

Submission

**to the Productivity Commission Inquiry into Reducing Barriers
to Business Dynamism**

How tax policy affects capital formation, innovation, business growth and productivity

July 2026

Foreword

Australia's productivity problem is fundamentally a capital formation problem. Businesses cannot start, grow, innovate or employ without access to affordable productive capital. The Productivity Commission has asked Australians to identify the barriers that prevent businesses from starting, growing, innovating, restructuring and succeeding. Much of the attention in that debate goes to regulation, industrial relations, planning laws and compliance costs. Those things matter.

One of the most important barriers, however, receives comparatively little attention: the cost of productive capital, which is the equity that funds operating businesses.

Businesses cannot innovate without capital. Businesses cannot employ people without capital. Businesses cannot commercialise research without capital. Businesses cannot expand without capital. Capital markets therefore underpin every aspect of business dynamism, and any policy that materially increases the cost of productive capital becomes a barrier to it.

This submission makes two arguments. First, that Australia needs more productive capital formation, not less: the country's productivity slowdown is, in significant part, a capital problem, and the market that finances productive businesses is already shrinking and internationally contested. Second, that the Government's capital gains tax (CGT) reforms move in the wrong direction, materially increasing the cost of productive capital for almost every business outside the largest dividend-paying companies. We use those reforms as a detailed case study.

Our central request of the Commission is that it recognise capital formation as a foundational driver of business dynamism, and adopt a simple test against which any future policy affecting investment can be judged: does it make it easier or harder for productive Australian businesses to obtain the capital they need to grow?

Every economy ultimately grows through productivity. Every productivity improvement begins with investment and every investment begins with capital.

For decades, Australia's productivity debates have concentrated on industrial relations, planning approvals, taxation, infrastructure and regulation. These are all important. Yet relatively little attention has been paid to a simple and prior question: how easily can productive Australian businesses obtain equity capital? Capital markets are not separate from business dynamism; they are one of its foundations. Businesses begin because investors provide capital; they expand because investors provide more of it; they innovate because investors are willing to accept long-term risk; and they employ Australians because capital finances growth.

We make one point clearly at the outset. The Commission's terms of reference note that the tax framework is not intended to be the focus of this inquiry, and we respect that. This is not a submission about tax for its own sake, rather, it is a submission about access to capital markets and a barrier the terms of reference expressly direct the Commission to examine. The cost of productive capital determines whether Australian businesses can obtain the funding they need to grow. We use one current measure as our worked example only because it is the clearest available illustration of how a policy setting can raise that cost. The principle we ask the Commission to adopt is broader than any single measure.

Wilson Asset Management has said publicly, and in evidence to the Senate, that we support well-designed reform of capital gains taxation, and we recognise that governments must raise revenue and balance fiscal sustainability. We gave evidence supporting change to the capital gains arrangements for housing on a revenue-neutral basis, because there is a respectable case that the current settings, in combination with

negative gearing, have directed too much of the nation's capital towards bidding up the price of existing dwellings rather than building new productive capacity. Our concern is with the application of a housing-oriented measure to every operating business in the country.

Every investment policy changes behaviour. Every Australian deciding where to invest their savings responds to after-tax returns. If the tax system rewards income over capital growth, millions of Australians will rationally redirect their savings away from businesses that reinvest for growth and towards businesses that distribute profits today. That behavioural response, not the legislation itself, is what ultimately raises the cost of productive capital for Australian businesses.

I have spent more than forty years watching how sensitive the supply of capital to smaller and emerging companies is to the incentives that govern it. Australia cannot improve business dynamism while simultaneously increasing the cost of productive capital. This submission explains why capital formation belongs at the centre of the productivity discussion. We welcome the Commission's inquiry.

