reporting on a suite of indicators in a new Regulation Review.

Central agencies should identify ways to reduce regulatory burden by $10 billion

The PC is proposing the whole-of-government statement sets a target to reduce annual administrative, substantive compliance and delay costs of Australian Government regulation by $10 billion by 2030.

The PC determined that a regulatory burden reduction target will contribute to an Australian Government regulatory reform agenda. Setting a target serves as a signal of intent from government, that it is committed to reducing regulatory burdens; anchors whole-of-government decision-making; as well as serving as a tool to hold itself accountable.

Choosing the optimal indicator to target, and the magnitude of the target, requires careful consideration – see appendix C.2 for a detailed assessment of various indicators and setting the optimal target.

The PC has identified net annual compliance costs (defined as administrative and substantive compliance costs) and delay costs as the optimal indicator to target.

This is a broader indicator than what is being targeted in the EU and the UK, which have committed to reducing only the administrative costs of regulation (like paperwork). There is no EU or UK commitment to reducing substantive compliance costs (such as purchasing new equipment and retraining employees) or delay costs. In contrast, the PC believes there would be benefits to targeting a broader measure of regulatory costs. It would give regulators and policymakers more flexibility in where to find reductions, which would likely lead to better outcomes. It would also mitigate the risk of cost shifting, and reduce the risk that substantive compliance or delay costs grow alongside reductions made to administrative costs to meet an

administrative-cost-only target. And it would reflect that businesses' concerns about regulatory burdens do not relate solely to administrative costs.

The PC recommends setting the regulatory reduction target at $10 billion by 2030. This should include all changes to regulations and substantive changes to how regulations are administered. A $10 billion target would be both achievable and comparable in magnitude to the recent UK and EU targets.

- This target is achievable, as it is comparable to previous regulatory reduction work in Australia. It amounts to a 6-9% reduction in compliance and delay costs over four years, which is in line with the 6% reduction in these costs that the Australian Government achieved over two years from 2014 after setting itself reduction targets (appendix C.2).
- The magnitude of our recommended target is comparable to current overseas targets. Our recommended target is for a smaller percentage reduction (6-9% versus 25%) but to a broader definition of regulatory costs. The scale of ambition is similar once that difference is taken into consideration (appendix C.2).

To avoid a piecemeal approach being taken, which is not desirable, we propose responsibilities for different aspects of achieving the target be clearly allocated between the centre of government and portfolios.

Identification of large reductions in compliance and delay costs will require commitment from the centre of government. Central agencies will have a key role in assisting key Ministers and the Cabinet in this.

At the same time, and outside these centrally determined priorities, each portfolio should be tasked with at least not increasing compliance and delay costs.

In each instance, compliance and delay costs should be separately itemised.

Setting a target also comes with some risks, which need to be managed. In particular, targets create strong incentives for regulators to constrain measured regulatory burdens, but this does not necessarily align with desirable regulatory outcomes (for example, removing socially beneficial regulations would help achieve targets, but would be to the detriment of Australians more broadly). Some participants raised similar concerns about hard regulatory target approaches (PC 2025a, p. 17).

The approach recommended here mitigates these concerns in four ways:

- key deregulatory changes would be determined through whole-of-government processes through the centre of government, so they are not subject to gaming by regulators, and to ensure holistic policy assessment
- standard impact analysis requirements would apply to deregulatory changes, including substantive changes to how existing regulations are implemented, which offers scope to consider both the costs and benefits of proposed change
- regulators and policymakers have flexibility in how they meet their regulatory offset as they can manage implementation and regulatory activities
- the annual Regulation Review publication (discussed next) would monitor whether agencies' pursuit of these indicators is producing improved regulatory outcomes more generally.

Commit to regular review of regulatory burdens and recent regulatory developments

The Australian Government should commit, in the whole-of-government statement, to commissioning an independent agency to develop an annual Regulation Review, similar to the annual Trade and Assistance Review. The PC is well positioned to undertake such a review. This review complements the 'hard target' approach to measuring better regulation by identifying whether changes in the indicators are translating to reduced burdens for businesses. Specifically, the publication would:

- report on a broad set of indicators of regulatory quality and burden to draw out overarching trends. Appendix C.2 contains a list of indicators the Regulation Review should report on. This reporting would complement the narrower regulatory burden reduction target, since it would ensure that there is systematic accountability for achieving both the targets and progress against broader regulatory objectives
- investigate and comment on recent developments in regulation and regulatory policy. For example, the first Regulation Review could examine how Ministers have addressed the Minister for Finance's direction to issue statements of expectations that direct regulators to focus more on dynamism and growth objectives (DoF 2025), and how this is influencing regulators' actions.

Specify principles, roles and responsibilities

The statement should include a clear expression of – and commitment to – the principles of good regulation. These should evolve 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 actively seeking to promote growth and dynamism where there is no substantial risk trade-off
- more explicit reference to the need for regulators and policymakers to consider the impact on regulated parties of individual regulations and the stock and cumulative burden of regulation (this is implicit in several existing principles but should be explicitly referenced in the statement)
- expectations on regulators and policymakers to be stewards of the regulatory systems they are responsible for by not increasing the burden they impose on business, including a clear definition of regulatory stewardship
- 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 EU should in nearly all cases be good enough for Australia
- an additional principle of 'tell us once' when individuals and businesses engage with government, which can be facilitated by data sharing between government agencies. The Treasurer and Minister for Finance recently committed to progress on this front (Chalmers and Gallagher 2025). The Australian Parliament recently passed the *Regulatory Reform Omnibus Act 2025*, which amends several other Acts to allow more information about individuals to be shared between government agencies to assist with service delivery. Future endeavours should also focus on applying the tell-us-once principle to businesses.

The statement should also include a clear exposition of the roles and responsibilities for regulatory policy, reflecting existing practice and the architectural reforms recommended in this report.

Recommendation 2.1
Set a clear agenda for regulatory reform and regulatory burden reduction

The Australian Government should adopt a whole-of-government statement on regulation that makes it clear that regulatory reform is a core government priority. The statement should set out concrete actions to reduce regulatory burdens, establish a target for regulatory burden reduction and ongoing monitoring, and specify principles of good regulation.

Recommendation 2.2
Set targets for regulatory burden reduction and commit to a comprehensive reporting regime to hold government to account for progress

The Australian Government should set a target to reduce the compliance and delay costs of its regulation by $10 billion by 2030. It should commission an annual Regulation Review that reports on a broader set of indicators of regulatory quality and burden and comments on current regulatory issues.

Strengthen scrutiny, review and evaluation of regulation

Greater scrutiny and accountability are key ways to ensure that regulatory decisions consider 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 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, vary. 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 the Australian Government commission 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, modelled on the rigour of budget processes

Cabinet scrutinises and decides on regulatory proposals that are sufficiently important. It should ensure all proposals that come before it are consistent with overall growth objectives. The recommended commitments in the whole-of-government statement on regulation provide anchors 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, there are some processes that could support regulatory decisions. These include enhanced scrutiny of regulatory proposals by a Cabinet committee, including enhanced consideration of whether any additional costs to businesses can be justified considering the regulatory burden reduction target.

There is a role here for public servants in a central agency to support the minister by:

- providing separately identified comments on significant regulatory proposals that go to Cabinet or its committee, advising whether proposals align with the regulatory burden reduction target and the objectives and principles of good regulation as set out in the whole-of-government statement
- engaging 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

- as discussed above, providing strategic opportunities for regulatory burden reductions that contribute to whole of government targets.

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 function described here would advise the minister responsible for regulation and Cabinet more broadly on whether a proposal aligns with government's overall regulation objectives and priorities.

Stronger scrutiny from a more independent Office of Impact Analysis

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 are retrofitted to support decisions already made. As a result, the decision maker, often a minister, decides without all necessary information and so impact analysis has little influence.

This observation is not new: in 2012, about 90% of regulators surveyed by the PC said that fewer than 10% of regulatory proposals were significantly modified or withdrawn because of the impact analysis. We asked regulators a similar question in 2025 as part of a broader survey of regulators and policymakers conducted for this inquiry (appendix C.3), and about 80% of respondents said the same thing.

The OIA should have a stronger mandate to increase accountability for the quality of impact analyses and processes. Its role is not to say whether the 'right' decision was made – that is for policymakers – its role is to ensure that agencies are providing accurate and comprehensive information in a timely way to inform decisions. To enable it to demand greater accountability, the OIA should have more independence from government. 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 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). The OIA's location gives it visibility of key Cabinet decision-making processes. At the same time, statutory protection could enhance its independence. The OIA states 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, there would be no statutory protection of the OIA's functions and independence at a time when these will be critically important.

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. We 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 provided by an independent statutory commissioner. 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 standards of impact analysis, and the greater profile that will be accorded to regulatory burden estimates in view of the whole-of-government target, the PC considers a statutory appointment to be justified.

The statutory commissioner should create greater accountability for impact analyses

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

- publish an assessment of the extent to which each impact analysis was drafted early enough 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 considered compliance impacts on businesses at only a high level (appendix C.4). Several participants called for mandatory consultation periods for impact analyses as a way of improving impact analysis (PC 2025a, p. 15). Since impact analyses are already assessed on the quality of consultation, a more general raising of impact analysis standards should improve consultation while not disproportionately elevating it among the other components of an impact analysis
- 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. It should also advise when an impact analysis is 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 'uncertainty' trigger.

The Australian Government should ensure that the OIA is adequately resourced to meet this task, especially as the impact analysis process will come under additional pressures if government embarks on the significant regulatory reform envisioned in this report.

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 the 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 their quality (SSCSB 2022; SSCSDL 2024). These committees should have their terms of reference expanded to specifically report to parliament on whether regulation is justified, 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 when the impact analysis is unsatisfactory.

There is scope for parliament to obtain better and more independent information on regulation to complement the impact analysis process. For example, the Parliamentary Budget Office provides independent advice to parliamentarians on the fiscal implementation of proposals, which has changed the landscape around tax and spending proposals and improved the information that is available to decisionmakers. A similar office and model could be considered for assessing the benefits and costs – including the burden on business – associated with regulatory proposals.

A more systematic approach to independent regulatory reviews

Central government can also scrutinise the stock of regulation to uncover opportunities that reduce regulatory burdens by commissioning independent reviews to evaluate a whole sector or regulatory system across all levels of government that regulate it. The PC considers that a holistic approach will be the most effective tool at government's disposal to address either the cumulative burden of regulation or duplicate and inconsistent regulations, all of which are likely to be missed when assessing regulations or individual regulators in isolation. Relying on an independent rather than internal review will make regulators more accountable and allow a more holistic assessment of sectors facing complex and enduring regulatory thickets.

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

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 Australian Government recently committed to conducting reviews of priority sectors to improve regulation and requested that the Council of Financial Regulators and other financial sector regulators facilitate a review of financial sector regulation (Chalmers and Gallagher 2025).

The PC recommends that the Australian Government task it, or another independent agency, with a stream of regulatory reviews, with the initial series of reviews committed to in the whole-of-government statement. The reviews should cover all relevant regulation across all levels of government. 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. This new function would complement reviews conducted by eminent people and panels or internal agency reviews that form part of stewardship processes (discussed in the next section).

The PC further recommends that the following areas of regulation are prioritised for urgent review based on feedback to the interim report (PC 2025a).

- Housing construction regulation (box 2.2).
- Corporate and not-for-profit reporting requirements. Many participants submitted that while reporting can serve an important purpose, many of its requirements are burdensome or duplicative and could be streamlined, consolidated or removed (PC 2025a, p. 12).
- Telecommunications sector regulation. Despite the sector experiencing ongoing rapid change in response to technological advances, telecommunications regulation has not faced a root-and-branch review for some years. Several industry peak organisations called for a review focussed on infrastructure regulations (AMTA, sub. 98, pp. 5-6; ATA, sub. 89, p. 6), while the Australian Communications Consumer Action Network called for a review of the consumer protection regulatory framework (sub. 101, p. 2).

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

The problem: The housing construction industry is plagued with numerous regulatory challenges that act as a handbrake on productivity (PC 2025d). 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. Many participants in this inquiry noted these issues (PC 2025a, p. 12).

The opportunity: The PC estimates that regulation adds between $135,000 to $320,000 to the cost of the average new house, and $40,000 to $175,000 to the cost of the average new unit. These are purely estimates of the aggregate costs of this regulation – we have not quantified the benefits.

Restrictive zoning rules are the single largest contributor to these costs, particularly for houses, but the administrative costs of building and planning permits, delays, building standards and professional regulation all contribute.

These regulations reduce housing affordability and act as a significant drag on the economy: in the aggregate, we estimate they cost individuals and businesses around $28.6 billion per year – around 1% of total GDP (appendix C.6).

While many regulations are appropriate to ensure the safety, quality and liveability of new housing stock, reducing just a small fraction of that regulation could offer significant savings for homebuyers and construction businesses.

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 Australian Government should commission a review of regulation in the construction sector, including the cumulative impact of regulation and alignment across regulators.

Over the long term: The Australian Government should commission an ongoing series of reviews of sectors or regulatory systems identified as containing embedded ‘thickets’ of regulation.

Recommendation 2.3
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
- mandate a post-implementation review where impact analysis suggests the effects of a policy change are highly uncertain
- expand the terms of reference of scrutiny committees of the Australian Parliament to allow them to provide stronger scrutiny of new regulations
- commission external root-and-branch reviews to reduce cumulative regulatory burdens in areas where thickets of regulation have accumulated.

Strengthen 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 they face (PC 2025a, pp. 14–15). The incentives of public servants, even with the best intentions, do not always align with the goal of better, growth-oriented regulation.

To address these challenges, the PC recommends that ministers raise and maintain 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

Statements of expectations by ministers are an important tool to guide regulators in how the government expects them to regulate. In keeping with the whole-of-government statement, statements of expectations should be clear that regulators and policymakers are expected to consider growth and dynamism in their decisions and actions, balancing these considerations with other regulatory objectives.

Statements of expectations should:

- give guidance on the government's risk appetite for prioritising growth and dynamism. Wherever possible, clear identification of risk tolerances, risk sharing, and trade-offs would establish community expectations
- require public servants to act autonomously and proactively to identify and respond to regulatory issues and wherever possible reduce unnecessary regulatory burden
- establish the government's expectations for how the principles in the whole-of-government statement should be implemented by the individual regulator, including the requirement to not increase regulatory burdens as an outcome

- set out expectations for regulatory stewardship (including collaboration with other regulators and internationally), accountability and reporting for outcomes.

Since the PC's interim report, the Australian Government has issued new guidance on statements of expectations for regulators (DoF 2025). This guidance largely aligns with these principles and others in this chapter, although further guidance could be given on the government's risk tolerances. The PC supports this revised guidance as a valuable step towards the outcomes in this report, although we note that sustained effort will be required for implementation. Progress should be assessed both through regular reporting to government (below) and independent assessment, such as through the Regulation Review.

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 (box 2.3).

Box 2.3 – Coordination of regulatory reform: the financial sector Regulatory Initiatives Grid

The financial sector's Regulatory Initiatives Grid sets out a list of reforms and initiatives that will materially affect the financial sector over the following two years. Ten Australian Government agencies contribute to the Grid (seven regulators, the Treasury the Department of Home Affairs and the Attorney General's Department). Two editions of the Grid have been published, in December 2024 and October 2025 (The Treasury 2025).

The Grid serves both information provision and coordination functions.

- Information provision – it helps businesses operating in the financial sector to stay abreast of key regulatory developments by providing information about many agencies' activities in one place.
- Coordination – it encourages and assists government agencies to adopt a coordinated regulatory approach by better sequencing initiatives, consultations and opportunities to share data.

Many participants in this inquiry welcomed the introduction of the Grid, and some proposed similar initiatives for other policy areas (PC 2025a, p. 14). Grids are likely to be most valuable in sectors that have multiple regulators at the same level of government, since it is harder to coordinate actions across multiple levels of government without wider commitments specified in intergovernmental agreements. The telecommunications sector features multiple regulators and so may be a good candidate for its own grid (BCA, sub. 200, p. 14; IAA, sub. 159, p. 2; Telstra, sub. 188, p. 9).

Central agencies could also 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.3). Central agency support could help to provide oversight or capability building for reviews, including cases where an external review will be the most effective method (recommendation 2.3).

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) relating to normal regulatory activities such as enforcement (reducing levels of non-compliance, for example). To ensure appropriate monitoring of regulatory outcomes KPIs should be based on outcomes, not outputs, wherever possible (box 2.4), and reflect a balanced scorecard approach that indicates how growth and regulatory risk have been considered in achieving the regulator's overarching objectives.

KPIs based on time taken to make each different type of regulatory decisions should be mandatory for agencies, with some maximum limit. When these become available, indexes that aggregate KPIs of times to make regulatory decisions should be created and reported in the Regulation Review (appendix C.2).

Inquiry participants noted that a balanced assessment of regulator performance is necessary and appropriate, since single measures are not likely to cover all desirable outcomes (FSC, sub. 2, p. 3; CHP Australia, sub. 198, p. 3). Some submissions worried that a focus on growth could lead to perverse and dangerous outcomes (E.g. Planetary Health Equity Hothouse, sub. 134, p. 5). It is important to note that a rising focus on growth should not occur at all costs: relevant trade-offs with legitimate regulatory goals such as consumer safety must be considered. A balanced scorecard approach will make sure regulators are still giving due consideration to their primary responsibility.

Box 2.4 – Regulatory delay: speeding up infrastructure approvals

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

The solutions: Recent reforms – including to introduce national environmental standards, facilitate regional planning and improve offsetting and engagement practices – are essential. Administrative changes can build on these reforms.

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 are further discussed in the PC's report on *Investing in cheaper cleaner energy and the net zero transformation* (PC 2025e).

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 are difficult to measure in meaningful quantitative terms. 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
- engage with stakeholders, gather and evaluate evidence, and co-design implementation where appropriate
- co-ordinate with other regulators and policymakers
- monitor and justify the compliance costs of each regulatory change and how it is 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. Annual reports should report progress against their commitments, which should be transparently assessed by government.

The PC notes that, consistent with these principles, the Australian Government's recent guidance on statements of expectation to regulators sets out many of these expectations, including that commitments, KPIs and progress should be transparently reported through corporate plans and annual reports, and assessed by the Department of Finance (DoF 2025). We support this progress.

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. We suggest drawing on the existing concept of 'stewardship', reflecting the new Australian Public Service (APS) value. 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 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

The problem: Safety and quality regulation in the care economy is fragmented, with differing requirements, standards and access points for information which create 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 governments can find it difficult to effectively oversee the care sector as a whole because information is spread across different systems.

The solution: Governments should establish a consistent and cohesive approach to regulating safety and quality across the care sector, including through better data sharing between agencies to enable more concerted action and reduce duplicative compliance activities for providers and workers.

For immediate action: The Australian Government should pursue an eight-year program of actions towards greater regulatory alignment, primarily focusing on the aged care, the National Disability

Box 2.5 – Duplicate and inconsistent regulation in the care economy

Insurance Scheme and veterans' care sectors. Implementing these changes could save workers and providers about $1.8 billion over 10 years. These recommendations will be discussed further in the PC's report on *Delivering quality care more efficiently* (PC 2025b).

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* (Cth) to add stewardship as a core APS value *(Public Service Amendment Act 2024,* schedule 1, item 2). Current APS obligations could be extended to specifically address *regulatory* stewardship.

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 (for example box 2.6). Many participants in this inquiry supported strengthening regulatory stewardship (PC 2025a, pp. 17–18).

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. It will lead to better outcomes for businesses. It will also promote collaboration by helping individual regulators see themselves as part of a broader regulatory system with common objectives.

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

Governments should ensure that regulatory stewardship is a clear objective, 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 whole-of-government statement on regulation. The Department of Finance currently provides some guidance on what stewardship means in a regulatory context that aligns with principles in this report, but no firm definition (DoF 2024, p. 13). The government should clearly and comprehensively define regulatory stewardship, both in its whole-of-government statement to highlight its importance, and in expectations and guidance material for regulators.

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 outcomes.

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 the 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.3).

The PC has set out a short regulatory stewardship guide (figure 2.2, and appendix C.5 for more detail). The guide shows outcomes to be achieved, supporting actions to take and, importantly, what blockers could detract from stewardship. The Department of Finance should develop the guide further and promulgate it across government.

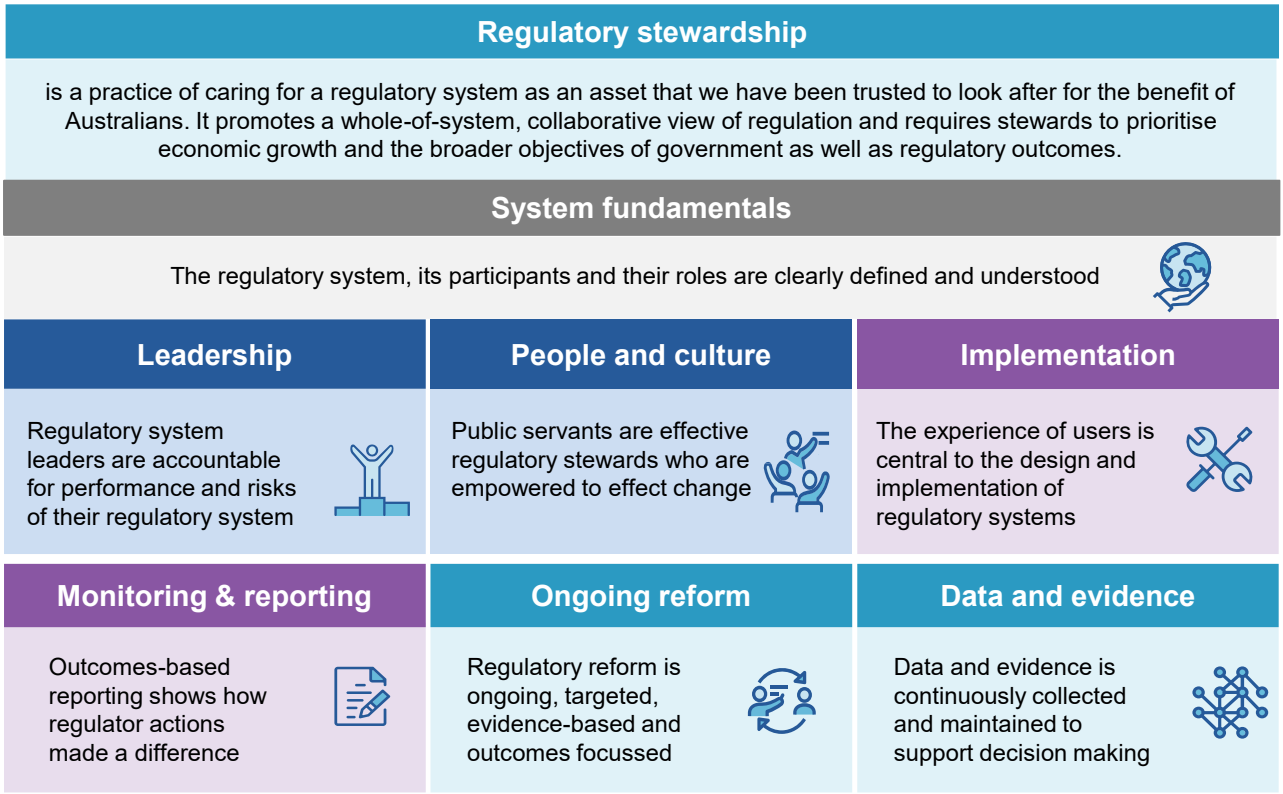
In response to our interim report (information request 2.5), participants suggested that to further embed regulatory stewardship, the Department of Finance and Australin Public Service Commission should provide additional examples of best practice, support change management (including cultural change), and embed indicators of regulatory stewardship in relevant performance guidance such as the APS Integrated Leadership System (PC 2025a, p. 18). The PC agrees with these suggestions.

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.3). Respondents identified some barriers to improving regulatory activities that are also barriers to stewardship; these include 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. Existing cost-recovery principles can mean that to be sufficiently resourced, a regulator may need to either 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 benefits rather than cost recovery, might be more suitable for some public good activities.

Figure 2.2 – Regulatory stewardship objectives



Nine respondents 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 in line with the Australian Government's statement on regulation (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, and constrains technological options in implementing regulation (box 2.7) or compliance.

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

Box 2.7 – Why we can't have nice things, digitally

The problem: While digital financial reporting has become a standard practice for companies around the world, it remains non-existent in Australia. One reason might be that the regulatory framework under the Corporations Regulations 2001 (Cth) mandates that annual and half-yearly financial reports be submitted in hard copy or PDF form. Digital submissions are permitted, but they remain optional rather than the default mode of compliance. Therefore, companies may stick with non-digital hard copies or PDF reports, because the digital option – potentially cheaper or better in the long run – is perceived as an additional cost.

The 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

Box 2.7 – Why we can't have nice things, digitally

compulsory for disclosing entities (publicly listed companies and other public interest entities). The requirement to submit financial reports in hard copy or PDF form should also be removed. This is discussed more in the PC's report on *Harnessing data and digital technology* (PC 2025c).

The opportunity: In 2023, Deloitte Access Economics estimated the long-term annual net benefit of mandating digital financial reporting to be $7.7 billion (2023, p. 14), although this modelling assumed the mandate would apply to a different group of businesses.[a]

While there would be some upfront regulatory cost in mandating digital financial reporting, this is likely outweighed in the longer term. There is some evidence for Australia to suggest that over the longer term, the annual regulatory burden of digital financial reporting could be as much as 40% lower than non-digital reporting (PC 2025c).

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.

a. Deloitte Access Economics modelled a mandate for digital financial reporting for all businesses with annual revenue over $50 million, whereas the PC's report on *Harnessing data and digital technology* recommends the mandate should initially cover only disclosing entities as defined in the Corporations Act.

Regulatory stewardship should also cover whole-of-government processes. 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). Sunsetting can therefore be a useful tool to support regulatory stewardship by encouraging frequent review of regulation.

The PC has heard, however, that sunsetting is often not useful to support this goal. Our consultations indicate that agencies often lack the resources to manage multiple concurrent sunsetting activities, while detailed consultation requirements can result in consultation fatigue. The process does not adjust to the size, complexity or risk level of the instrument and can provide limited flexibility for agencies to prioritise.

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. Sunsetting processes could also potentially be streamlined to increase incentives for regulators to use the process effectively.

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

The review of sunsetting provisions required to occur in 2027 (under section 60 of the *Legislation Act 2003* (Cth)) provides an ideal opportunity to review the timeframes for sunsetting and consider whether a more risk-based approach and varied timelines would be appropriate.

Recommendation 2.4
Enhance regulatory practice to deliver growth, competition and innovation

The Australian Government should enhance the expectations placed on public servants, making it clear they should deliver growth, competition and innovation through regulatory systems in addition to their regulatory objectives.

Ministerial statements of expectation should provide guidance to regulators on how to achieve these outcomes, including (among other things) how much risk public servants 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 regular reporting on the outcomes their activities have on regulated parties and the regulatory system.

Reform requires a considered implementation path to be successful

Most recommendations can be implemented immediately

Many 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. The minister with responsibility for regulation should take the lead role, starting with the statement on regulation, and following with processes that can be readily changed, such as Cabinet procedures, Senate committees and changed expectations for OIA and agencies doing impact analysis.

Some reforms will require sustained effort

A new Act will be required 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. Some actions consistent with the principles in this report have already been initiated: the Department of Finance has set out guidance on statements of expectation, including updating of KPIs and reporting requirements, to be in place by the end of 2025. Further actions would include consulting on and promulgating the definition of regulatory stewardship and providing further guidance on its

implementation (building on existing guidance, figure 2.2 and appendix C.5). Reporting on KPIs and regulatory stewardship commitments should be ongoing, including through the new Regulatory Review.

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.

The best 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 *not* to 'walk the walk' and default to a regulatory solution – because regulation doesn't show up in the budget bottom line. Governments 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 PC received the terms of reference for this inquiry on 13 December 2024. We consulted with 76 individuals and organisations (table A.1). A consultation questionnaire was released on 19 May 2025 seeking feedback on specific aspects of our policy reform areas. The interim report was released on 31 July 2025, with feedback invited via a call for submissions. In total, 201 submissions (table A.2) and 100 questionnaire responses (table A.3) were received. Read submissions and questionnaire responses.

The PC would like to thank everyone who has participated in this inquiry.

Table A.1 – Consultations

Participants
Allegra Spender MP
ANZ
Australia Prudential Regulation Authority (APRA)
Australian Banking Association (ABA)
Australian Centre for Evaluation (ACE)
Australian Chamber of Commerce and Industry (ACCI)
Australian Charities and Not-for-profits Commission (ACNC)
Australian Competition and Consumer Commission (ACCC)
Australian Council of Social Service (ACOSS)
Australian Council of Trade Unions (ACTU)
Australian Energy Regulator
Australian Government Department of Finance
Australian Government Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts (DITRDCSA)
Australian Government Department of Social Services (DSS)
Australian Government Department of the Prime Minister and Cabinet (PM&C)
Australian Government Office of Impact Analysis (OIA)
Australian Government Treasury

Participants
Australian Industry Group (Ai Group)
Australian Institute of Company Directors (AICD)
Australian Public Service Commission (APSC)
Australian Retailers Association (ARA)
Australian Securities and Investment Commission (ASIC)
Australian Taxation Office (ATO)
Better Regulation Victoria
Black Rock Inc
Business Council of Australia (BCA)
Centre for Policy Development (CPD)
Centre for Policy Studies (CoPS)
Chris Murphy (ANU)
Corporate Tax Association (CTA)
Daniel Davis (UTS)
e61
Financial Services Council (FSC)
First Nations Foundation
Food Standards Australia New Zealand (FSANZ)
Grattan Institute
Group of 100 (G100)
Housing Industry Association (HIA)
Indigenous Business Australia
IP Australia
Ken Henry (ANU)
Mandala Partners
Mark Cully (ANU)
Master Builders Australia
National Transport Commission (NTC)
New South Wales Treasury
New Zealand Ministry of Regulation
Office of the Queensland Small Business Commissioner
Organisation for Economic Co-operation and Development (OECD)
Professor Beth Webster (Melbourne Institute, University of Melbourne)
Professor Chris Berg (RMIT)

Participants
Professor Falvio Menezes (University of Queensland)
Professor Jason Potts (RMIT)
Professor John Freebairn (University of Melbourne)
Professor Justin Wolfers (University of Michigan)
Professor Miranda Stewart (University of Melbourne)
Professor Paul Jensen (University of Melbourne)
Professor Robert Breunig (Tax and Transfer Policy Institute, ANU)
Professor Ross Garnaut (The Superpower Institute)
Professor Steven Hamiliton (George Washington University)
Professor Veronica Taylor (ANU)
Queensland Productivity Commission
Ralph Lattimore
Reserve Bank of Australia (RBA)
Scientia Professor Richard Holden (UNSW)
South Australia Department of Premier and Cabinet
South Australia Department of Treasury and Finance
Tax Practitioners Board (TPB)
Tech Council of Australia (TCA)
The Tax Institute
Treidlia BioVet
Tulipwood Economics
United Kingdom Department for Business and Trade
Vanguard Australia
Victoria Department of Treasury and Finance
Visa

Table A.2 – Submissions

Participants	Sub no.
Accenture	154
Accord Australasia	97
ACT Greens	76
AGL Energy Limited (AGL)	143
Alan Greig	84
Alan Pears	131
Allegra Spender MP	36
Amazon	163
Amazon AU	31
AMPLIFY	115
Angus Lyttle	68
Associate Professor Andrea Sharam & Dr Lyndall Bryant	194
Australian Academy of Science	190
Australian Aluminium Council	129
Australian Automotive Dealer Association (AADA)	144
Australian Catholic University (ACU)	152
Australian Chamber of Commerce and Industry (ACCI)	17, 112
Australian College of Nursing (ACN)	167
Australian Communications Consumer Action Network (ACCAN)	101
Australian Council of Social Service (ACOSS)	22
Australian Council of Trade Unions (ACTU)	30, 184
Australian Energy Producers	142
Australian Finance Industry Association (AFIA)	181
Australian Financial Markets Association (AFMA)	24, 105
Australian Food and Grocery Council (AFGC)	176
Australian Glass and Window Association (AGWA)	133
Australian Health Promotion Association (AHPA)	135
Australian Industry Group (AIG)	88
Australian Information Industry Association (AIIA)	4
Australian Institute of Company Directors (AICD)	16, 180
Australian Investment Council	95
Australian Livestock and Rural Transporters Association (ALRTA)	173
Australian Logistics Council (ALC)	82
Australian Mobile Telecommunications Association (AMTA)	98

Participants	Sub no.
Australian Organic Limited (AOL)	55
Australian Psychological Society (APS)	175
Australian Retailers Association & National Retail Association (ARA & NRA)	19, 161
Australian Small Business and Family Enterprise Ombudsman (ASBFEO)	47, 186
Australian Telecommunications Alliance (ATA)	89
AXiLe Informatics	182
Barnaby Heaton	61
Belinda Tobin	85
BHP Group Limited (BHP)	108
Block inc.	34, 125
Business Council of Australia (BCA)	14, 200
Celerity Investments	50
Centre for Independent Studies (CIS)	44, 91
Chamber of Commerce and Industry Western Australia (CCIWA)	21
Chamber of Minerals and Energy WA (CME)	104
Chartered Accountants Australia and New Zealand (CA ANZ)	178
Chemistry Australia	9, 172
Children's Cancer Institute (CCI)	69
Civil Contractors Federation Australia Ltd (CCF)	8
Coca-Cola System	15
Colin Griffith	151
Commonwealth Bank of Australia (CBA)	33
Complementary Medicines Australia (CMA)	140
Consult Australia	100
Consumer Action Law Centre	117
Consumer Healthcare Products Australia (CHP Australia)	198
Copenhagen Infrastructure Partners	42
Corporate Tax Association	196
Council of Small Business Organisations of Australia (COSBOA)	26, 110
CPA Australia	109
CropLife Australia	10, 118
Dairy Australia	193
David Booth	56

Participants	Sub no.
David Lee	75
Deborah Pergolotti	187
Australian Government Department of Finance	102
Diageo Australia (Diageo)	107
Dr Anne Smith	3
Dr Lyndall Bryant et al	165
Employment Hero	146
Exit Advisory Group (EAG)	116
EY Australia	111
Fastrack Australia	7
Financial Services Council (FSC)	2, 123
Fortinet	179
Franchise Council of Australia (FCA)	119
Free TV Australia	199
Future Smart Strategies	67
George Ellis	52
Gillian King	106
Greg Strangman	156
Heavy Vehicle Industry Australia (HVIA)	5, 169
Housing Industry Association (HIA)	29, 138
Ian Coombes	103
Independent Payments Forum (IPF)	27
Infrastructure Partnerships Australia	132
INPEX	121
Institute of Public Accountants (IPA)	11, 157
Institute of Public Affairs	141
Insurance Council of Australia (ICA)	93
Internet Association of Australia Ltd (IAA)	159
Investor Group on Climate Change	137
Issac Gross	46
Jackie Wong	66
James Trevelyan	64, 65
Joe Remenyi	126
John Cosstick	49

Participants	Sub no.
John Freebairn	124
John Seddon	1
Kathryn Renfrew	74
Kevin O'Rourke	80
Kirk Davis	37
KPMG Australia	96
Kristen Sobeck	99
Lachlan Kerwood-McCall	122
Large Format Retail Association (LFRA)	28
Larissa Taylor	136
Law Council of Australia	164
Listed Investment Company and Trusts Association Ltd (Listed)	79
Living Streets Canberra	113
Lynette LaBlack	43
Macro Public Finance Lab @ Research School of Economics, Australian National University	73
Master Builders Australia	32, 192
Master Electricians Australia (MEA)	130
Mastercard (Australasia)	23
Menzies Research Centre (MRC)	147
Michele Lemmens	150
Michele Madigan	58
Microsoft	183
Minerals Council of Australia (MCA)	189
MortarCAPS Higher Learning Data Standard Ltd (MortarCAPS)	53
Mortgage and Finance Association of Australia (MFAA)	160
National Australia Bank (NAB)	185
National Electrical and Communications Association (NECA)	12
National Growth Areas Alliance (NGAA)	170
NewDirection Care	18
Noah Parfitt	201
Paul McCullough	77
Philip Nichol	57
Planetary Health Equity Hothouse (ANU)	134
Property Council of Australia	45

Participants	Sub no.
Public Skills Australia	158
Regional Australia Institute (RAI)	13, 174
Research Australia	114
Robert Oser	70
Rory Ellison	62
Samuel Richards	63
Science & Technology Australia	177
Senex Energy	41
Small Business Development Corporation	120
Soraya Kassim	39
Spektrum	20
Steven de Vroom	78
Streets People Love Hobart Inc (SPLH)	90
Sue Holmes	171
Tech Council of Australia (TCA)	162
Telstra	35, 188
The Group of Eight (Go8)	38, 145
The Pharmacy Guild of Australia	25
The Tax Institute	48, 197
Thomas Haskell	128
Tim Walshaw	166
United Workers Union (UWU)	153
Universities Australia (UA)	149
University of New South Wales (UNSW)	195
Urban Development Institute of Australia (UDIA)	92
Valeriy Ogienko	54
Wayne Mayo	83
Wesfarmers	191
Western Australian AI Hub (WA AI Hub)	168
Wilson Asset Management	94
Woodside Energy	139
Woolworths Group	6
YIMBY Melbourne	40
Public Skills Australia	158

Participants	Sub no.
Anonymous	59
Anonymous	60
Anonymous	71
Anonymous	72
Anonymous	81
Anonymous	86
Anonymous	87
Anonymous	127
Anonymous	148
Anonymous	51
Anonymous	155

Table A.3 – 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 (Ai Group)	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) (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
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
CPA Australia	39
CropLife Australia	97
David Smith	6
Deakin University	24
Diageo Australia	32
Edward Barnett	84
Energy Skills Queensland (ESQ)	87
ENGIE	23

Participants	qr no.
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 (NAS Projects)	11
National Foreign Trade Council (NFTC)	80
National Growth Areas Alliance (NGAA)	17
NSW Small Business Commission	76
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

Participants	qr no.
Skills Insight Jobs and Skills Council (Skills Insight JSC)	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

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

B.1 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). Mineral and petroleum resources are common sources of these types of rents, and while their capture is often through corporate taxation, they can also be captured through royalties.

