Creating a more dynamic and resilient economy inquiry

Questionnaire response 39

Name: CPA Australia

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1. Support business investment through corporate tax reform

1. What features of the Australian business environment have encouraged or restrained investment over the past 10 years?

Australia's prolonged weak productivity growth is closely tied to sluggish investment performance since the Global Financial Crisis (GFC). Several key factors have either restrained or encouraged business investment.

Restraining factors:
• Subdued demand and elevated uncertainty: Business investment has been dampened by subdued demand, heightened uncertainty and structural challenges. In Australia, increased global policy uncertainty has hindered fixed investment growth. Empirical estimates suggest a one-standard-deviation shock to the economic policy uncertainty index could result in a 1 per cent cumulative decline in investment.
• Declining competitive pressures and business dynamism: Investment has been adversely affected by declining competitive pressures and reduced business dynamism. Growing industry and product market concentration can suppress investment as dominant firms may restrict output and raise prices instead of expanding capacity.
• Financing constraints for intangible assets: As the economy shifts towards more digital and knowledge-intensive production, investment is increasingly focused on intangible assets such as software, data, and R&D. These assets are difficult to value and collateralise, making it harder to access traditional bank financing, often compelling firms to self-finance through retained earnings.
• Rising required rates of return: Despite the falling cost of capital, firms in many economies, including Australia, have maintained persistently high "hurdle rates" (the minimum expected return required for an investment to proceed). Consequently, the "gap between financing costs and hurdle rates has increased", making businesses more selective about investment projects. In Australia, this investment gap is particularly large "exceeding 30 per cent of the predicted investment level".
• Corporate tax system: Australia's corporate tax policies, including limited broad-based, long-term investment incentives, have also restrained business investment (see further analysis in the next question).

Australia's smaller businesses face unique challenges that affect their investment levels:
• Capability and capacity constraints: Our annual Asia-Pacific Small Business Survey continuously reveals that many of Australia's smaller businesses lack the necessary capability and capacity to invest in initiatives that could boost their performance. This weakness arises partly because business owners have limited time to improve their management skills, and partly due to their inadequate awareness of digital solutions.
• Older age profile of Australian small business owners: Our survey data shows that small businesses owned or operated by someone under 40 are generally more dynamic, such as investing in and utilising technology. However, the age profile of Australia's small business owners is notably older than the national average.
• Limited government support and incentives: Compared with jurisdictions like Singapore

and Hong Kong, Australia provides much less generous targeted investment incentives for smaller businesses. Engagement with the sector suggests that more generous and tailored investment incentives could encourage more small business to invest in productive assets, especially technology.

Encouraging factors :
• Revitalisation of competition policy: The 2024 agreements between federal and state governments, aimed at revitalising competition policy and streamlining regulations, have the potential to boost business investment.
• Improved incentives for housebuilding and public investment: Policy changes have provided "improved incentives for housebuilding, especially for social housing, and public investment to improve electricity grid connections". Easing zoning restrictions is also crucial for stimulating housing investment and improving affordability.
• Monetary policy easing: Recent and anticipated interest rate cuts in Australia are expected to support private consumption and encourage interest-rate-sensitive investment, such as housing.

2. What elements of the corporate tax system encourage and/or discourage investment and risk-taking?

Corporate income tax plays a key role in influencing business investment decisions. It's not just the headline tax rate – the design of the corporate tax system significantly impacts investment decisions and risk-taking behaviour.
Discouraging features:
• High corporate tax rate: Australia's corporate tax rate of 30 per cent (or 25 per cent for smaller entities) is among the highest in the OECD. This high rate reduces the after-tax return on investment, making capital allocation less attractive.
• Complex integrity and international tax reporting rules: Multiple overlapping integrity and international tax reporting requirements such as thin capitalisation, hybrid mismatch, general anti-avoidance rules increase uncertainty and complexity, especially for multinational businesses operating in Australia. This is further analysed in the next question.
• Distortionary non-profit-based taxes: Taxes not based on profits, such as state-based duties and levies, can distort investment decisions more than profit-based taxes, discouraging marginal investments.
• Recent changes to thin capitalisation rules: Recent amendments to Australia's thin capitalisation rules may be discouraging debt-financed investment and reducing Australia's international competitiveness.