Geoff Wilson AO

Chairman

Wilson Asset Management

Contents

1. Capital formation: the foundation beneath the five priority areas.....	5
2. Why Australia needs more productive capital formation.....	6
What we mean by “productive capital”	6
How productive capital drives dynamism	6
3. The evidence: a shrinking market for productive capital.....	7
4. Australia’s competitive position.....	7
5. The Capital Formation Test.....	8
6. The proposed capital gains tax changes: a case study.....	8
6.1 What is proposed	9
6.2 Why franked income and capital are taxed so differently	9
6.3 The worked examples: capital taxed at 51% and 62.9%.....	9
6.4 The inflation trap and the lesson of the Ralph Review.....	10
6.5 How investors will actually respond.....	10
6.6 The rising cost of capital below the top twenty	11
6.7 Who benefits: foreign capital and the top twenty	11
6.8 The intermediation paradox	12
6.9 Retirement capital and the cost of uncertainty	12
7. The listed – unlisted divide: tax settings that penalise public companies.....	12
8. A constructive alternative.....	13
Recommendations	13
Conclusion	14
Appendix A: The calculations in full	15
A.1 Zero / low-rate investor	15
A.2 Top-rate (47%) investor	15

1. Capital formation: the foundation beneath the five priority areas

The Commission has framed this inquiry around barriers to business entry, expansion and exit, and has identified five priority areas for investigation: the administrative and regulatory costs of starting a business; Australia's innovation ecosystem; human capital and management capability; capital markets; and the transfer of successful businesses.

Capital markets appear on that list as the fourth priority. We respectfully submit that they are better understood not as one item among five, but as the foundation beneath the other four. A business must be financed before it can be started, before it can innovate, before it can employ and before it can be sold or passed on. The cost and availability of productive capital therefore shapes the outcome in every one of the Commission's priority areas at once. The table below sets out those links.

Commission priority area	Why capital formation is the foundation beneath it
1. Administrative and regulatory costs of starting a business	The availability and price of equity capital determine whether new businesses can start, scale and list. A higher cost of capital is itself a barrier to entry that compounds the regulatory costs the Commission is examining.
2. Australia's innovation ecosystem	Innovative companies fund themselves largely from retained earnings rather than dividends; taxing the resulting capital growth more heavily than dividend income penalises the reinvestment on which innovation depends.
3. Human capital and management capability	Lower investment in productive businesses means fewer skilled jobs created and fewer opportunities to build management capability at scale.
4. Capital markets	This is the submission's central concern: how tax and regulatory settings determine whether savings flow towards productive businesses or away from them and what that does to the cost of capital for every company below the largest.
5. Transfer of successful businesses	A higher effective tax on realised gains lowers after-tax valuations and makes business exits, sales and succession harder to achieve.

The connecting thread is the inquiry's own frame of entry, expansion and exit. A business must be financed to start, financed to grow and valued fairly to be sold or passed on, and each depends on the cost of capital. It is worth stating the underlying point as plainly as possible.

Business dynamism is not created by regulation. It is financed.

2. Why Australia needs more productive capital formation

Australia has a productivity problem, and it is now widely accepted as the defining economic challenge of the decade. Productivity growth over the decade to 2020 was the slowest in 60 years.¹ The Commission's own inquiry rests on the link between business dynamism and productivity and that link runs through capital.

There is a growing body of evidence that the slowdown is, in significant part, a capital problem. Business investment as a share of GDP is now lower than it was in the early 2000s, and the decline has been larger among more productive firms, a sign that capital has become not only scarcer but less efficiently allocated.² A key part of the slowdown is attributed to a decline in business dynamism itself, measured by falling rates of firm entry and exit.³ Each of these is a story about the supply and allocation of productive capital.

What we mean by “productive capital”

By productive capital we mean the equity that funds operating businesses, e.g., the capital that builds factories and software, commercialises research, funds exports and creates jobs, as distinct from capital deployed into passive or speculative assets. We are not defending speculation. We are defending the capital that finances businesses, innovation, technology, employment and exports. It is productive capital that Australia needs more of, and productive capital that the tax system should be most careful not to discourage.

How productive capital drives dynamism

Productive capital finances every stage of the business life cycle. It finances entry: every new business begins with risk capital, and without investors willing to fund entrepreneurs, new businesses never commence. It finances expansion: growing businesses continually raise equity to fund premises, technology, acquisitions, exports and employment, and a higher cost of capital raises the hurdle every one of those projects must clear. It finances innovation: research-intensive businesses reinvest for years before paying a dividend and depend on patient investors seeking capital growth rather than income. It finances productivity itself: productivity improves when businesses invest, and the volume of investment that proceeds depends on its cost. The chain from capital to national prosperity is direct.



The chain from savings to living standards and tax revenue runs through the cost of productive capital.