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 2025b) estimates that 50% of the company income tax base takes the form of economic rents, an increase from Murphy (2017b) 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 remain in the top quintile after a decade compared to less profitable firms.

Taxation need not be the first or only response to the existence of economic rents. Some economic rents can be addressed through competition policy – by improving competition, the extent of economic rent is likely to decrease. 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 et al. 2020). 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.

That is not to say the taxation of rents is perfect – there are some cases where the taxation of rents may be distortionary to a limited extent, particularly if the economic rents are firm specific rents that accrue due to a firm's innovative ideas (Schwerhoff et al. 2020). However, Australia's company income tax targets both normal returns and economic rents – with approximately 50% of its revenue base in normal returns (Murphy 2025b). Therefore, taxation under Australia's company income tax is generally considered to be more distortionary than a more targeted rent tax – even where some of those rents may be misidentified.

Practically speaking, there is also a challenge with identifying and measuring rents. This is because the rate of return required for a company to enter a market is frequently not directly observable by policymakers, and may vary depending on the type of rent (Schwerhoff et al. 2020). Taxes which reduce the tax burden on normal returns such as a cashflow tax and an allowance for corporate equity go some way towards resolving these issues.

B.2 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 Review* (2010), *Business Tax Working Group* (2012), and *Re:Think* (2015).[18] 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:

- 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.
- Efficiency: an efficient tax system is one that minimises the distortions it imposes on the economic decisions of individuals, households and businesses.
- Simplicity: a simple tax system is one that is easy to understand, and straightforward to administer and comply with.
- 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

[18] Terminology has varied somewhat throughout these reviews.

remaining true to good tax system design. These criteria included the degree to which each company tax reform option could:

- Support a notable increase in new capital expenditure, relative to what would have otherwise been the case.
- Support dynamism by promoting new activity, growth, innovation, risk taking and encouraging new market entry from both domestic and foreign companies.
- Achieve revenue neutrality over the medium-term within the corporate tax system, minimising the need for changes in either effective tax rates or government spending outside of the corporate tax system.
- Minimise material windfall gains and losses as well as sovereign risk by minimising material windfall gains to investments that are viable under the current company tax system, and avoiding the reduction of the existing capital stock's viability.
- The reforms should be easy to understand for both domestic and international investors and implementable by tax administrators.
- Reduce overall distortions in the system by reducing economic inefficiencies in corporate tax.

B.3 Implementation considerations

There are a number of considerations regarding the implementation of the NCT (table B.1). This appendix provides details on the economic theory and trade-offs relevant to each of these factors. This section has been informed with reference to the economic literature, as well as by discussions with the Australian Tax Office (ATO).

Table B.1 – Summary of proposed reform design features

Key features	Proposed design
Operational definitions of NCT	
Sales revenue	All sales of goods and services would be recognised as turnover.
Operating expenses	All purchases would be recognised as expenses within the year of purchase.
Treatment of financial sector	NCT to include financial accounts of companies subject to Taxation of Financial Arrangements requirements.
Dividend imputation	The NCT would not be franked. It could be franked, at a cost about $2b per year.
Sequencing of CIT and NCT	NCT estimated first and deducted against CIT, consistent with the PRRT. This does raise some distortions, and could be reversed, at a cost of about $2b per year.
Treatment of losses	Carried forward at uplift rate and deducted against CIT liabilities.
Uplift rate	Long-term government bond rate.
Phasing of reforms	Immediate full implementation of CIT changes and NCT.
Starting balance (of capital expense)	Starting balance is $0, which in part reflects the windfall gains firms will receive from the CIT cut. A starting balance can be introduced, to avoid windfall losses on past investments, but this would come at a revenue cost.
Tax rate at the threshold	No special treatment for firms that transition above the threshold, although there are some ways to smooth tax rates to reduce bunching if this becomes a problem.

Operational definitions

In general, the NCT should utilise the same definitions of tax elements as the CIT; the only difference is how some elements should be treated. In other words, the data provided by companies to calculate their profit and loss statements under the CIT would also apply under the NCT. Variations of treatment and data collection should be as follows:

- all capital expenditure should be deducted from income in the same way as wages, materials, and other costs. Therefore, there is no depreciation reportable under the NCT. This includes tax-depreciable capital, capital typically treated through capital gains tax, and other forms of capital such as trading stock. This will require companies to report some additional asset-purchase data, though they are already required to maintain these records to meet capital gains tax and trading stock rules.
- for companies not regulated under Taxation of Financial Arrangements (TOFA), interest will no longer be reportable as either an income or an expense (further details below).

Ideally, the NCT will be integrated within the CIT form, however the ATO has advised that this may not be feasible due to system design challenges. Therefore, the NCT may be required to be reported through a separate form. If this is the case, information provided will be largely identical to under the CIT, except for additional non-depreciable capital expenditure data.

Treatment of the finance sector

Companies can trade with each other through real and financial transactions. 'Real' transactions represent purchases and expenses of goods, services, assets, materials, and wages, while financial transactions represent changes in cash holdings, borrowing, lending, interest, and foreign shares. Applying an 'R-based' cashflow tax focuses only on 'real' transactions while excluding financial transactions. This would capture all rents from the real economy, but exclude the rents earned by financial services companies.[19]

To include rents earned by financial services companies, the finance sector should be captured within the NCT by expanding the tax to include financial transactions, as captured by TOFA requirements.[20] This approach reflects best practice approaches to economy-wide cashflow taxation (Adam and Miller 2023; Devereux et al. 2021), is reflective of the approach employed by the 'R+F' cashflow tax previously implemented by Mexico, and is analytically comparable to the current S-based Estonian, Polish, Latvian and Georgian cashflow taxes (appendix B.4).

TOFA is a long-established and robust legal framework which companies have already been familiar with for more than two decades; as such, it is already a tried and tested approach to measuring and regulating the financial flows of Australian companies. Companies captured under TOFA are already required to report data on their financial flows as defined above; therefore, requiring these companies to provide a subset of this information in their tax returns is unlikely to notably increase their administrative burden. Given information on shareholdings and interest is already provided under the CIT, the main additional information they will be required to provide is changes to their financial asset and liability balances – the financial flow equivalent of capital expenditure. To simplify capturing financial transactions, it is possible for companies to simply report on their net interest as is already reported under the CIT. However, this approach would not

[19] Business-to-business financial sector rents are implicitly accounted for in an R-based cashflow tax. For an overview of economic rents earned by the financial sector, see appendix B.7.

[20] TOFA applies to financial sector entities earning $20 million or more in annual turnover, superannuation and investment institutions with assets valued at $100 million or more, as well as any other entity earning $100 million or more in turnover, owning $300 million or more in real assets, or owning $100 million or more in financial assets (ATO 2023).

account for the relative risk and returns of different financial assets and would therefore be less beneficial for companies facing liquidity regulatory standards (for example, the Basel III capital requirements[21]).

Dividend imputation

The dividend imputation system reflects Australia's somewhat unique comprehensive income tax system (Hourani et al. 2023). The system has resulted in franking becoming a key source of income for a number of investors and reducing the cost of equity financing for companies.

However, there is an argument that rent taxes such as the NCT should be unfranked. The logic for leaving a rent tax unfranked is because, by definition, a perfectly designed rent tax would not impact investment choices as it only taxes above normal rates of return. Therefore, the company in question, and thus its investors, will undertake a given investment regardless of whether the dividend is franked. If the NCT was franked, the above-normal returns (that are not required for a firm to invest) will be refunded to investors who did not require the returns for their investment purposes.

Doing so would also reflect the treatment of other cashflow taxes internationally – Mexico, which had a real and financial cashflow tax from 2008 to 2014 and a dividend imputation system, did not frank its cashflow tax (León 2012). Further, approaches to capturing rent through taxes and royalties in Australia are unfranked.[22]

If the NCT was unfranked, the government (in theory) is able to generate more revenue from the NCT, with minimal impact on firm and investor decisions. Modelling by Murphy (2025b) shows that under our preferred scenario, unfranking the dividends will generate an additional $2 billion for government, with minimal change in investment (appendix B.7, table B.29; Murphy 2025b).

However, participants to this inquiry indicated that unfranking the NCT could lead to unforeseen consequences and a more significant change in company income taxation in Australia (PC 2025a, p. 8). This includes unexpected implications that may follow from sequencing decisions (discussed below), as well as potential biasing in decisions regarding the decision to incorporate a business (the choice of registering as a sole trader, partnership, trust, or company).

Ultimately, the decision to frank or unfrank the dividend is a policy choice for government. Our preferred option proposes unfranking the dividends. However, the estimated benefit needs to be weighed up against the risk of unforeseen consequences leading to negative investment outcomes.

Sequencing of the CIT and NCT

The proposed system will require two calculations – one for the CIT component, and the other for NCT. That raises questions about the ideal ordering of the calculations. Conceptually, the ordering could be:

1. CIT and NCT estimated concurrently
2. the NCT estimated first and then deducted against the CIT, or
3. the CIT estimated first and deducted against the NCT.

The chosen sequence can impact the revenue raised, and the viability of marginal projects after tax. For example, if the CIT and NCT are estimated concurrently, economic rents may be 'double taxed,' raising more revenue for government, but also raising the tax on companies and leading to distorted investment decisions.

[21] Basel III requires banks to hold more and lower-risk capital than they may otherwise prefer so they can better absorb losses and stay stable during financial stress (BIS 2017).

[22] For example, resource royalties and the Petroleum Resource Rent Tax (and the abolished Minerals Resource Rent Tax) are applied before the CIT and, while they are then allowable expenses under the CIT, they are not franked.

The sequence would ideally be the one which introduces the fewest distortions impacting the after-tax required rate of return, although this needs to be traded-off against any budget cost.

For new entrants, or companies funding investment with equity or retained earnings, the least distortive design is achieved when the CIT payable is calculated then treated as a deduction to the tax base of the NCT. Under this approach, the required return on investment is equivalent under the CIT and the NCT. This is an approach applied in other international cases of rent taxation including in Norway where the company income tax is deductible against the petroleum tax to be neutral towards investment, and in Denmark where the company income tax paid for oil and gas operations is deductible against a 'hydrocarbon tax' (Norwegian Government 2025; PwC 2025a).

However, for companies funding their investments through debt, it may be better for tax payable under the NCT to be treated as a deduction under the CIT. The reason for this is that, while this does generate a distortive effect between the CIT and NCT, this effect is overcome by the reduced burden of the CIT on normal returns. This aligns with the typical sequencing applied to taxes treated as deductions under the CIT in Australia, including the petroleum resource rent tax and the major bank levy (ANAO 2009; The Treasury 2017).

Worked examples of these comparative settings are explored in appendix B.6. For a mathematical derivation of the impacts of sequencing choices upon the marginal investment, see Dixon and Nassios (2025).

Modelling done by Murphy suggests that the least distortive option is more costly (appendix B.7, table B.28; Murphy 2025b). Under our primary proposal, we therefore recommend sequencing the tax so the CIT is deductible against the NCT. This retains consistency with other similar taxes in Australia, is better for the government's budget position and has minimal downside impact on investment.

Treatment of losses and the uplift rate

Refundability of losses poses integrity challenges ...

Under the NCT, a company would pay tax when it has a positive cashflow tax liability. When a company has a cashflow loss, there are two main design options. Under the first option, the Australian Government could pay a tax refund to the loss-making company – known as a two-sided cashflow tax. This could be essentially replicated by allowing a cashflow tax loss to be deducted immediately against other taxes payable – such as against the CIT.

In principle, refundability under a two-sided NCT would likely support dynamism by encouraging innovation and risk-taking as it would allow firms to immediately receive a refund for any losses incurred by taking on a risky investment. It also supports new firms, in the loss-making stage at the start of their life, by providing a more predictable revenue stream to help them make long-term plans.

However, few CFT systems overseas have included explicit refund mechanisms for when companies make losses – most tend to use a credit system where losses are carried forward for a period (EY 2015). Allowing refundability can also generate significant integrity risks, such as incentivising businesses to falsely declare losses or shift loss-making projects to Australia (Auerbach et al. 2017, pp. 39–40; Shome and Schutte 1993, pp. 11–14). [23] Immediate refunds could also be unpalatable to the public, given it would require the government to give refunds to loss-making companies and essentially maintain a 'stake' in the investment

[23] If integrity and public perception concerns were less of an issue, another alternative is to utilise a delayed – but guaranteed – tax refund, to support business confidence and certainty. This approach is used in the Norwegian Special Petroleum Tax, which refunds tax losses one year after they are incurred (Norwegian Government 2025).

(Auerbach et al. 2017, pp. 73–74; Garnaut et al. 2020, pp. 468–469; Shome and Schutte 1993, p. 4). This would be a significant departure from the intent of the current Australian company income tax system.

The Productivity Commission therefore recommends the NCT be implemented as a one-sided cashflow tax – in other words, losses should be carried forward and deducted from a company's tax payable once they make a profit. The nominal value of the losses should increase over time (see section below).

An advantage of the PC's proposal is that it includes a CIT and an NCT component, with losses from the NCT able to be offset against CIT liabilities. This potentially allows businesses to access the deduction more quickly than if a loss was deducted against future NCT liabilities, and should reduce the likelihood of integrity issues.

… so applying the right uplift rate to losses is a key design challenge

In cases where a company does not generate a CIT liability of sufficient size to offset NCT losses, the NCT should operate as a one-sided cashflow tax. In other words, rather than being refunded, losses would be carried forward and offset against the companies CIT liability, when they eventually make a profit.

To minimise distortions to investment and protect the value of these investments over time, the losses should be indexed, or 'uplifted' at a predetermined uplift rate (Bonds and Devereux 1995, p. 62).

The PC proposes setting the uplift rate at the long-term government bond rate. This compensates companies for the time value of money, and the risk to companies of government not honouring their losses. It is worth noting that this rate is below the risk-adjusted rate of return which would provide full neutrality to investment decisions akin to that provided under a two-sided cashflow tax. However, this rate is supported in the academic literature (Bonds and Devereux 1995). Appendix B.6 contains analytical demonstrations of how this would operate.

This uplift rate is lower than that set by, for example, the petroleum resource rent tax and many resource rent taxes internationally – though it is more readily justifiable to set an above-risk-free rate for specific industry rent taxes than economy-wide rent taxes. While a higher uplift rate will be more desirable for companies, it will come at a larger cost to government revenue and may lead to windfall gains if the rate set is above the company's required rate of return. It could also create perverse incentives – for example, a company could invest in government bonds and uplift their initial loss by more than their risk-free return. In an ideal setting, uplift rates should be set at a project-specific rate to account for its risk; however, it is infeasible for the government to calculate the risk for every investment for all companies. It is also much simpler to set a single rate to minimise regulatory costs.

Transitional considerations

Phasing

How the proposed changes to the CIT and new NCT are introduced will have implications for taxation revenue, the size of windfall gains or losses for businesses, overall taxation of businesses, the level of capital expenditure during the transition period, how easily businesses can adjust to the changes, and political palatability.

The Commission considered two main implementation approaches: an immediate and full CIT rate cut and introduction of the NCT, and a phased-in CIT rate cut and simultaneous phase-in of the NCT over time. Many countries have taken a phased approach to reducing corporate tax rates, such as France (Ecalle 2022), the UK (United Kingdom Treasury 2015), and Australia when the CIT rate was cut over time from 2016 to 2022 (ATO 2025b). Other countries such as the US have previously cut their corporate tax rate in full without phasing the reduction (Gardner et al. 2024, p. 2).

Internationally, mixed approaches have also been taken by countries introducing CFTs. For example, Mexico used transition rates over a five-year period, whereas Estonia and North Macedonia did not phase in their cashflow taxes (EY 2015, pp. 48, 60, 65).

The Commission is in favour of an immediate implementation of both the CIT cuts and new NCT. This approach should generate an investment increase from the outset, compared to a phased approach, where businesses may hold off on investment until the phasing is complete. A phased approach has the benefit of allowing businesses time to adjust to the new system and smooths impacts on tax revenue, but may have greater risks if later stages of the phased implementation face political opposition.

Other possible implementation approaches, such as an immediate CIT rate cut with phased-in NCT, and immediate NCT and phased-in CIT, are not feasible given the former would cause reductions in tax revenue, and the latter would increase tax burden on businesses.

Starting balance

The setting of the starting balance is one of the most challenging components of implementing cashflow taxation. This is because there is a need to determine how to treat historical capital expenditure. If a company has made a large investment the year prior to the introduction of the cashflow tax, it will pay additional tax under the NCT but not receive a deduction for the investment expense (as this occurred prior to the introduction of the NCT). There is an argument that companies should be able to deduct some value of their historical investment from their taxable income in the first year of the NCT. Accounting for this is the purpose of a starting balance.

The starting balance will not affect the long-term outcomes of the tax, but it will affect firm behaviour and government revenue as firms adjust to the new tax regime. In setting the starting balance, there is a trade-off – the more accurately historical investment is included in the starting balance, the less windfall losses will be experienced by companies which have undertaken investment in the years prior to implementation. It will ensure that companies with significant upfront investments (such as many mining and manufacturing operations) will still be accounted for as a deduction under the NCT.[24] However, the higher the starting balance, the greater the cost to government.

However, our proposal does not suggest replacing the CIT with the NCT (as other proposals internationally typically have). The starting balance is particularly relevant when the CIT is replaced by a cashflow tax; it is less impactful under a hybrid CIT/NCT system, such as we have proposed – particularly when companies are getting a tax cut in the CIT. This is because providing firms with a starting balance is intended to prevent windfall losses to companies unable to access their investment outflows from previous years. However, as our proposal includes a tax cut for all firms, there are some windfall gains accruing to all firms who have undertaken recent investments. Therefore, the impact of estimating a low (or zero) starting balance is lessened somewhat by our proposal to cut the CIT rate alongside the NCT.[25]

[24] This resolves some of the concerns noted by several submissions, including Australian Energy Producers (sub. 142, p. 4), Business Council of Australia (sub. 200, p. 7), Chemistry Australia (sub. 172, p. 3), Minerals Council of Australia (sub. 189, p. 9).

[25] More specifically, the taxation of historical capital expenditure is reduced across all companies under the CIT, effectively reducing the taxation of normal returns under the reforms compared to the current system. Therefore, the question which remains is whether the reduced taxation of normal returns under the reduced CIT taxation offsets the potential increase in taxation of normal returns under the NCT, and the way a starting balance should be implemented to minimise this risk. The proposed cashflow approach sets the starting balance to reflect the position of a company had the NCT always been in place by reflecting the company's current operational and investment position while also minimising the extent to which economic rents are embedded within the starting balance. Importantly, this will ensure that

Overall, to allow for fair treatment for companies which invested prior to the implementation of the NCT, we propose that the starting balance be based on their investment over the previous three years. Specifically, investment should be measured by the net change in operating and investment activity cashflows.[26] Where their net historical cashflows were negative, they should receive a starting balance valued at 5% (the NCT rate) of that value, uplifted by the previous year's long-term government bond rate. Where it is positive (or too difficult to calculate), companies should receive a starting balance of zero. For example, a company with an outstanding operational and capital cashflow of -$1,000,000 would receive a starting balance of $52,000, assuming a long-term government bond rate of 4%.

Given the tax cut is smallest for companies with revenue above $1 billion, and that all companies below $1 billion will face a lower effective tax rate regardless of starting balance, it may be fairer, less costly to government, and more administratively simple to only provide a starting balance to companies earning above $1 billion in annual turnover. The PC proposes the starting balance be provided to all companies; however, government may consider this alternative as a simpler and less costly method of implementing the policy reforms.

Cashflow statements are likely widely maintained by companies. Publicly listed companies are required to publish their cashflow statements annually, and the ATO recommends and provides some support for companies to maintain cash flow statements (ATO 2024). Nonetheless, where this proves to be too burdensome, companies will be able to default to a zero-starting balance.

Alternative approaches to setting a starting balance are both theoretically and administratively less feasible. Other options include setting the starting balance at the remaining capital book value to reflect the non-depreciated value of capital, or else at the market value of capital assets. The former approach is the simpler of the two and may be perceived as more 'fair', though would reward pre-NCT behaviour and thus may embed economic rents in the starting balance. Market valuation approaches, on the other hand, would face significant complexity and will, by definition, embed economic rents into the starting balance. Ultimately, neither approach is preferable to the proposed approach of using the cashflow statement to determine starting balance.

International income tax obligations

International tax agreements will also be of note when implementing the NCT. The two most significant types of obligations faced by Australia are its double taxation agreements and its legislative commitment to OECD Global Anti-Base Erosion Model Rules (often referred to simply as 'Pillar Two'). The PC does not anticipate that these will lead to significant issues for the implementation of the NCT. While there may be a need for the NCT to be officially recognised under Pillar Two, it is an issue many other countries will also need to resolve with their own cashflow taxes (appendix B.4). Further, Australia's central company tax – the CIT – will remain in place and well above the Pillar Two minimum taxation requirement. Regarding double taxation agreements, when implemented, Mexico's R+F cashflow tax was accepted by and large under the pre-existing double taxation agreements with other countries (EY 2015, p. 46). While there may be some legislative hurdles in implementing the NCT, this is often the case for meaningful reform; and these hurdles are far from insurmountable.

companies with significant upfront costs (such as many mining and manufacturing operations) will still be compensated by demonstrating a negative cashflow.

[26] Cash flow statements include three sections: operating activities, investment activities, and financing activities; the last of these should be excluded from the calculation of a starting balance. The number of years a company's historical operational and capital cashflow balance is suggested here at three, but could be more or less depending upon the administrative burden placed upon companies and the Australian Taxation Office.

B.4 Examples of cashflow taxation around the world

Cashflow taxation has been employed by several countries, including Australia, the United Kingdom, Canada, Norway, Denmark, Mexico, Estonia, Latvia, Poland, Georgia, and North Macedonia. Across these countries, there are several cases where R, R+F, and S bases have been implemented (appendix B.5 contains an overview of these elements). There are also several cases where countries have considered but ultimately chosen to not implement a cashflow tax. Learnings from each of these cases have been considered in the design of the NCT.

The adoption of a cashflow tax as the primary form of company tax has occurred in a number of countries,[27] though there are many cases where the cashflow tax is applied to specific resource-based industries, from oil and gas and minerals through to wind energy and aquaculture. A list of key cases of cashflow taxation internationally is outlined in table B.2.

Notably, tax arrangements and concessions reflective of cashflow taxation have been widely applied internationally in various formats. This includes full expensing and its derivatives (e.g., partial immediate-expensing, instant asset write-offs, bonus depreciation, and accelerated depreciation), disallowances of interest deductibility (for example, thin capitalisation rules agreed to within the OECD), loss carriage into future tax years, and loss uplift (such as inflation adjustments for assets and losses).

Table B.2 – International cashflow taxes[a]

Country	Name	Scope	Application	Tax rate[b]	Base	Implementation years[c]
Australia	Minerals Resource Rent Tax	Minerals sector	Additional industry tax	22.5%	R	2012 – 2014
Australia	Petroleum Resource Rent Tax	Petroleum sector	Additional industry tax	40%	R	Offshore (1987 – present), Onshore (2012 – 2019)
Canada	Various resource-specific taxes and royalties[d]	Minerals, oil, and gas sectors	Additional industry tax or royalty	Various	R	1990 – present
Denmark	Hydrocarbon tax[e]	Oil and gas sector	Additional industry tax	52% – 70%	R	1982 – present
Estonia	Company Income Tax	All companies	Primary tax	22% (20% before 2025)	S	2000 – present
Georgia	Company Income Tax	All companies except banks, microfinance organisations, pension funds	Primary tax	15%	S	2017 – present

[27] A likely reason for more limited uptake of a cashflow tax as the main form of company taxation is the fiscal cost of only taxing economic rents – to do so requires either a marked increase in the tax rate, a measured increase in alternative taxes, or a reduction in public spending.

Country	Name	Scope	Application	Tax rate[b]	Base	Implementation years[c]
		and gambling operators				
Latvia	Company Income Tax	All companies	Primary tax	20%	S	2018 – present
Mexico	Impuesto Empresarial a Tasa Única	All companies	Complementary minimum tax	17.5% (16.5% in 2008)	R+F	2008 – 2013
North Macedonia	Corporate Income Tax	All companies	Primary tax	10%	S	2009 – 2015
Norway	Aquaculture Resource Rent Tax	Aquaculture sector	Additional industry tax	25%	R	2023 – present
Norway	Hydropower Resource Rent Tax	Hydropower sector	Additional industry tax	57.7%	R	2021 – present
Norway	Onshore Wind Resource Rent Tax	Onshore wind sector	Additional industry tax	25%	R	2024 – present
Norway	Petroleum Rent Tax	Petroleum sector	Additional industry tax	71.8%	R	1975 – present
Poland	'Estonian CIT'	All companies passing certain ownership, employment and passive income requirements	Optional alternative to company income tax	10% – 20%	S	2021 – present
United Kingdom	Petroleum Revenue Tax	Petroleum sector	Additional industry tax	Varied between 45% – 75%	R	1975 – 2016[f]

a. Some other niche cases arguably represent cashflow taxation, including Italy's "Regime dei minimi", France's "auto-entrepreneurs regime", Hungary's Kisvállalati adó (KIVA), and special cases in the Netherlands (Ernst & Young 2015). b. Tax rate ranges reflect the range of tax rates which apply depending on the given entity. c. Some taxes have evolved over time and have existed for a longer period of time than detailed – implementation dates represent point where tax treatment was reformed to most closely reflect a cashflow tax. d. Examples include British Colombia Mineral Taxes and Alberta Oil Sands Royalties. e. some cash flow elements are optional, and this only applies to the exploration phase. f. Legislation remains in place, though the tax rate is 0% from 2016.

Source: ATO (2016), Bunn (2019), Christian Grevstad (2024), Danish Tax Agency (Skat) (2025), European Commission (nd), EY (2015), HM Revenue & Customs (2025a, 2025b), Norwegian Government (2025), PwC (2025c), Sobeck et al. (2022), Tingas (2025).

Across these cases, there are a number of instances where cashflow taxes have been implemented and then subsequently revoked. These are detailed in table B.3 alongside an overview of the context and reason for their repeal.

Table B.3 – Repealed cashflow taxes[a]

County	Name	Year	Overview	Key reasons for repeal
Australia	Mineral Resource Rent Tax	2012-2014	Australia's mineral resource rent tax was repealed.	• The tax was viewed as stifling investment and to be reducing international competitiveness • Low revenue gains due to starting balance design • Complexity and compliance costs
Australia	Petroleum Resource Rent Tax (onshore component)	2012-2019	Australia's onshore component of the petroleum resource rent tax was repealed.	• High uplift rates and the ability to offset onshore exploration costs against offshore revenue led to integrity issues
Mexico	Impuesto Empresarial a Tasa Única	2008-2014	Mexico's R+F cashflow tax was repealed.	• Complexity and irregular rules (for example, disallowing royalty income and expenses)
North Macedonia	Company Income Tax	2009-2015	North Macedonia's exemption to taxing retained earnings was repealed.	• Initially implemented as a stimulatory measure, the country was exiting recession • The tax significantly reduced revenues • The tax was inconsistent with EU member states • There were concerns of tax planning behaviour
Poland	Special Hydrocarbon Tax	2014-2019	Poland's hydrocarbon cashflow tax was repealed before coming into effect.	• Low levels of shale gas extraction made this tax redundant
United Kingdom	Petroleum Revenue Tax (PRT)	1975-2016	The United Kingdom's PRT rate was set to 0%.	• The tax was viewed as stifling investment and to be reducing international competitiveness

a. The PC is aware that cashflow taxation has previously been considered to varying extents by a number of countries, including Colombia (EY 2015), Bolivia (Mclure and Zodrow 1996), New Zealand (Katz 1999; Wilson 2002), Norway (Scheel 2014), Switzerland (Daepp and Schaltegger 2004), Sweden (Ministry of Finance Sweden 2002), Ireland (Department of Finance Ireland 2012), and the United States (Tax Reform Task Force 2016).

Source: Australian Government (2014), EY (2015), Gibała (2019), HM Revenue & Customs (2016), IMF (2014), McCulloch (2016), Sobeck et al. (2022).

B.5 Options for reforming the corporate tax system

In developing company income tax reform proposals, several options were investigated. The feasibility of each option is compared in table B.4. This appendix outlines in detail each option considered.

Table B.4 – Relative impacts of reform options to the company income tax on new investments

	Treatment of normal returns[a]	Debt-equity bias
Allowance for corporate capital[b]	Taxation reduced	Neutralised
Allowance for corporate equity[b]	Taxation reduced	Reduced
Marginal allowance for corporate equity[b]	Taxation reduced	Reduced
Two-sided cashflow tax	Taxation removed	Neutralised
One-sided cashflow tax	Taxation removed	Neutralised
Full expensing with debt deductibility	Subsidy introduced	Unchanged
Full expensing without debt deductibility	Taxation removed	Neutralised
Partial immediate-expensing	Taxation reduced	Reduced
Industry-specific rent taxes[c]	Taxation unchanged	Unchanged
Bonus and accelerated depreciation	Subsidy introduced	Unchanged
Company income tax rate cut	Taxation reduced	Reduced
Research and development tax incentives	Subsidy introduced	Unchanged

a. Excludes consideration of normal returns in cases of annual losses – discussed further below. **b.** The impact of the allowance for corporate capital and equity are dependent upon the rates set. If the rate is set above the long-term government bond rate, these tax systems will lead to the subsidisation of normal returns for some investments. However, no matter the single rate, the tax treatment of debt and equity will never be completely neutralised in these models. **c.** Industry-specific rent taxes envisaged here would be implemented alongside the CIT (similar to the NCT).

Not outlined in the table above is the treatment of losses. If losses are treated nominally, a tax system will increase the extent to which it taxes normal returns. The two-sided cashflow tax provides the most neutral treatment of losses as it refunds taxable losses; however, each tax system outlined in this section can be designed to at least approach an equivalent to this treatment in real terms.

Also of note is that a tax system can be a combination of different forms of taxation. Indeed, it is not uncommon internationally for smaller companies to face a different (often simpler) tax system to that of more established companies (OECD 2025a; Sharma et al. 2025). In Australia, smaller companies face a lower tax rate than larger companies. The central recommendation of the PC is to conjoin the CIT with a one-sided cashflow tax, taking a step towards a more efficient company tax system.

How changes in corporate tax settings impact fiscal and economic factors

Reforms to corporate taxation impact fiscal and economic factors through what can be understood as first-order and second-order mechanisms. The first-order mechanisms represent the ‘day after’ effects of the policy and tend to reflect the direct increases (in the case of a tax rate increase or base broadening) or decreases (in the case of a tax rate decrease or base reduction) in tax receipts. Second-order mechanisms reflect the implications of behavioural change spurred by the policy change.

In the context of company income tax cuts, first-order mechanisms capture the immediate, mechanical reduction in tax liabilities faced by firms. Because Australia's dividend imputation system returns franking credits to domestic shareholders, only the portion of the corporate tax base attributable to non-redeemed tax ultimately bears the fiscal implications. In other words, the first-order mechanism reflects the loss in company tax revenue attributable to the policy change, partly offset by a gain in personal income tax revenue associated with larger income tax collected on dividends.

Second-order mechanisms operate over the medium-to-long-term and capture how firms adjust their behaviour in response to a lower company tax rate. A reduced tax burden increases the post-tax return on investment, prompting firms to expand their capital stock and in turn increase their profits. This 'capital deepening' increases the ratio of capital to labour and complementary fixed factors, thereby making these other factors of production more relatively sparse. This increases their 'marginal product', leading to a further effect of stimulating higher employment, wages, and profits.

These changes broaden the overall tax base, partially offsetting the first-order revenue loss through increased receipts from company income tax, personal income tax, and other indirect taxes arising from higher economic activity. While these behavioural responses generally do not fully neutralise the fiscal cost of the reform and vary based on the extent to which a policy impacts normal returns, they play a significant role in moderating the negative (or positive) impacts to tax revenue calculated in the first order effects. In the case of the PC's recommended policy package, this remaining gap from the reduced CIT rate is filled with the small but highly economically efficient NCT.

The taxation of above-normal returns will have a limited impact upon second-order mechanisms, though because some forms of above-normal returns are difficult to avoid targeting, there will likely still be an effect with taxes targeted in this way (appendix B.1).

An allowance for corporate capital

An allowance for corporate capital (ACC) is a generalised model of rent taxation. In effect, the allowance for corporate capital changes the tax base by replacing debt deductibility and accounts for corporate equity deductibility by allowing for firms to reduce taxable income by a single deemed cost of financing. The tax base under an ACC compared to the CIT is defined as follows:

Taxable income = revenue – (wage expenses + operating expenses + depreciation + ~~interest expenses~~ + **ACC** + other expenses)

In theory, by setting the allowable deduction of debt and equity to be equal, it neutralises the treatment of debt and equity by the company income tax system, removing any bias in financing decisions. Alongside the capital depreciation allowance, this approximates the present value of investment, which neutralises the treatment of investment (Boadway and Bruce 1984). For the investment decision to be unbiased, it would require that the tax-allowable depreciation rate on an asset reflect its true depreciation rate and that all assets are treated equally, which is not the case in our current company income tax system.

An ACC has previously been considered as an option for taxing mineral rents (Freebairn and Quiggin 2010), and was modelled as an investment-enhancing alternative to reducing the headline corporate tax rate (Murphy 2017b). More broadly, other rent taxation models (namely, the allowance for corporate equity and the cashflow tax) are specific applications of the ACC. An allowance for corporate equity can be interpreted as the ACC where one part of the deduction (debt-financing costs) is set by the market while the other part of the deduction (equity-financing costs) is set by government. Alternatively, a cashflow tax simplifies the ACC by allowing the full expensing of capital and refunding or uplifting losses each year, providing the equivalent deduction in the year of purchase rather than over the asset's lifetime.

In general, the ACC requires government to set the depreciation rate, rate of return on debt, and the rate of return on equity; the allowance for corporate equity requires government to set the depreciation rate and the rate of return on equity; and the cashflow tax requires government to either refund (two-sided), or set an uplift rate (one-sided), on losses. Generally, if the price is set by a market-based mechanism, it is more likely to be an efficient outcome, relative to if the government sets the price. As the allowance for corporate equity and the cashflow tax rely more heavily on market-based mechanisms, they may be viewed as more efficient than the allowance for corporate capital and are discussed further below.

An allowance for corporate equity

An ACE takes the current company income tax and adds an extra deduction for required returns to equity. The deduction is calculated by multiplying a firm's equity by a fixed 'ACE rate', which serves as a proxy for the return on equity. It is often cited as a way to return neutrality to financing choices and to shift the company tax base away from normal returns (Gammie 1991; Kayis-Kumar et al. 2022; de Mooij and Devereux 2011; Sobeck et al. 2022). The tax base under an allowance for corporate equity (ACE) compared to the CIT is defined as follows:

Taxable income = revenue – (wage expenses + operating expenses + depreciation + interest expenses + *(ACE rate * new equity)* + other expenses)

An ACE shifts the burden of tax away from normal returns, and onto economic rents, and therefore minimises distortions to firms investment decisions (Gammie 1991, p. 28). This boosts investment by increasing cashflow through the deduction of the cost of equity from their taxable income (in addition to deducting depreciation and interest payment), with empirical evidence generally suggesting an ACE drives increases in business investment (Klemm 2007; aus dem Moore 2014; Ribeiro 2025; Zeli 2018) – possibly more so for smaller companies (aus dem Moore 2014; Zeli 2018).[28] However, one study suggests the ACE had no effect on investment (Princen 2012b), another suggests the impact may be upon passive rather than productive forms of investment (Hebous and Ruf 2017), and there is also evidence an ACE may have adverse effects in the financial sector (Dreusch et al. 2025).

As with any approach to shifting away from the taxation of normal returns, an ACE would lead to a reduction in corporate tax revenue. This can be managed by increasing the statutory rate (de Mooij and Devereux 2011), introducing the ACE at a lower rate (Kayis-Kumar et al. 2022), or by limiting the time period in which the equity deduction can be received – such as in Türkiye (PwC 2025b). The cost can be limited in the short-term by only applying the deduction to new equity, as discussed further below. An aversion to reducing the company tax revenue too significantly has impeded the capacity for an ACE to be maintained indefinitely in many countries (Kayis-Kumar et al. 2022).

Modelling done for this inquiry shows the ACE creates a significant revenue loss for government. At a 2.5% ACE rate, investments was modelled to increase by 5.0% at a net budget cost of $6.9 billion per year over the long-term (appendix B.7, table B.32). Raising the ACE rate to the long-term government bond rate was estimated to increase investment by 9.0% at a cost to government of $14.2 billion per year in the long-term (appendix B.7, table B.32). The high cost of the ACE is consistent with the literature which has found that implementing an ACE can be costly (Finke et al. 2014).[29]

[28] Notably, the investment effect of the ACE was not always able to be isolated from the impacts of other changes in corporate taxation; this is the case with evidence of the Italian ACE, and so should be interpreted with caution (Klemm 2007).

[29] The high revenue cost of the modelled ACE reflects the (Murphy 2025b) estimate that 50% of Australia's company income tax base is the normal rate of return.

There are however some challenges with the ACE, which need to be considered and addressed if an ACE is implemented. The first is that there is limited evidence regarding the investment effect (as discussed above) while there is extensive evidence that, by introducing a deduction for the cost of equity, an ACE reduces the debt-bias in classical company income tax systems (Branzoli and Caiumi 2020; De Mooij et al. 2018; Hebous and Ruf 2017; Kestens et al. 2012; Panier et al. 2015; Petutschnig and Rünger 2017, 2022; Princen 2012b; Staderini 2001). There is some limited literature suggesting an ACE has an adverse or no effect on financing choices, particularly in the Brazilian case (Martinez and Lima 2023; Portal and Laureano 2017; Van Campenhout and Van Caneghem 2013). The relatively limited evidence of an investment effect may suggest a disconnect between economic theory and international experience with the ACE. This likely reflects that an ACE targets financing choices (by comparison, cashflow or full expensing tax systems target investment directly).

Further, an ACE attempts to increase rent taxation 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 projects, companies, and industries. By restricting the deduction to be an identical normal rate of return allowance across all levels of investment, there is a risk that an ACE could effectively act as a regressive tax on risk taking and a subsidy for more risk-averse firms, depending on the rate set. 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). A similar issue exists for a one-sided cashflow tax (such as the NCT); however, in this case, the issue is only present when a company makes a loss under the cashflow tax and cannot offset that loss against a CIT liability. It is always an issue for an ACE.

Finally, discussions with the ATO highlighted potential integrity challenges with the implementation of an ACE. A key driver of this is that it allows a deduction for an implicit payment on equity which has not necessarily been made – introducing an asymmetrical deduction which is not counterbalanced by a source of income for another entity in the tax system, potentially leading to integrity concerns. Debt financing, by comparison, allows a deduction for a payment from one entity which is treated as assessable income for another entity.[30] A number of concerns have been identified by the European Commission as requiring additional oversight and consideration in maintaining the integrity of an ACE, for example in monitoring intra-group arrangements and implementing a fit-for-purpose equity monitoring and reporting framework European Commission 2022). A number of concerns have been identified by the European Commission as requiring additional oversight and consideration in maintaining the integrity of an ACE, for example in monitoring intra-group arrangements and implementing a fit-for-purpose equity monitoring and reporting framework (Hebous and Ruf 2017; European Commission 2022).

The marginal allowance for corporate equity

An implementation model of the ACE, sometimes referred to as a marginal ACE, is an approach favoured by some ACE proponents for implementing the deduction in a manner which minimises windfall gains to companies upon implementation. The principle behind this is that an ACE on all existing capital is unnecessary as pre-existing investments have already been committed without the additional deduction for the cost of equity; in other words, pre-existing investments and equity arrangements are already viable under the current company income tax. The marginal ACE model attempts to overcome this deficit by only applying the deduction on *new* equity. In principle, this would be the preferred approach for implementing an ACE.

This approach has the benefit of reducing the cost of introducing the deduction in the short-term, though becomes equally as expensive in the long-term once all 'old' equity has been cycled out for 'new' equity.

[30] Even if the ACE deduction was symmetrical like debt deductibility, any additional tax deduction tends to lead to additional tax planning opportunities. Debt deductibility remains an integrity challenge in the tax system, addressed, for example, through thin capitalisation rules.

Consultation with the ATO suggested this would introduce an additional layer of implementation complexity issues whereby companies would not only be monitored to ensure their equity holdings are accurately reported, but also that their distinction between new and old equity is accurate. Some of this cost will be covered through the 'growth dividend' from a reduced taxation of normal returns. Methods to limit the costs include setting a lower ACE rate and limiting the length of time new equity receives the deduction; both options will also reduce the second-order effects of the policy, though the latter approach will lead to increased complexity.

An alternative approach to a marginal ACE would be to introduce the ACE at a low rate, then steadily increase it over time; this approach would have a similar effect at the aggregate, though may have a more subdued effect at the company level. For example, a startup with only new equity would receive the same benefit as an incumbent despite being funded exclusively through new equity.

The ACE would be an improvement on the current company income tax for its more favourable tax treatment of normal returns and by introducing a more neutral treatment of financing choices. Were Australia to introduce an ACE and the implementation complexity could be satisfactorily addressed, a marginal approach such as the two outlined here would be preferable to simply introducing a full ACE to all equity. Although not the PC's preferred proposal, the ACE would be aligned with the PC's long-term vision for reform.

Iterations of cashflow taxation

Cashflow taxation works the same way as the current company income tax system with three key changes:

1. capital is treated as any other business expense (e.g., the same way as wages, operational costs, etc.) rather than treating capital through depreciation, capital gains, or trading stock rules and allowances
2. financing costs are excluded from the tax base (an R base, see below) or more completely captured to include financial assets (an R+F base, see below), and
3. losses are either refunded or uplifted and carried forward.

These changes shift the tax base for a cashflow tax away from normal profits, and towards rents.

In essence, the cashflow tax works by taxing a company based on its net profits in a given year rather than the net profits attributable to a given year in nominal terms – a shift from the accrual accounting principles of the current company income tax system to cashflow accounting principles. In doing so, the tax base of a cashflow tax is the one which most directly reflects the business choices of a company in real terms.

There are three broad forms of tax bases a cashflow tax can utilise (OECD 2007a):

- R base: The 'real' base represents all transactions in the real economy – broadly, total sales (including sales of trading stock and fixed assets) take materials, wages, and capital expenditure.
- R+F base: The 'real' plus 'financial' base includes everything in the R base, then also accounts for inflows and outflows of financial transactions including the payment of interest and trading of financial securities and assets.[31]

[31] First suggested as part of the Meade review (1978), there are a number of alternative versions of the R+F base. These include the modified R base which taxes net-positive interest (Murphy 2025c), the R+A financial assets base (Boadway et al. 1983), and the R+B banking transactions base (Murphy 2017a).

- S base: The 'share' base, amounting to a tax on the distribution of profits to shareholders. It is analytically equivalent to the R+F base and is implicitly 'two-sided' without the need for government to provide tax refunds.[32]

Cashflow taxes can also either refund losses (a 'two-sided' cashflow tax) or uplift losses to reflect a similar present-value outcome (a 'one-sided' cashflow tax). In addition, any investment allowances which change depreciation, interest deductibility or loss carriage all reflect policy elements of cashflow taxation.

The NCT reflects a cashflow tax which applies an R base to non-financial services companies and an R+F base to financial services companies. It is one-sided, with the uplift rate set at the long-term government bond rate (appendix B.3).

The two and one-sided cashflow tax

Put simply, an R based cashflow tax system diverges from the current company tax system by allowing expenses on capital to be treated as a regular cost (rather than through depreciation) and by removing the deductibility of interest expenses. The tax base under a cashflow tax compared to the CIT is defined as follows:

Taxable income = revenue – (wage expenses + operating expenses + investment ~~+ depreciation + interest expenses~~ + other expenses)

Meanwhile, an R+F based cashflow tax system extends upon the R based cashflow tax by allowing interest expenses (and income) while also incorporating financial assets and liabilities such as bank loans. The tax base under an R+F cashflow tax compared to the CIT is defined as follows:

Taxable income = revenue – (wage expenses + operating expenses + investment ~~+ depreciation~~ + net financial assets and liabilities + interest expenses + other expenses)

The construction of the cashflow tax – and its benefits – is set out in the main report. This section focuses on the differences between a one-sided and two-sided cashflow tax.

The distinction between a two-sided and a one-sided cashflow tax is in the treatment of losses. When a company's profits are negative, that negative return has the given tax rate applied and is refunded (two-sided) or carried forward and uplifted at a given compensation rate (one-sided).

To put this into tangible terms, consider the following example. Under both the one- and two-sided cashflow tax, a company earning $1,000 in taxable income will pay the government $50 on a 5% cashflow tax. But if that company loses $1,000 the treatment differs. Under a two-sided cashflow tax, a company losing $1,000, would receive a $50 tax refund from the government. Under a one-sided cashflow tax, that company would see the $1,000 uplifted at the long-term bond rate and applied as a tax credit in the following year.

The symmetrical approach to profit and loss in a two-sided cashflow tax system theoretically removes distortions on capital investments by companies. Allowing losses to be uplifted (in addition to full expensing and the removal of the debt deduction) means that capital expenditure choices are reflected in real terms with no time-value distortions from accrual principles (such as depreciation). That has the effect of shifting the tax base entirely away from normal returns. However, the one-sided cashflow tax will generally be unable to achieve this same neutrality due to the differences in normal rates of return by project, company, and

[32] Analytically, the sum of the S base and the cashflow tax payable is equal to the sum of the real and financial base, demonstrating them to be identical from a calculation perspective (OECD 2007a). While the S base may be a simpler calculation, it is a significant step away from the CIT in terms of reporting and integrity measures and would amount to a foreign withholding tax if franked within Australia's dividend imputation system. It also reflects a partnership approach between companies and government.

industry. This is a similar problem to that faced by the ACE. However, unlike the ACE, it is only an issue when a company makes a loss and cannot offset the tax loss against other tax payable. This is why the NCT was designed to have losses deductible against the CIT – in doing so, any distortion associated with selecting the 'wrong' uplift rate is minimised.

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 (OECD 2007a; Auerbach et al. 2017; Patel and McClelland 2017). Further, evidence from Estonia's S-based cashflow tax (which is analytically equivalent to a two-sided R+F cashflow tax) suggests it to be an effective tax at neutralising financing biases (Hazak 2009; Masso et al. 2013), increasing investment (Masso et al. 2013; Pikkanen and Vaino 2018), improving liquidity and capital buffers (Hazak 2009; Masso et al. 2013; OECD 2024, p. 29), and produces an internationally competitive system of company taxation system (Mengden and Nieder 2025).[33] A two-sided cashflow tax also produces the effect of low-to-zero effective marginal tax rates – that is, even with a high rate, the non-distortionary tax will not impact the marginal investment (Gruevski et al. 2013; Hanappi 2018; OECD 2025b). See appendix B.1 for further discussion of the implications of economic rent taxation.

In favour of a two-sided cashflow tax is that in addition to being a better estimate of economic rents, 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 2025g, 2025f). 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).

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, the PC stops short of recommending a two-sided system. Instead, we recommend implementing the NCT (a one-sided cashflow tax) which offsets losses against CIT liabilities, then uplifts outstanding losses at the long-term government bond rate (see appendix B.3 for further discussion of the implementation of the NCT).

Full expensing with and without interest deductibility

Rather than implementing a cashflow tax, the PC also considered the implementation of a full expensing system, including through an increase in the instant asset write-off threshold. Full expensing allows firms to reduce their taxable income by the full value of the investment in the year the investment was made.

The tax base under full expensing with interest deductibility compared to the CIT is defined as follows:

Taxable income = revenue – (wage expenses + operating expenses + investment ~~+ depreciation~~ + interest expenses~~+~~ + other expenses)

While the tax base under full expensing without interest deductibility compared to the CIT is defined as follows:

Taxable income = revenue – (wage expenses + operating expenses + investment ~~+ depreciation + interest expenses~~ + other expenses)

[33] Indeed, Estonia's version of company income taxation has been implement in a number of countries – see appendix B.4 for further information. The calculation for the S based cashflow tax is:
Taxable income = dividends paid + purchases of shares – issues of new shares.

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 2025d).[34] Neither instance, nor similar investment tax breaks throughout the twenty-first century, was implemented with a view towards permanence; therefore, no change was made to interest deductibility rules.

Analysis of the Tax Cuts and Jobs Act in the United States suggests this may have had a positive effect (Chodorow-Reich et al. 2024a, 2024b), though this is disputed (Gale 2025). However, analysis by Win et al. (2025) suggested that these policies did not have a significant impact on business investment, possibly due to the role of franking credits in Australia's tax system.

Some submissions noted that it was ineffective due to the unpredictable nature of its legislation and it not being made permanent (CPA Australia, qr. 39 p. 3; MFAA, qr. 54, p. 1; MYOB, qr. 69, p. 1; 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 (Australian Government 2019) and was subsequently increased to $150,000 in March 2020 (Parliament of Australia 2020).

Full expensing models were by far and large the most suggested alternatives to the model proposed under the PC's interim report (for example, COSBOA, sub. 110, p. 2; Wesfarmers, sub. 191, p. 7). However, as outlined in the report, the PC does not recommend full expensing as a reform direction as it comes at a significant upfront cost to government, does not address the bias towards debt imposed by the tax system, and introduces an implicit subsidy for investment.

This last point is important – full expensing allows a company to deduct the price (the present-value of the returns) of an asset and, by retaining the deduction of interest, some of the asset's value is again deducted through the interest (a portion of the return on the investment) owed on its financing. This would amount to the government paying companies to invest (in other words, subsidising investment), leading to inefficient investments which would not otherwise occur. We can address this final issue – the fact that full-expensing subsidises investment – by implementing forms of expensing *without* interest deductibility. Unpublished estimates from the modelling undertaken for the interim report suggest that full expensing with interest deductibility could amount to a subsidy of $13 billion relative to full expensing without interest deductibility (table B.5). While some of the underlying assumptions to the modelling from Chris Murphy have changed since the interim report, the directionality and significance of this effect will be largely unaffected.

[34] Instant asset write-off schemes reflect a means-tested implementation of full expensing.

Table B.5 – The implications of full expensing in Australia[a]

	Current CIT		Full expensing with interest deductibility[b]		Full expensing without interest deductibility[c]	
	$bn	%	$bn	%	$bn	%
Normal returns to capital	59	46%	-20	-41%	-7[d]	-9%
Oligopoly rents: financial services	25	20%	24	50%	27	39%
Oligopoly rents: other industries	13	11%	13	27%	15	21%
Mineral rents	17	13%	17	36%	19	28%
Land rents	13	10%	13	28%	15	21%
Total	**128**	**100%**	**48**	**100%**	**70**	**100%**

a. These estimates reflect estimates from Murphy (2025a) which have been revised in more recent modelling detailed in (Murphy 2025b). These changes do not affect the directionality of the impact of full expensing upon normal returns to capital, but would affect the specific estimates. **b.** This reflects PC7 in Murphy (2025a). **c.** This reflects PC28 in Murphy (2025a). **d.** Research and development incentives operate in-part as subsidies on normal returns; therefore, the subsidy on normal returns remains even when interest deductibility is removed.

Source: Murphy (2025a, n. unpublished).

It should be noted in making this assessment that there is significant likeness between the interest-withheld iteration of full expensing and the NCT. In functional terms, the only difference is that the NCT has a more favourable treatment of losses, uplifting them at the long-term government bond rate.

The partial immediate-expensing model

The tax base under the partial immediate-expensing model compared to the CIT is defined as follows:

Taxable income = revenue – (wage expenses + operating expenses + 33% * investment + 67% * depreciation + 67% * interest expenses + other expenses)

Outlined in detail in the report, the partial immediate-expensing model is a more budgetarily and economically-sound approach through which full expensing could be implemented and embedded within the current system with relatively immediate effect. This approach turns part of the CIT into a cashflow tax-like system by borrowing many features from the NCT, but would be more readily integrated into the current CIT system. Similar to the model proposed by Murphy (2025c), it shifts 33% of the CIT to represent cashflow taxation by treating 33% of all asset expenses as expenditure (and 33% of all asset sales as income), removing the deductibility of 33% of interest, and uplifting 33% of losses at the long-term bond rate. The financial sector could be incorporate by either taxing all net-positive interest income or by allowing a deduction for the net change in financial assets and liabilities in a given year, leveraging data already collected under the Taxation of Financial Arrangements framework.

Consultation with the ATO has suggested this approach may be simpler to implement administratively implement a cashflow-type tax system than the PC's proposed package. By embedding itself within the current tax system, it is also likely to be considered less complex by companies – although the PC has not consulted on this point.

Pre-existing capital treated through depreciation and capital gains should continue to receive the same treatment as is currently the case, but there are different ways the treatment of new capital can be phased in. It could be implemented immediately, so all capital, interest and losses immediately receive the new

treatment. Alternatively, an opt-in period could be introduced, where firms can stay on the existing system for up to (for example) five years if they have recently invested heavily drawing upon debt funding.

Thin capitalisation rules should apply with no additional consideration, effectively reducing deduction allowances further, though financial institutions which face liquidity controls (such as those imposed under Basel III) should be allowed a deduction reflecting 33% of the net change in financial assets and liabilities. Under the given specifications, this reform option would align with international obligations. Notably, the extent to which this approach could be implemented may be constrained by the OECD Pillar Two requirement that a minimum of 15% of company profits be taxed in accordance with depreciation principles. This may become an issue at a 40% partial immediate-expensing rate for companies taxed at 25% and 50% for companies taxed at 30%.

This model could be implemented in a revenue-neutral manner by increasing company income tax rates, though this would not be recommended. Therefore, it would likely need to be implemented at some cost to government. The 25% allowance rate could be increased further to shift the company tax burden further away from normal returns and towards economic rents. Ultimately, this approach reflects a slightly less flexible version of the central reform proposal from the PC, but maintains a single tax with a single reporting system and would see significant gains to investment and productivity at a given fiscal cost – with similar results to the 2.5% ACE rate (appendix B.7, table B.31).

Industry-specific rent taxes

Natural resources are a source of revenue to governments across Australia, typically through taxes and royalties. Cashflow taxation is widely regarded to be an effective manner in which to tax industry-specific rents (appendix B.4 discusses international examples).

The Australian government has experience with two resource rent taxes – the Petroleum Resource Rent Tax (PRRT) and the Minerals Resource Rent Tax (MRRT). While the former has been long-standing, the latter was only implemented for two full years, having faced significant political pressure in its design, implementation and administration. Given this history, the PC did not consider it to be productive to recommend a resource rent tax be implemented as a means of funding a more competitive tax system, instead opting for a more agnostic economy-wide rent tax in the NCT.

Nonetheless, while it was not considered a meaningful alternative reform option, the PC found it informative to model the implications of implementing a rent tax as an alternative to the NCT upon the minerals sector (where there are notable resource rents) and the financial sector (where there are notable oligopolistic rents) – see appendix B.7 for an overview of the estimated mining and financial sector rents in the Australian economy. This would have a similar design to the NCT, allowing full expensing, disallowing interest deductibility, and applying an uplift rate at the long-term government bond rate. Modelling suggested that a 20% CIT rate for companies earning up to $1 billion and a 30% rate for other companies could be funded through the imposition of a 15% financial services and mining rent tax (appendix B.7, table 33).

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. 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 equivalise the effect of full expensing, and they suffer from the same shortcomings, though at a smaller scale.

Other reform considerations

Company income tax rate cuts

The PC considered adjustments to the CIT rate and threshold, including a lower bottom rate and the removal of the threshold at the lower 25% tax rate. First and foremost, this approach would reduce the 'sticker' price of foreign investment, increasing international flows (Rose et al. 2021). By reducing the tax rate, this would also effectively reduce the tax burden upon normal returns– estimated to contribute 50% of CIT base (Murphy 2025b) – thereby reducing the distortion caused to investment. Finally, in Australia, the marginal excess burden of the CIT – the dollars of economic welfare lost per tax dollar raised – is among Australia's highest, indicating it to be a highly inefficient tax (Murphy 2025b; Tran and Wende 2017).[35]

Economic theory generally posits that company tax rates akin to the CIT will inhibit investment. International empirical evidence generally supports this (Chodorow-Reich et al. 2024a; Hanappi et al. 2023; Dobbins and Jacob 2016), though this remains a contested literature (Gechert and Heimberger 2022). Empirical evidence from Australia is more limited and less conclusive, though only observes recent company tax changes which affected small companies (AlphaBeta 2018; Win et al. 2025) – see appendix B.9 for further analysis from the PC. This literature reflects evidence of the impacts of company taxation at the aggregate; for detail on the heterogenous effects of company tax changes, see appendix B.8.

A number of iterations of company income tax rate cuts were modelled as an input to the work by the PC. Raising the threshold under current rates to $1 billion would have a long-run annual budget cost of $1.3 billion with a 0.5% increase to investment; removing the threshold would cost $6.1 billion while boosting investment by 2.3% (appendix B.7, table B.30).

Research and development incentives

The commission 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 (Becker 2015; OECD 2023b).

Research and development spending contributes a relatively small share of private capital expenditure, totalling 4.5% in the 2025 financial year – a relatively small contribution which has remained fairly steady over time (ABS 2025b). This is true even with a pre-existing tax incentive program managed by the Department of Industry, Science and Resources and utilised by 12,956 businesses in the 2023 financial year (ATO 2025e). 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.[36]

[35] Contrarily, the Centre of Policy Studies identifies a negative marginal excess burden due to different assumptions regarding the impact of the CIT upon net foreign liability accumulation (Nassios et al. 2019, pp. 21–22).
[36] The Department is currently undertaking a strategic examination of research and development in Australia.

B.6 Worked examples of approaches to corporate tax reform

This appendix outlines a series of worked examples and cameos relating to the functionality of the NCT, the implications across differently sized companies, as well as how it compares against other forms of company tax reform.

When companies make investment choices, they typically use the net-present value of investment choices to determine whether a given option is worth undertaking. In effect, this form of analysis considers whether the returns of funds invested are expected to be worthwhile. A simplified form of this analysis is utilised here to demonstrate the directional impacts of the reforms discussed in this report.

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

The NCT does not distort the post-tax rate of return on an investment

The required rate of return is the rate at which it becomes worthwhile for 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 (Garnaut et al. 2020; Henry et al. 2010).

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.6 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.6 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 upfront 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.6 – 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	
Profits (before-tax)	*-$100,000*	*$26,380*	*$26,380*	*$26,380*	*$26,380*	*$26,380*	***10.0%***
Profits (after-tax)[b]	*-$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	
Profits (before-tax)	*-$100,000*	*$27,975*	*$27,975*	*$27,975*	*$27,975*	*$27,975*	***12.3%***
Profits (after-tax)	*-$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.** For simplicity, example assumes losses on the new investment measured under the NCT are deducted from NCT tax payable from other investments.

The NCT is deductible and offset against the CIT

The example in table B.6 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 tax liability under the company income tax system. Consequently, the PC proposes that losses under the NCT (post-tax calculations) should be offset against tax payable under the CIT where possible.

In addition, the sequencing of these two taxes matters; that is, the order in which the NCT and CIT are calculated and deducted from each other. Worked examples are provided below. The final recommendation is that the NCT be calculated first, then treated as a deduction under the CIT (table B.7). The interim report included worked examples where the NCT and CIT were calculated separately (table B.8). An alternative option sees the CIT calculated first then treated as a deduction to the NCT, and this approach is provided in table B.9. For discussion of the relative merits of these approaches, see appendix B.3; for a mathematical derivation of the impacts of sequencing choices, see Dixon and Nassios (2025).

Table B.7 – How the net cashflow tax interacts with the company income tax – CIT calculated after NCT

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
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	
Taxable income (NCT)	-50,000	$76,380	$76,380	$76,380	$76,380	$76,380	
NCT payable (5%)	-$2,500	$3,819	$3,819	$3,819	$3,819	$3,819	$10,888
Taxable income (CIT)	$50,000	$52,561	$52,561	$52,561	$52,561	$52,561	
CIT payable after NCT (20%)	*$10,000*	*$10,512*	*$10,512*	*$10,512*	*$10,512*	*$10,512*	$45,318
Net tax payable	**$7,500**	**$14,331**	**$14,331**	**$14,331**	**$14,331**	**$14,331**	**$56,206**

Table B.8 – How the net cashflow tax interacts with the company income tax – estimated concurrently

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
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	
Taxable income (NCT)	-$50,000	$76,380	$76,380	$76,380	$76,380	$76,380	
NCT payable (5%)	**-$2,500**	**$3,819**	**$3,819**	**$3,819**	**$3,819**	**$3,819**	$10,888
Taxable income (CIT)	$50,000	$56,380	$56,380	$56,380	$56,380	$56,380	
CIT payable (20%)	**$10,000**	**$11,276**	**$11,276**	**$11,276**	**$11,276**	**$11,276**	$47,950
Net tax payable	***$7,500***	***$15,095***	***$15,095***	***$15,095***	***$15,095***	***$15,095***	***$58,838***

Table B.9 – How the net cashflow tax interacts with the company income tax – NCT calculated after CIT

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
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	
Taxable income (CIT)	$50,000	$56,380	$56,380	$56,380	$56,380	$56,380	
CIT payable (20%)	**$10,000**	**$11,276**	**$11,276**	**$11,276**	**$11,276**	**$11,276**	$47,950
Taxable income (NCT)	-$60,000	$65,104	$65,104	$65,104	$65,104	$65,104	
NCT payable (5%)	**-$3,000**	**$3,255**	**$3,255**	**$3,255**	**$3,255**	**$3,255**	$8,491
Net tax payable	**$7,000**	**$14,531**	**$14,531**	**$14,531**	**$14,531**	**$14,531**	**$56,440**

The NCT uplifts losses to reduce the tax distortion to investment losses

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 the long-term government bond rate. Uplifted losses are then deducted from net tax payable in the following year. This is different to the CIT where losses are carried forward without an uplift rate, leading to an increased taxation of normal returns in real terms. A stylised example of the uplift rate being applied, assumed at 4%, is in table B.10.

Table B.10 – How the uplift rate is applied under the proposed reform

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
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	
Depreciation		-$20,000	-$20,000	-$20,000	-$20,000	-$20,000	
NCT payable (5%)	**-$4,500**	**$1,819**	**$1,819**	**$1,819**	**$1,819**	**$1,819**	**$2,178**
CIT payable (20%)	**$2,000**	**$2,912**	**$2,912**	**$2,912**	**$2,912**	**$2,912**	**$11,854**
Net NCT losses[a]	**-$2,500**	**-$2,600**	**$0**	**$0**	**$0**	**$0**	
Net tax payable	$0	**$312**	**$2,912**	**$2,912**	**$2,912**	**$2,912**	**$5,614**

a. Outstanding NCT tax payable in Year 0 is uplifted and credited against net tax payable in Year 1.

The NCT does not allow deductions on interest payments

The above examples assumed that investment is funded from equity (or retained earnings). The treatment of interest income and expenses is different under the NCT than it is under the current CIT. For further discussion of the reasoning for this under the NCT and full expensing practices more broadly, see appendix B.3 and B.5.

The implications of this are set out in two cases below. The first considers an investment funded through debt (table B.11), while the second considers an equity funded investment (table B.12). In both cases, it is assumed that the return on investment from either source is half the investment returns – in this case, 5%.

The impact and reasoning for this is most readily observed by comparing the relative rates of return from capital expenditure funded through different investment sources – equity or retained profits versus debt. The tax payable under the NCT is equivalent in both cases, while the tax payable is less under the case where the investment was debt-funded, reflecting the debt-bias inbuilt to the CIT.

Table B.11 – How debt funding is treated under the reform proposal

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
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	
Interest payments		$3,190	$3,190	$3,190	$3,190	$3,190	
NCT payable (5%)	**-$5,000**	**$1,319**	**$1,319**	**$1,319**	**$1,319**	**$1,319**	**$0**
CIT payable (20%)	**$0**	**$374**	**$374**	**$374**	**$374**	**$374**	**$1,289**
Net tax payable	**-$5,000**	**$1,693**	**$1,693**	**$1,693**	**$1,693**	**$1,693**	**$1,289**

For simplicity, example assumes losses on the new investment measured under the NCT are deducted from tax payable from other investments.

Table B.12 – How equity funding is treated under the reform proposal

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
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	
Equity payments		$3,190	$3,190	$3,190	$3,190	$3,190	
NCT payable (5%)	**-$5,000**	**$1,319**	**$1,319**	**$1,319**	**$1,319**	**$1,319**	**$0**
CIT payable (20%)	**$0**	**$1,012**	**$1,012**	**$1,012**	**$1,012**	**$1,012**	$3,488
Net tax payable	**-$5,000**	**$2,331**	**$2,331**	**$2,331**	**$2,331**	**$2,331**	**$3,488**

For simplicity, example assumes losses on the new investment measured under the NCT are deducted from tax payable from other investments.

The NCT neutralises treatment across asset classes

The final characteristic of the NCT we highlight here is its neutral treatment of assets. Examples to this point have implicitly considered the impact with respect to depreciation; however, a similar effect is present in its treatment of capital gains and trading stock. In the case of depreciation (Table B.13) and capital gains (Table B.14), when the present value of the asset at purchase is $100,000 (with only normal returns, at a 10% rate of return) and it depreciates or is sold after five years, the net-present value of tax payable is $0 under a 5% NCT. Meanwhile, the NPV is $1,099 in the case of depreciation and $1,723 under capital gains tax. This reflects the diminishment of the real value of an asset under these two regimes – with the more significant under capital gains tax as the deduction for costs only comes at the point of sale rather than in yearly instalments.

Table B.13 – How the treatment of assets is neutralised, depreciation[a]

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
New depreciable asset	-$100,000						
Income		$26,380	$26,380	$26,380	$26,380	$26,380	
Depreciation		-$20,000	-$20,000	-$20,000	-$20,000	-$20,000	
Tax payable, 5% CIT	**$0**	**$319**	**$319**	**$319**	**$319**	**$319**	**$1,099**
Tax payable, 5% NCT	**-$5,000**	**$1,319**	**$1,319**	**$1,319**	**$1,319**	**$1,319**	**$0**

a. For simplicity, example assumes losses on the new investment measured under the NCT are deducted from tax payable from other investments.

Table B.14 – How the treatment of assets is neutralised, capital gains[a]

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
New non-depreciable asset	-$100,000	$0	$0	$0	$0	$161,051	
Tax payable, 5% CIT	**$0**	**$0**	**$0**	**$0**	**$0**	**$3,053**	**$1,723**
Tax payable, 5% NCT	**-$5,000**	**$0**	**$0**	**$0**	**$0**	**$8,053**	**$0**

a. For simplicity, example assumes losses on the new investment measured under the NCT are deducted from tax payable from other investments.

In the case of trading stock, the CIT rules treat the purchases of trading stock as income at point of purchase, then as an expense when the trading stock is sold. An example of a company purchasing $100,000 in trading stock each year, selling progressively more through year three at a 10% mark-up is provided in Table B.15. Here, the net present value of tax payable is significantly lower under a 5% NCT than a 5% CIT; any real taxation is dependent upon the timeframe with which trading stock is purchased and sold, as well as the markup (assumed here to not increase over time).

Table B.15 – How the treatment of assets is neutralised, trading stock[a]

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
Trading stock, inflows	*$100,000*	*$100,000*	*$100,000*	*$100,000*	*$100,000*	*$100,000*	
Trading stock, outflows (inflow value)	*$0*	*-$50,000*	*-$100,000*	*-$150,000*	*-$150,000*	*-$150,000*	
Net trading stock	*$100,000*	*$150,000*	*$150,000*	*$100,000*	*$50,000*	*$0*	
Trading stock assessable income (CIT)	$100,000	$50,000	$0	-$50,000	-$50,000	-$50,000	
Trading stock assessable income (NCT)	-$100,000	-$100,000	-$100,000	-$100,000	-$100,000	-$100,000	
Sales of trading stock	$0	$55,000	$110,000	$165,000	$165,000	$165,000	
Taxable income, 5% CIT	$100,000	$105,000	$110,000	$115,000	$115,000	$115,000	
Taxable income, 5% NCT	-$100,000	-$45,000	$10,000	$65,000	$65,000	$65,000	
Tax payable, 5% CIT	**$5,000**	**$5,250**	**$5,500**	**$5,750**	**$5,750**	**$5,750**	**$23,760**
Tax payable, 5% NCT	**-$5,000**	**-$2,250**	**$500**	**$3,250**	**$3,250**	**$3,250**	**$43**

a. For simplicity, example assumes losses on the new investment measured under the NCT are deducted from tax payable from other investments.

The proposed reform will impact companies differently depending on their turnover

The proposed reform impacts companies differently depending on their annual turnover. Specifically, companies earning up to $50 million receive a 5% cut to the CIT and the imposition of a 5% NCT; companies earning between $50 million and $1 billion receive a 10% cut to the CIT and the imposition of a 5% NCT; and companies earning more than $1 billion (or do not pass the passive income test) receive a 2% cut to the CIT and the imposition of a 5% NCT.

The impacts of this policy are demonstrated stylistically in four sets of cameos. Each cameo considers a simplified assessment of the impact of a $500,000 investment in a five-year asset on the profits of each cohort of companies. For simplicity, the economic depreciation of the asset is 0% until the end of the fifth year, at which point it is 100%; the accounting depreciation is straight-line. In each case, the expected before-tax return on investment is 10%. Under these settings, four sets of cameos are presented based upon the realised return on investment and the source of funding.

The first cameo considers the case where the investment is debt-funded and the realised return on investment is 10% (table B.16). The second cameo considers the case where the investment is debt-funded and the realised return on investment is 20% - or twice the expected return (table B.17). The third (table B.18) and fourth (table B.19) cameos reflect the same respective investment return scenarios where the investment is funded through equity instead of debt – thereby no longer receiving a deduction for the cost of financing. Notably, the implication of the marginal investment is such that all returns are absorbed by operational and financing costs – meaning that, in the case of the debt-funded marginal investment, CIT profits are zero under the current state.

In real terms, there is no case where a company pays more tax under the proposed tax settings than is paid under the current policy settings; and there are only a handful of cases where nominal tax paid increases. Further, investments funded through equity rather than debt see a more significant reduction in tax payable, demonstrating that the CIT-NCT hybrid system is more agnostic to financing choices than the CIT. That said, the interaction leads to cases where marginal investments funded through debt become excessively favourable.

These figures are all only indicative. Investment choices with bigger return 'surprises' will face higher effective tax rates. Real-world investment choices also face more complex return and expense schedules. Nonetheless, these cameos demonstrate the benefits of the proposed reform at a high-level.