Australia does not lack entrepreneurs, ideas or businesses. What it increasingly lacks is a plentiful, affordable supply of productive capital directed towards them. That is why capital formation belongs at the centre of the productivity debate and why the balance of this submission examines the health of the market for productive capital, and the policy settings that shape it.

¹Productivity Commission, 5-year Productivity Inquiry: Advancing Prosperity (March 2023), vol. 1: labour productivity growth over the decade to 2020 was the slowest in around 60 years.

²Australian Government, the Treasury, Productivity (overview paper for the Economic Reform Roundtable, August 2025), drawing on J. Hambur and D. Andrews, "Doing Less, with Less: Capital Misallocation, Investment and the Productivity Slowdown in Australia", RBA Research Discussion Paper No. 2023-03 (March 2023): as a share of GDP, business investment is lower now than in the early 2000s, and the decline has been larger among more productive firms, indicating that capital has been allocated less productively.

³Productivity, Rodney Bogaards, Briefing Book for the 47th Parliament: a key reason for the slowdown is a decline in business dynamism, evidenced by falling rates of firm entry and exit.

3. The evidence: a shrinking market for productive capital

If productive capital is the foundation of business dynamism, the state of Australia's public equity market is a direct measure of it, and the trend is not encouraging. The public market is where growing companies raise capital at scale, where disclosure and price discovery are strongest, and where ordinary Australians can own productive businesses directly. On every measure, it is contracting.

New floats on the ASX fell from around 190 in 2021 to 45 in 2023, against a five-year average of roughly 120 listings a year, and the capital raised through them fell to about \$1.1 billion, against a five-year average near \$5.4 billion.⁴ More fundamentally, the listed-company base itself is shrinking. The Australian Securities and Investments Commission's 2024 review of the public equity market found that the number of listed companies fell by 145 between the end of 2022 and the end of 2024, the largest two-year decline since the recession of the early 1990s, driven by just 66 new listings against 211 delistings, leaving 1,989 listed issuers.⁵ Strikingly, this happened even as total market capitalisation sat near record highs, around \$3.0 trillion. Fewer companies carrying more value is the definition of a concentrating market.

A shrinking, concentrating public market is one in which it is harder for new and growing companies to raise equity, and easier for capital to pool in a handful of large incumbents. The exit that growth investors rely upon becomes rarer, and the pipeline of new entrants that refreshes the economy slows. This is the market into which the proposed capital gains tax changes would be introduced and, they would raise the cost of exactly the productive capital this market is already struggling to supply.

If productive capital becomes more expensive:

- fewer startups receive funding
- fewer IPOs occur
- less private investment flows into expanding businesses
- existing firms invest less
- wages grow more slowly
- productivity falls
- tax revenue ultimately falls.

4. Australia's competitive position

Australia's market for productive capital does not operate in isolation; it competes with the rest of the world, and increasingly it is losing ground. The clearest sign is where Australia's most successful growth companies choose to list. Atlassian bypassed the ASX to list on the Nasdaq in 2015; Life360, having listed on the ASX in 2019, added a Nasdaq listing in 2024.⁶ The pattern reflects real

⁴ASX, "ASX capital markets: 2023 year in review and 2024 outlook": 45 new listings raising \$1.1 billion in 2023, against ASX's five-year averages of 120 listings and \$5.4 billion a year. The 2021 peak of around 190 floats is from HLB Mann Judd, IPO Watch Australia.

⁵ASIC, Report 807, "Evaluating the state of the Australian public equity market" (2025): the number of listed companies fell by 145 between end-2022 and end-2024 (the largest two-year decline since the early-1990s recession) on 66 new listings against 211 delistings, leaving 1,989 listed issuers with total market capitalisation near record highs of about \$3.0 trillion.

⁶Atlassian listed on the Nasdaq in December 2015; Life360 listed on the ASX in 2019 and added a Nasdaq listing in 2024. ASX Listing Rule 6.9 (one vote per ordinary share) has the practical effect of directing founders seeking dual-class structures to a United States listing.

structural differences. The United States offers a far deeper pool of risk capital including pension funds, endowments and specialist venture funds operating at every stage that allows investors to tolerate greater risk and deploy larger amounts than Australia's smaller, more concentrated venture market. Some of the barriers are also self-imposed: the ASX's one-share-one-vote listing rule effectively pushes founders who want dual-class structures towards a United States listing.