Table B.16 – Marginal investment, debt funded (10%)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total tax (nominal)	Total tax (real)
Investment	-$500,000							
Depreciation	$0	$100,000	$100,000	$100,000	$100,000	$100,000		
Interest		$31,899	$31,899	$31,899	$31,899	$31,899		
Income from new investment	-$500,000	$131,899	$131,899	$131,899	$131,899	$131,899		
Companies earning up to $50 million								
Current tax (25% CIT)	$0	$0	$0	$0	$0	$0	$0	$0
NCT (5%)	-$25,000	$6,595	$6,595	$6,595	$6,595	$6,595	$7,975	$0
CIT (20%)	$0	-$1,319	-$1,319	-$1,319	-$1,319	-$1,319	-$6,595	-$4,545
Proposed tax (20% CIT, 5% NCT)	-$25,000	$5,276	$5,276	$5,276	$5,276	$5,276	$1,380	-$4,545
Change in tax payable	**-$25,000**	**$5,276**	**$5,276**	**$5,276**	**$5,276**	**$5,276**	**$1,380**	**-$4,545**
Companies earning between $50 million and $1 billion								
Current tax (30% CIT)	$0	$0	$0	$0	$0	$0	$0	$0
NCT (5%)	-$25,000	$6,595	$6,595	$6,595	$6,595	$6,595	$7,975	$0
CIT (20%)	$0	-$1,319	-$1,319	-$1,319	-$1,319	-$1,319	-$6,595	-$4,545
Proposed tax (20% CIT, 5% NCT)	-$25,000	$5,276	$5,276	$5,276	$5,276	$5,276	$1,380	-$4,545
Change in tax payable	**-$25,000**	**$5,276**	**$5,276**	**$5,276**	**$5,276**	**$5,276**	**$1,380**	**-$4,545**
Companies earning more than $1 billion								
Current tax (30% CIT)	$0	$0	$0	$0	$0	$0	$0	$0
NCT (5%)	-$25,000	$6,595	$6,595	$6,595	$6,595	$6,595	$7,975	$0
CIT (28%)	$0	-$1,847	-$1,847	-$1,847	-$1,847	-$1,847	-$9,233	-$6,364
Proposed tax (20% CIT, 5% NCT)	-$25,000	$4,748	$4,748	$4,748	$4,748	$4,748	-$1,258	-$6,364
Change in tax payable	**-$25,000**	**$4,748**	**$4,748**	**$4,748**	**$4,748**	**$4,748**	**-$1,258**	**-$6,364**

Table B.17 – Rent investment, debt funded (20%)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total tax (nominal)	Total tax (real)
Investment	-$500,000							
Depreciation	$0	$100,000	$100,000	$100,000	$100,000	$100,000		
Interest		$31,899	$31,899	$31,899	$31,899	$31,899		
Income from new investment	-$500,000	$167,190	$167,190	$167,190	$167,190	$167,190		
Companies earning up to $50 million								
Current tax (25% CIT)	$0	$8,823	$8,823	$8,823	$8,823	$8,823	$44,114	$30,405
NCT (5%)	-$25,000	$8,359	$8,359	$8,359	$8,359	$8,359	$16,797	$6,081
CIT (20%)	$0	$5,386	$5,386	$5,386	$5,386	$5,386	$26,932	$18,562
Proposed tax (20% CIT, 5% NCT)	-$25,000	$13,746	$13,746	$13,746	$13,746	$13,746	$43,729	$24,643
Change in tax payable	**-$25,000**	**$4,923**	**$4,923**	**$4,923**	**$4,923**	**$4,923**	**-$385**	**-$5,762**
Companies earning between $50 million and $1 billion								
Current tax (30% CIT)	$0	$10,587	$10,587	$10,587	$10,587	$10,587	$52,937	$36,486
NCT (5%)	-$25,000	$8,359	$8,359	$8,359	$8,359	$8,359	$16,797	$6,081
CIT (20%)	$0	$5,386	$5,386	$5,386	$5,386	$5,386	$26,932	$18,562
Proposed tax (20% CIT, 5% NCT)	-$25,000	$13,746	$13,746	$13,746	$13,746	$13,746	$43,729	$24,643
Change in tax payable	**-$25,000**	**$3,158**	**$3,158**	**$3,158**	**$3,158**	**$3,158**	**-$9,208**	**-$11,843**
Companies earning more than $1 billion								
Current tax (30% CIT)	$0	$10,587	$10,587	$10,587	$10,587	$10,587	$52,937	$36,486
NCT (5%)	-$25,000	$8,359	$8,359	$8,359	$8,359	$8,359	$16,797	$6,081
CIT (28%)	$0	$7,541	$7,541	$7,541	$7,541	$7,541	$37,704	$25,987
Proposed tax (20% CIT, 5% NCT)	-$25,000	$15,900	$15,900	$15,900	$15,900	$15,900	$54,502	$32,068
Change in tax payable	**-$25,000**	**$5,313**	**$5,313**	**$5,313**	**$5,313**	**$5,313**	**$1,565**	**-$4,418**

Table B.18 – Marginal investment, equity funded (10% rate of return)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total tax (nominal)	Total tax (real)
Investment	-$500,000							
Depreciation	$0	$100,000	$100,000	$100,000	$100,000	$100,000		
Interest		$0	$0	$0	$0	$0		
Income from new investment	-$500,000	$131,899	$131,899	$131,899	$131,899	$131,899		
Companies earning up to $50 million								
Current tax (25% CIT)	$0	$7,975	$7,975	$7,975	$7,975	$7,975	$39,873	$27,482
NCT (5%)	-$25,000	$6,595	$6,595	$6,595	$6,595	$6,595	$7,975	$0
CIT (20%)	$0	$5,061	$5,061	$5,061	$5,061	$5,061	$25,304	$17,440
Proposed tax (20% CIT, 5% NCT)	-$25,000	$11,656	$11,656	$11,656	$11,656	$11,656	$33,278	$17,440
Change in tax payable	**-$25,000**	**$3,681**	**$3,681**	**$3,681**	**$3,681**	**$3,681**	**-$6,595**	**-$10,042**
Companies earning between $50 million and $1 billion								
Current tax (30% CIT)	$0	$9,570	$9,570	$9,570	$9,570	$9,570	$47,848	$32,979
NCT (5%)	-$25,000	$6,595	$6,595	$6,595	$6,595	$6,595	$7,975	$0
CIT (20%)	$0	$5,061	$5,061	$5,061	$5,061	$5,061	$25,304	$17,440
Proposed tax (20% CIT, 5% NCT)	-$25,000	$11,656	$11,656	$11,656	$11,656	$11,656	$33,278	$17,440
Change in tax payable	**-$25,000**	**$2,086**	**$2,086**	**$2,086**	**$2,086**	**$2,086**	**-$14,570**	**-$15,538**
Companies earning more than $1 billion								
Current tax (30% CIT)	$0	$9,570	$9,570	$9,570	$9,570	$9,570	$47,848	$32,979
NCT (5%)	-$25,000	$6,595	$6,595	$6,595	$6,595	$6,595	$7,975	$0
CIT (28%)	$0	$7,085	$7,085	$7,085	$7,085	$7,085	$35,425	$24,416
Proposed tax (20% CIT, 5% NCT)	-$25,000	$13,680	$13,680	$13,680	$13,680	$13,680	$43,400	$24,416
Change in tax payable	**-$25,000**	**$4,110**	**$4,110**	**$4,110**	**$4,110**	**$4,110**	**-$4,448**	**-$8,562**

Table B.19 – Rent investment, equity funded (20% rate of return)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total tax (nominal)	Total tax (real)
Investment	-$500,000							
Depreciation	$0	$100,000	$100,000	$100,000	$100,000	$100,000		
Interest		$0	$0	$0	$0	$0		
Income from new investment	-$500,000	$167,190	$167,190	$167,190	$167,190	$167,190		
Companies earning up to $50 million								
Current tax (25% CIT)	$0	$16,797	$16,797	$16,797	$16,797	$16,797	$83,987	$57,887
NCT (5%)	-$25,000	$8,359	$8,359	$8,359	$8,359	$8,359	$16,797	$6,081
CIT (20%)	$0	$11,766	$11,766	$11,766	$11,766	$11,766	$58,830	$40,548
Proposed tax (20% CIT, 5% NCT)	-$25,000	$20,126	$20,126	$20,126	$20,126	$20,126	$75,628	$46,629
Change in tax payable	**-$25,000**	**$3,328**	**$3,328**	**$3,328**	**$3,328**	**$3,328**	**-$8,359**	**-$11,258**
Companies earning between $50 million and $1 billion								
Current tax (30% CIT)	$0	$20,157	$20,157	$20,157	$20,157	$20,157	$100,785	$69,464
NCT (5%)	-$25,000	$8,359	$8,359	$8,359	$8,359	$8,359	$16,797	$6,081
CIT (20%)	$0	$11,766	$11,766	$11,766	$11,766	$11,766	$58,830	$40,548
Proposed tax (20% CIT, 5% NCT)	-$25,000	$20,126	$20,126	$20,126	$20,126	$20,126	$75,628	$46,629
Change in tax payable	**-$25,000**	**-$31**	**-$31**	**-$31**	**-$31**	**-$31**	**-$25,157**	**-$22,835**
Companies earning more than $1 billion								
Current tax (30% CIT)	$0	$20,157	$20,157	$20,157	$20,157	$20,157	$100,785	$69,464
NCT (5%)	-$25,000	$8,359	$8,359	$8,359	$8,359	$8,359	$16,797	$6,081
CIT (28%)	$0	$16,473	$16,473	$16,473	$16,473	$16,473	$82,363	$56,767
Proposed tax (20% CIT, 5% NCT)	-$25,000	$24,832	$24,832	$24,832	$24,832	$24,832	$99,160	$62,848
Change in tax payable	**-$25,000**	**$4,675**	**$4,675**	**$4,675**	**$4,675**	**$4,675**	**-$1,625**	**-$6,616**

Comparative implications of other corporate tax reforms

The PC has considered a wide array of policy reform options, each with different implications upon the effective taxation of investment decisions. To demonstrate the relative impacts, the impacts of different tax regimes under a given investment option is outlined in table B.20 and table B.21.

In reality, the impact of different tax regimes will vary depending on the specifications of the investment decision, though the broad directionality will generally be comparable.[37] This example assumes the following specifications:

- The capital asset is valued at $100,000.
- The pre-tax rate of return on the capital asset is 10%.
- The capital asset generates income for five years.
- The capital asset's economic depreciation schedule is such that it does not depreciate until the end of five years, at which point it depreciates at 100%.[38]
- The capital asset follows a straight-line accounting depreciation schedule.[39]
- Financing of the asset is split evenly between debt and equity or retained earnings, with both sources requiring a 5% return on lending.
- The long-term government bond rate is 4%.

The ultimate impact on tax payable under each regime is then summarised in table B.22 to demonstrate the effective nominal tax rate, the effective real tax rate, and the post-tax rate of return of the example investment. These are considered in two scenarios: under the first, taxable losses (money 'owed' by the tax office) can be offset against the tax liabilities of other investments by a company; under the second, this is not possible, so losses are carried forward and uplifted based upon the rules under each regime.[40] In the latter case, effective real tax rates are higher and the return on investment is lower than in the former case, reflecting that losses are not compensated for their real value (though the uplift rates partially alleviate this).

Importantly, while changes to the investment settings detailed above will change expected tax implications, they are all determined implicitly by companies and markets (for example, financing returns, the long-term government bond rate) or set explicitly by government (for example, accounting depreciation schedules).

[37] In most of these regimes, more highly leveraged investments will be more viable than less highly leveraged investments due to the debt-bias built into the CIT.

[38] This assumption represents an edge case but simplifies the analysis for improved interpretability. Without this assumption, the income on the capital asset would vary across time.

[39] Economic depreciation refers to the true depreciation of an asset, while accounting depreciation refers to the depreciation allowance set by the ATO.

[40] All tax regimes allow losses to be carried forward indefinitely. The NCT and partial immediate-expensing regimes allow respective portions of tax payable to be uplifted at the long-term government bond rate.

Table B.20 – The impact of different corporate tax regimes, established company

	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
Interest costs		$3,190	$3,190	$3,190	$3,190	$3,190
Equity/retained earnings		$3,190	$3,190	$3,190	$3,190	$3,190
CIT (30%)						
Net tax payable	***$0***	***$957***	***$957***	***$957***	***$957***	***$957***
Net profits	**-$100,000**	**$25,423**	**$25,423**	**$25,423**	**$25,423**	**$25,423**
CIT (25%)						
Net tax payable	***$0***	***$797***	***$797***	***$797***	***$797***	***$797***
Net profits	**-$100,000**	**$25,582**	**$25,582**	**$25,582**	**$25,582**	**$25,582**
CIT (20%)						
Net tax payable	***$0***	***$638***	***$638***	***$638***	***$638***	***$638***
Net profits	**-$100,000**	**$25,742**	**$25,742**	**$25,742**	**$25,742**	**$25,742**
NCT (5%) deducted against CIT (20%)						
NCT payable (5%)	*-$5,000*	*$1,319*	*$1,319*	*$1,319*	*$1,319*	*$1,319*
CIT payable (20%)	$0	$374	$374	$374	$374	$374
Net tax payable	***-$5,000***	***$1,693***	***$1,693***	***$1,693***	***$1,693***	***$1,693***
Net profits	**-$95,000**	**$24,687**	**$24,687**	**$24,687**	**$24,687**	**$24,687**
CIT (20%) deducted against NCT (5%)						
CIT payable (20%)	$0	$638	$638	$638	$638	$638
NCT payable (5%)	*-$5,000*	*$1,287*	*$1,287*	*$1,287*	*$1,287*	*$1,287*
Net tax payable	***-$5,000***	***$1,925***	***$1,925***	***$1,925***	***$1,925***	***$1,925***
Net profits	**-$95,000**	**$24,455**	**$24,455**	**$24,455**	**$24,455**	**$24,455**
CIT (25%) with partial immediate-expensing						
CIT (Depreciation share payable, 66.7%)	$0	$532	$532	$532	$532	$532
CIT (Expensing share payable, 33.3%)	*-$8,333*	*$2,198*	*$2,198*	*$2,198*	*$2,198*	*$2,198*
Net tax payable	***-$8,333***	***$2,730***	***$2,730***	***$2,730***	***$2,730***	***$2,730***
Net profits	**-$91,667**	**$23,650**	**$23,650**	**$23,650**	**$23,650**	**$23,650**
CIT (25%) with full expensing and interest deductibility						
Net tax payable	***-$25,000***	***$5,797***	***$5,797***	***$5,797***	***$5,797***	***$5,797***
Net profits	**-$75,000**	**$20,582**	**$20,582**	**$20,582**	**$20,582**	**$20,582**
CIT (25%) with full expensing and without interest deductibility						
Net tax payable	***-$25,000***	***$6,595***	***$6,595***	***$6,595***	***$6,595***	***$6,595***
Net profits	**-$75,000**	**$19,785**	**$19,785**	**$19,785**	**$19,785**	**$19,785**
CIT (25%) with an allowance for corporate equity (2.5%)						
Net tax payable	***$0***	***$485***	***$547***	***$610***	***$672***	***$735***
Net profits	**-$100,000**	**$25,895**	**$25,832**	**$25,770**	**$25,707**	**$25,645**

Table B.21 – The impact of different corporate tax regimes, startup company

	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
Interest costs		$3,190	$3,190	$3,190	$3,190	$3,190
Equity/retained earnings		$3,190	$3,190	$3,190	$3,190	$3,190
CIT (30%)						
Net tax payable	***$0***	***$957***	***$957***	***$957***	***$957***	***$957***
Net profits	**-$100,000**	**$25,423**	**$25,423**	**$25,423**	**$25,423**	**$25,423**
CIT (25%)						
Net tax payable	***$0***	***$797***	***$797***	***$797***	***$797***	***$797***
Net profits	**-$100,000**	**$25,582**	**$25,582**	**$25,582**	**$25,582**	**$25,582**
CIT (20%)						
Net tax payable	***$0***	***$638***	***$638***	***$638***	***$638***	***$638***
Net profits	**-$100,000**	**$25,742**	**$25,742**	**$25,742**	**$25,742**	**$25,742**
NCT (5%) deducted against CIT (20%)						
NCT payable (5%)	-$5,000	$1,319	$1,319	$1,319	$1,319	$1,319
CIT payable (20%)	*$0*	*$374*	*$374*	*$374*	*$374*	*$374*
Losses carried forward and uplifted		*-$5,200*	*-$3,647*	*-$2,032*	*-$352*	*$0*
Net tax payable	***$0***	***$0***	***$0***	***$0***	***$1,341***	***$1,693***
Net profits	**-$100,000**	**$26,380**	**$26,380**	**$26,380**	**$25,039**	**$24,687**
CIT (20%) deducted against NCT (5%)						
CIT payable (20%)	$0	$638	$638	$638	$638	$638
NCT payable (5%)	*-$5,000*	*$1,287*	*$1,287*	*$1,287*	*$1,287*	*$1,287*
Losses carried forward and uplifted		*-$5,200*	*-$3,406*	*-$1,540*	*$0*	*$0*
Net tax payable	***$0***	***$0***	***$0***	***$385***	***$1,925***	***$1,925***
Net profits	**-$100,000**	**$26,380**	**$26,380**	**$25,995**	**$24,455**	**$24,455**
CIT (25%) with partial immediate-expensing						
CIT (Depreciation share payable, 66.7%)	$0	$532	$532	$532	$532	$532
CIT (Expensing share payable, 33.3%)	*-$8,333*	*$2,198*	*$2,198*	*$2,198*	*$2,198*	*$2,198*
Losses carried forward and uplifted		-$8,444	-$5,791	-$3,102	-$377	$0
Net tax payable	***$0***	***$0***	***$0***	***$0***	***$2,353***	***$2,730***
Net profits	**-$100,000**	**$26,380**	**$26,380**	**$26,380**	**$24,026**	**$23,650**
CIT (25%) with full expensing and interest deductibility						
Losses carried forward		-$25,000	-$19,203	-$13,405	-$7,608	-$1,810
Net tax payable	***$0***	***$0***	***$0***	***$0***	***$0***	***$3,987***
Net profits	**-$100,000**	**$26,380**	**$26,380**	**$26,380**	**$26,380**	**$22,392**

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
CIT (25%) with full expensing and without interest deductibility						
Losses carried forward		-$25,000	-$18,405	-$11,810	-$5,215	$0
Net tax payable	***$0***	***$0***	***$0***	***$0***	***$1,380***	***$6,595***
Net profits	**-$100,000**	**$26,380**	**$26,380**	**$26,380**	**$25,000**	**$19,785**
CIT (25%) with an allowance for corporate equity (2.5%)						
Net tax payable	***$0***	***$485***	***$547***	***$610***	***$672***	***$735***
Net profits	**-$100,000**	**$25,895**	**$25,832**	**$25,770**	**$25,707**	**$25,645**

Table B.22 – Implications of corporate tax regimes upon effective tax rates and post-tax return on investment

	Marginal project: Established company[a]			Marginal project: Startup company[b]		
	Nominal effective tax rate[c]	Real effective tax rate[d]	Post-tax return on investment[e]	Nominal effective tax rate[c]	Real effective tax rate[d]	Post-tax return on investment[e]
No tax	0.0%	0.0%	10.0%	0.0%	0.0%	10.0%
CIT (30%)	4.8%	3.3%	8.6%	4.8%	3.3%	8.6%
CIT (25%)	4.0%	2.7%	8.8%	4.0%	2.7%	8.8%
CIT (20%)	3.2%	2.2%	9.0%	3.2%	2.2%	9.0%
NCT (5%) deducted against CIT (20%)	3.5%	1.3%	9.4%	3.0%	1.8%	9.2%
CIT (20%) deducted against NCT (5%)	4.6%	2.1%	9.0%	4.2%	2.5%	8.9%
CIT (25%) with partial immediate-expensing	5.3%	1.8%	9.1%	5.1%	3.0%	8.7%
CIT (25%) with full expensing and interest deductibility	4.0%	-2.7%	11.6%	4.0%	2.3%	9.0%
CIT (25%) with full expensing and without interest deductibility	8.0%	0.0%	10.0%	8.0%	4.6%	7.9%
CIT (25%) with an allowance for corporate equity (2.5%)	3.0%	2.1%	9.1%	3.0%	2.1%	9.1%

a. These scenarios represent cases where companies can offset negative tax liabilities against positive tax liabilities from other operations. **b.** These scenarios represent cases where companies cannot offset negative tax liabilities against positive tax liabilities from other operations and thus carry losses forward. **c.** Effective nominal tax rates are calculated as the sum of tax payable divided by the cost of investment ($100,000). **d.** Effective real tax rates are calculated as the net-present value of total tax payable, based upon the pre-tax 10% rate of return, divided by the cost of investment ($100,000). **e.** The implication of the post-tax rate of return is that, under the given example investment schedule, a company would need an internal rate of return of at least the corresponding post-tax rate of return under each tax regime.

B.7 Overview and comparative analysis of modelling commissioned to support corporate tax design

Economy-wide modelling demonstrates the trade-offs of tax reform options

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.

As with the interim report, the PC again engaged the two Computable General Equilibrium (CGE) modellers who provided inputs into the interim report modelling. 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.

In both cases, models were extended to provide greater capabilities than was available in the interim report. Chris Murphy built a new model which included enhanced modelling assumptions. The Centre of Policy Studies enhanced their VURMTAX model to consider the impacts of the NCT alongside the CIT. Both models incorporate a sufficient level of Australian tax system detail to meaningfully model company tax options.

Chris Murphy undertook the bulk of the modelling, developing a host of additional model runs which considered additional iterations of NCT and ACE combinations to inform the ultimate recommendation of this report. The Centre of Policy Studies expanded their core scenario from the interim report to include the NCT as well as the efficiency implications of a turnover threshold in the CIT. Each model is outlined below, and more complete modelling papers will be released as stand-alone papers.

The PC received extensive feedback and alternative suggestions through submissions following the release of the interim report on corporate tax reform. Some of these suggestions had been modelled as a part of the interim report, while others were not modelled by the PC or by submitters. Where relevant, the PC has taken the opportunity to include some of these iterations to further engage with the public discourse on corporate tax reform.

Comparative modelling exercises demonstrated that cutting the CIT rate is generally beneficial

The interim report included modelling from CoPS on the implications of a reduction in the CIT rate. The like-for-like comparison of policy setting modelled for the interim by CoPS and Chris Murphy is in table B.23.

Table B.23 – Policy settings of comparative CIT reduction scenario

	Setting
Upper CIT rate	30%
Lower CIT rate	20%
Threshold	$1 billion
Phasing	Immediate

The Murphy and CoPS 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), productivity and before-tax wages (table B.24). There

were different results from the two models on gross national income (GNI), with Chris Murphy's model suggesting a positive impact and the CoPS model suggesting a negative impact. This reflects a range of factors including differences in the assumed rates of capital/labour substitutability,[41] the degree of price-making power that Australia has globally,[42] and company foreign ownership shares,[43] and this interim modelling did not include the net cashflow tax element.

The Macro Public Finance Lab at the ANU (sub. 73, p. 6-7) submitted modelling in response to the interim report which suggested an across the board cut to the CIT down to 20% could increase investment by 2% over the first five years and 3.5% in the long-term, while also increasing GDP by 4% over the long-term. Net welfare benefits were estimated to be positive, though when funded through increased taxes, welfare on average declined for Australians aged over 34 and those who were not high-income earners.

Table B.24 – Comparative modelling outputs of the Murphy and CoPS models

	Murphy model[a]	CoPS model[b]
Business investment (%)	1.4%	0.4%
Productivity (%)	0.4%	0.3%
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 in 2050. For long-run comparability, these model outputs refer to 2050 outputs under scenario 2.
Source: Murphy (2025b), Nassios et al. (2025).

Comparative modelling exercises for the final report demonstrated that cutting the CIT rate and introducing the NCT is a beneficial approach to corporate tax reform

For the final report, CoPS extended their VURMTAX model to include cashflow taxation. This allows for a comparative analysis of the impacts of the central scenario recommended by the PC. Specifically, both modellers estimated the policy scenario defined in table B.25.

[41] 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.
[42] 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. Chris Murphy's model assumes Australia is a price-taker, while the CoPS model assumes Australia has some price-making power.
[43] A higher degree of foreign ownership will lead to a higher share of the benefits of increased investment and GDP flowing out of Australia, thereby reducing GNI and consumer welfare. The CoPS model applied higher foreign ownership rates than the Chris Murphy model.

Table B.25 – Policy settings of comparative NCT modelling

	Setting
Upper CIT rate	28%
Lower CIT rate	20%
Threshold	$1 billion
NCT rate	5%
Franking status	Franked
Sequencing	CIT deducted against NCT (non-distortionary)
Finance sector	Included
Phasing	Immediate
Starting balance	$0

The key finding is that both the Murphy and CoPS models suggest the policy package to be effective. While the Murphy modelling suggest the impacts have a higher magnitude across all domains (table B.26), CoPS also found a positive impact across the variables of interest: GDP, investment, productivity, including GNI, and concludes that the NCT can provide 'a pivotal role in modernising Australia's business tax system by providing a robust revenue base, alleviating pressure on domestic taxpayers, and enabling CIT reform while strengthening national income and welfare' (Dixon and Nassios 2025, p. 2).

Table B.26 – Comparative modelling outputs of the Murphy and CoPS models

	Murphy model	CoPS model[a]
Business investment (%)	2.7%	0.8%
Productivity (%)	0.7%	0.4%
GDP (%)	0.7%	0.4%
Consumer welfare ($ billion)	$4.2	$11.5
GNI (%)	0.5%	0.3%
Change in net company taxation ($ billion)	-$2.7	-$17.4
Change in net budget ($ billion)	$3.8	$2.1

a. For long-run comparability, these model outputs refer to 2050 outputs.

Source: Murphy (2025b), Dixon and Nassios (2025).

Both models assume the NCT is franked in the same way as the CIT. CoPS modelling suggests that franking the NCT comes at a cost of $2.1 billion per year in the long-run (after 25 years); however, because the policy is funded through bracket creep in the personal income tax system, this does not significantly affect non-budgetary aggregate impacts. The modelling from Chris Murphy suggests a similar implication with a long-term annual cost of $3.8 billion from franking in this scenario.

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 focuses on key relationships in the CGE model. 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. 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. Consequently, modelling results should only be taken as indicative of policy expectations.

The Murphy modelling provides an assessment of the absolute and relative merits of different reform options

As with the interim report, additional modelling by Murphy allows for the comparison of long-term company tax options by considering their estimated benefits to business investment and people's income and welfare.

A range of options were modelled to be revenue neutral in the long-term after taking into consideration the growth dividend of the package.[44] Where non-revenue neutral options were modelled, any remaining revenue shortfall is assumed to be funded by bracket creep in the personal income tax system.

For the final report, a new model was built to assess the corporate tax reform options considered by the PC. The specifications of the new model are detailed in Murphy (2025b). Two factors are of particular note. Firstly, the modelling of franking credits has been improved to better account for the flows of credits when tax rates vary. Secondly, the model better accounts for economic rents in financial services by considering changes in financial assets and liabilities in the sector, thereby allowing for liquidity constraints and requirements particularly relevant to the banking and insurance sectors. The updated assessment of economic rents in the model is detailed in table B.27.

Table B.27 – Murphy modelling estimation of economic rents, 2025-26 simulated tax base

	Tax payable ($ billions)	Tax payable (%)
Normal returns to capital	$66	50%
Oligopoly rents: financial services	$17	13%
Oligopoly rents: wholesale and retail trade	$12	9%
Mineral rents	$22	17%
Land rents	$13	10%
Total	**$130**	**100%**

Source: Murphy (2025b).

A number of scenarios were modelled to better understand the economic implications of different approaches to corporate tax reform over and above what was considered for the interim report. The core scenario recommendation is available in table B.28 alongside the implications of tweaking assumptions regarding the franking, sequencing, and starting balance implications of the NCT.

Table B.28 – Modelling outputs of the central recommendation

	Core	Core + CIT deductible	Core + CIT deductible + franking	Core + higher threshold + franking	Core + top rate removed
Franking status	Unfranked	Unfranked	Franked	Franked	Unfranked
First tax applied	NCT	CIT	CIT	CIT	NCT
Threshold	$1b	$1b	$1b	$10b	n/a
Lower CIT rate	20%	24%	20%	20%	20%
Upper CIT rate	28%	28%	28%	28%	20%
Business investment (%)	2.2%	1.7%	2.7%	3.6%	5.0%
Productivity (%)	0.5%	0.4%	0.7%	1.0%	1.4%

[44] 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).

	Core	Core + CIT deductible	Core + CIT deductible + franking	Core + higher threshold + franking	Core + top rate removed
GDP (%)	0.7%	0.5%	0.7%	1.0%	1.4%
Consumer welfare ($ billion)	$4.2	$3.6	$4.2	$4.6	$5.5
GNI (%)	0.5%	0.4%	0.5%	0.6%	0.7%
Company tax revenue cost (net of CFT) ($ billion)	$2.0	$2.4	-$3.7	-$10.4	-$18.7
Net budget impact ($ billion)	-$0.1	-$0.3	$3.8	$6.5	$7.9

Source: Murphy (2025b).

In addition to the NCT scenarios, a number of additional policy scenarios were considered. This includes comparative franking treatments (table B.29), reductions in the CIT rate (table B.30), iterations of full expensing (table B.31), iterations of the allowance for corporate equity (table B.32), and additional comparative scenarios run by Chris Murphy which were not considered as policy options under this review (table B.33).

Overall, modelling suggests that targeting only the company income tax rate will drive economic growth (though the implications for GNI and welfare are mixed). Modelling reforms which adjust the tax base away from normal returns drive better results, even when the fiscal cost to government of doing so are comparable. For example, the 33% partial immediate-expensing model and the 2.5% allowance for corporate equity drive comparable improvements in investment (4.9% and 5.0% respectively) for a long-term budget cost of approximately $7 billion per year, while the removal of the CIT threshold costs slightly less while generating a less than half as big (2.3%) an improvement in investment.

More complete changes to the corporate tax reforms drive more significant improvements, though at a far more significant fiscal cost to government. For instance, full expensing on all capital is modelled to improve investment by 16.6% at a cost of $24 billion per year, and full expensing alongside a reduced CIT rate to 20% could increase investment by 17.0% at a cost of $33 billion per year. Likewise, an allowance for corporate equity at the long-term government bond rate is modelled to improve investment by 9% at a cost of $13 billion per year.

This modelling assumes that, after growth impacts driven by tax reform, the remaining tax gap is no longer funded through corporate taxation but is funded through the personal income tax system. Ultimately, the choice of funding, whether through raising or imposition of alternative taxes or less spending, is a policy choice for government.

Table B.29 – Modelling outputs of comparative franking scenarios

	Core	Core, CIT deductible, franked	Core, CIT deductible, higher top rate, unfranked	Core, CIT deductible, higher top rate, franked
Franking status	Unfranked	Franked	Unfranked	Franked
First tax applied	NCT	CIT	CIT	CIT
Threshold	$1b	$1b	$1b	$1b
Lower CIT rate	20%	20%	20%	20%
Upper CIT rate	28%	28%	30%	30%
Business investment (%)	2.2%	2.7%	2.0%	2.0%
Productivity (%)	0.5%	0.7%	0.4%	0.4%
GDP (%)	0.7%	0.7%	0.6%	0.5%
Consumer welfare ($b)	$4.2	$4.2	$4.2	$3.7

	Core	Core, CIT deductible, franked	Core, CIT deductible, higher top rate, unfranked	Core, CIT deductible, higher top rate, franked
GNI (%)	0.5%	0.5%	0.4%	0.4%
Company tax revenue cost (net of CFT) ($b)	$2.0	-$3.7	$1.2	$1.1
Net budget impact ($b)	-$0.1	$3.8	-$0.2	$2.0

Source: Murphy (2025b).

Table B.30 – Modelling outputs of company income tax rate cuts

	Threshold raised to $1 billion	Threshold removed
Threshold	$1b	n/a
Lower CIT rate	25%	25%
Upper CIT rate	30%	25%
Business investment (%)	0.5%	2.3%
Productivity (%)	0.2%	0.7%
GDP (%)	0.1%	0.7%
Consumer welfare ($b)	$0.5	$1.9
GNI (%)	0.1%	0.3%
Company tax revenue cost ($b)	-$3.5	-$16.8
Net budget impact ($b)	$1.3	$6.1

Source: Murphy (2025b).

Table B.31 – Modelling outputs of full expensing iterations[a]

	Partial immediate-expensing	Full expensing with interest deductibility	Instant asset write-offs to assets up to $150,000	Full expensing with interest deductibility and rate cut[a]
Full expensing application	33.3% of capital expenditure value	All capital expenditure	Capital assets up to $150,000 in value	All capital expenditure
Threshold	$50m	$50m	$50m	n/a
Lower CIT rate	25%	25%	25%	20%
Upper CIT rate	30%	30%	30%	20%
Business investment (%)	4.9%	16.6%	2.9%	17.0%
Productivity (%)	1.2%	3.8%	0.7%	4.1%
GDP (%)	1.3%	4.0%	0.8%	4.4%
Consumer welfare ($b)	$7.1	$18.1	$4.6	$19.8
GNI (%)	0.9%	2.7%	0.5%	3.1%
Company tax revenue cost ($b)	-$21.5	-$68.4	-$12.3	-$82.7
Net budget impact ($b)	$7.0	$24.2	$3.8	$33.0

a. Tax rate reduces to 20% after 10 years for all companies.

Source: Murphy (2025b).

Table B.32 – Modelling outputs of the Allowance for Corporate Equity

	Allowance for corporate equity (2.50%)	Allowance for corporate equity (Long-term government bond rate)
ACE rate	2.00%	Long-term government bond rate (4.35%)
Threshold	$50m	$50m
Upper CIT rate	30%	30%
Lower CIT rate	25%	25%
Business investment (%)	5.0%	9.0%
Productivity (%)	1.2%	2.2%
GDP (%)	1.3%	2.3%
Consumer welfare ($b)	$7.9	$13.1
GNI (%)	0.9%	1.6%
Company tax revenue cost (net of CFT) ($b)	-$21.6	-$38.6
Net budget impact ($b)	$6.9	$13.0

Source: Murphy (2025b).

Table B.33 – Modelling outputs of other comparative models

	Mining and financial sector cashflow tax	Competition policy
Threshold	$1b	$50m
Top CIT rate	30%	30%
Bottom CIT rate	20%	25%
Cashflow tax rate	20%	n/a
Business investment (%)	1.9%	4.9%
Productivity (%)	0.3%	1.6%
GDP (%)	0.5%	2.8%
Consumer welfare ($b)	$5.0	$80.2
GNI (%)	0.5%	4.8%
Company tax revenue cost (net of CFT) ($b)	$11.7	-$29.7
Net budget impact ($b)	-$0.1	$4.2

Source: Murphy (2025b).

B.8 Heterogenous firm literature

Overview

Not all companies are the same. They can vary by age, industry, access to finance, the nature of the products they produce, the level of competition that they face, whether they are run by external management or by owners and founders, their degree of foreign ownership, and by the types of assets they invest in. These differences make it reasonable to question whether company tax changes impact the business investment decisions of companies differently.

This possibility is a focus of the heterogeneous company literature of the past decade, which has been enabled by the greater availability of administrative data over the period. This literature has generally found that small and emerging credit-constrained firms that operate in competitive industries are more responsive to changes in company income taxation than those that are not – though this could not be conclusively supported in the Australian context (appendix B.9).

This emerging heterogenous literature serves as a key caveat to CGE modelling of company tax options, which generally assumes homogeneous business investment response to company tax responses. It also supports a focus on company tax reductions on emerging firms. The following section explores the various dimensions that can plausibly alter business investment responses to company tax changes.

A review of heterogenous firm responses to tax rates

Whether companies produce goods or services

Companies that produce services are generally less capital intensive than businesses that sell goods. This means that business investment responses to company tax cuts are likely to be lower for service sector industries than for good-oriented businesses. This is consistent with the recent literature which found that businesses that provide services are less responsive to changes in tax rates than those that produce goods.

- Cloyne, Kurt and Surico found from US data that 'goods producers increase their capital expenditure and employment in response to a cut in marginal corporate income tax rates or an increase in investment tax credits. In contrast, companies in the service sector mostly use any tax windfall to increase dividend payouts (2025, p. 1).
- Giroud and Rauh (2015) investigated the effect of tax changes on investment in the US. They found that firms in the retail and wholesale industry were more responsive to a change in the company tax rate compared to those in the services industry.

Level of competition

Competition often leads to innovation, as firms will attempt to gain competitive advantages over their competitors by differentiating their products or developing technology to increase profit margins by reducing marginal costs (OECD 2023a, pp. 14–16). Consequently, firms with high market power are less likely to invest in innovative activities, and are therefore less likely to respond to tax cuts by increasing investment. Emerging international evidence supports this view, finding that firms facing low competition tend to be less responsive to reductions in corporate tax rates.

- Kopp et al. (2019) examined the link between market power and the impact of tax policy changes in 17 advanced economies and found that the impact of tax changes was significantly smaller in firms with higher markups.

Mature vs emerging companies

Mature companies generally have predictable income flows that (at least some of) the cost of new investments can be immediately deducted against. In contrast, emerging companies may still be in their loss-making phase, meaning that they will have to wait until future years to access tax deductions from new investment. As a result, mature companies may already face a lower effective company tax rate, potentially making them less responsive to subsequent company tax reductions than emerging companies.

This effect can be compounded by the existence of group consolidation rules that allow losses generated by one group entity to offset the taxable income of others. An emerging company does not have this opportunity. This is consistent with international and Australian literature.

- Albertini, Fairise and Terriau (2024) explored the differential effects of state corporate taxes on input choices by firm size and age, and found that corporate taxes significantly reduced employment in small and younger firms, while having little impact on large and older firms.
- Win, Hambur and Breunig (2025) investigated a range of Australian investment tax breaks since the 2008 global financial crisis and found that 'policies targeted at smaller firms appear somewhat more effective: unincorporated businesses in particular are far more responsive' (p. 27). The paper also noted that results are sensitive to other factors.
- Gemmell et al. (2013) finds that high company tax rates limit smaller companies' ability to realise their productivity potential using data from 11 European countries.
- Schwellnus and Arnold (2008) find that corporate taxes negatively affect firms that are aiming to reach their technological frontier more than other firms in their study of OECD economies over an 8-year period.

Access to finance

Company responsiveness to company tax changes may vary based on their degree of access to finance and the forms of finance they predominantly use. For example, smaller credit constrained firms tend to be more reliant on retained earnings to fund investment compared to larger firms with ready access to debt and equity financing. If company tax changes have stronger impacts on one form of financing than another then the subsequent investment response may be stronger as a result. International and Australian evidence supports this view.