This sits within a global trend. The OECD reports that more than 35,000 companies have delisted from public markets worldwide since 2005, and the number of companies listed in the United States has roughly halved since the mid-1990s, as capital has shifted towards private markets.⁷ Australia is not immune to that shift. Capital is internationally mobile and follows incentives, and governments increasingly compete for venture capital, technology, entrepreneurs and skilled people, in part through the tax treatment of investment. A jurisdiction that raises the cost of productive capital does not hold that capital in place; it exports the opportunity to jurisdictions that court it. For a country that must attract and retain risk capital to fund its next generation of companies, that is a competitive disadvantage, not merely a domestic tax question.

5. The Capital Formation Test

The framework we ask the Commission to adopt follows directly from the preceding chapters. If productive capital is the foundation of business dynamism, and if the market for it is both shrinking and internationally contested, then policy affecting investment should be tested against its effect on that capital. We propose a simple, durable test, one the Commission can adopt in its own right, independent of any single measure. Every policy affecting investment should answer four questions:

The Capital Formation Test

1. Does it increase or reduce the cost of productive capital?
2. Does it encourage or discourage entrepreneurship?
3. Does it increase or reduce business investment?
4. Does it strengthen or weaken productivity?

Where the answers point the wrong way, the measure should be presumed to reduce business dynamism, meaning fewer businesses started, less expansion, less innovation and lower productivity, unless compelling evidence demonstrates otherwise. A test of this kind places the burden of proof where it belongs, on any proposal that raises the cost of the productive capital the economy most needs, and gives the Commission a framework for identifying systemic barriers before they take effect rather than after the damage is done. The remainder of this submission applies the test to the Government's capital gains tax changes.

6. The capital gains tax changes: a case study

The Government's capital gains tax reforms are a useful case study of how a tax setting can unintentionally raise the cost of productive capital and, in doing so, become a barrier to business dynamism. This chapter applies the Capital Formation Test to the measure in detail. The analysis is technical, but the conclusion is simple: on all four questions, the measure points the wrong way.

⁷OECD, Corporate Governance Factbook 2025: since 2005 more than 35,000 companies have delisted from public markets globally, which the OECD describes as a major concern in a number of developed economies.

6.1 What is proposed

On 28 May 2026 the Government introduced the Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 to give effect to the capital gains tax measures announced in the 2026–27 Budget.⁸ It is the most far-reaching change to Australia's capital gains tax regime since the discount was introduced in 1999. Three features matter here: abolition of the 50% discount from 1 July 2027; replacement with cost base indexation to the Consumer Price Index; and a minimum 30% tax on real gains that applies regardless of how low the investor's own marginal rate may be. We do not object to reform of the capital gains treatment of residential property; our concern is the capture of every share in every listed company, through a mechanism that ignores the company tax already paid on the profits that drive a share's value.

6.2 Why franked income and capital are taxed so differently

When a company earns a profit it pays company tax, 30% for most large, listed companies. If it distributes the after-tax profit as a fully franked dividend, dividend imputation gives the shareholder a credit for the tax already paid, so the total tax on the distributed profit equals the shareholder's own marginal rate. A capital gain is different. When the company retains and reinvests the profit, the value of the business rises and the shareholder eventually realises a capital gain, but that gain carries no franking credit. The 30% company tax already paid becomes a buried, unrelieved cost, and the capital gains tax is layered on top. The same dollar of corporate profit is taxed twice: once on the way in and again on the way out.

Consider two companies earning the same profit. One distributes every dollar as a fully franked dividend; the other reinvests every dollar into technology, new facilities and employment. Under the proposed framework the reinvesting company ultimately generates returns taxed materially more heavily than the distributing company. A tax setting that penalises reinvestment in this way strikes directly at the productive capital formation on which business dynamism depends.

6.3 The worked examples: capital taxed at 51% and 62.9%

Take a single case. An Australian invests in a company that earns \$10,000 of profit attributable to that investment. The company pays \$3,000 in company tax, leaving \$7,000. For a retiree on a zero marginal rate, a fully franked dividend is grossed up, taxed at zero and the \$3,000 credit refunded: effective tax zero. On the capital road, the \$7,000 gain attracts the 30% minimum tax of \$2,100 which, added to the \$3,000 company tax, totals \$5,100, an effective rate of 51%. For a top-rate (47%) investor, the franked dividend produces total tax of \$4,700 (47%); the realised gain is taxed at the full 47% (\$3,290) which, with the \$3,000 company tax, totals \$6,290, an effective rate of 62.9%, up from 46.45% under the current 50% discount.

Effective total tax on \$10,000 of company profit	Fully franked dividend (income)	Capital gain (50% discount)	Capital gain (new rules)
Zero / low-rate investor (e.g. retiree)	0%	30%	51%
Top-rate investor (47% marginal)	47%	46.45%	62.9%

Effective combined company and shareholder tax on \$10,000 of company profit, by route to the investor. Company tax 30%; capital gain of \$7,000 assumed. Full calculations at Appendix A.

⁸Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and Income Tax Rates Amendment (Tax Reform No. 1) Bill 2026, introduced into Parliament on 28 May 2026.

Broadly, no matter whether it is the person who pays no income tax or the person who pays 47%, you don't want to make any capital gain. There is, in real terms, zero reason to.

— Geoff Wilson AO, evidence to the Senate, June 2026

The penalty on capital is not confined to the wealthy. The zero-rate investor who pays nothing on a dividend pays 51% on a capital gain. This is the opposite of progressivity: a flat, heavy toll on capital formation that falls hardest, in proportional terms, on the smallest investors and on the businesses that depend on them.

6.4 The inflation trap and the lesson of the Ralph Review

The Government argues that indexation cures the inflation problem so that only real gains are taxed. For the large class of investors caught by the 30% minimum, that promise does not hold. And even on its own terms, the inflation point cuts the other way. A company that grows only in line with inflation has created no real value; this is precisely why the original 1985 regime indexed the cost base and why the Ralph Review built a discount in its place. The behavioural sting is this: if real capital growth is heavily taxed but franked income is not, the rational investor stops wanting real growth at all, preferring a company whose value merely tracks inflation and pays a large franked dividend. The tax system would then steer capital towards companies that do not grow in real terms and away from those that do, rewarding stagnation and penalising growth, in an economy whose central problem is productivity.

6.5 How investors will actually respond

The most important consequence of these reforms is the behaviour it will produce. Every Australian investor, regardless of portfolio size, will face the same economic calculation: maximise after-tax returns, and ultimately will reach the same decision: sell growth companies and buy high-yield mature companies. Under the new rules, that increasingly means selling businesses whose returns come primarily through capital growth and buying businesses whose returns come primarily through franked dividend income. Individually, each decision is rational. Collectively, millions of those decisions permanently increase the cost of capital for Australia's growth companies.

Tax changes of this magnitude comprehensively reshape where investors allocate capital. Because distributed profits receive the benefit of imputation while retained earnings face heavier effective taxation through capital gains, investors will favour yield over reinvestment, and the largest companies over the rest. The big, mature companies, including the major banks and large resource houses, are precisely the ones that pay high, reliable, fully franked dividends, and their scale means their value tends to track the broad economy rather than racing ahead of it, which under the proposed rules becomes a feature rather than a defect. The ASX Top 20 already yields 5.0% on average, against 3.0% for the index excluding its top 20 constituents.

ASX average dividend yields	
Top 20	5.0%
Top 50	3.2%
ASX 100	3.0%
ASX 200	3.6%
XJO ex top 20	3.0%

Source: Bloomberg, June 2026.

The mirror image is a flight away from growth. Emerging companies, small and mid-caps, and any business whose investment case rests on capital appreciation rather than dividend yield become tax-disadvantaged almost by definition, because their return to shareholders comes as capital gain, the most heavily taxed outcome. As we told the Senate, the measure would mean almost the end of small companies as a destination for patient capital.

Effectively, all the money will go to Rio, BHP, the big banks — the top ten companies. That is where all the money will go. And anyone below that, the cost of capital goes through the roof.

— Geoff Wilson AO, evidence to the Senate, June 2026

Likely beneficiaries	Likely disadvantaged
Major banks	Small and micro-cap companies
REITs / property trusts	Early-stage growth companies
Large oil and gas companies	Technology companies
Mature infrastructure businesses	Emerging industrial companies
High-franked dividend payers	Businesses that reinvest earnings

The measure would reward companies that distribute profits today while penalising those that reinvest to expand productive capacity. This is the opposite of what an economy facing a productivity challenge should encourage.