- Zwick and Mahon (2017) investigated the effects of bonus depreciation on firms' equipment investment in the US and found that small firms responded 95% more than larger firms did. Much of this effect was found to only occur where it had immediate implications for cash flows, suggesting that cash-constrained firms may be more sensitive to company tax changes.
- Egger, Erhardt and Keuschnigg (2020) found the effect of corporate taxation was higher for smaller, entrepreneurial firms that are cash constrained rather than larger dividend paying firms. They found that a decrease in the effective marginal corporate tax of 1% led to an increase in investment by 0.68% for cash-constrained entrepreneurial firms in the EU, which was about 40% higher than for managerial dividend paying firms.
- Freebairn (2022) explored the different ways that changes to the company tax system impacted different types of firms in Australia, and argued that imperfect substitution between funding mechanisms would lead to different responses to company tax changes. They found that company tax changes (rate or base) would have little impact on debt financed investment, while the impact on equity financed investment would depend on its source (who is making the equity investment) and with interactions with other parts of the tax system (Freebairn 2022, table 4).
- Eskandari and Zamanian (2023) used a dataset of US manufacturing firms to explore variations in investment responses to company tax cuts by firm size. They found large manufacturers were more responsive to company tax cuts than smaller manufacturers, and argued that the effect was driven by

access to finance, with larger firms being able to access both debt and retained earnings, but smaller firms being more reliant on debt financing to fund new investment.

Degree of foreign ownership

In Australia and some other countries, foreign investors are taxed differently to domestic investors. For example, in Australia domestic investors are less affected by changes in the corporate tax rate compared to those based internationally due to its dividend imputation system. Hence, the level of foreign ownership of a business may have an impact on the sensitivity of changes in investment due to changes in the effective tax rate. Empirical evidence supports this, finding that effective marginal tax rates differ for foreign and domestic firms, as well as their responsiveness to tax reductions.

- Fabling et al. (2014) found that foreign-owned firms faced higher effective marginal tax rates than domestically-owned firms, using New Zealand data.
- Dobbins and Jacob (2016) used firm level data from Germany to examine a 2008 tax reform. They found that investment by domestically owned firms was more responsive to tax reductions compared to foreign owned firms, with the effect stronger for domestically owned firms relying on internally sourced funds.

Different responses by gender

There is limited Australian literature available exploring the effect of tax incentives on firms depending on the gender of firm managers and owners. However, international evidence suggests that female-owned firms can be less likely to seek debt to expand their operations and that it is more difficult for them to obtain debt compared to male-owned firms. This can lead to lower taxable deductions for women-led firms since they cannot deduct interest against their taxable income. There are several studies that investigate this.

- de Andrés et al. (2021) investigated the gender gap in credit access using a study of 80,000 Spanish companies created by a sole trader between 2004 and 2014. They found that find that female entrepreneurs were less likely to request a loan, but those who did were less likely to obtain one compared to male-led companies.
- Malmström et al. (2024) found that female entrepreneurs' business loan applications were more likely to be rejected on average compared to male entrepreneurs, in regions within Asia, North and South America, Europe, and the Middle East.

B.9 Behavioural responses to the company income tax

The company income tax system is complex, and there is limited empirical evidence in Australia of its impact upon the behaviour of companies. This is notable given some of the more unique aspects of Australia's company income tax – particularly the dividend imputation system. This appendix outlines findings regarding the behavioural impacts of company income tax rate threshold and the company income tax rate reductions for small companies. Specifically, it investigated two research questions:

- Is there any evidence of firms bunching below the small-company threshold?
- Is there any evidence of small firms responding to tax cuts by increasing investment?

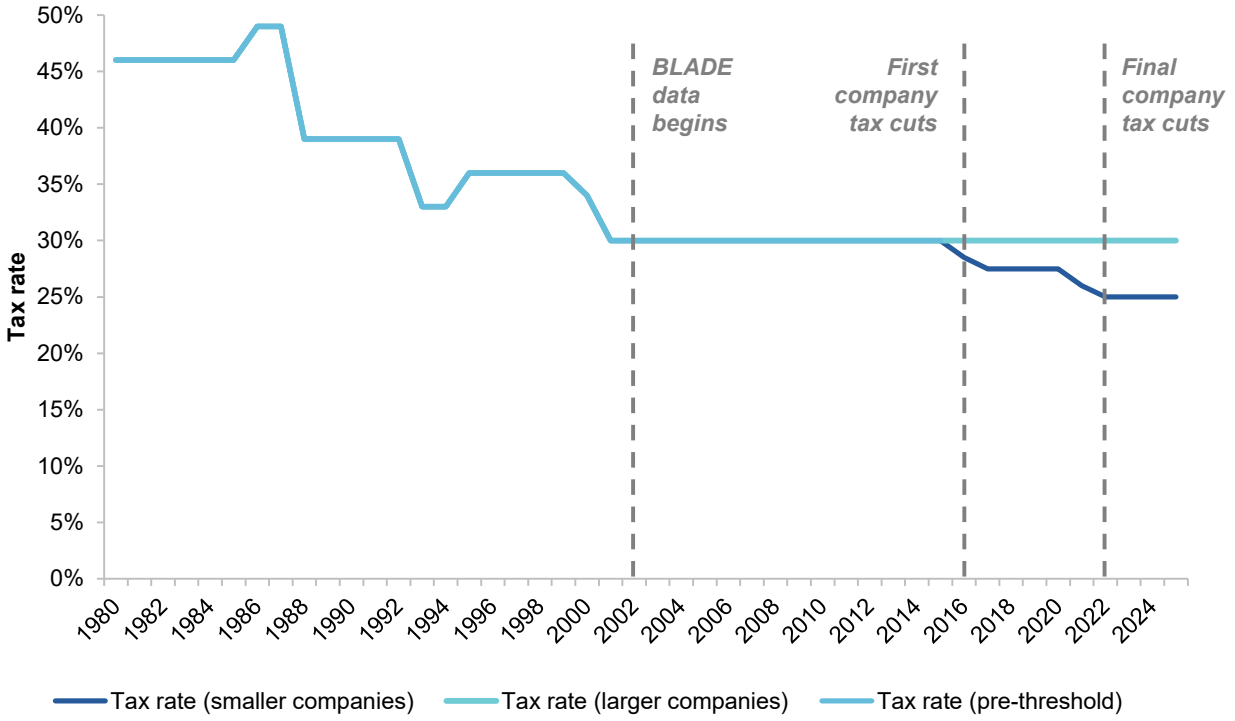
This analysis employed descriptive and econometric analysis in the Business Longitudinal Analysis Data Environment (BLADE) to better understand the current dynamics of companies in Australia with respect to company income tax.[45] BLADE is an economic data tool containing information on almost all Australian businesses from 2001-02 onwards (most recent years vary by source). It contains data from many different sources including surveys from the Australian Bureau of Statistics (ABS) and accounting statements from the Australian Tax Office (ATO). We merge datasets from three sources: the Business Activity Statement (BAS), the Business Income Tax (BIT) dataset and the Survey of New Capital Expenditure (CAPEX survey). The BAS and BIT datasets provide us with financial characteristics that reflect a firm's size and ownership status, while the CAPEX survey contains additional detail on the types of investment expenditure.

The policy setting of company income tax rates in Australia

Broad-sweeping reforms do not occur with significant regularity within Australia's company income tax system (see Sobeck, Breunig and Evans (2022) for a summary of major company tax system changes since implementation). Further, the tax rate itself has remained reasonably stable in the 21st century after undergoing significant changes throughout the 1980s and 1990s (Reinhardt and Steel 2006). From 2000-01 to 2014-15, the tax rate was 30% for all companies, before steadily dropping to 25% through 2021-22 for certain companies earning less than $50 million annually (ATO 2025b). Because BLADE data has only been available since 2001-02, this period reflects the first case where the responsiveness of Australian companies to tax rate changes has been able to be observed at a detailed unit level (Figure B.1).

[45] A further overview of BLADE is contained in McMillan and Burns 2021.

Figure B.1 – Australian company income tax rate, 1980 to 2025



Source: Adapted from ATO (2025b), Reinhardt and Steel (2006).

Tax cuts were not rolled out in a uniform manner, with the definition of small companies and base rate entities evolving over time. Starting at a $2 million turnover threshold in the first tax cut, the threshold increased to $50 million by 2018-19 where it remains today. Further, a passive income test was introduced from 2017-18 in which companies that earnt more than 80% of their turnover through passive means no longer received the lower tax rate. The schedule of company income tax rates, thresholds, and the passive income test are outlined further in table B.34.

Table B.34 – Details of company income tax rate changes in the 21st century

Implementation date	Lower tax rate[a]	Turnover threshold test	Passive income test
1 July 2001	30.0%	✗	✗
1 July 2015	28.5%	$2 million	✗
1 July 2016	27.5%	$10 million	✗
1 July 2017	27.5%	$25 million	✓
1 July 2018	27.5%	$50 million	✓
1 July 2020	26.0%	$50 million	✓
1 July 2021	25.0%	$50 million	✓

a. The upper tax rate has remained static at 30% over the period in question.

Source: Adapted from ATO (2025b), Reinhardt and Steel (2006).

Notably, the behavioural impacts of these tax rate reductions are difficult to identify for two reasons. First, the occurrence of the COVID-19 pandemic in the 2020 financial year substantially impacted business operations and complicate any attempts to measure the causal impact of the tax cuts on investment over this period. Second,

there were other policies – such as instant asset write-offs and full-expensing – implemented in each financial year of the tax cuts – see Win et al. 2025 for a summary of these. Uncertainty from COVID-19 may have reduced the extent to which companies were able to bunch at a given threshold, and the impacts of COVID-19 on investment mean financial years beyond FY19 were not investigated through econometric analysis.

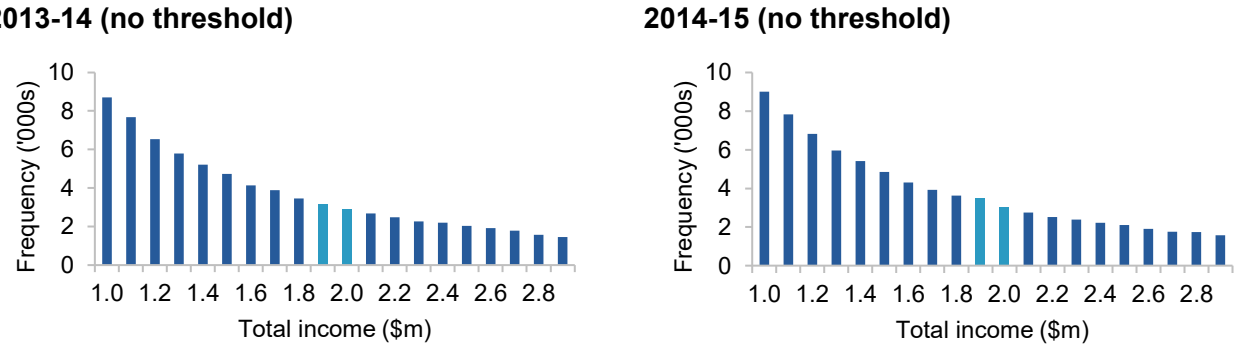
Evidence of bunching in the company income tax system

Bunching refers to an excessive count of companies earning income just below the threshold for the lower company income tax rate. This signals that companies are structuring their activity to avoid crossing the threshold and pay more tax. That companies structure themselves to reduce their tax burdens is not a new area of investigation, with extensive evidence present internationally – for example see Cui et al. 2025; Lesica 2025; Li Liu et al. 2024 and, for a good summary of some older literature, see Dachis and Lester (2015). In the context of Australia, evidence of bunching exists at the personal income tax level, with evidence suggesting limited bunching among wage and salary earners and significant bunching for self-employed and trust income recipients (Carter and Breunig 2023; Johnson et al. 2024). However, evidence has not been established as to the presence of bunching around the company income tax threshold in Australia. This is a relevant consideration given the PC's reform proposal maintains the presence of an income threshold.

To investigate the presence of bunching in the current company income tax system, total income was extracted at the business group level from the BIT dataset within BLADE and counted in income buckets around each threshold implemented from 2015-16 through to now.[46] Evidence suggests that bunching has been present throughout each threshold change in the company income tax rate (figure B.2). Across each threshold, the presence of bunching began to emerge from the year prior to threshold implementation, then had dissipated within two years of the threshold being raised.

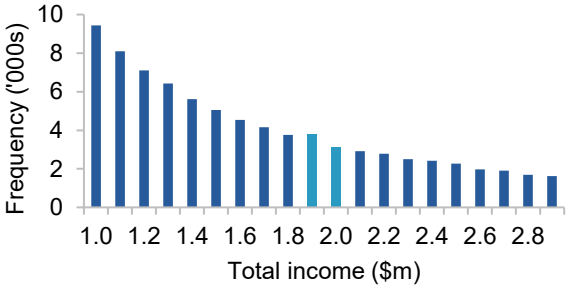
Figure B.2 – Evidence of bunching at each sequential threshold[a]

Evidence of bunching is present in the year of and year prior to the $2 million threshold, with sustained impacts dissipating by the second year after threshold removal

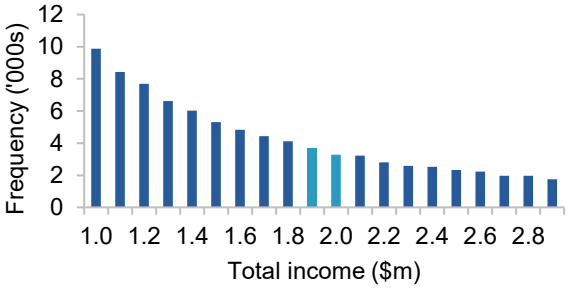


[46] Notably, the turnover variable from the BAS dataset was also investigated, however no evidence of bunching was identified. This likely reflects the varying incentives and purposes imposed by the two datasets in question, and may indicate that bunching is an artefact of company tax planning rather than as an inhibitor to company growth.

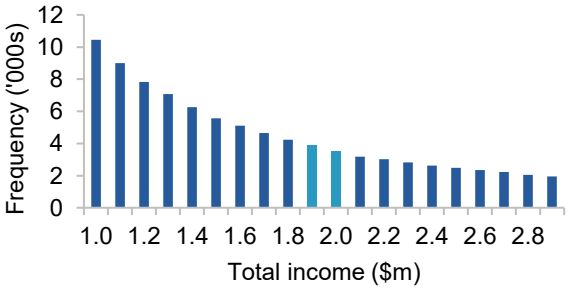
2015-16 ($2m threshold)



2016-17 ($10m threshold)

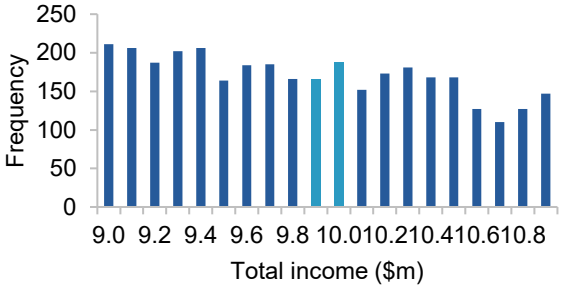


2017-18 ($25m threshold)

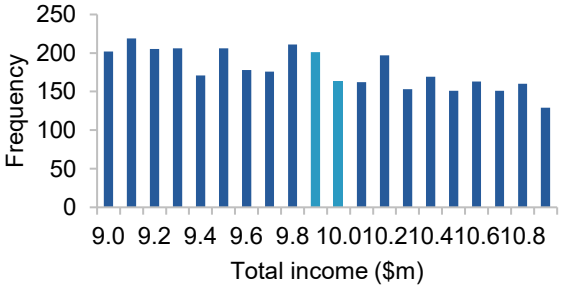


Evidence of bunching is present in the year of and year prior to the $10 million threshold

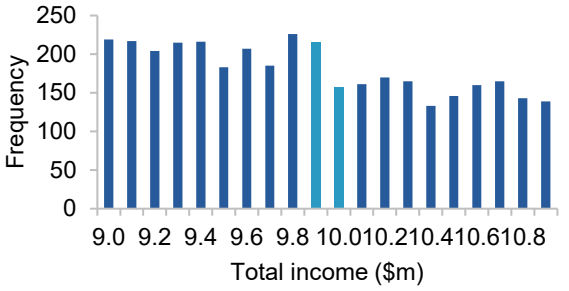
2014-15 (no threshold)



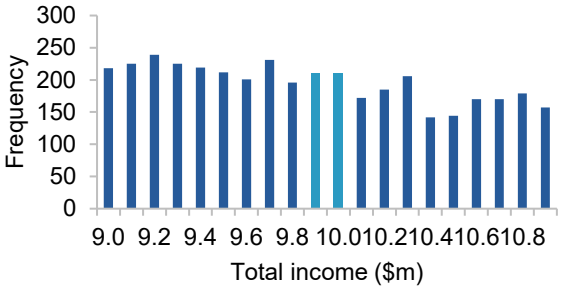
2015-16 ($2m threshold)



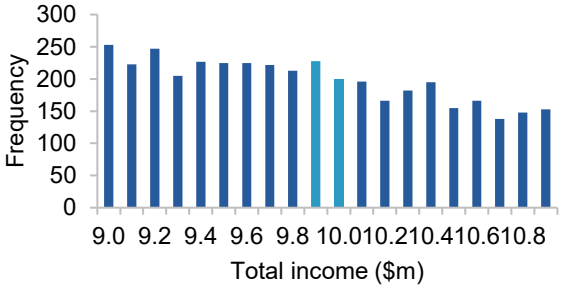
2016-17 ($10m threshold)



2017-18 ($25m threshold)

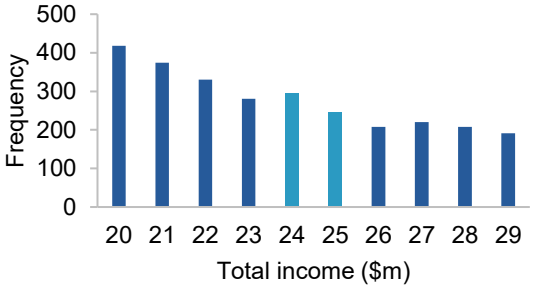


2018-19 ($50m threshold)

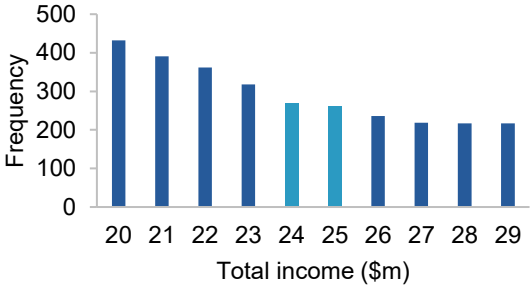


Evidence of bunching is present in the year of the $25 million threshold

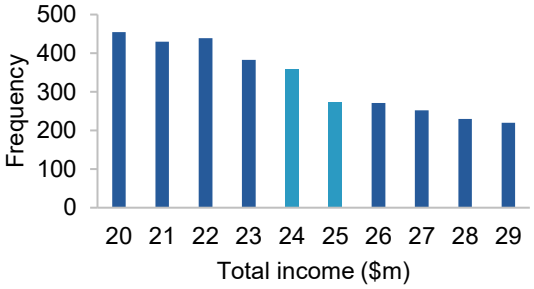
2015-16 ($2m threshold)



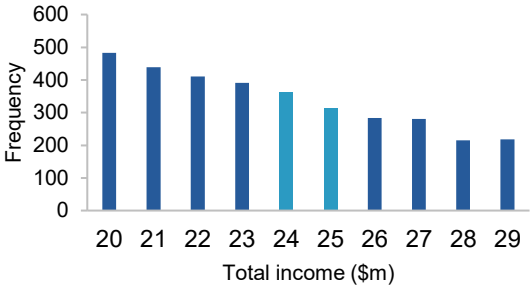
2016-17 ($10m threshold)



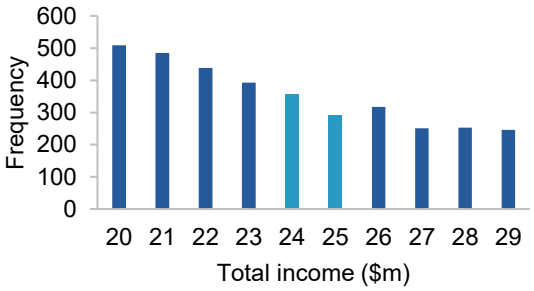
2017-18 ($25m threshold)



2018-19 ($50m threshold)

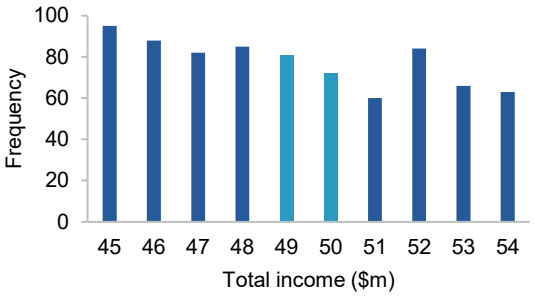


2019-20 ($50m threshold)

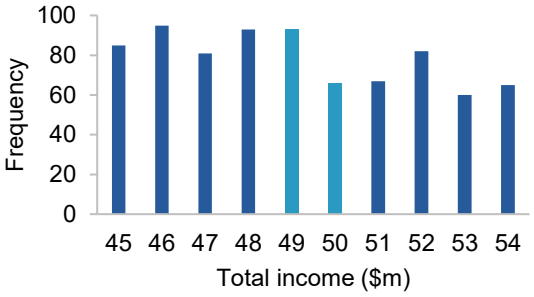


Sustained evidence of bunching at the $50 million threshold is present from the year prior to implementation, though was disrupted in the first full year of COVID-19

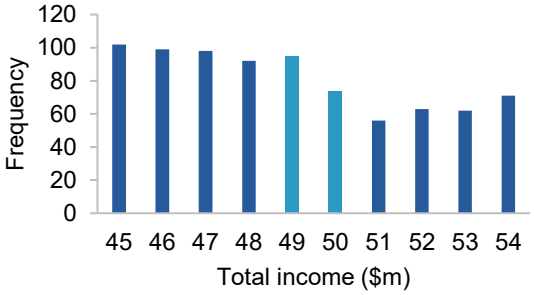
2016-17 ($10m threshold)



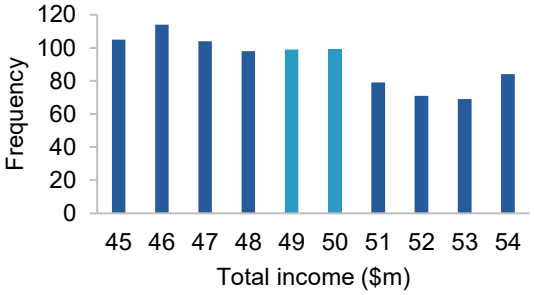
2017-18 ($25m threshold)



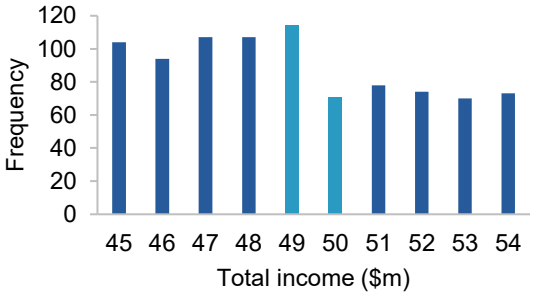
2018-19 ($50m threshold)



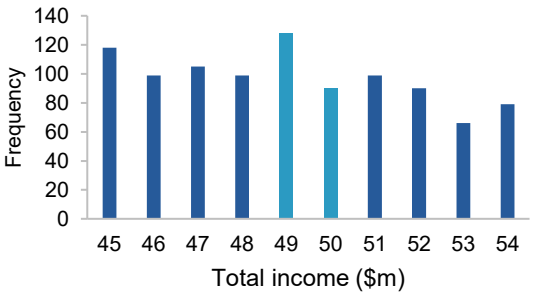
2020-21 ($50m threshold)



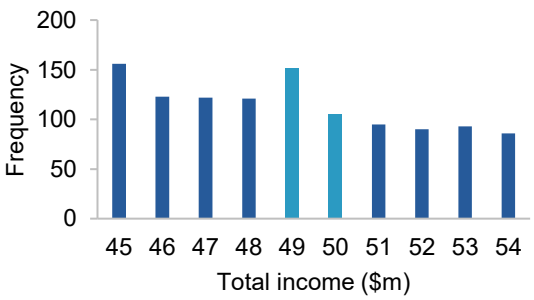
2019-20 ($50m threshold)



2021-22 ($50m threshold)



2022-23 ($50m threshold)



a. Horizontal axis indicates lower bound of an income bucket. For example, 49 represents the income bucket of $49 million to just below $50 million. Frequencies beneath and above the threshold are highlighted.

Source: Productivity Commission estimates based on ABS (2025e).

Evidence therefore suggests that bunching has been (and continues to be) present around the company income tax threshold, albeit at low levels. The evidence suggests the number of firms 'bunching' below a threshold is within the tens of companies (reflecting the population of companies reaching the current $50 million income threshold). By way of contrast, the impact is at the scale of tens of thousands in the personal income tax system (Johnson et al. 2024). This suggests that raising or removing the threshold may unlock some additional economic activity, though the significance of the aggregate economic impact of avoiding bunching is likely to be insignificant.

This analysis aligns with the direction of the PC's proposed reforms – by raising the threshold to $1 billion, the number of firms facing the implications of the threshold will be significantly lower than is the case under the current system. It is noted that, under the PC proposal, the wedge between the small company and large company tax rates is higher, raising the incentive to bunch. However, consultation with the ATO has suggested the main integrity issue to be the difference between the top marginal personal income tax rate and the top company income tax rate rather than between the two company income tax rates. Whether the threshold should ultimately be removed requires further investigation; for example, if the threshold is increased to a level where it only applies to companies facing limited economic mobility, there may be grounds to maintain the threshold or convert the above threshold rate to become progressive.

Future research could be undertaken to estimate and quantify the elasticity of responses of Australian companies to regulatory and tax rate thresholds and look at the behaviours beyond income of companies bunching at the threshold.

Evidence of the sensitivity of small companies to changes in the company income tax rate

There have been several Australian studies on the impact of tax incentives on investment. AlphaBeta 2018 examined the effect of the tax rate cut for Australian businesses with turnover less than $2 million in July 2015, finding that, on average, companies right below the threshold reinvested 27% of additional profits generated by the tax rate cut compared to companies just above the threshold. Win et al. 2025 investigated the effect of investment tax breaks (including instant asset write-offs, accelerated depreciation, and full expensing) implemented between 2009 and 2021 which aimed to increase investment, finding limited evidence of an effect on investment. As part of this analysis, the authors identified some initial evidence of a positive impact on investment in buildings and other structures of the 2015-16 tax cuts, though noted the work excluded control variables and was therefore preliminary.

We expand on the literature by investigating the impacts of the company tax cuts from 2015-16 through 2018-19, drawing upon a more comprehensive modelling approach and additional control variables.[47] Similarly to Win et al. 2025, to control for investment tax breaks applying to machinery and equipment during the time period of our analysis, we measure the effect of corporate tax cuts on change of business investment in buildings and other structures (B&S) using data from the CAPEX survey.[48] Due to the 'lumpiness' of B&S investment (as well as its sample size in the CAPEX survey) which may impact the consistency and magnitude of analysis on this data, we also run models using total capital expenditure reported by companies in the BAS.[49] While we would ideally observe the longer-term impacts of the tax cuts,

[47] The PC would like to thank Jonathan Hambur for his helpful advice and feedback on this analysis.

[48] Note that since the data is quarterly and some values are missing, we only include companies that have reported investment in every quarter in our regressions.

[49] From 2017-18 onwards, capital expenditure is only recorded in the BAS for companies earning at least $10 million. Samples are restricted in our analysis to account for this artefact. Future analysis could consider analysing the impact on

they are confounded by the impacts of the COVID-19 pandemic; therefore, the analysis is limited to the short-term impacts of the tax cuts.

Our modelling considers both the intensive and extensive margins of investment. The intensive margin measures the extent of any changes in investment by taking the natural logarithm of investment (capital expenditure), while the extensive margin measures the impact on the share of companies investing by taking the log odds ratio of the share of firms that invest each year by industry, as computed in Zwick and Mahon (2017). Standard errors are clustered at the company level for the intensive margin and at the industry level for the extensive margin.

First, we employ an event study approach (sometimes referred to as dynamic difference in difference modelling) to account for pre-existing trends and to isolate effects of different years on investment for the treated companies. We then attempt to isolate heterogenous impacts by firms facing additional characteristics in a series of triple difference in difference models. Here, we observe the impacts upon firms facing liquidity constraints and firms with significant foreign ownership. We run these regressions to estimate the effect of the tax cut in 2015-16, 2016-17, 2017-18 and 2018-19. Due to the impacts of COVID-19 potentially affecting results in the following years, we do not estimate the effect of tax cuts from 2019-20 onwards. Key descriptive statistics from the analysis can be found in table B.37, table B.38, table B.39, and table B.40.

Model specifications

Event Study Design Approach

Our first approach applies an event study design (ESD). We include data for financial years 2011-12 to 2018-19 to account for pre-existing trends, and to exclude the effects of other tax incentives on investment.

We then run regressions to estimate the difference in investment of the treated group before and after each tax cut that occurred in financial years 2015-16, 2016-17, 2017-18 and 2018-19. Due to the thresholds changing each year, we define the 'treated' companies as follows:[50]

- 2015-16: Companies with revenue below $2 million
- 2016-17: Companies with revenue between $2 million and $10 million
- 2017-18: Companies with revenue between $10 million and $25 million
- 2018-19: Companies with revenue between $25 million and $50 million.

This allows us to exclude the change in investment from companies who received the tax cut previously.

Our model takes the form:

$$Inv_{i,j,t} = \alpha + \sum_{k=2012}^{T-1} Y_k \tau_{i,j,t} + \sum_{k=T+1}^{2019} Y_k \tau_{i,j,t} + \gamma X_{i,j,t} + IND_j \times D_t + \phi_t + \theta_i + \varepsilon_{i,j,t}$$

Where:

- $T \in (2016, 2017, 2018, 2019)$ is the financial year of the tax cut being analysed
- $Inv_{i,j,t}$ is the measure of investment (intensive or extensive margin) in buildings and other structures or total investment for company i in industry j in year t
- Y_k is a dummy equal to 1 for the relevant financial year, $k \in (2012, 2013, 2015, 2016, 2017, 2018, 2019)$
- $\tau_{i,j,t}$ is a dummy equal to one for all years in which the company is treated

expenditure on intangible depreciable assets and other depreciating assets first deducted from the BIT dataset in BLADE; though this would exclude expenditure on non-depreciable assets.

[50] From 2017-18, companies are also restricted to those which pass the passive income test.

- $X_{i,j,t}$ are additional time-varying company level controls to capture other factors that can affect investment including full-time equivalent employment, liquidity, total income, a dummy equal to one if a company has significant foreign ownership[51] and company age
- $IND_j \times D_t$ are industry*time fixed effects included to capture different industry trends and conditions that can affect investment
- ϕ_t and θ_i are time and company fixed effects respectively.
- $\varepsilon_{i,j,t}$ is the error term.

Triple Difference in Difference Approach

Our second approach employs triple difference in difference (DDD) approach. The dynamic difference in difference model can identify the aggregate impacts of the tax cuts upon small companies; however, this second approach takes one step further to attempt to isolate the impacts of small companies receiving the tax cuts in two ways:

1. by splitting out companies into those which are and are not liquidity constrained, to test if the tax cuts raised the capacity for companies to invest
2. by splitting companies into those with a significant degree of foreign ownership, to test if companies with significant foreign ownership were more responsive to the tax cuts.[52]

For simplicity, these triple difference in difference models only include financial years before and after the corporate tax cut. For example, for the tax cut in 2015-16, we only include 2014-15 and 2015-16 in our dataset.

Liquidity Control

This regression form estimates the change in investment of companies that demonstrate liquidity constraints and with revenue below the threshold, compared to other companies with revenue below the threshold.[53]

$$Inv_{i,j,t} = \alpha + \beta_1 d_t^P + \beta_2 d_i^T + \beta_3 \lambda_{i,j,t} + \beta_4 (d_t^P \times d_i^T) + \beta_5 \left(d_t^P \times \lambda_{i,j,t}\right) + \beta_6 \left(\lambda_{i,j,t} \times d_i^T\right) + \beta_7 \left(d_t^P \times d_i^T \times \lambda_{i,j,t}\right) + \theta_i + \gamma X_{i,j,t} + IND_j \times D_t + \varepsilon_{i,j,t}$$

Where:

- $Inv_{i,j,t}$ is the measure of investment (intensive or extensive margin) in buildings and other structures or total investment for company i in industry j in year t
- d_t^P is a dummy equal to one for the financial year after the tax rate was cut for the relevant group
- d_i^T is a dummy equal to one if the company's turnover meets the relevant turnover threshold and passive income requirements
- $\lambda_{i,j,t}$ is a dummy equal to one if a company's liquidity is less than one in year t
- θ_i is a company fixed effect to capture time-invariant time specific factors that many influence investment
- $X_{i,j,t}$ are additional time-varying company level controls to capture other factors that can affect investment including full-time equivalent employment, total income, a dummy equal to one if a company has significant foreign ownership and company age
- $IND_j \times D_t$ are industry*time fixed effects included to capture different industry trends and conditions that can affect investment

[51] A company has significant foreign ownership if the top 10 shareholders include foreign investors with a total of at least 10% ownership.

[52] Sample size was insufficient to run this set of regressions using the BLADE variable for foreign ownership which may have otherwise been preferable.

[53] A company is defined to be liquidity constrained if current liabilities exceed current assets – often referred to as the current ratio.

- $\varepsilon_{i,j,t}$ is the error term.

Foreign Ownership Control

This regression form estimates the change in investment of companies that have a significant degree of foreign ownership and with revenue below the threshold, compared to other companies with revenue below the threshold.

$$Inv_{i,j,t} = \alpha + \beta_1 d_t^P + \beta_2 d_i^T + \beta_3 \sigma_{i,j,t} + \beta_4 (d_t^P \times d_i^T) + \beta_5 (d_t^P \times \sigma_{i,j,t}) + \beta_6 (\sigma_{i,j,t} \times d_i^T) + \beta_7 (d_t^P \times d_i^T \times \sigma_{i,j,t}) + \theta_i + \gamma X_{i,j,t} + IND_j \times D_t + \varepsilon_{i,j,t}$$

Where

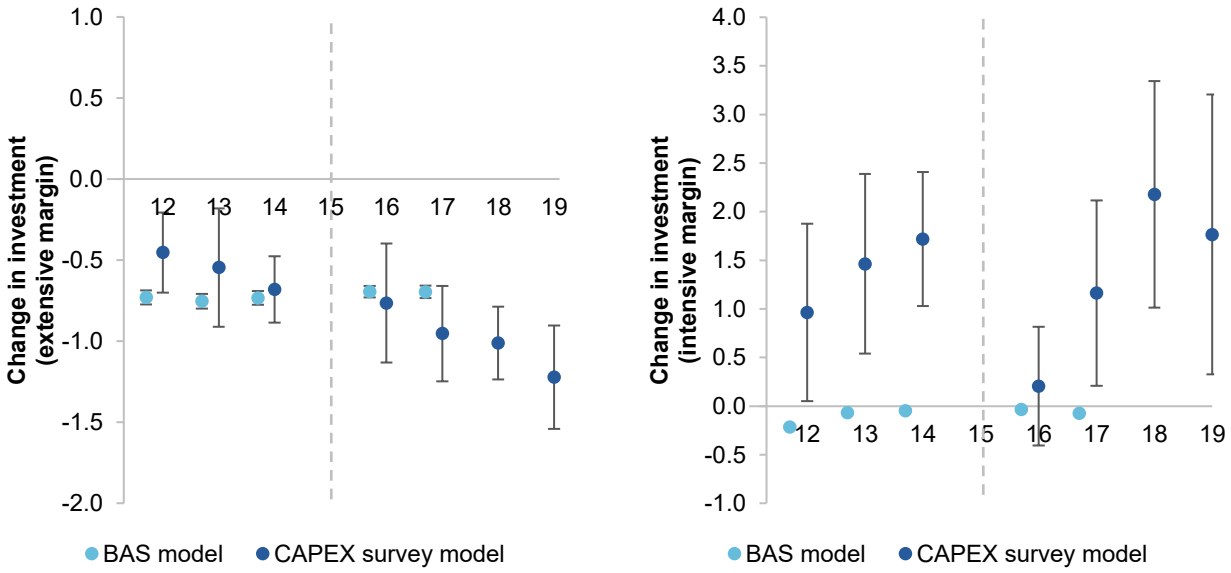
- $Inv_{i,j,t}$ is the measure of investment (intensive or extensive margin) in buildings and other structures or total investment for company i in industry j in year t
- d_t^P is a dummy equal to one for the financial year after the tax rate was cut for the relevant group
- d_i^T is a dummy equal to one if the company's turnover meets the relevant turnover threshold and passive income requirements
- $\sigma_{i,j,t}$ is a dummy equal to one if the company has a significant degree of foreign ownership
- θ_i is a company fixed effect to capture time-invariant time specific factors that many influence investment
- $X_{i,j,t}$ are additional time-varying company level controls to capture other factors that can affect investment including full-time equivalent employment, total income, liquidity, and company age
- $IND_j \times D_t$ are industry*time fixed effects included to capture different industry trends and conditions that can affect investment
- $\varepsilon_{i,j,t}$ is the error term.

Findings

Overall, the econometric analysis did not find conclusive evidence that the corporate tax cuts stimulated investment for smaller businesses Australia. In many of our findings, the effect of the tax cut on small firms is insignificant, while there are a handful of cases where results suggest a significant positive or negative effect (figure B.3, figure B.4, figure B.5, and figure B.6). For example, our ESD approach suggests that on average, companies that received a lower tax rate in July 2015 did not significantly change their intensive investment behaviour in the following year in either B&S investment or aggregate investment. However, the results also imply that that they increased investment in B&S by unrealistically large amounts three years after receiving a lower tax rate. Conversely, evidence suggests a negative impact on the extensive margin (i.e. fewer companies chose to invest).

In both models, results before and after the tax cuts commenced remain largely statistically similar. The only case in the ESD models where evidence suggests a significant and positive impact of the cuts is for aggregate investment though this may be biased by other investment allowances which cannot be controlled for in this measure. In general, the inconclusive and unusual nature of these results imply that the models may not sufficiently account for all factors influencing investment, data may be unreliable, or the tax cuts generally had a limited short-term impact.

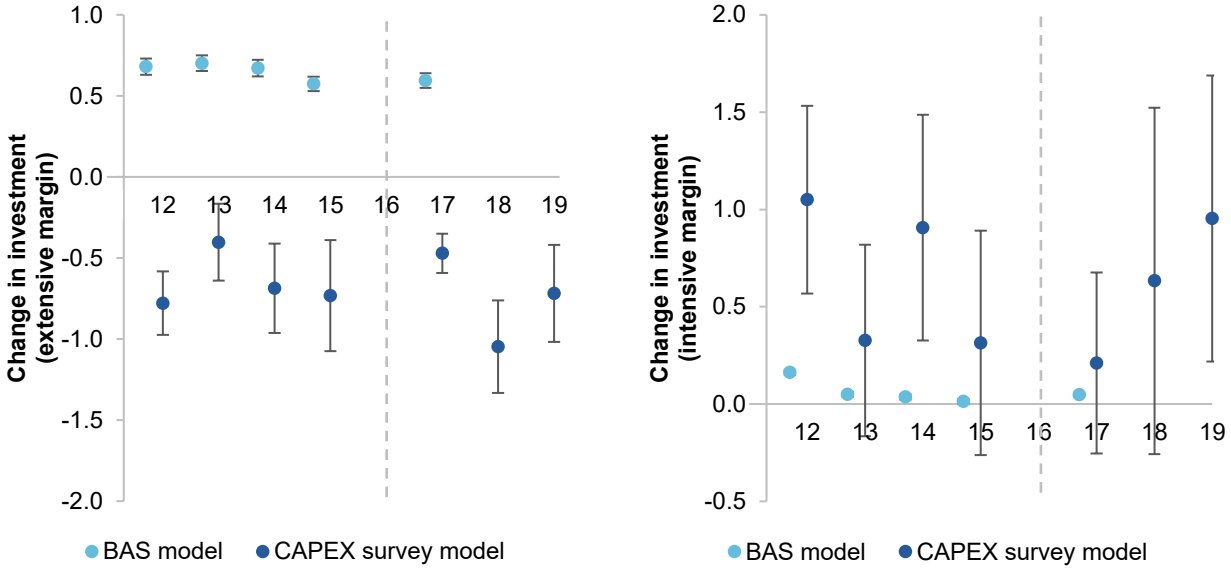
Figure B.3 – Event study of response to company tax cuts for companies earning up to $2 million[a]



a. The BAS model excludes data for 2017-18 and 2018-19.

Source: Productivity Commission estimates based on ABS (2025e).

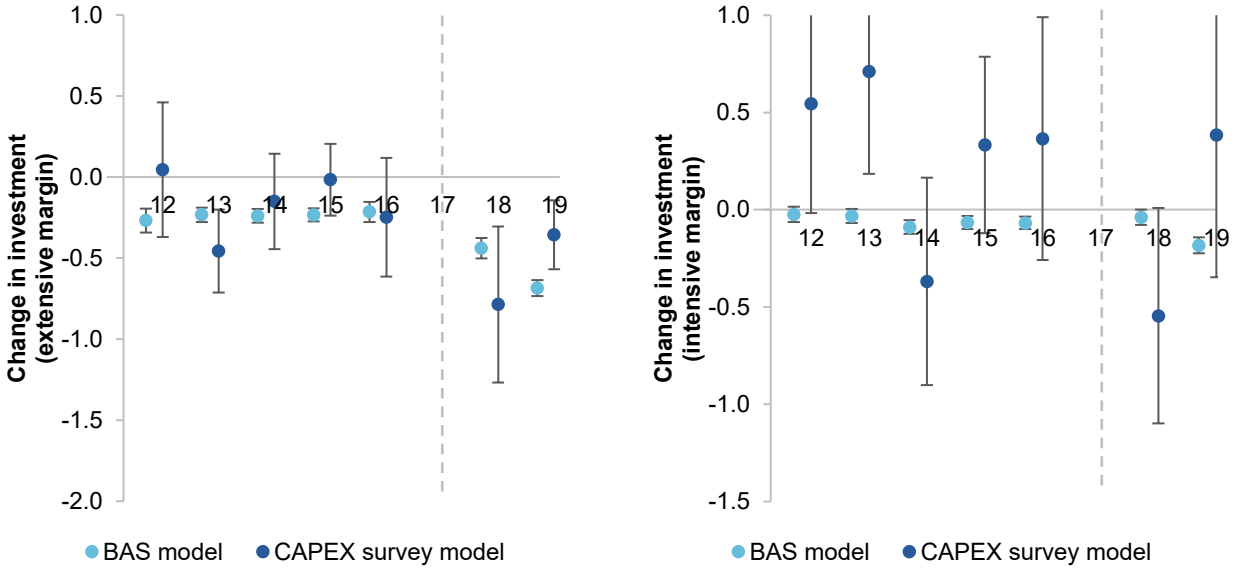
Figure B.4 – Event study of response to company tax cuts for companies earning between $2 million and $10 million[a]



a. The BAS model excludes data for 2017-18 and 2018-19.

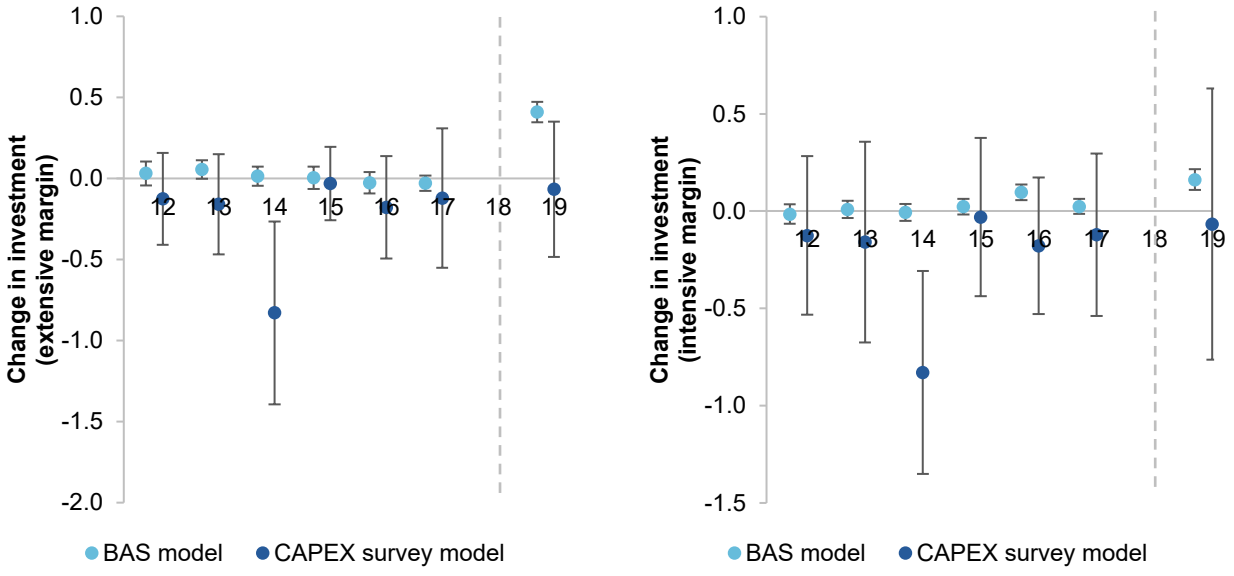
Source: Productivity Commission estimates based on ABS (2025e).

Figure B.5 – Event study of response to company tax cuts for companies earning between $10 million and $25 million



Source: Productivity Commission estimates based on ABS (2025e).

Figure B.6 – Event study of response to company tax cuts for companies earning between $25 million and $50 million



Source: Productivity Commission estimates based on ABS (2025e).

The ESD analysis is attempts to isolate heterogenous effects of companies based upon liquidity status and foreign ownership. As with the ESD models, limited statistically significant evidence was found towards a positive or negative impact of the tax cuts; only two out of the 16 foreign ownership models are significant (table B.35), and four out of the 16 liquidity models are significant (table B.36). For foreign ownership, significant results were found only relating to aggregate expenditure for the initial tax cuts, suggesting a positive impact at the extensive margin and a negative impact at the intensive model. However, the liquidity model suggests a positive impact on

investment for small companies facing liquidity constraints in the 2015-16, and 2017-18 tax cuts, although the change is unrealistically large. We do, however, find that when analysing aggregate expenditure, the share of small companies investing increased by approximately 57% in each industry on average following the tax cut in July 2017. Therefore, this provides some weak evidence that tax cuts may have had a positive impact on liquidity constrained firms. Nonetheless, as with the ESD models, this analysis does not provide conclusive evidence regarding a directional impact of the small company tax cuts.

Table B.35 – DDD Foreign Ownership Results

	BAS		CAPEX	
	Intensive Margin	Extensive Margin	Intensive Margin	Extensive Margin
2015-16	-0.292**	0.166*	n/a	-0.078
	(0.120)	(0.093)	n/a	(0.517)
Observations	316,737	638,487	1,607	4,852
2016-17	-0.152	-0.028	n/a	-0.741
	(0.098)	(0.108)	n/a	(3.370)
Observations	85,758	125,858	1,647	3,887
2017-18	-0.088	-0.716	n/a	-3.399
	(0.457)	(1.059)	n/a	(1.964)
Observations	19,267	27,379	1,666	3,534
2018-19	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a
Observations	9,002	11,939	1,681	3,429

Standard errors presented in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Note in some cases, the estimate is removed (n/a) due to limited variation in the sample resulting in collinearity.

Source: Productivity Commission estimates based on ABS (2025e).

Table B.36 – DDD Liquidity Ownership Results

	BAS		CAPEX	
	Intensive Margin	Extensive Margin	Intensive Margin	Extensive Margin
2015-16	-0.077	-0.044	1.545**	1.019
	(0.033)	(0.044)	(0.706)	(0.671)
Observations	316,737	638,487	1,607	4,852
2016-17	0.010	0.021	-1.032	1.718**
	(0.057)	(0.109)	(6517.979)	(0.722)
Observations	85,758	125,858	1,647	3,887
2017-18	-0.171	0.454*	1.042*	-1.032
	(0.127)	(0.230)	(0.055)	(2.669)
Observations	19,267	27,379	1,666	3,534
2018-19	-0.330	-1.239	-0.182	4.839
	(0.992)	(1.59)	(0.170)	(896.03)
Observations	9,002	11,939	1,681	3,429

Standard errors presented in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Productivity Commission estimates based on ABS (2025e).

Our results are broadly in line with Win et al. (2025), finding weak evidence of the effectiveness of tax incentives on business investment – with some indication of a positive impact for more liquidity constrained companies. This can be due to broader macroeconomic conditions influencing investment and data limitations but also possibly due to dividend imputation dampening the effect of lowering tax rates on smaller businesses. Indeed, given that small companies have low levels of foreign ownership compared to larger ones (ABS 2025e), it is likely that these companies are more responsive to changes in the marginal personal income tax rate rather than the company income tax rate. Results may differ should tax cuts be applied to larger companies which face higher levels of foreign ownership and, therefore, may be more responsive to company income tax rates – in every model, the treated cohorts faced notably lower degrees of foreign ownership than the control group (Table B.40). Other fundamental differences between smaller and larger companies may also drive a different response to cuts in the tax rate – in short, care should be taken in extrapolating these results to larger companies which have not experienced observable changes in the tax rate, including in the context of the PC's proposal.

This analysis focuses upon the short-term impacts of the company income tax rate changes. To better understand the medium-to-long term impacts of these tax cuts, future research could employ a panel data approach, though steps would need to be taken to account for the role of COVID-19.

Table B.37 – Descriptive statistics: number of companies in sample by year and treatment group

Total capital expenditure (BAS models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	240,072	39,598	6,632	1,989	2,747
2012-13	245,116	40,922	6,765	2,084	2,820
2013-14	256,218	43,466	7,212	2,163	2,861
2014-15	262,788	46,340	7,770	2,290	2,970
2015-16	256,225	47,205	8,092	2,426	3,095
2016-17	267,370	51,100	8,743	2,565	3,220
2017-18[b]	n/a	n/a	4,770	38	99,038
2018-19[b]	n/a	n/a	6,494	1,301	73,581

Buildings and structures capital expenditure (CAPEX survey models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	599	278	152	120	1,156
2012-13	530	254	169	132	1,170
2013-14	639	295	176	128	1,146
2014-15	614	294	173	143	1,237
2015-16	546	290	174	142	1,239
2016-17	545	317	185	140	1,400
2017-18[b]	399	199	79	n/a	1,976
2018-19[b]	428	261	133	84	1,993

a. The control group is all companies earning $50 million or more. In 2017-18 and 2018-19, this is expanded to include companies earning $10 million or more and are not base rate. This impacts comparability across years. **b.** In these years, the $10-$25 million and $25-50 million cohorts only include companies which are base rate entities. This impacts comparability across years.

Source: Productivity Commission estimates based on ABS (2025e).

Table B.38 – Descriptive statistics: average investment by year and treatment group

Total capital expenditure (BAS models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	15,793	104,308	371,728	864,730	103,270,164
2012-13	16,334	101,391	350,032	825,595	102,926,703
2013-14	16,037	95,498	334,604	723,387	99,812,512
2014-15	17,460	94,302	314,687	679,658	104,506,439
2015-16	18,095	98,057	312,696	715,702	112,896,476
2016-17	17,940	95,570	303,546	658,643	99,945,949
2017-18[b]	n/a	n/a	158,923	419,711	69,547
2018-19[c]	n/a	n/a	126,765	476,916	121,733

Buildings and other structures capital expenditure (CAPEX survey models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	691	23,366	41,344	104,984	79,410,341
2012-13	754	15,410	26,585	209,579	83,073,053
2013-14	278	12,220	119,996	56,634	111,961,793
2014-15	336	23,333	159,728	352,662	96,989,998
2015-16	495	62,992	133,622	59,927	115,417,996
2016-17	796	8,612	114,607	121,675	91,256,042
2017-18[b]	601	8,461	32,744	n/a	92,968,104
2018-19[c]	877	8,895	71,956	176,364	91,846,329

These averages are trimmed, excluding the top and bottom 1% of company capital expenditure. Buildings and other structures capital expenditure estimates are unweighted for clearance purposes, but were weighted in the regression analysis. **a.** The control group is all companies earning $50 million or more. In 2017-18 and 2018-19, this is expanded to include companies earning $10 million or more and are not base rate entities. This impacts comparability across years. **b.** In these years, the $10-$25 million and $25-50 million cohorts only include companies which are base rate entities. This impacts comparability across years.

Source: Productivity Commission estimates based on ABS (2025e).

Table B.39 – Descriptive statistics: share of companies which are liquidity constrained by year and treatment group

Share of liquidity constrained companies (BAS models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	43.97%	27.62%	22.35%	20.81%	25.05%
2012-13	43.22%	27.97%	22.81%	21.26%	24.79%
2013-14	43.05%	28.01%	22.45%	21.13%	24.29%
2014-15	42.50%	27.87%	22.61%	20.83%	24.34%
2015-16	40.87%	27.51%	22.89%	20.03%	25.20%
2016-17	39.88%	26.96%	21.72%	19.53%	24.16%

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2017-18[b]	n/a	n/a	16.77%	34.21%	44.66%
2018-19[b]	n/a	n/a	17.62%	15.14%	45.15%

Share of liquidity constrained companies (CAPEX survey models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	44.24%	34.17%	30.92%	30.83%	29.50%
2012-13	40.94%	32.68%	27.22%	29.55%	28.03%
2013-14	43.51%	31.19%	27.84%	23.44%	28.01%
2014-15	43.49%	34.01%	23.70%	23.78%	27.16%
2015-16	42.49%	37.24%	36.78%	19.01%	28.89%
2016-17	40.37%	27.13%	27.03%	23.57%	29.14%
2017-18[b]	35.59%	20.10%	17.72%	n/a	29.86%
2018-19[b]	37.62%	24.90%	18.05%	25.00%	29.50%

a. The control group is all companies earning $50 million or more. In 2017-18 and 2018-19, this is expanded to include companies earning $10 million or more and are not base rate. This impacts comparability across years. **b.** In these years, the $10–$25 million and $25–50 million cohorts only include companies which are base rate entities. This impacts comparability across years.

Source: Productivity Commission estimates based on ABS (2025e).

Table B.40 – Descriptive statistics: share of companies with significant foreign ownership by year and treatment group

Share of companies with significant foreign ownership (BAS models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	0.58%	2.93%	9.73%	19.51%	36.33%
2012-13	0.60%	3.08%	10.16%	19.43%	36.70%
2013-14	0.59%	3.00%	9.53%	19.88%	36.74%
2014-15	0.63%	2.96%	9.24%	17.64%	36.94%
2015-16	0.61%	2.98%	9.17%	18.34%	36.93%
2016-17	0.65%	2.95%	8.70%	17.93%	37.27%
2017-18[b]	n/a	n/a	0.92%	0.00%	5.00%
2018-19[b]	n/a	n/a	1.39%	2.61%	6.51%

Share of companies with significant foreign ownership (CAPEX survey models)

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2011-12	0.67%	3.96%	6.58%	20.00%	41.44%
2012-13	1.13%	3.54%	10.65%	19.70%	42.14%
2013-14	0.16%	3.73%	14.20%	27.34%	43.02%
2014-15	0.49%	4.42%	12.14%	21.68%	45.11%
2015-16	0.55%	5.52%	12.64%	17.61%	44.96%

	$0 – 2 million	$2 – 10 million	$10 – 25 million	$25 – 50 million	Control Group[a]
2016-17	1.83%	4.42%	11.35%	22.86%	47.07%
2017-18[b]	0.25%	1.01%	2.53%	n/a	37.40%
2018-19[b]	0.00%	0.38%	1.50%	2.38%	39.79%

a. The control group is all companies earning $50 million or more. In 2017-18 and 2018-19, this is expanded to include companies earning $10 million or more and are not base rate. This impacts comparability across years. **b.** In these years, the $10-$25 million and $25-50 million cohorts only include companies which are base rate entities. This impacts comparability across years.

Source: Productivity Commission estimates based on ABS (2025e).

C. Supporting analysis for: Regulating to promote business dynamism

C.1 Regulatory policy framework

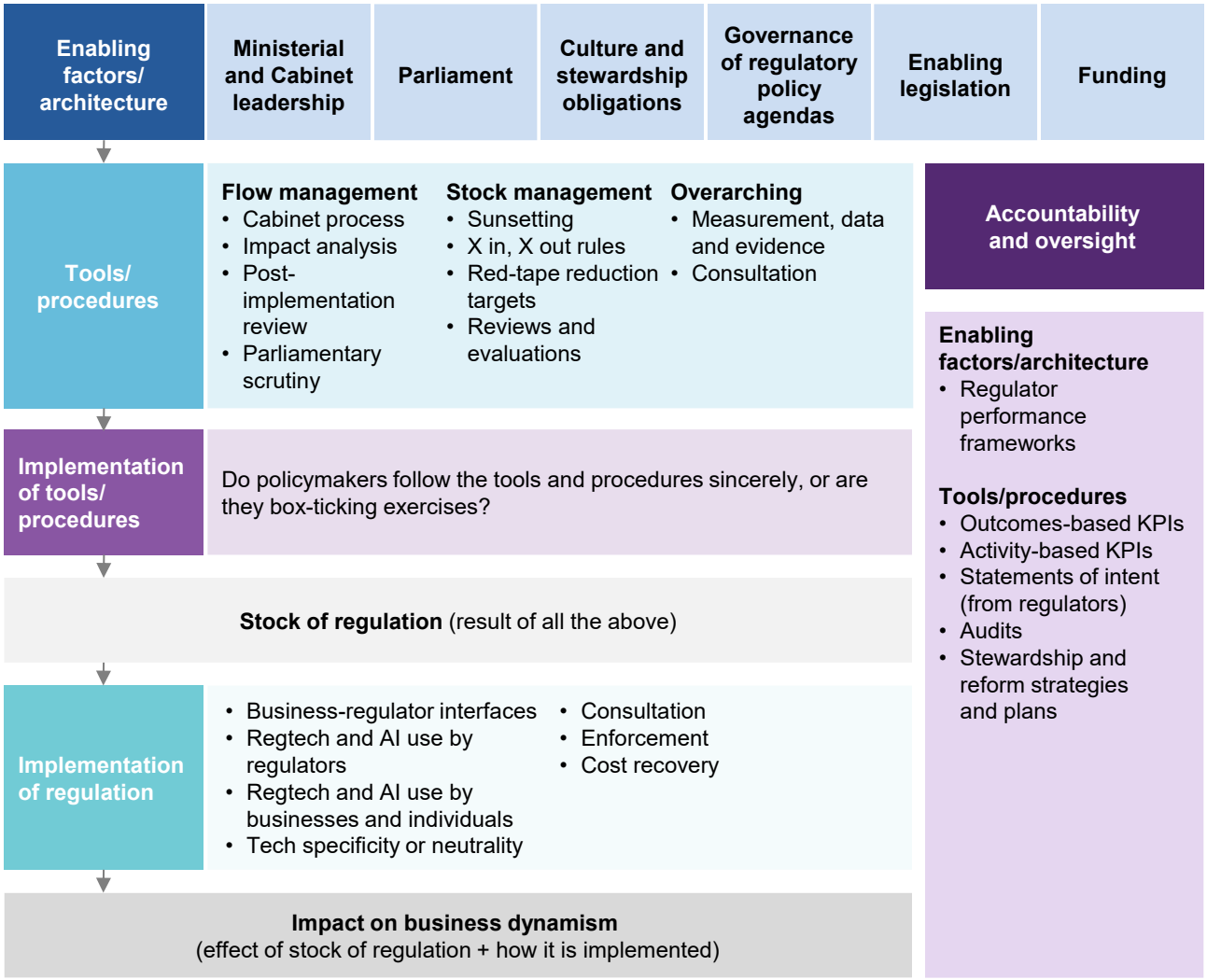
Figure C.1 outlines a framework for thinking about regulatory policy. The framework sets out the overarching **enabling factors and architecture**, including ministerial and Cabinet leadership, parliament, culture and stewardship obligations, the governance of regulatory policy agencies, enabling legislation for regulators, and funding.

The next level in the framework comprises the **tools and procedures**, such as impact analysis and sunsetting, 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 administering and enforcing regulation, among other things (DoF 2024). They can sit within government departments or be external entities.

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 affect business dynamism.

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

Figure C.1 – A framework for the regulatory system



C.2 Measuring progress toward better regulation

This appendix provides a response to the Treasurer's public comments asking the Productivity Commission for advice on how to best measure progress toward better regulation (Chalmers 2025b). It also provides further information about the PC's proposed approach to use quantitative indicators to track the impacts of regulation and target a reduction in regulatory burdens. Specifically, this approach is to:

- target a $10 billion reduction in annual compliance and delay costs of Australian Government regulation by 2030
- introduce an annual Regulation Review publication that would report on a broader set of indicators and review contemporary issues in regulation.

This approach was developed by considering approaches used in other countries, previous approaches used in Australia and consulting with a broad range of stakeholders.

Figure C.2 summarises the PC's assessment of the available quantitative indicators against criteria developed to assess their usefulness to the regulatory burden target and Regulation Review.

Figure C.2 – Assessment of regulatory burden and quality indicators

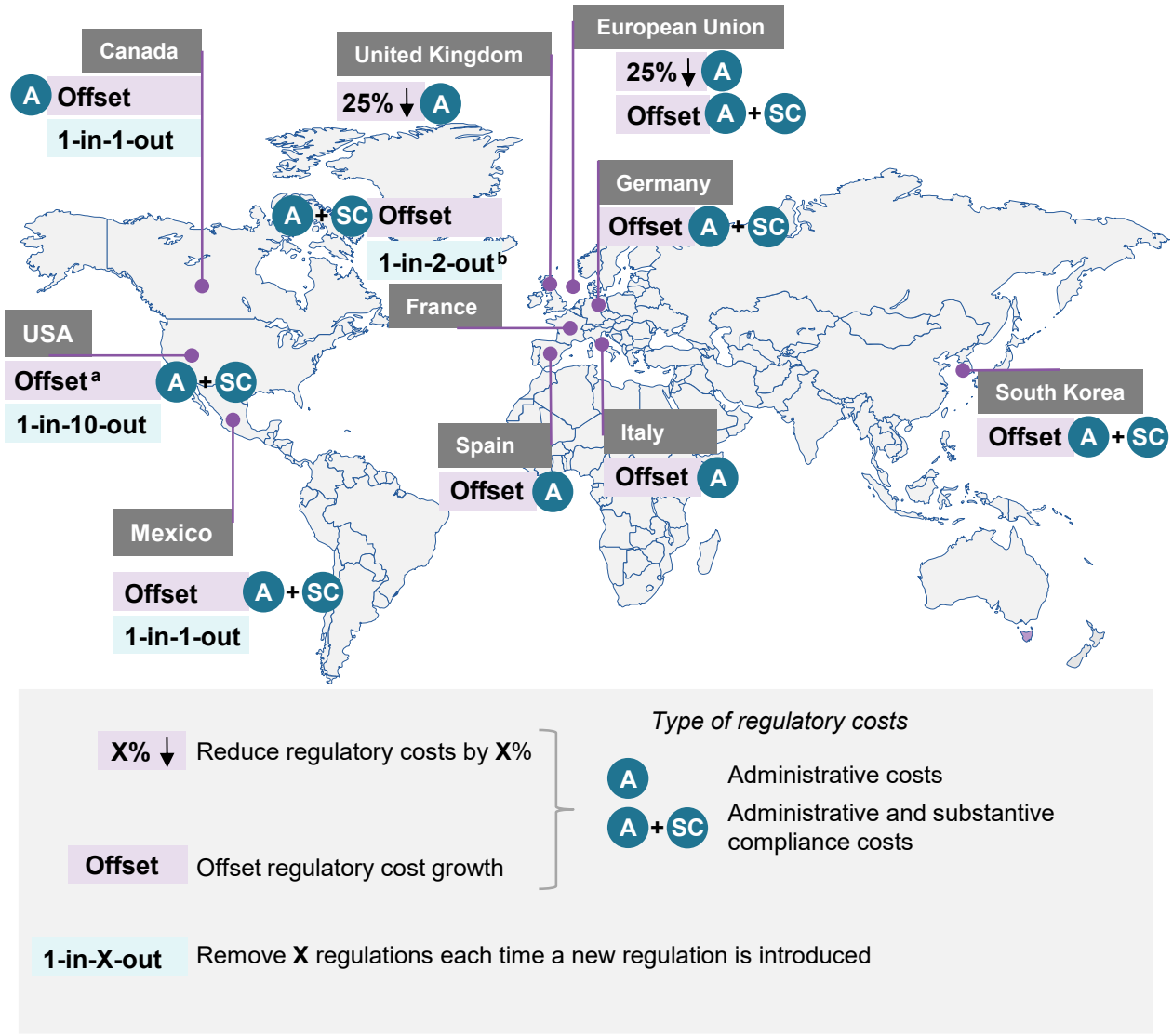
Indicator	1. How well does the indicator capture changes in regulatory burden/quality?	2. How practical is the indicator …	
		As a regulatory target?	For the Regulation Review?
Indicators of regulatory burden			
Compliance and delay costs – universal	Moderate to high	High	High
Compliance and delay costs – impact analyses	Moderate	High	High
Administrative costs - universal	Moderate	High	High
Index of time to make regulatory decisions	Moderate	High	Moderate to high
Labour cost of regulatory compliance work	Moderate to high	Low	Moderate to high
Restrictiveness of the text of regulations	Low to moderate	High	High
AICD Director Sentiment Index components	Low to moderate	Low	Moderate to high
Indicators of regulatory quality			
Distribution of impact analysis scores	Low to moderate	High	High
Post-implementation review timeliness	Low to moderate	High	High
World Bank Business Ready index[a]	Low to moderate	Moderate	Moderate
OECD Product Market Regulation index[a]	Low to moderate	Low	Low to moderate

a. Assessment based on only the components of the indexes that draw on Australia-wide data. b. AICD is Australian Institute of Company Directors.

Source: PC analysis (tables C.1, C.2, C.3, C.4).

Figure C.3 summarises regulatory targets around the world.

Figure C.3 – Regulatory burden targets around the world



a. The United States (US) requires that offsets reduce costs 'significantly' more than one-for-one. **b.** France's one-in-two-out scheme permits simplification rather than removal of existing regulations.

Source: PC analysis (table C.5).

The remainder of this appendix proceeds as follows.

- The first section explains how the PC arrived at its two-pronged approach.
- The second section explains the first prong – the recommended regulatory burden reduction target – in greater detail.
- The third section explains the second prong – the recommended Regulation Review – in greater detail.
- The fourth section provides a detailed assessment of the quantitative indicators that were considered for the regulatory burden reduction targets and Regulation Review.
- The fifth section summarises targets set in other jurisdictions (i.e. it provides more information about figure C.3).

A two-pronged approach to quantitative indicators of regulation

In an ideal world, regulators and policymakers would have the information and face the incentives to act in the public interest in every decision they make. One way to achieve this would be to task them with maximising their performance against a perfect quantitative indicator that would neatly summarise all the relevant costs and benefits of each decision to be made – from drafting new regulations, to determining how businesses could demonstrate their compliance with existing regulations, to deciding in which cases to investigate potential breaches.

There are two aspects to this perfect indicator.

- First, it distils all relevant information – all the relevant costs and benefits.
- Second, changes to the indicator can be attributed to specific policymaking or regulatory activities. This ensures that the information is useful. For example, knowing that the National Access Regime yields net benefits would be extremely useful for the policymakers considering whether it should remain part of Australia's competition policy architecture, but does not help the Australian Competition and Consumer Commission to decide whether a particular piece of infrastructure should be declared under it.

From an oversight perspective, both these aspects are important for the indicator, if monitored, to create the right incentives for regulators and policymakers.

No indicator is perfect, so there are trade-offs

In reality, this perfect indicator does not exist.

The available indicators of regulation can be separated into two groups.[54] Indicators of **regulatory quality** aim to provide a balanced assessment of the costs and benefits of regulation, such that improvements in these indicators can be interpreted as unambiguously good. Indicators of **regulatory burden** focus on only the costs of regulation. Improvements in these indicators signal reductions in regulatory burdens. This is usually good but not necessarily so, as the reductions in burdens may also entail reductions in regulatory benefits.

There are few regulatory quality indicators and none that are sufficiently comprehensive to drive wholesale improvements in regulatory and policymaking performance. For example, the OECD's Product Market Regulation index can be thought of as an indicator of regulatory quality, but its scope is mostly limited to anticompetitive regulations that place barriers on entry. Likewise, there are some indicators of regulatory processes that can be interpreted as capturing quality, such as indicators capturing compliance with impact analysis requirements, but these provide only a partial and indirect view of whether good regulations and practices ensue.

By contrast, there are regulatory burden indicators that are broader in scope than the quality indicators. Some of these also map to specific actions of regulators and policymakers. For example, agencies can be required to estimate and report the net regulatory costs that result when they change regulations or their implementation (they are currently required to do this in a standardised way when the change is sufficiently material that impact analysis is required).[55] There are also indicators based on the text of regulations, such as counts of how many restrictions regulation places on businesses.

[54] This is not to discount the more regulator-specific indicators that provide insight into various aspects of a regulator's processes, such as the number and type of investigations it undertakes and the nature of its engagement with the parties it regulates. The PC is recommending that additional regulator-specific key performance indicators to be developed along these lines (recommendation 2.4). This appendix focusses on indicators that can apply economywide, so regulator-specific indicators are not discussed further.

[55] In principle, impact analyses should also capture the benefits of regulation, but there is less standardisation in how these benefits are quantified and many are not.

Agencies could be held accountable for reducing the regulatory burden on businesses by setting a target for one or more of these indicators that they are then required to meet.

There are trade-offs to holding agencies to account in this way. In practice, the only targets that would hold agencies to account in any substantive way would be on indicators of regulatory burden, as the available quality indicators cover only a few types of regulations or regulatory processes.

Setting a target will help government achieve its objective

On the one hand, setting a target for an indicator of regulatory burden creates strong incentives to limit measured regulatory burdens. This can correct for the incentive that regulators and policymakers face to disregard the burdens their activities create because they have no budgetary cost (chapter 2).

Setting and publicising a whole-of-government target for regulatory burden reduction also provides an opportunity for the Australian Government to signal its intent to prioritise regulatory burden considerations and the scale of its ambition, and to hold itself to account.

On the other hand, it is possible that agencies will respond to a target by:

- focussing on *measured* regulatory burdens rather than *actual* regulatory burdens
- sacrificing beneficial regulations or not implementing new beneficial regulations, as the indicators do not capture regulatory benefits, only regulatory costs.

The PC's recommended approach is to adopt a regulatory burden reduction target for one indicator of regulatory burden, while carefully mitigating the associated risks. This approach gives the benefits of quantitative targets while minimising any downside.

The risks of target setting would be mitigated by:

- ensuring that the target is achievable at the whole-of-government level, and that it does not result in unachievable targets being devolved to agencies
- ensuring that existing regulatory policy tools continue to apply, such as ensuring that impact analyses are undertaken for changes that would substantially reduce regulatory burdens, which offers scope for both the costs and benefits of these changes to be assessed
- adopting a broader monitoring and reporting regime, by commissioning an annual Regulation Review that would assess whether the target and other regulatory reforms are having the desired effect.

Set a regulatory burden reduction target

Choosing an indicator

To choose indicators for the regulatory reduction targets, the PC considered two criteria (set out in greater detail in the fourth section):

1. How well the indicator would capture changes in regulatory burden or quality. In practice, only regulatory burden indicators score sufficiently highly against this criterion to be used as regulatory targets.
2. How practical the indicator would be as a target for regulatory reduction – most importantly, whether it would map to key regulator or policymaker actions, as this is necessary to create incentives for regulators and policymakers.

Some indicators scored highly against one criterion but poorly against the other. For example, estimates of the labour costs of regulatory compliance work (based on general surveys of individuals or administrative records) score highly against the first criterion (measuring change in regulatory burden). But they score very

poorly against the second criterion (mapping to regulator or policymaker actions), as one cannot generally determine which level of government caused changes, let alone which specific activity.

Figure C.2 (at the start of this appendix) summarises the PC's assessment of the available indicators against these criteria. A description of each indicator and a more detailed assessment is in the fourth section.

The PC also examined approaches taken in other jurisdictions. Other countries with regulatory burden targets and the European Union (EU) use a version of agency-measured regulatory costs as the indicator to target (figure C.3 at the start of this appendix and table C.5 at the end of this appendix).[56] This sometimes includes only administrative costs (the costs of demonstrating compliance with regulation, such as paperwork) and sometimes administrative and substantive compliance costs (the costs of actually complying with the regulation). Regulatory burden targets previously pursued by the Australian Government and state and territory governments have included administrative and substantive compliance costs and also delay costs (the foregone benefits of having to wait for regulatory action to occur) (table C.5).[57]

Canada, France, Mexico and the US target the number of regulations in addition to agency-measured regulatory costs. The PC does not recommend this approach because the number of regulations scores poorly against criterion 1 – it does not capture changes in regulatory burden very well.

After undertaking a detailed assessment, the PC assessed that the best option was to target **agency-measured administrative, substantive compliance and delay costs**. Administrative and substantive compliance cost are collectively known as 'compliance costs', so this can be framed as 'compliance and delay costs'. This indicator scores highly against both criteria.

The PC paid particular attention to whether substantive compliance and delay costs should be included alongside administrative costs within the target, as some jurisdictions include only administrative costs. We concluded that substantive compliance and delay costs should be included because business' concerns about regulatory burden are not limited to administrative costs, it is practical to include these broader costs, and it will allow regulators and policymakers to pursue regulatory burden reduction in a more efficient and flexible way (box C.1).

Box C.2 – Should substantive compliance and delay costs be included in the regulatory costs target?

Some jurisdictions, especially in Europe, have adopted regulatory burden targets based only on administrative costs rather than including substantive compliance and delay costs (table C.5).