6.6 The rising cost of capital below the top twenty

When investors will only willingly hold a narrow band of large, high-yield companies, the supply of capital to everyone else contracts, and when the supply of capital to a company falls, its cost of capital rises. Importantly, this outcome does not require investors to consciously avoid smaller companies. It emerges naturally as millions of Australians independently respond to the same after-tax incentives. This is the mechanism by which a tax change in Canberra becomes a higher hurdle rate in every boardroom outside the index's top tier.

Segment of the Australian equity market	Approx. value	Effect
Top 10 companies (banks, large miners)	~\$1.0 trillion	Capital flows in
Everything below the top 10–20	~\$2.3 trillion	Cost of capital rises
Total Australian equity market	~\$3.3 trillion	Concentration intensifies

Approximate market structure. Figures are indicative and reflect the orders of magnitude cited in evidence to the Senate.

The damage is heaviest precisely where the productivity upside is greatest. Small and emerging companies are where new ideas are commercialised and where the productivity frontier is pushed outward; raising their cost of capital is a direct tax on the future productive base of the economy. It also deepens the concentration documented in Chapter 3, herding capital into a handful of large-caps and increasing systemic risk in the superannuation savings of millions of Australians.

6.7 Who benefits: foreign capital and the top twenty

It is worth asking who, in the end, the resulting flow of capital benefits. The companies at the very top of the market are precisely those whose share registers already carry substantial foreign

ownership, and foreign capital, on an ordinary portfolio holding in a listed Australian company, pays no Australian capital gains tax at all.⁹ When a foreign investor sells shares in BHP, the Commonwealth Bank or CSL at a profit, the gain is disregarded for Australian tax purposes. Two owners can therefore hold identical shares in the same company and make the same gain, and under the proposed rules one is taxed at up to 62.9% and the other not at all. None of this is an argument against foreign investment, which Australia needs and benefits from. It is an observation that a measure presented as fairer would, in practice, fall on Australian owners alone while gradually shifting the ownership of the nation's largest companies further offshore.

6.8 The intermediation paradox

One further consequence deserves to be noted, including by those of us who would commercially benefit from it. The proposed rules create structural advantages for professionally managed investment vehicles over individuals investing directly, chiefly the ability to net realised losses against gains across a large portfolio. Wilson Asset Management manages nine listed investment companies and charges fees; on a narrow commercial reading, the measure is positive for our industry. We raise it against interest. It is a strange outcome for policy to steer people towards layers of intermediation and to penalise them for investing directly, the very direct participation in capital markets that a dynamic economy should encourage.

6.9 Retirement capital and the cost of uncertainty

Two final consequences bear on dynamism. A retiree facing an effective rate of up to 51% on realising listed shares, though they pay little or nothing on franked income, will rationally avoid realising capital and chase franked yield instead, concentrating retirement savings in a narrow band of large-cap income stocks. And uncertainty is itself a cost: while investors pause to wait for rules to settle, the forward commitment of capital on which business dynamism depends is deferred. Whatever is decided should be resolved promptly.

7. The listed - unlisted divide: tax settings that penalise public companies

The proposed capital gains tax change is not the first measure to fall specifically on listed companies and their investors, and the pattern matters to the Commission's inquiry. As Chapters 3 and 4 showed, the public market is already shrinking. A series of recent tax measures apply to listed public companies while leaving economically identical unlisted and private structures untouched, quietly widening the gap between public and private ownership and accelerating that decline.

The clearest example is the off-market share buy-back. Since the Treasury Laws Amendment (2023 Measures No. 1) Act 2023, a listed public company that undertakes an off-market buy-back can no longer frank any part of the distribution, and must still debit its franking account, so the franking credits that would have reached shareholders are permanently lost.¹⁰ An unlisted company undertaking an economically identical buy-back is unaffected: it can still frank the distribution and pass the credits to its shareholders. Two companies can return capital in exactly the same way, and the shareholders of the listed one lose franking credits that the shareholders of the unlisted one

⁹Under Division 855 of the Income Tax Assessment Act 1997, a foreign resident is subject to Australian capital gains tax only on "taxable Australian property". A portfolio interest (broadly, less than 10%) in a widely held listed company whose assets are not principally Australian real property is not taxable Australian property, so a gain on such shares is disregarded for Australian CGT purposes.