In some countries, that choice has been influenced by the lack of institutionalised measurement of these costs. The 'Standard Cost Model', which is used by many countries for regulatory accounting, does not capture substantive compliance or delay costs (International Working Group on Administrative Burdens 2004). This is not the case in Australia – Australia's Regulatory Burden Measurement framework, maintained by the Office of Impact Analysis, includes guidance on measuring administrative,

[56] Some sub-national jurisdictions, such as Queensland during the 2010s and British Columbia in Canada, have targeted the number of 'regulatory requirements', which is an indicator based on the restrictiveness of the text of regulations (see fourth section). This indicator does not score well against criterion 1, as shown in figure C.2.

[57] In principle, regulatory burden estimates could be even broader; for example, they could include an estimate of the distortion costs of regulation. This is not considered as an indicator because these costs are much more difficult to measure and not generally measured in a standardised way.

Box C.2 – Should substantive compliance and delay costs be included in the regulatory costs target?

substantive compliance and delay costs (OIA 2024). Moreover, the Australian Government's 2014 to 2016 regulatory burden reduction policy included all three forms of costs, and an audit of that policy found that agencies' regulatory costings were consistent with the guidance (ANAO 2016).

With feasibility not an issue in Australia, there is a case for using the broader costs measure on the grounds that not doing so would distort agencies' efforts to reduce regulatory burdens toward administrative burdens. The most reasonable way to compare the options is on a dollar-for-dollar of reduction achieved basis, as reducing costs is the objective. This means that a target for a given *percentage* reduction to compliance and delay costs should be compared with a target for a larger *percentage* reduction to only administrative costs.[a] On this dollar-for-dollar basis, burden reductions achieved by targeting a broader measure of costs are likely to be more efficient than burden reductions achieved by targeting a narrower measure of costs, because the broader measure is less distortive of regulators' and policymakers' actions. This is analogous to the principle that broader-based taxes raise revenue more efficiently than narrower-based taxes.

a. This observation is crucial to considering when comparing the regulatory burden reduction target recommended here (a smaller percentage reduction over a broader base) to those in operation in the United Kingdom (UK) and EU (larger percentage reductions over narrower bases).

Setting the target

The next question was how much of a reduction in compliance and delay costs should be sought.

As context, the PC estimates that compliance and delay costs of Australian Government regulation total around $115–160 billion annually. The lower bound is estimated by scaling the Australian Government's official 2013 estimate of $65 billion of compliance and delay costs by growth in nominal GDP to June 2025 (PC estimate based on ABS (2025a)).[58] The upper bound is from a recent report that scaled the official 2013 estimate by proxies for regulatory burden growth including volume and complexity of legislation, employees engaged in compliance work and direct business cost growth (Mandala 2025).

The baseline costing exercise that produced the 2013 estimate could be repeated to give a more accurate estimate, but this would be costly and time-consuming for agencies and would probably yield limited benefits.[59] Several jurisdictions have chosen to forgo detailed baseline costing exercises when setting regulatory burden reduction targets for these reasons (Renda 2022), including the United Kingdom (UK) (United Kingdom Treasury 2025).

[58] This estimate is conservative, as it assumes that administrative and compliance costs have grown only in proportion with the economy since 2013. That said, the 2014-2016 policy reduced the costs by about 6% (ANAO 2016), so the estimate implicitly assumes that costs grew faster than nominal GDP outside these periods.

[59] A more accurate baseline would allow a more precise *percentage* reduction target to be set, but this percentage would inevitably be somewhat arbitrary – for example, why 10% rather than 11%? The PC favours the simpler approach of specifying a dollar value target.

Setting an economywide target

In setting the target, the PC sought to balance the need for it to be sufficiently ambitious to deliver meaningful reductions in the regulatory burden and not be out of step with targets abroad with the need for it to be achievable without substantially compromising beneficial regulation.

Around the world, common targets include (figure C.3, table C.5):

- *reduction targets*, wherein an explicit reduction in regulatory costs is sought.[60] The most common have been to aim for a 25% reduction in only administrative costs over several years – currently the EU and UK have this target. Germany, the Netherlands, and the UK have each previously set and successfully achieved a 25% reduction in administrative costs. Victoria and New South Wales repeatedly attempted 20-25% reductions in administrative, substantive compliance and delay costs (the indicator recommended here) during the 2010s, but the results were mixed
- *regulatory offsetting schemes*, wherein increases in regulatory costs must be offset by equal or greater reductions in regulatory costs elsewhere. Canada, the EU, Germany, Italy, Mexico, Spain, South Korea and the US have this arrangement. The implicit target is for no growth in the indicator of regulatory cost
- '*one-in-X-out' schemes*, which require that 'X' number of regulations be removed each time a new regulation is introduced. Canada and Mexico have a one-in-one-out schemes, while France has one-in-two-out and the US has one-in-10-out, in each case operating alongside their regulatory offsetting scheme. A one-in-one-out scheme can be thought of as like a regulatory offsetting scheme but targeting the number of regulations rather than regulatory costs.[61] Schemes with X greater than 1 have proven less stable (Renda 2022), with Mexico, the UK, and US each introducing then abandoning them in the past. They are also less efficient than direct targeting a reduction in the number of regulations as they create potentially undesirable incentives to not alter regulations.

Of these, the recent commitment by the UK and EU to reduce administrative costs by 25% by 2029 has received the most attention from participants in this inquiry, with several calling for the PC to adopt a 25% reduction target but without specifying which types of regulatory costs the target would apply to (ACCI, sub. 112, p. 5, AICD, sub. 180, p. 6; BCA, sub. 200, p. 15). More recently, the Australian Institute of Company Directors (AICD) called for a 25% reduction in administrative, substantive compliance and delay costs (again referencing the EU and UK) in a report that estimated these at about $160 billion per annum, implying a reduction in annual costs of about $40 billion (Mandala 2025).

Also highly relevant is that the Australian Government, over 2014 to 2016, sought to reduce annual administrative, substantive compliance and delays costs by at least $1 billion per year, which led to a $4 billion (6%) reduction in two years (ANAO 2016).

With this background, the PC considered a $10 billion reduction in annual administrative, substantive compliance and delay costs by 2030 (6-9% of the total of these costs) to reflect the ambition of participants to cover the range of compliance costs, developments abroad and to be a stretch goal that is achievable.

- *As regards comparability with developments abroad and participants' feedback*, the PC's recommended target is similar to or possibly even bolder in ambition than the UK and EU targets on a dollar-for-dollar basis, once differences in size of economy are factored in. The UK and EU targets are for a larger percentage reduction (25%) of a narrower base (administrative costs), while the target recommended here is for a smaller percentage reduction (6-9%) of a wider base (compliance and delay costs). The PC's

[60] More generally, reduction targets can incorporate a variety of different indicators, as discussed in the fifth section.
[61] More generally, 'one-in-X-out' schemes can incorporate a variety of different indicators and values of 'X', as discussed in the fifth section.

recommended target is almost twice as large as a share of Australian GDP as the UK's target is a share of UK GDP, although it is plausible that the UK's target (if met) would result in somewhat higher cost reductions if the UK's reductions to administrative costs generate complementary reductions to substantive compliance and delay costs.[62]

- *As regards achievability*, a 6–9% reduction in compliance and delay costs over four years appears achievable, as the Australian Government was able to achieve a 6% reduction in the same indicator from 2014 to 2016. While it is plausible that the earlier policy may have been made easier by addressing 'low hanging fruit', a decade has now passed and so more such 'fruit' has likely grown, given the growth in many indicators of regulatory burden since then (chapter 2, figure 2.1). That said, demands for additional regulation continue to grow, such as the recent concerns about child safety in childcare and outages in triple zero emergency calls, so achieving a 6-9% reduction will be no small task. The AICD's recent call for a 25% reduction to compliance and delay costs risks being unachievable without cutting back beneficial regulations.

Translating the economywide target to portfolio and whole-of-government contributions

For a $10 billion reduction in annual compliance and delay costs target to have bite, the responsibilities for contributing toward it must be made clear.

One option would be to establish portfolio-level targets that aggregate to the economywide target, which is the approach the Australian Government took for its 2014 to 2016 regulatory burden reduction policy. The PC does not favour this option as it would require detailed information about the scope each portfolio has to reduce regulatory burdens without sacrificing beneficial regulation, which is not available.

Instead, the PC is proposing a whole-of-government effort to identify regulatory burden reductions, with central agencies taking the lead role. Outside of this, each portfolio would take responsibility for ensuring that the burden of the regulations it administers does not worsen.

Whole-of-government role: identify regulatory burden reductions

The PC is proposing a whole-of-government commitment to identifying and delivering $10 billion worth of annual compliance and delay cost reductions by 2030, driven by central agencies. This would allow for major, high-profile reforms that require whole-of-government commitment to be centre-stage in reducing regulatory burdens. It is also consistent with the thrust of the recommended whole-of-government statement on regulation (in which the target would be articulated) for central government to lead the regulatory reform agenda.

Portfolio role: prevent regulatory burdens from growing

To ensure that regulatory burdens elsewhere do not grow, each portfolio should be subject to a regulatory offsetting regime. Under this regime, any changes to regulation or changes to how existing regulations are administered and implemented that increase compliance or delay costs would need to be offset by equivalent or greater compliance or delay cost reductions within the same portfolio. The offset regime should include the following features:

- The actions to reduce regulatory burdens identified and prioritised by central agencies as part of the whole-of-government regulatory burden reductions should be exempt – the regulatory offsetting regime is to manage other areas of regulation. This is so that the net effect of the central agency and portfolio roles is to secure the $10 billion reduction in annual compliance and delay costs.

[62] $10 billion is about 0.37% of Australia's 2024 GDP (PC estimate based on ABS (2025a)), whereas the UK policy is for an administrative cost reduction of 0.19% of the UK's 2024 GDP (PC estimate based on ONS (2025)).

- A flexible period between burden increases and offsets should be permitted, and offsets should be allowed to precede burden increases (i.e. portfolios should be allowed to 'bank' offsets for a period). As well as boosting the flexibility of the regime, this would encourage regulators and policymakers to find burden-reducing reforms, even if they are not intending to increase burdens elsewhere in the short term. A two-year window, which would be at the upper end of regulatory offset regimes around the world, appears suitable (Renda 2022).
- Offsets should be transferrable between portfolios with agreement of either the Cabinet or both portfolio ministers. This would allow the scheme to evolve as demands for regulation change. Machinery of government changes that move regulatory functions between portfolios should automatically trigger a corresponding transfer of offsets.

The Regulation Review

The PC is also recommending that the Australian Government commission an annual Regulation Review. The purposes of the Regulation Review would be to assess the effectiveness of the regulatory burden target in reducing the regulatory burdens on businesses and more general developments in regulation and regulatory policy.

Specifically, the Regulation Review would:

- report on a broad range of indicators of regulatory quality and burden in a narrative style that seeks to recognise the strengths and weaknesses of the indicators and draw out broader trends and themes
- review recent developments in regulation or regulatory policy, such as major changes to regulatory frameworks.

As a rough indication of what the Regulation Review could become, consider the Trade and Assistance Review, an annual PC publication that reports on developments in trade and industrial policy and provides estimates of industry assistance and the compliance costs of Australia's tariff regime. The most recent edition modelled scenarios for US trade policy based on tariff announcements and discussed the Future Made in Australia policy in depth (PC 2025f).

It is crucial that the Regulation Review be undertaken by an independent agency, because its readership should understand it to be offering an impartial assessment of progress in meeting the government's regulatory policy goals. This could be the PC or another independent agency.

To choose indicators for the Regulation Review, the PC again considered two criteria (set out in more detail in the fourth section):

1. How well the indicators would capture changes in regulatory burden or quality – this is identical to the criterion for selecting indicators for quantitative targets.
2. How practical the indicators would be to the Regulation Review – particularly important is that the indicators are regularly reported with little time lag and can be compiled at low additional cost. It is less critical that they map to specific regulator or policymaker activities.

Figure C.2 at the start of this appendix summarised this assessment for each indicator and a more detailed assessment is set out in the fourth section. The following indicators should be included in the Regulation Review:

- Indicators of regulatory quality:
  - The World Bank's Business Ready index (only subsections that are nationally representative).
  - The OECD's Product Market Regulation index (only subsections that are nationally representative).
  - The distribution of impact analysis scores, reported at the portfolio level.
  - The share of post-implementation reviews completed on time, reported at the portfolio level.

- Indicators of regulatory burden:
  - Compliance and delay costs of regulation (the indicator to which the target applies), reported at the portfolio level.
  - An index of the time taken to make regulatory decisions, reported at the portfolio level and possibly supplemented by more disaggregated data.
  - Various indicators of the restrictiveness of legislation, reported in aggregate for now but disaggregated to the portfolio and industry level when possible.
  - Estimates of the labour cost of regulatory compliance work undertaken (when available), reported at the industry level.

Other indicators or refinements of these indicators should be incorporated as they become available.

Detailed assessment of quantitative indicators

This section provides a more detailed assessment of the quantitative indicators of regulation that were considered for the regulatory burden reduction target and Regulation Review. It begins by further developing the assessment criteria before describing and assessing each indicator.

Assessment criteria for indicators

The PC drew on two criteria to assess indicators: how well they capture changes in regulatory quality/burden and how practical they are to the task at hand. As many indicators are complementary, our assessment factored in what the indicator could contribute to a portfolio of indicators rather than just how an indicator would perform in isolation.

1. How well does the indicator capture changes in regulatory quality/burden?

This criterion is about the extent to which an indicator captures real-world changes in regulatory quality or burden. By this criterion, better indicators are those that are most economywide in scope, capture the broadest range of costs (and benefits, in the case of regulatory quality indicators), do so most accurately and are most comparable over time (box C.2).

Put differently, this criterion is about how well the indicator captures what we are trying to measure at an economywide level.

The criterion was applied in the same way when considering indicators for targets and the Regulation Review.

Box C.3 – Sub-criteria for criterion 1

1.a. Representativeness

The representativeness criterion is about the extent to which the indicator is economywide in scope, as opposed to being focussed on particular regions, industries, regulators, or types of businesses. For example, indicators that focus only on regulations in Sydney, regulations that affect only the manufacturing industry, or regulations that affect only small businesses will score poorly against this criterion.

1.b. Comprehensiveness

The comprehensiveness criterion differs between indicators of regulatory quality and burden.

Box C.3 – Sub-criteria for criterion 1

For indicators of regulatory burden, the comprehensiveness criterion is about the extent to which the indicator captures the full range of regulatory costs affecting businesses.

For indicators of regulatory quality, the comprehensiveness criterion is about the range of regulations, aspects of regulation or aspects of regulatory process that the indicator takes into consideration.

Given the measurement challenges, indicators of regulatory quality tend to focus on situations in which it is more feasible to assess net benefits. For example, by considering things like:

- whether there are regulations in place that are generally held to impose net costs on the community, such as restrictions on market entry that benefit incumbents
- whether regulations have been implemented in a way that makes them easy to comply with. Here, the merits of the regulation itself are not at issue; the focus is on whether the way it has been implemented imposes unnecessary burdens (which implies net costs by comparison with a better-implemented variant).

Regulatory quality indicators that go beyond these clear-cut cases will score better against the comprehensiveness criterion.

Other regulatory quality indicators focus on process quality – for example, impact analysis quality. In these cases, the comprehensiveness criterion is about how integral the processes that the indicator is capturing are.

1.c. Accuracy, including subjectivity and the likelihood of gaming

The accuracy criterion is about the extent to which an indicator accurately reflects the costs, benefits or elements of process quality that it purports to capture. This includes subjectivity and gaming considerations.

- Indicators that are subjective score poorly against this criterion. Subjectivity often arises because there is insufficient information to form an objective assessment about regulatory quality, and so the indicator is embedded with assumptions to fill this information gap.
- Indicators that are open to gaming score poorly against this criterion. In other words, the question is how accurate the indicator is expected to be if used as an indicator, not how accurate it currently is. For example, an indicator might be gamed by businesses that wish to overstate regulatory burdens (to pressure for deregulation) or government agencies that wish to understate regulatory burdens (to make their performance appear more favourable).

1.d. Comparability over time

The comparability over time criterion is about the extent to which only changes in relevant factors influence the indicator. ‘Relevant’ factors are those that substantially affect regulatory costs and benefits, but this is sometimes quite subtle. For example:

- changes in how an indicator is measured are never ‘relevant’
- technological changes are usually not ‘relevant’ – for example, labour productivity is a poor indicator of regulatory quality by this criterion because it is influenced by technological change as well as regulatory quality (and other factors)
- some technological changes are ‘relevant’ – for example, a regulatory quality indicator that focusses on requirements for paper-based submission of documents (an example of ‘unnecessary’ costs, as

Box C.3 – Sub-criteria for criterion 1

discussed earlier) would be influenced by the adoption of digital technologies, since requirements for paper-based submission posed fewer unnecessary costs in prior decades
- changes in regulations themselves or their implementation are 'relevant', because they determine regulatory costs and benefits.

2. How practical is the indicator to the task at hand?

This criterion captures the extent to which indicators would be suited to the tasks at hand, for reasons other than how they perform against criterion 1.

The criterion was applied differently to each the two tasks at hand. For a regulatory target, what matters most is whether the indicator maps to regulator/policymaker actions. For the Regulation Review, other considerations like the costs of collecting the indicator are more important.

Box C.3 unpacks this criterion in more detail.

Box C.4 – Sub-criteria for criterion 2

2.a. Informativeness for regulators and policymakers

The informativeness for regulators and policymakers criterion is about the extent to which changes in indicators can be mapped to key regulator/policymaker actions, such as the introduction of new regulations and the administration of existing regulation. For example, regulatory costs reported in impact analyses score highly against this criterion because they are linked to the introduction of new regulations, while surveys that ask businesses about their compliance burden score poorly, because it is hard to attribute businesses' survey-reported compliance burden to a single regulator or regulatory activity.

This sub-criterion is very important for choosing indicators to set targets for in the whole-of-government statement, as these targets will only create strong incentives if there are strong feedback loops for regulators and policymakers.

2.b. Comprehensibility for stakeholders

The comprehensibility for stakeholders criterion is about the extent to which businesses and the broader community can easily understand what the indicator is and what it is capturing, which aids with obtaining and maintaining support for the exercise. For example, international indexes generally score poorly against criterion because they can be difficult to understand without close study.

2.c. Additional cost of construction

The additional cost of construction criterion is about the costs of compiling and reporting the indicator. Importantly, only additional costs matter – for example, if the indicator is already reported for other purposes, then the additional cost of construction is close to zero.

Box C.4 – Sub-criteria for criterion 2

2.d. Frequency, regularity and timeliness of collection

This indicator is about how frequently and regularly the indicator is or could be reported and the time lag from collection to reporting. This also includes:

- how far back the indicator stretches, which aids with establishing a baseline and assessing volatility
- whether there is any reason that the indicator may not be available in the future.

Assessment of the indicators

Indicators of regulatory burden

This section summarises the indicators and then presents detailed assessments in tables C.1 (criterion 1) and C.2 (criterion 2).

Indicators available now or in the near term

Restrictiveness of the text of regulations

This is a family of indicators of the number and complexity of the restrictions that regulation places on businesses and individuals; for example, the number of 'conditional terms', 'restrictive terms', 'regulatory requirements' and the average sentence complexity.[63] These indicators can be compiled using either manual or automated techniques.

- Several jurisdictions, most prominently British Columbia in Canada since 2001 but also Queensland during the 2010s, adopted regulatory budgeting approaches based on manual counts of 'regulatory requirements' (table C.5; Jones and McLaughlin 2022). These cover both legislation and regulators' guidance that implements this legislation.
- The RegData Australia project has used text-mining techniques to compile indicators to 2021 for Acts of Parliament, legislative instruments and notifiable instruments at both the Australian Government and state/territory levels of government (QuantGov nd). RegData indicators have also been compiled for Canada and the US (QuantGov nd).

Due to ongoing advancements in artificial intelligence, automated compilation of these indicators (like RegData) is likely to continue to improve, as is their sophistication. The assessment in tables C.1 and C.2 is based on currently available technology, except for a potential mapping of legislation to affected industries, which has been undertaken for the Canadian and US versions of RegData.

Compliance and delay costs reported in impact analyses

This indicator is the aggregate of the compliance and delay costs reported in impact analyses each year, which is a measure of the change in annual regulatory costs. These costs are already aggregated and standardised to an annual basis each year by the Office of Impact Analysis (2025).

Note that this indicator differs from the more universal compliance and delay costs indicator that the PC is recommending the Australian Government set a target for, because the universal indicator would capture changes that do not meet the threshold of requiring impact analysis. In 2014 and 2015, the most recent

[63] Conditional terms are: 'if', 'but', 'except', provided that', 'when', 'where', 'whenever', 'unless', 'notwithstanding', 'in the event', 'in no event', and 'to the extent that'. 'Restrictive terms' are: 'shall', 'must', 'may not', 'prohibited' and 'required'.

period for which data are available, about 60% of the change in regulator-reported compliance and delay costs was reported in impact analyses (ANAO 2016).

Selected components of Australian Institute of Company Directors' Director Sentiment Index

This is a family of indicators drawn from the AICD Director Sentiment Index survey, which has been conducted twice annually since 2011. The indicators are:

- the share of company directors reporting that regulation requirements are among the top three economic challenges facing Australian businesses
- the share of company directors reporting that legal and regulatory compliance is among the three issues 'keeping them awake at night'
- the share of company directors who expect their regulatory compliance requirements to increase in the next year
- the share of company directors reporting that compliance and regulation are factors impacting their board's risk appetite
- the 'directorship conditions index', which is largely based on questions about corporate reporting and governance regulations.

Prospective indicators

Universal agency-reported compliance and delay costs

This indicator could be collected if agencies were required to apply Regulatory Burden Measurement framework costings to all changes to regulation and substantial changes to how regulation is administered, just as they are currently required to apply these costings to changes that require impact analysis.

Universal agency-reported administrative costs

This indicator could be collected if agencies were required to apply the administrative cost measurement component of the Regulatory Burden Measurement framework to all changes to regulation and substantial changes to how regulation is administered, just as they are currently required to apply these costings to changes that require impact analysis.

Labour cost of regulatory compliance work undertaken

This indicator is a hypothetical indicator that is an estimate of the wages paid to undertake regulatory compliance. It would be compiled by mapping estimates from the US of the share of time that each occupation spends on regulatory compliance work to Australian data on work undertaken by members of each occupation. This method was pioneered by Trebbi et al. (2024) for the US, and the assessment here draws on this application.

The OECD (2025d) recently published preliminary estimates for Australia by adapting the Trebbi et al. (2024) method to Australian labour force survey data, which indicated some difficulties in using the method for countries other than the US. Further work could draw on the Household Income and Labour Dynamics in Australia survey and various datasets within the Linked Employer-Employee Data Asset.

Mandala recently published similarly constructed estimates of the share of the Australian workforce in compliance-specific roles, by classifying jobs based on whether the word 'compliance' appears in the job title (Mandala 2025). This is a simpler approach but likely less accurate – the classification method is coarser, picking up only compliance-specific roles, and there is no accounting for differences in rates of pay.

Index of time taken to make regulatory decisions

This is a hypothetical indicator that would capture changes in time that regulators take to make decisions.

To be an effective indicator, it would need to:

- control for changes in the types of decisions made and the number of parties waiting on such decisions
- weight the different types of decisions that regulators make in proportion to their economic significance.

The PC has developed a simple method for constructing the indicator that meets both these criteria and would require little data to implement (box C.4). It uses the costs of administering each decision-making process as a proxy for its relative importance, as this would be approximately true in an efficient regulatory system.[64] More accurate proxies could be developed in future on an incremental (regulator-by-regulator) basis. For example, decisions in which timeliness is not valued by regulated parties could be removed from the index entirely.

Box C.5 – Developing an index of the time taken to make regulatory decisions – simple approach

The PC has developed a simple method for constructing an index of the time taken to make regulatory decisions. The following process describes how to construct regulator-level indexes but this could be straightforwardly adapted to portfolio-level indexes or an economywide index as the need arises.

1. Regulators would sort each of the decisions they make into common types. For example, if a regulator issued a single type of licence and granted a single type of permit, it would have two 'types' of decisions.
2. Regulators would estimate the total amount of time that regulated parties spent waiting on each type of decision in the period in question (i.e. the average time per decision multiplied by the number of such decisions). Regulators would be permitted to deduct any time spent waiting on regulated parties in back-and-forth processes in circumstances where the regulator cannot advance the decision while waiting.
3. Regulators would estimate the total cost of administering each type of decision in each period.
4. The percentage change in the index from the previous to current period would be constructed as follows:[a]

$$Percentage\ change\ in\ index_{j,t-1,t} = \sum_{i \in j} 100 \times w_{i,j,t-1} \times \frac{Total\ waiting\ time\ _{i,t}}{Total\ waiting\ time\ _{i,t-1}}$$

$$w_{i,j,t-1} = \frac{Total\ cost\ of\ administration_{i,t-1}}{\sum_{i \in j} Total\ cost\ of\ administration_{i,t-1}}$$

Where:

- i indexes decision types
- j indexes regulators
- $Total\ waiting\ time\ _{i,t}$ is the total waiting time associated with decision type i in period t
- $Total\ cost\ of\ administration_{i,t-1}$ is the total cost of administering decision type i in period $t-1$
- $w_{i,t-1}$ is decision type i's share of the cost of administering all types of decisions made by regulator j in period $t-1$.

[64] This approach is often used by statistical agencies, including the ABS, to examine compile indexes of non-market activity. Measuring non-market activity faces a very similar problem, as there is a need to weight different types of outputs (for example, different types of procedures performed in a public hospital).

Box C.5 – Developing an index of the time taken to make regulatory decisions – simple approach

5. The index would be chained period-to-period to examine changes over multiple periods. This would allow new types of regulatory decisions can be added to the index as data become available or new regulations are introduced.

a. For ease of exposition, this formulation uses weights are based on only data from period $t-1$ (known as a Laspeyres index). A downside of this approach is that newly introduced and newly removed decision types are treated differently. This issue could be rectified by instead adopting a Fisher index formulation.

Table C.1 – How well does each indicator of regulatory burden capture changes in regulatory burden (criterion 1)?

Indicator	Representativeness	Comprehensiveness	Accuracy	Comparability over time
Restrictiveness of the text of regulations	***Overall: Low to moderate.*** **Moderate.** Limited by the equal weight placed on legislation that affects more and fewer parties. Linking legislation to affected industries, as has occurred in other countries, could improve representativeness.	**High.** It captures both direct and indirect costs of regulation. Studies from the US and Canada have found it to be associated with business investment (Pizzola 2018), productivity (Davies 2014) and output (Coffey and McLaughlin 2021), although not measures of business dynamism (Goldschlag and Tabarrok 2018).	**Low.** It is a highly imperfect proxy rather than a direct measure. A study from the US found that it responded as expected to only one of four major regulatory changes (Trebbi et al. 2024).	**Moderate.** Could be complicated by changes to drafting practice.
Labour cost of regulatory compliance work undertaken	***Overall: Moderate to high (assuming existing US implementation is indicative of Australian implementation).*** **High.** Captures all businesses or a representative sample of businesses.	**Moderate.** Captures only the labour costs share of compliance costs.	**High.** Evidence from the US suggests it responds as expected to major regulatory changes and aggregate changes in regulator-reported compliance costs (Trebbi et al. 2024).	**High.**
Compliance and delay costs reported in impact analyses	***Overall: Moderate.*** **Low to moderate**. Disregards changes to regulatory burden that do not require an impact analysis. In 2014 and 2015, the most recent period for which data are available, about 60% of the change in	**Moderate to high**. Captures full suite of compliance costs.	**Moderate to high.**	**Moderate.** Tends to not capture how burdens evolve as businesses adapt.

Indicator	Representativeness	Comprehensiveness	Accuracy	Comparability over time
	regulator-reported regulatory burden was reported in impact analyses (ANAO 2016).			
Selected components of Australian Institute of Company Directors' Sentiment Index survey	***Overall: Low to moderate.*** **Low to moderate.**	**Moderate to high.** Gives business-centric view on broad range of regulatory burdens and asks about board time use.	**Low.** Low survey response rate (~2%) combined with no tracking of repeated responses and limited weighting raises risks of bias (AICD, pers. comm., 20 October 2025).	**Low.** Due to accuracy concerns.
Universal agency-reported compliance and delay costs	***Overall: Moderate to high.*** **Moderate to high.**	**Moderate to high**. Captures full suite of compliance costs.	**Moderate to high.**	**Moderate.** Tends to not capture how burdens evolve as businesses adapt.
Universal agency-reported administrative costs	***Overall: Moderate.*** **Moderate to high**.	**Low**. Disregards substantive compliance costs plus all indirect costs.	**High.** Can usually be measured more accurately than substantive compliance or delay costs.	**Moderate.** Tends to not capture how burdens evolve as businesses adapt.
Index of time taken to make regulatory decisions	***Overall: Moderate*** **Low.** Relies on the costs of administering decision-making processes as a proxy for their importance.	**Low to moderate.** Captures only one aspect of the regulatory burden but does so in a comprehensive way.	**High.**	**High.**

Table C.2 – How practical is each indicator of regulatory burden (criterion 2)?

Indicator	Informativeness	Comprehensibility	Cost of collection	Frequency, regularity and timeliness of collection
Restrictiveness of the text of regulations	***As a target: High. For the Regulation Review: High***			
	High. Changes can be traced to individual pieces of legislation.	**Moderate.** Less intuitive than measures that focus on direct costs but can be explained to an engaged audience.	**High** (low cost).	**High.**
Labour cost of regulatory compliance work undertaken	***As a target: Low. For the Regulation Review: Moderate to high.***			
	Low. Changes cannot be traced to regulator or policymaker activities.	**Moderate to high.** Simple to understand what it is measuring, difficult to understand how it is measured.	**High** (low cost).	**Moderate.** Estimates based on labour force survey available approximately 2 months after measurement. Estimates based on Household Income and Labour Dynamics in Australia data would be possible approximately 18 months after measurement. Estimates based on linked employer-employee data, which would include richer data on business characteristics, would be possible approximately 3 years after measurement.
Compliance and delay costs reported in impact analyses	***As a target: High. For the Regulation Review: High.***			
	High. Changes can be traced to regulatory/policymaker actions.	**High.** Easy to understand.	**High** (low cost).	**High.**
Selected components of Australian Institute of Company Directors' Director Sentiment Index survey	***As a target: Low. For the Regulation Review: Moderate to high.***			
	Low. Changes cannot be traced to regulator or policymaker activities.	**High.** Easy to understand.	**High** (low cost).	**High.**

Indicator	Informativeness	Comprehensibility	Cost of collection	Frequency, regularity and timeliness of collection
Universal agency-reported compliance and delay costs	***As a target: High. For the Regulation Review: High.***			
	High. Changes can be traced to regulatory/policymaker actions.	**High.** Easy to understand.	**Moderate** (some additional costs).	**High.**
Universal agency-reported administrative costs	***As a target: High. For the Regulation Review: High.***			
	High. Changes can be traced to regulatory/policymaker actions.	**High.** Easy to understand.	**Moderate** (some additional costs).	**High.**
Index of time taken to make regulatory decisions	***As a target: High. For the Regulation Review: Moderate to high.***			
	High. Changes can be traced to regulatory/policymaker actions.	**Moderate.** An index, so may not be intuitive.	**Moderate** (some additional costs).	**High.**

Indicators of regulatory quality

This section summarises the indicators and then presents detailed assessments in tables C.3 (criterion 1) and C.4 (criterion 2).

Indicators of regulatory quality fall into two classes – indicators based on the regulations themselves and indicators based on the quality of regulatory policy processes.

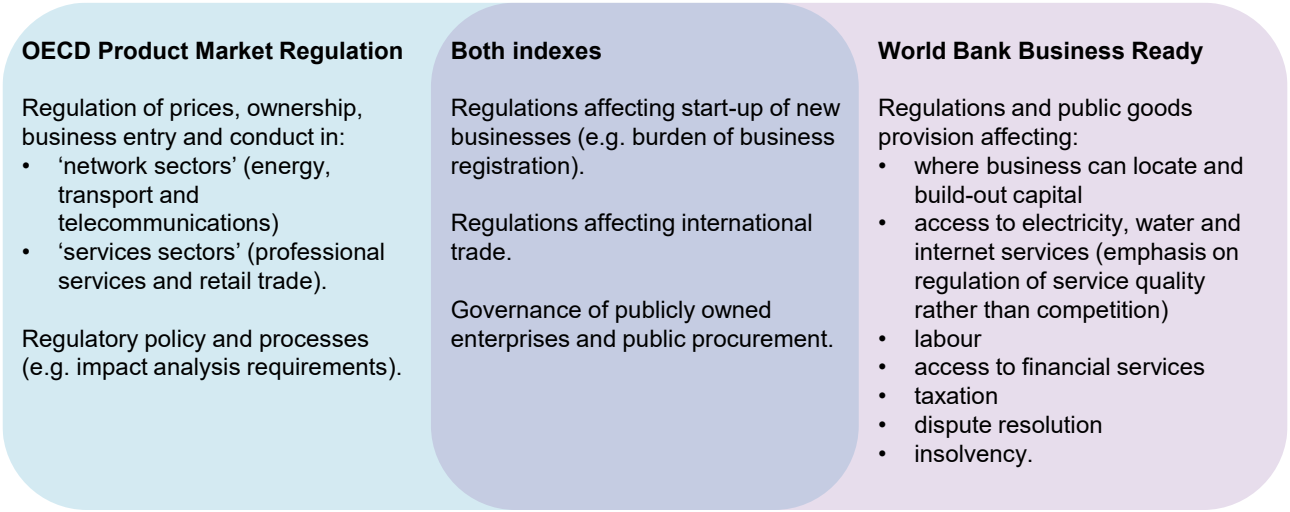
Indicators based on regulations

Indicators of regulatory quality that focus on regulations themselves tend to be international indexes. The two best families of such indicators come from the OECD's Product Market Regulation (PMR) index and the World Bank's Business Ready index (B-READY; the successor of the Ease of Doing Business index).[65]

While these indexes have some overlap, they differ significantly in scope (figure C.4).

- The PMR index largely assesses whether there are anticompetitive regulations in place that would prevent new entrants and competition (OECD 2025e). In other words, it gauges regulatory quality by restricting attention to the presence of 'bad' regulations, with less assessment of other regulations. It focusses largely on the text of the regulations and less on their enforcement.
- The B-READY index largely assesses the extent to which regulations and public goods (such as registries) that facilitate businesses align with what is deemed to be best practice from a communitywide perspective (World Bank 2025). In other words, it gauges regulatory quality for a broader set of regulations, but arguably with more subjectivity involved. It also focusses on both the text of the regulations and how they are enforced.

Figure C.4 – Comparison of PMR and B-READY



Source: PC analysis of OECD (2025e) and World Bank (2025).

Unfortunately, both indexes simplify the data collection process by using a representative city/state approach in parts – PMR uses New South Wales as the representative state and B-READY uses Sydney as the representative city. This means that their assessments of some regulations administered at the state/territory or local level may be valid only for New South Wales. Because of this shortcoming, the PC has assessed the

[65] The PMR index also examines the quality of regulatory policy processes, such as impact analysis requirements, but this is a small component of the index (figure C.4).

components of the index that relate only to Australian Government regulation or areas of state/territory regulation where a whole-of-country approach has been adopted. In both cases, this accounts for about 70% of the underlying components of the index.

Indicators based on processes

The PC considered two indicators of regulatory policy processes.

Distribution of impact analysis scores

This indicator is the share of impact analyses plus impact analysis exemptions relating to regulation implemented in the relevant period receiving each of the following grades: impact analysis exemption granted, 'not compliant', 'adequate', 'good practice' and 'exemplary'.

Share of required post-implementation reviews completed on time

This indicator is the share of post-implementation reviews due for completion in the relevant period that were completed on time.

This should exclude post-implementation reviews required because the original impact analysis was non-compliant or because an impact analysis exemption was granted due to exceptional circumstances, as these post-implementation reviews could potentially distort the indicator.

Table C.3 – How well does each indicator of regulatory quality capture changes in regulatory quality (criterion 1)?

Indicator	Representativeness	Comprehensiveness	Accuracy	Comparability over time
World Bank Business Ready index – Australia-wide indicators only	***Overall: Low to moderate.*** **Low to moderate.** Coverage is mostly economywide, but weighting scheme is somewhat arbitrary.	**Moderate.** Focusses on a range of business-relevant regulation while considering costs and benefits to businesses and the broader community.	**Low to moderate.** Requires subjective judgements in some cases.	**Moderate.** Some indicators change slightly between editions.
OECD Product Market Regulation index – Australia-wide indicators only	***Overall: Low to moderate.*** **Low to moderate.** Coverage is mostly economywide, but weighting scheme is somewhat arbitrary.	**Low.** Focusses mostly on the presence of anticompetitive regulations.	**Moderate.** Largely restricts attention to areas of regulation in which desirability of regulation is clear.	**Moderate to high.** Indicators are generally consistent over time but there have occasionally been major changes to the indicator, such as in 2018.
Distribution of impact analysis scores	***Overall: Low to moderate.*** **Low to moderate.** Covers all major changes to regulation but places equal weight on each impact analysis.	**Low.** Focusses on one aspect of regulatory process that has limited impact on the quality of the regulation that results.	**Moderate.** Assessment of process is detailed but somewhat opaque.	**Moderate.** Subject to formal or informal changes in impact analysis expectations.
Share of post-implementation reviews completed on time	***Overall: Low to moderate.*** **Low.** Covers only major changes to regulation and places equal weight on each impact analysis.	**Low.** Focusses on one aspect of regulatory process that may have limited impact on the quality of the regulation that results.	**High.**	**High.**

Table C.4 – How practical is each indicator of regulatory quality (criterion 2)?