¹⁰Treasury Laws Amendment (2023 Measures No. 1) Act 2023, Schedule 4, applying to off-market buy-backs announced by listed public companies after 7:30pm on 25 October 2022. No part of the buy-back price is treated as a frankable dividend and the company must debit its franking account. The measure applies only to listed public companies and does not affect off-market share buy-backs by unlisted companies.

keep. The Board of Taxation had recommended that the off-market buy-back rules apply in the same way to listed and unlisted companies; the measure did the opposite.¹¹

The proposed capital gains tax change compounds the same asymmetry from the investor's side, raising the after-tax cost of holding listed equity while foreign investors and holders of unlisted and private assets are far less affected. Measure by measure, the tax system is making public listing less attractive than private ownership. A company that stays private, or leaves the public market, is not necessarily less productive but it is less transparent, less liquid and closed to the millions of ordinary Australians who can invest only through public markets. Pushing the next generation of companies into private hands narrows participation in the nation's productive base and weakens the public capital market on which broad-based business dynamism depends.

8. A constructive alternative

Much of the political impetus for change comes from the housing market, and we do not dispute that the primary effect of the 1999 changes, in interaction with negative gearing, was felt in property rather than shares. But if the problem is concentrated in housing, the remedy should be concentrated there too. Applying a blunt, market-wide instrument to a problem located in one asset class is the policy equivalent of treating a sprained ankle by immobilising the whole body.

A coherent alternative is available and can be designed to raise the same revenue. If the goal is to redirect capital away from speculation and towards productive use, reform should be revenue-neutral and structured so that the concession is reduced for the activity the Government wants less of (speculation in existing property) and preserved or strengthened for the activity it wants more of (patient, long-term productive capital in operating Australian businesses). A uniform change fails on its own logic: cutting the concession equally for both asset classes leaves the relative attractiveness of property versus shares unchanged, taxing everyone more while leaving the underlying distortion in place. Underlying all of this is a principle a sensible system cannot ignore: reward must follow risk. Someone who commits risk capital takes a genuine chance of total loss in exchange for the possibility of reward, and a system that strips away that reward while leaving the risk untouched makes Australians less willing to back one another's ambitions.

Recommendations

We ask the Commission to adopt the following as principles that apply beyond any single measure.

1. **Recognise capital formation as a core driver of business dynamism.** The Commission should treat the cost and availability of productive capital as a foundational determinant of business entry, expansion and exit, alongside regulation, innovation and skills.
2. **Adopt the Capital Formation Test.** Government should assess every policy affecting investment against whether it raises or reduces the cost of productive capital, encourages or discourages entrepreneurship, increases or reduces business investment, and strengthens or weakens productivity, presuming that adverse answers reduce business dynamism unless the evidence shows otherwise.
3. **Require a published capital-formation assessment.** Every tax proposal affecting investment should be accompanied by a published assessment of its impact on business formation, innovation, productivity and the cost of capital.

¹¹Board of Taxation, review of the tax treatment of off-market share buy-backs, which recommended that the off-market share buy-back provisions generally apply in the same way to listed and unlisted companies.

4. **Reward productive investment over passive investment.** Tax settings should distinguish between productive business investment and passive investment, and should not disadvantage the former.
5. **Do not tax productive capital growth more heavily than income.** Capital gains arising from productive Australian businesses should not face materially higher effective taxation than distributed profits, once the company tax already paid on corporate earnings is taken into account.
6. **Do not penalise public listing.** Tax settings should not fall on listed public companies and their investors while leaving economically identical unlisted and private structures untouched, since doing so raises the cost of public equity and accelerates the drift of capital and companies out of public markets.

Conclusion

Every successful business begins with an entrepreneur and every entrepreneur needs capital. Capital follows incentives. Business dynamism follows capital. Productivity follows business dynamism. Australia's prosperity ultimately follows productivity.