Indicator	Informativeness for regulators and policymakers	Comprehensibility for stakeholders	Additional cost of construction	Frequency, regularity and timeliness of collection
World Bank Business Ready index – Australia-wide indicators only	***As a target: Moderate. For the Regulation Review: Moderate.***			
	Moderate. Changes in some sub-indicators can be traced to specific regulations.	**Low.** A complex international index.	**High** (low cost). Requires only filtering of results to remove indicators relevant only to Sydney.	**Moderate.** No results for Australia yet reported, but annual reporting with 1 year lag time expected.
OECD Product Market Regulation index – Australia-wide indicators only	***As a target: Low. For the Regulation Review: Low to moderate.***			
	Moderate. Changes in some sub-indicators can be traced to specific regulations.	**Low.** A complex international index.	**High** (low cost). Requires only filtering of results to remove indicators relevant only to New South Wales.	**Low.** Five-yearly reporting.
Distribution of impact analysis scores	***As a target: High. For the Regulation Review: High.***			
	High. Changes can be traced to impact analyses.	**Moderate to high.** Intuitive.	**High** (low cost).	**High.**
Share of post-implementation reviews completed on time	***As a target: High. For the Regulation Review: High.***			
	High. Changes can be traced to impact analyses.	**Moderate to high.** Intuitive.	**High** (low cost).	**High.**

Regulatory burden reduction targets around the world

Table C.5 summarises past and present regulatory burden reduction targets in Australia and around the world. Where jurisdictions have simultaneously targeted multiple indicators (such as New South Wales), these are shown as separate policies. This table uses the 'one-in-X-out' terminology in a more general way than figure C.2. For example, what figure C.2 would present as a regulatory offsetting regime would be considered a one-in-one-out scheme on a regulatory costs basis.

Table C.5 – Past and present regulatory burden reduction targets

Jurisdiction	Policy	Indicator of regulatory burden	Comments
Australia	Reduce annual burden by $1 billion. 2014 to 2016 (Allen et al. 2021).	Administrative, substantive compliance and delay costs.	Exceeded target. Achieved $4 billion reduction in two years (ANAO 2016).
New South Wales	Reduce burden by 20% in 4 years. 2011 to 2015.	Administrative, substantive compliance and delay costs; fees and charges.	Claimed that exceeded target (~24% reduction), but an audit found about half of the claimed savings were based on weak and untested assumptions (Audit Office of New South Wales 2016).
New South Wales	One-in-two-out. 2011 to 2015.	Number of principal legislative instruments.	Exceeded target. Achieved one-in-four out (Audit Office of New South Wales 2016).
New South Wales	One-in-one-out. 2011 to 2015.	Regulatory costs (scope unclear). Applies to principal legislative instruments only.	Did not meet target. Costs grew by $16 million (Audit Office of New South Wales 2016).
Queensland	Reduce burden by 20% in 6 years. 2012 to 2018.	Number of regulatory requirements.	No publicly available assessment identified. Source:QCA (2013).
Victoria	Reduce burden by 25% in 5 years. 2006 to 2011.	Administrative costs.	An audit found effectiveness was unclear due to insufficient governance and transparency (Victorian Auditor-General's Office 2016).
Victoria	Reduce annual burden by $244 million in 3 years. 2009 to 2012.	Administrative, substantive compliance and delay costs.	As above.
Victoria	Reduce burden by 25% in 3 years.	Administrative, substantive compliance and delay costs.	As above.

Jurisdiction	Policy	Indicator of regulatory burden	Comments
	2011 to 2014.		
Victoria	Reduce annual burden by between $600 million and 1.6 billion in 3 years. 2015 to 2018.	Administrative, substantive compliance and delay costs.	As above.
Victoria	Reduce burden by $500 million in 6 years. 2024 to 2030.	Regulatory costs (scope unclear).	Source: Victorian DTF (2024).
Canada	One-in-one-out. 2012 to present.	Administrative costs. Excludes primary legislation.	Achieved one-in-4 out between 2012 and 2021 (Treasury Board of Canada Secretariat 2022, 2024).
Canada	One-in-one-out. 2012 to present.	Number of regulations. Excludes primary legislation.	Achieved one-in-4 out between 2012 and 2021 (Treasury Board of Canada Secretariat 2022, 2024).
European Union	One-in-one-out. 2021 to present.	Administrative and substantive compliance costs.	Achieved one-in-24-out between 2022 and 2024 (PC estimates based on European Commission nd).
European Union	Reduce burden by 25% in 4 years. 2025 to 2029.	Administrative costs.	Proposals as at June 2025 account for 23% of the target (European Commission 2025b).
France	One-in-one-out. 2015 to unknown.	Administrative and substantive compliance costs. Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022).
France	One-in-one-out. 2015 to 2017.	Number of regulations (simplification of an existing regulation permitted as offset). Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022).
France	One-in-two-out. 2017 to unknown.	Number of regulations (simplification of an existing regulation permitted as offset). Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022).
Germany	Reduce burden by 25% in 7 years. 2006 to 2013.	Administrative costs.	Met target. Source: Renda (2022).
Germany	One-in-one-out. 2015 to present.	Administrative and substantive compliance costs.	Achieved net reduction of approximately 5 billion EUR by 2024 (German National

Jurisdiction	Policy	Indicator of regulatory burden	Comments
			Regulatory Control Council 2024).
Italy	One-in-one-out. 2011 to unknown.	Administrative costs.	No publicly available assessment identified. Source: Renda (2022).
Korea	One-in-one-out. 2016 to unknown.	Administrative and substantive compliance costs. Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022).
Mexico	One-in-one-out. 2017 to unknown.	Administrative and substantive compliance costs. Excludes primary legislation.	As of 2019, the reported net savings was USD 15.3 billion (Renda 2022).
Mexico	One-in-two-out. 2017 to 2018.	Number of regulations. Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022) and Trnka and Thuerer (2019).
Mexico	One-in-one-out. 2018 to unknown.	Number of regulations. Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022) and Trnka and Thuerer (2019).
Netherlands	Reduce burden by 25% in 4 years. 2003 to 2007.	Administrative costs.	Met target (OECD 2007b).
Netherlands	Reduce burden by 25% in 3 years. 2008 to 2011.	Administrative and supervisory costs.	No publicly available assessment identified. Source: OECD (2010).
Spain	One-in-one-out. 2013 to at least 2022.	Administrative costs. Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022) and Trnka and Thuerer (2019).
UK	Reduce burden by 25% in 5 years. 2005 to 2010.	Administrative costs.	Exceeded target – achieved 27% reduction (United Kingdom Government 2010).
UK	One-in-one-out. 2011 to 2012.	Administrative and substantive compliance costs.	Exceeded target by GBP 963 million (Renda 2022).
UK	One-in-two-out. 2013 to 2015.	Administrative and substantive compliance costs.	No publicly available assessment identified. Source: Renda (2022).
UK	Reduce annual burden by 10 billion GBP in 5 years.	Administrative and substantive compliance costs.	Ceased in 2017 due to general election, by which

Jurisdiction	Policy	Indicator of regulatory burden	Comments
	2015 to 2020.		time 66% of the target had been met (United Kingdom Department for Business, Energy and Industrial Strategy 2018).
UK	One-in-three-out. 2016 to 2017.	Administrative and substantive compliance costs.	No publicly available assessment identified. Source: Renda (2022).
UK	Reduce annual burden by 9 billion GBP in 5 years. 2017 to 2022.	Administrative and substantive compliance costs.	Ceased in 2019 due to general election, by which time -88% of the target had been met (i.e. the net burden had grown) (United Kingdom Department for Business, Energy and Industrial Strategy 2020).
UK	Reduce burden by 25% in 5 years. 2025 to 2030.	Administrative costs.	Source: United Kingdom Treasury (2025).
US	One-in-one-out. 2017 to 2021.	Administrative and substantive compliance costs. Excludes primary legislation.	Exceeded target. Achieved reduction of $199 billion achieved (Campau 2022).
US	One-in-two-out. 2017 to 2021.	Number of regulations. Excludes primary legislation.	No publicly available assessment identified. Source: Renda (2022).
US	One-in-ten-out. 2025 to present.	Number of regulations. Excludes primary legislation.	Source: The White House (2025).
US	Reduce burden 'significantly'. 2025 to present.	Administrative and substantive compliance costs. Excludes primary legislation.	Source: The White House (2025).

a. Exclusion of primary legislation is noted but further exclusions are not.

C.3 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 appendix 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 webpage[66] 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 for Impact Analysis's (OIA'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 appendix outlines the responses to each question.

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.6) and the type of agency of the respondent (table C.7). 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.6 – Question 1 responses – respondent's role

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

[66] https://www.regulatoryreform.gov.au/priorities/regulator-best-practice-and-performance/regulator-stocktake

Table C.7 – 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.8 – 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.9 – 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 OIA. 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.10 – 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 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.4 Review of 'adequate' impact analyses

About the review

The Productivity Commission 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).[67] This review used the same broad criteria.

[67] 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.

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* (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
- 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. Were the Australian Government to adopt the PC's recommendation to target a reduction in the compliance and delay costs of regulation, it will become more important for agencies to thoroughly and accurately quantify regulatory burdens, both in impact analyses and more generally.

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 review in the proposal (such as an embedded statutory review). The *Anti-siphoning Scheme* Reform IA included a five-year review with some high-level detail about what the review should consider. The *Reforms to the Safeguard* Mechanism IA noted that a review was scheduled for 2026--27, 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 *Build-to-rent* 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.5 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)

C.6 Costing of housing construction regulations

Purpose and scope

This appendix outlines how the Productivity Commission has estimated the total costs of regulation for new housing construction. We aim to highlight the cumulative burden of regulation in this sector to show the potential dollar benefits of reducing regulation.

We have estimated costs for each stage of construction of new houses and new units only on an annual basis. Other construction activity, including residential renovation, and commercial and civil construction, has been excluded. We have also not costed any welfare losses from existing housing stock being sub-optimally distributed as a result of inefficient regulation.

Nothing herein implies a value judgement about the regulations or the need for them. Quality and safety regulations are necessary and appropriate in many cases. The objective is simply to cost the regulatory burden. Actual regulatory savings would require identifying and reducing regulations that do not pass a benefit-cost test.

Method summary

Our approach was to complete a regulatory burden measurement costing according to impact analysis methodology published by the Office of Impact Analysis (2024).

The basic costing formula is:

$$Annual\ cost\ of\ housing\ regulation = Unit\ cost\ \times Quantity$$

Where:

- $Unit\ cost$ represents the mean cost of regulation per dwelling constructed
- $Quantity$ represents the number of new dwellings constructed per year.

Given the significant differences in the process and costs of construction of houses and apartments/units, we costed each separately and summed the total.

For verification, we compared our results to other estimates of the regulatory burden on new housing, and observed similar results (The CIE 2025; Urban Taskforce Australia 2025).

Results summary

Table C.11 summarises the results.

Table C.11 – Estimated total regulatory costs for housing construction

	Low estimate	Medium estimate	High estimate
Total regulatory cost per new house[a]	$135,000	$200,000	$320,000
Total regulatory cost per new unit[a]	$40,000	$90,000	$175,000
Economy-wide cost per year	$17.9 billion	$28.6 billion	$47.5 billion
% of 2025 GDP	0.64%	1.03%	1.71%

a. Estimates rounded to the nearest $5,000.

Source: PC calculations.

For houses, we estimate that by far the largest component (50-80%) of the regulatory cost comes from distortionary costs from restrictive zoning laws. Substantive compliance costs represent 5-20% of the regulatory cost, while delay and paperwork costs, while significant, make up a smaller proportion.

For units, as the price of land per unit is significantly lower than for houses, zoning costs are less significant, at 13-42% of the total regulatory costs. Paperwork (administrative and assessment) costs make up around 33-36% of the total regulatory cost for unit construction.

More detailed results are in tables C.14 and C.15 below.

Estimating quantity

We obtained data on residential building construction activity from the ABS (2025c). This allowed us to estimate the number of dwelling completions per year, divided into houses and units (table C.12).

Given the figures are relatively consistent year-on-year in the 2020s, we used the four-year average of completions to estimate annual activity.

Table C.12 – Annual dwelling completions 2021-2024, Australia-wide

Dwellings completed	2021	2022	2023	2024	Mean annual
Houses	110,062	114,897	115,535	112,026	113,128
Units	67,334	58,471	59,703	65,086	62,649
Total	177,396	173,368	175,238	177,102	175,776

Source: ABS (2025c).

Estimating unit cost

Theoretical framework for regulatory burden measurement

Under the regulatory burden measure, we divide unit cost into several sub-categories (OIA 2024):

Administrative costs: The costs of 'paperwork' – the costs of preparing, monitoring and lodging documents and carrying out procedures to demonstrate compliance with regulation.

These can generally be estimated by establishing the amount of time it takes to complete these activities per unit, and multiplying by the wage rate (including overheads) of the people doing the activity.

Substantive compliance costs: The costs of actually following the regulation – materials, equipment, capital and training, over and above the baseline cost that would have been incurred in the absence of regulation.

These are estimated as a fraction of the total resource costs for an activity that are attributable to complying with the regulation.

Assessment costs: These are the costs to government of administering the regulation – for example, assessing planning and development applications. While these costs are not formally included in the regulatory burden measurement framework, as they are costs to government rather than regulated parties, we have included them here as they represent costs to the economy as a whole.

For these costs, we use the government fees as a proxy, assuming governments set fees to efficiently recover costs and not as a revenue source.

Indirect/distortionary costs: The costs of changed decisions or economic activity foregone as a result of regulation.

These costs can be challenging to estimate, as they relate to foregone activity that does not always show up in data. As a result, we were not able to cost all potential activity foregone.

One indirect cost that we did estimate is delay costs – where time taken to make a regulatory decision imposes a cost on a regulated party. In the context of housing development, a developer cannot undertake construction activity on land until approvals have been granted. The costs of maintaining an asset (development land) without being able to undertake any value-adding activity on it are 'capital holding', and can be estimated as follows (NSW DPC BRO 2008, p. 7):

$$Capital\ holding\ cost\ =\ Unit\ cost\ \times\ Quantity$$

Where:

- $Unit\ cost$ represents the annual capital value of approvals multiplied by the estimate of percentage of total capital spent prior to approval multiplied by the annual interest rate, plus annual land and/or property taxes
- $Quantity$ represents the average delay (in years) to gain approval.

We also estimated distortionary costs of land use regulation as reflected in the price premium for land zoned for residential use as opposed to other purposes – see below for more details.

Housing cost estimates

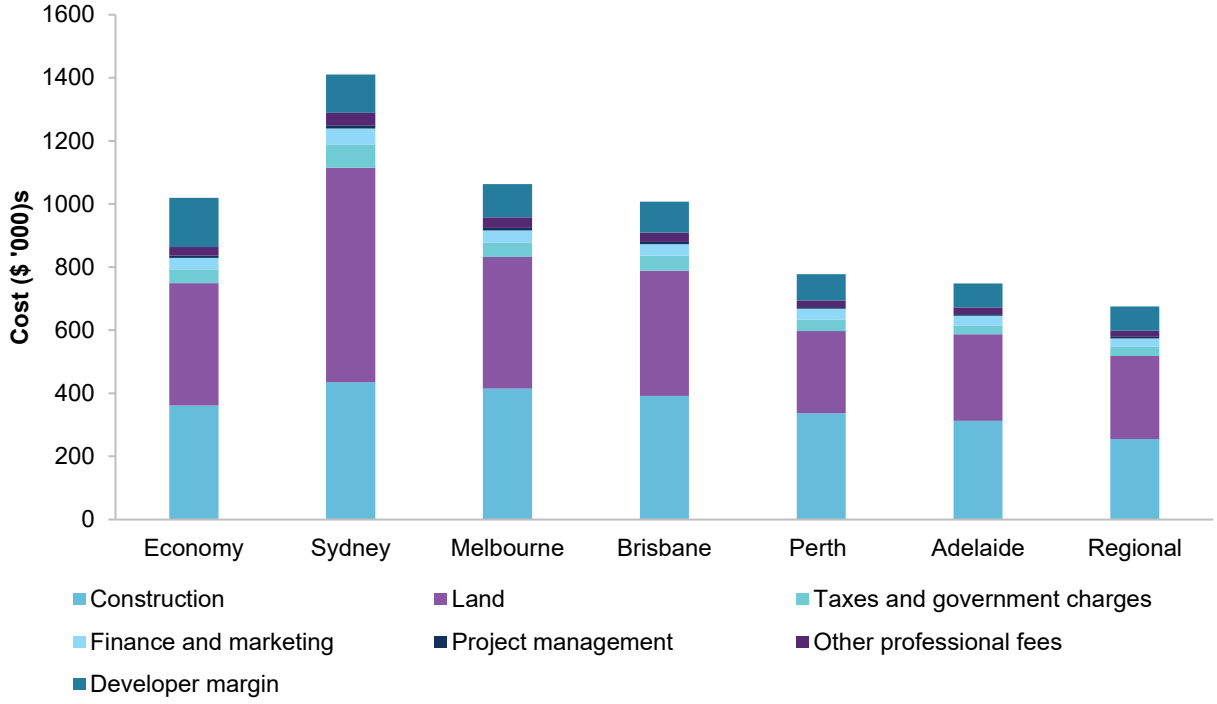
We compiled from existing literature sources a breakdown of the various component costs of constructing a house and unit in each of Sydney, Melbourne, Brisbane, Adelaide and Perth, where necessary scaled for inflation (using the consumer price index) to 2025 dollars. The components are land purchase, construction costs, taxes and government charges, finance and marketing costs, project management, other professional fees, and developer margin (The CIE 2024, 2025; UDIA 2024; Urban Taskforce Australia 2025; Urbis 2011). These components were then summed to get an average total outlay to construct a house and unit in each city.

These estimates were then verified by comparing our summed component costs with actual average sale prices of new houses and units in each city (Cotality 2025).

We then created a 'regional' cost profile of a new house and unit by scaling the input costs to the value of the average sale price of houses and units outside the five big capital cities (figures C.5 and C.6).

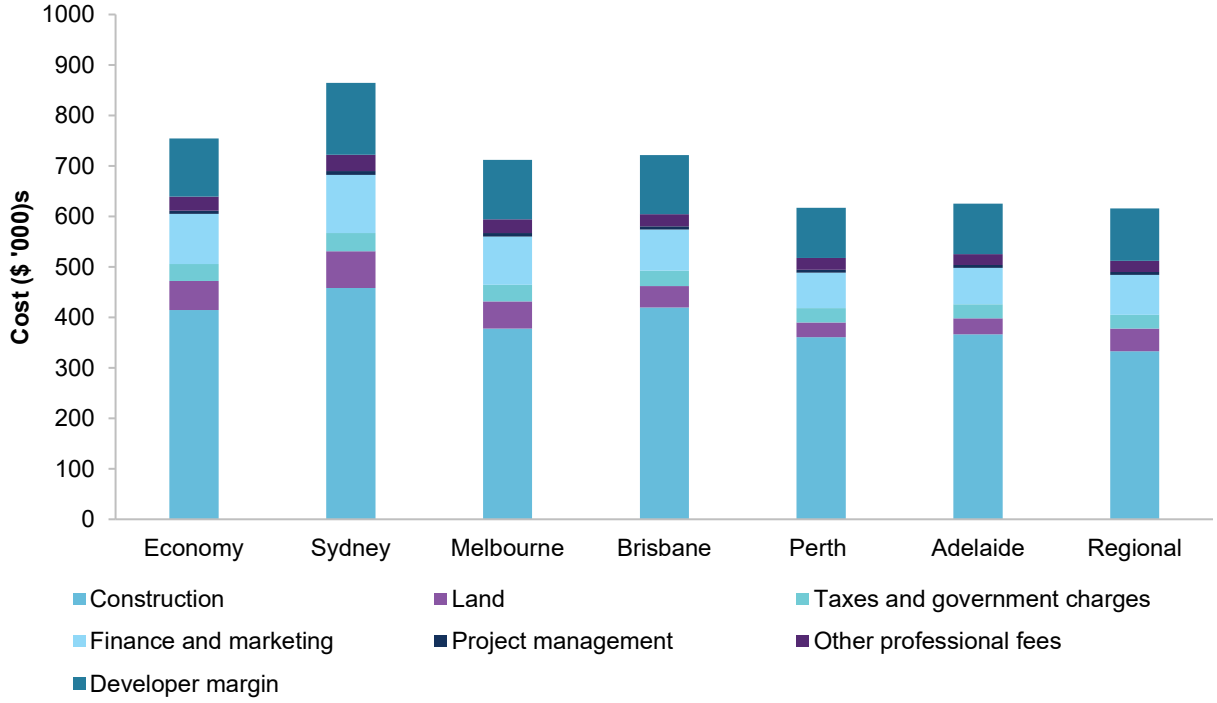
Finally, we compiled an economy-wide 'average' cost profile for a new house and unit by taking an average profile for housing completions across the five big capitals and our regional profile, weighted for the number of annual completions in each location (ABS 2025d).

Figure C.5 – Cost breakdown for new houses



Source: PC estimates.

Figure C.6 – Cost breakdown for new units



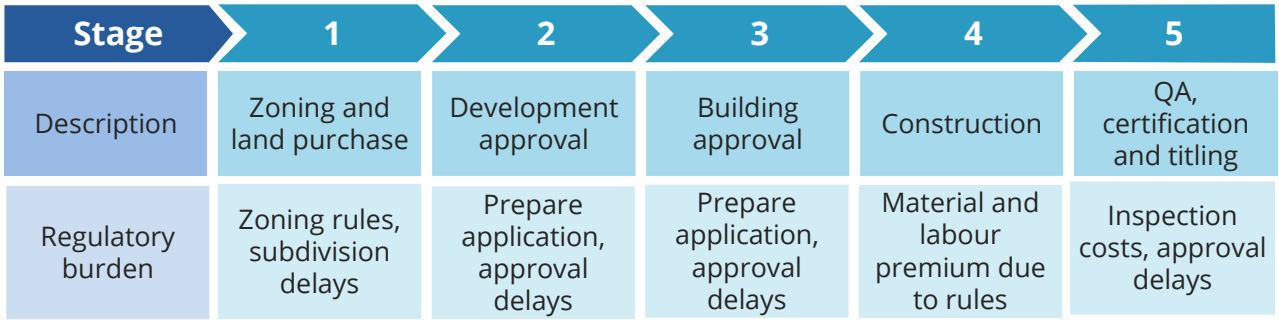
Source: PC estimates.

Regulatory burden at each stage of housing construction

Overview of the stages of construction

We broke housing construction down into five key stages, with several regulatory processes within each stage. Figure C.7 illustrates the breakdown.

Figure C.7 – Stages of housing construction and the associated regulatory burden



Source: Certlane (2025); PC (2025d, p. 25); Permitpoint building surveyors (2025).

Applying the framework to housing construction

Each stage of the housing construction comprises a number of steps. For each stage of the construction process, we identified the steps that involve a regulatory burden. We then undertook a bottom-up estimate of the regulatory burden cost of each step, and summed them together to estimate the total regulatory cost of each stage. A summary of the steps and how we costed them follows in table C.13. We did a separate costing for each step for houses and units. Additional information on certain steps follows.

Table C.13 – Effect of regulation and costing method for regulatory burden for each stage of housing construction

	Effect of regulation	Regulatory burden	Method to estimate
Zoning and land purchase	Limitations on land use for residential construction	Indirect – market distortions due to artificially constrained usable land supply	Zoning premium for residential compared to non-residential land
Development approval (also known as planning approval in some jurisdictions)	Understand development regulations, heritage rules etc. to determine if development permitted	Administrative – developer must spend time to understand requirements	Time to perform due diligence x wage rate
	Develop, submit and receive government approval for a complying development application	Administrative – developer must prepare and submit a complying application	Time to prepare application x wage rate
		Assessment – government approval of application	Government fee
		Indirect – holding costs for approval delays	Delay time x ((sunk cost x interest rate) + tax rate)

	Effect of regulation	Regulatory burden	Method to estimate
Building approval	Develop building plans that must comply with the National Construction Code (NCC) and local regulations	Substantive – plans must meet all regulatory requirements	Time spent on plans to ensure they meet standards x wage rate
	Plans are assessed for compliance with regulations and NCC before construction can start	Administrative – developer must prepare and submit a complying application	Time to prepare application x wage rate
		Assessment – government approval of application	Government fee
		Indirect – holding costs for approval delays	Delay time x ((sunk cost x interest rate) + tax rate)
Construction process	Building construction process and materials must comply with NCC and local regulations	Substantive – building materials, processes must meet requirements.	Costs of materials and labour incurred due to the rules that would not otherwise have been incurred
	Work health and safety rules and requirements must be followed	Substantive – all processes must comply with safety rules, equipment required	Costs of safety equipment and processes incurred due to rules that would not otherwise have been incurred
	Construction workers must meet minimum standards for training and licensing	Substantive – each worker must complete training and meet licensing requirements	Total lifetime cost of training and licensing per worker averaged per project over career x number of workers per project
Quality assurance, certification and titling	Construction site must be inspected at various stages to ensure plans are being followed and rules observed	Administrative – developer must ensure inspections are carried out and rectify defects	Time taken by inspections x wage rate
	Final inspection before dwelling can be occupied to ensure it satisfies all regulatory requirements and certificate issued	Administrative – developer must ensure inspections are carried out and rectify defects	Time taken by inspections x wage rate
		Indirect – holding costs for delays to issue certificate of occupancy	Delay time x ((sunk cost x interest rate) + tax rate)
	Where multiple dwellings are constructed on a block, subdivision and titling required before sale can occur	Assessment – government must process subdivision	Government fee
		Indirect – holding costs for delays to issue titles	Delay time x ((sunk cost x interest rate) + tax rate)

Source: Certlane (2025); PC (2025d, p. 25); Permitpoint building surveyors (2025).

Data sources and notes

For each of the cost lines in table C.13, we estimated the regulatory burden using the methodology outlined. We used a variety of literature and internet sources to obtain estimates for the various input data. We calculated three outputs: a 'low' estimate, calculated from the lowest credible value we could find for each input, a 'high' estimate from the highest credible value we could find for each input, and a 'mid' estimate representing our best estimate of the 'typical' scenario across the range of sources we used.

For several estimates relating to units, we were able to source figures and costs on a 'per project' rather than 'per unit' basis. We apportioned costs from these sources according to the average number of units per development (Jenner and Tulip 2020, table 4).

Wage rates

We obtained estimates of hourly wage rates for different sectors of the economy from the ABS (2024), adjusted for inflation, and applied the relevant wage rates to each line. Hourly wage rates were scaled by 1.75 to account for overheads, in line with the regulatory burden measurement framework (OIA 2024, p. 12).

Activity and delay time estimates

We took estimates of times to complete each step of the process from literature sources including reports, developer websites, and guides for buyers of house and land or apartment packages. This included estimates of time taken to obtain approvals after applications are submitted. Sources are in the reference list.

Government fees, land and property tax rates

We estimated typical government fees and land and property tax charges from official government websites from each state, and where appropriate took a weighted average according to construction activity in each state. Sources are in the reference list.

Interest rate

We used an annual interest rate of 5.3% based on a survey of mortgage interest rates for investment and construction lending from major banks and lenders in August 2025 (Canstar 2025).[68]

Sunk costs

We estimated sunk costs at each stage assuming that land costs are fully incurred before any approval activity or construction takes place, while construction costs are incurred only within the construction phase. Other costs and fees were assumed to be incurred proportionately over the project timeline.

Zoning premium

We used the methodology Kendall and Tulip (2018, table 3) to estimate the zoning premium – the additional cost of land when it is zoned for housing construction compared to its marginal cost. We used estimates for each of the major capitals from the paper, and scaled for other areas in proportion to the value of land.

The paper breaks down costs into just construction and land, and attributes all of the price of a new dwelling that is not construction or marginal value of land to the zoning premium. Our model attributes some of this

[68] While interest rates can vary, sensitivity analysis indicated this does not significantly affect the results. A change in the interest rate of 2.5% is required to change the 'mid' estimate of regulatory burden by $5,000 for a new house build.

additional price to other costs (Housing Cost Estimates, above). We subtracted these costs before attributing the remaining additional price of land over its marginal value to the zoning cost.

Construction – materials and labour premium

We used published impact analyses for changes to the NCC over the last seven years to obtain estimates of the increases in costs to build a new house and a new unit as a result of those regulations (ACIL Allen 2022; DCWC 2018; The CIE 2021). We assumed older changes to the NCC had a negligible marginal additional cost in 2025, as the features they mandate would by now be standard design features on all new builds regardless of regulation. We note that in some cases the costs were contested by some stakeholders (Bleby 2024; Elmas 2025). For those disputed costs, we also reviewed other modelling and estimates where available to arrive at a range, which in some cases we note had considerable uncertainty (AGWA 2024; Buildi 2023; Mitchell Brandman 2025).

Work health and safety costs

We obtained estimates on the average annual spend by construction firms on safety training, equipment and procedures (Safe Work Australia 2015, pp. 15–18). We converted this to a 'per project' spend by estimating the number of full time equivalent workers on a typical construction project, and the number of projects a worker will complete per year, and the average size of a construction firm in Australia (HIA 2024, p. 2; PC 2025d, p. 26).

Training and licensing costs

We estimated the costs for construction workers to become licensed to work as the sum of formal qualifications, on the job training and government charges, with a scale factor to account for the fact that some necessary training would take place in the absence of regulatory requirements.

Formal training costs were estimated from a survey of Technical and Further Education (TAFE) course fees for relevant qualifications (Holmesglen Institute of TAFE 2025; Melbourne Polytechnic 2025; TAFE NSW 2025), plus the 'opportunity cost' of training due to wages foregone during study. Costs of 'on the job' training were estimated as the difference between the wage rate of construction apprentices and the minimum wage as a proxy for the cost to the trainer and trainee in the aggregate (as the counterfactual is the trainee could earn minimum wage for their untrained labour) over the course of an apprenticeship (Fair Work Ombudsman 2025). Government charges and requirements were estimated from official websites (Building Commission NSW 2024b, 2024a; QBCC 2021, 2025; VBA 2023, 2025).

We apportioned the training and licensing cost per worker per project assuming an average career of 30 years, and dividing the costs of a worker's training across the projects they would be expected to complete in that time (above).

We estimated annual licensing renewal costs from government websites, and again apportioned costs on a 'per project' basis according to the number of full-time equivalent workers per project, and the number of projects a worker will complete per year.

Results

Table C.14 – Regulatory cost estimates for new housing construction

	Regulation costing	Low estimate	Mid estimate	High estimate
Zoning and land purchase	Land value premium due to zoning regulation	$115,000	$140,000	$165,000
Development approval (also known as planning approval in some jurisdictions)	Due diligence costs	$140	$760	$3,400
	Preparation of development application	$3,900	$8,300	$22,000
	Government approval of development application	$750	$1,500	$3,300
	Holding costs for development approval delays	$2,500	$3,400	$32,000
Building approval	Cost to ensure plans meet all regulatory requirements	$2,900	$8,800	$22,000
	Preparation of building approval	$3,700	$11,000	$18,000
	Government approval of building application	$960	$2,000	$3,000
	Holding costs for building approval delays	$1,600	$4,200	$7,100
Construction process	Costs of materials and labour due to the rules that would not otherwise have been incurred	$3,600	$18,000	$33,000
	Costs of safety equipment and processes due to rules that would not otherwise have been incurred	$310	$2,000	$6,100
	Worker training costs due to regulation	$200	$590	$2,000
	Worker annual licensing costs	$130	$410	$1,100
Quality assurance, certification and titling	Cost of ongoing compliance inspections	$840	$1,200	$2,000
	Costs of final inspection for certificate of occupancy	$250	$490	$1,100
	Holding costs for delays to issue certificate of occupancy	$300	$1,200	$2,100
	Government processing of subdivision	$0	$0	$0
	Holding costs for delays to issue titles	$0	$0	$0
Total per dwelling[a]		$135,000	$200,000	$320,000
Annual dwelling completions		113,128	113,128	113,128
Economy-wide annual cost[a]		$15.4 bn	$22.9 bn	$36.4 bn

a. Totals do not sum exactly due to rounding.

Source: PC calculations.

Table C.15 – Regulatory cost estimates for new apartment construction

	Regulation costing	Low estimate	Mid estimate	High estimate
Zoning and land purchase	Land value premium due to zoning regulation	$17,000	$20,000	$24,000
Development approval (also known as planning approval in some jurisdictions)	Due diligence costs	$0	$20	$60
	Preparation of development application	$7,400	$13,000	$22,000
	Government approval of development application	$200	$830	$1,500
	Holding costs for development approval delays	$2,900	$10,000	$33,000
Building approval	Cost to ensure plans meet all regulatory requirements	$370	$1,100	$2,800
	Preparation of building approval	$3,700	$11,000	$18,000
	Government approval of building application	$1,200	$1,200	$1,200
	Holding costs for building approval delays	$390	$1,200	$2,300
Construction process	Costs of materials and labour due to the rules that would not otherwise have been incurred	$3,300	$8,100	$11,000
	Costs of safety equipment and processes due to rules that would not otherwise have been incurred	$1,200	$9,200	$28,000
	Worker training costs due to regulation	$780	$1,600	$4,400
	Worker annual licensing costs	$520	$1,100	$2,600
Quality assurance, certification and titling	Cost of ongoing compliance inspections	$840	$1,200	$2,000
	Costs of final inspection for certificate of occupancy	$250	$490	$1,100
	Holding costs for delays to issue certificate of occupancy	$230	$910	$1,600
	Government processing of subdivision	$20	$4,200	$10,000
	Holding costs for delays to issue titles	$0	$5,100	$10,000
Total per dwelling[a]		$40,000	$90,000	$175,000
Annual dwelling completions		62,649	62,649	62,649
Economy-wide annual cost[a]		$2.5 bn	$5.7 bn	$11.1 bn

a. Totals do not sum exactly due to rounding.

Source: PC calculations.

References

Timeline and professional cost estimates

Multiple stages

Delcon (2019); Farmilo (2020); Hindley (2024); Lofty Building Group (2021); Pressley (nd); Savills (2024); Sharma and Bryant (sub. 194); The CIE (2024).

Development applications

NSW DPHI (2021).

Building applications

Stoneybark (2025b).

Compliance and occupancy inspections

Building Institute NSW (2024); Buywise Inspections (2025); Owner Inspections (nd); Star Building Inspections (2021).

Government fees and charges estimates

Development applications

Brisbane City Council (2025a); NSW DPHI (2024); SA DPTI (2020); Sutherland Shire Council (2024); Victorian DTP (2025a).

Building applications

hipages Australia (2025); SA DPTI (2024); Stoneybark (2025b, 2025a).

Certificate of occupancy

ACT Government (2023); CodeHQ Building Consultancy (2025); Mitchell Shire Council (2024).

Titling

NSW DPE (2025); NSW DPHI (2024); SRO Victoria (2025a); Titles Queensland (2025); Victoria DTP (2025b); WA Government Landgate (2025).

Land and property taxes

QRO (2024); Revenue NSW (2025); RevenueSA (2025); SRO Victoria (2025b); WA DTF (2025).

Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
ACE	Allowance for corporate equity
ACT	Australian Capital Territory
AI	Artificial Intelligence
AICD	Australian Institute of Company Directors
ANAO	Australian National Audit Office
ANU	Australian National University
APS	Australian Public Service
ATO	Australian Taxation Office
BAS	Business Activity Statements
BIT	Business Income Tax
BLADE	Business Longitudinal Analysis Data Environment
CAPEX	Capital Expenditure
CFT	Controlled Foreign Tax
CGE	Computable general equilibrium
CGETAX	Computable general equilibrium Tax
CIT	Company income tax
DDD	Triple difference in difference
ESD	Event study design
EU	European Union
EY	Ernst &Young
GDP	Gross domestic product
GNI	Gross National Income
GST	Goods and services tax
IA	Impact analysis
IMF	International Monetary Fund
IT	Information technology
KPI	Key Performance Indicator
MFAA	Mortgage and Finance Association of Australia

MRRT	Minerals Resource Rent Tax
NCC	National construction code
NCT	Net cashflow tax
NPV	Net Present Value
OECD	Organisation for Economic Co-operation and Development
OIA	Office of Impact Analysis
PBO	Parliamentary Budget Office
PC	Productivity Commission
PDF	Portable document format
PM&C	Department of the Prime Minister and Cabinet
PRRT	Petroleum Resource Rent Tax
PRT	Petroleum Revenue Tax
qr	Questionnaire response
RBA	Reserve Bank of Australia
SoE	Statement of expectations
TAFE	Technical and further education
TOFA	Taxation of Financial Arrangements
TTPI	Tax and Transfer Policy Institute
UK	United Kingdom
US	United States of America
VURMTAX	Victoria University Regional Model with Tax detail

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