That chain is the whole of the argument. Australia's productivity challenge is, at its root, a challenge of forming and allocating productive capital and the market that supplies it is already shrinking, concentrating and losing ground to jurisdictions that compete harder for it. Countries compete not only for skilled workers and businesses but also for productive capital. In an increasingly mobile global economy, jurisdictions that make productive investment more attractive will attract entrepreneurs, innovation and jobs. Those that make productive capital more expensive risk exporting the next generation of successful businesses.

Against that backdrop, the proposed capital gains tax reforms would raise the cost of productive capital, reward distribution over reinvestment, and push capital towards the largest companies and away from the businesses that drive growth. Judged against the Capital Formation Test, they point the wrong way on every question.

The most important question policymakers should therefore ask before introducing any investment policy is not simply how much revenue it raises. It is this:

Will this make productive Australian businesses easier, or harder, to finance?

If there is one overarching recommendation from this submission, it is that Australia should place capital formation alongside regulation, innovation and skills as a central pillar of national productivity policy, and judge every measure that touches investment against that single question. The Government does not decide where Australia's savings are invested. Millions of Australians do. Tax policy simply changes the incentives that guide those decisions.

Appendix A: The calculations in full

For a single \$10,000 of pre-tax company profit attributable to an investor's holding. Company tax rate 30%. The realised capital gain in each case is the \$7,000 of after-company-tax profit retained by the company and reflected in the share price.

A.1 Zero / low-rate investor

Step	Income (franked)	Capital (new)
Company profit	\$10,000	\$10,000
Less company tax at 30%	-\$3,000	-\$3,000
After-tax amount (dividend / share value uplift)	\$7,000	\$7,000
Shareholder tax (0% rate; 30% minimum on gain)	\$0 (credit refunded)	-\$2,100
Total tax paid	\$0	\$5,100
Effective tax rate	0%	51%

A.2 Top-rate (47%) investor

Step	Income (franked)	Capital (current)	Capital (new)
Company profit	\$10,000	\$10,000	\$10,000
Less company tax at 30%	-\$3,000	-\$3,000	-\$3,000
After-tax amount	\$7,000	\$7,000	\$7,000
Taxable gain	n/a	\$3,500	\$7,000
Shareholder tax at 47% (less franking credit on income)	-\$1,700	-\$1,645	-\$3,290
Total tax paid	\$4,700	\$4,645	\$6,290
Effective tax rate	47%	46.45%	62.9%

Top marginal rate of 45% plus the 2% Medicare levy. Company tax rate of 30% (25% for base rate entities).

About Wilson Asset Management

Wilson Asset Management has a track record of making a difference for shareholders and the community for over 29 years. As the investment manager for nine leading LICs: WAM Capital (ASX: WAM), WAM Leaders (ASX: WLE), WAM Global (ASX: WGB), WAM Microcap (ASX: WMI), WAM Income Maximiser (ASX: WMX), WAM Alternative Assets (ASX: WMA), WAM Strategic Value (ASX: WAR), WAM Research (ASX: WAX) and WAM Active (ASX: WAA); and four unlisted funds: Wilson Asset Management Leaders Fund, Wilson Asset Management Founders Fund, Wilson Asset Management Real Assets Fund and Wilson Asset Management Equity Fund, Wilson Asset Management invests over \$6.0 billion on behalf of more than 130,000 retail and wholesale investors.

Wilson Asset Management created and is the lead supporter of the first LICs to deliver both investment and social returns: Future Generation Australia (ASX: FGX) and Future Generation Global (ASX: FGG), as well as Future Generation Women. Wilson Asset Management advocates and acts on behalf of retail investors, is a member of the global philanthropic Pledge 1% movement, is a significant funder of many Australian charities and provides all team members with \$10,000 each year to donate to charities of their choice. All philanthropic investments are made by Wilson Asset Management and not the LIC.

For more information visit www.wilsonassetmanagement.com.au or contact:

Geoff Wilson AO

Chairman &
Chief Investment Officer
(02) 9247 6755

Kate Thorley

Chief Executive Officer
(02) 9247 6755

Jesse Hamilton

Chief Financial Officer
(02) 9247 6755

Olivia Harris

Marketing & Digital Manager
(02) 9247 6755



Wilson Asset Management

*Level 26, Governor Phillip Tower
1 Farrer Place, Sydney NSW 2000
+ 61 2 9247 6755
info@wilsonassetmanagement.com.au
wilsonassetmanagement.com.au*