The recent overhaul of Australia's thin capitalisation regime - effective from 1 July 2023 - has significantly altered how businesses can claim interest deductions. For certain entities, the debt deduction creation rules (effective from 1 July 2024) further limit deductions by denying interest to the extent that it is incurred in relation to certain debt creation schemes that typically lack genuine commercial justification - especially involving related parties or internal restructures.

Business feedback suggests these changes are materially affecting behaviour. For example, businesses are reducing their use of debt - not necessarily to lower risk, but to avoid deduction denial risks as the rules are broad, complex and commercially disruptive.

The subjective “purpose” test under the debt deduction creation rules, in particular, creates uncertainty even for genuine, arm’s-length funding arrangements. Combined with stricter interest limitation rules, the changes potentially raise the cost of capital, discourage inbound investment and distort financing choices, especially for capital-intensive or highly geared industries.

• Lack of permanent broad-based tax investment incentives: Policies such as the Instant Asset Write-Off (IAWO) for smaller businesses are temporary, requiring an annual legislative extension. Although the government has committed to extending the measure for another year until 30 June 2026, business need long-term certainty to plan investments. The recurring uncertainty around this policy may discourage investment.

Encouraging features:
• R&D Tax Incentives and Temporary Full Expensing: R&D tax incentives and, historically, temporary full expensing measures during the COVID-19 recovery period have support investment in innovation.
• Capital allowances and accelerated depreciation: When applied, these provisions effectively encourage investment in productive assets by improving the viability of such investments.
• Tax certainty and dispute resolution mechanisms: Despite its complexities, the certainty of Australia’s tax regime and robust dispute resolution systems support investor confidence.

3. Which parts of the corporate tax system do you find the hardest, or most time or cost-intensive to comply with? How could the compliance burden of the business/company tax system be reduced?

Australia’s corporate tax system has grown increasingly complex, creating significant compliance challenges for businesses of all sizes. For large corporations and multinationals, the most burdensome elements stem from multiple overlapping integrity rules, expanding transparency requirements, and a tax administration approach that does not always balance compliance efforts with productivity outcomes.

For large businesses and multinationals, the key compliance challenges are:
• Overlap and duplication in international tax disclosures: Transfer pricing rules have become more onerous, particularly when combined with private Country-by-Country reporting (CbCR), the Voluntary Tax Transparency Code, and public CbCR obligations from 1 July 2024. Each regime has similar but not identical requirements, increasing the compliance burden. This is further discussed below.
• Overlapping and duplicative integrity rules: The interaction between the hybrid mismatch rules, thin capitalisation rules, and general anti-avoidance provisions (e.g. Part IVA) creates legal uncertainty. This necessitates extensive documentation and professional advice.
• FBT complexity: Compliance with the FBT rules is costly for taxpayers of all sizes relative to the revenue collected. Simplifying FBT rules—such as introducing FBT grouping provisions—could reduce compliance costs and should be a priority.
• Thin capitalisation and debt deduction creation rules: The thin capitalisation and debt deduction creation rules should be subject to a post-implementation review, to test whether they are achieving an appropriate balance between integrity and investment. The review should consider:
o providing clearer guidance and safe harbours for the debt deduction creation rules to

prevent commercially driven debt from being penalised
o assessing whether the new rules are discouraging investment or raising the cost of capital in Australia
o explore sector-specific concerns, particularly in industries reliant on project finance or structured debt arrangements.
• Responding to ATO reviews and law changes: Businesses of all sizes face considerable time and cost pressures responding to ATO queries or reviews, especially when law changes (or proposed law changes) have retrospective application or create uncertainty. This often forces firms into adopting defensive tax positions to avoid penalties, even when the tax treatment is unclear.
• Penalties and administrative processes: Significant Global Entities (SGEs) face harsh penalties for minor infractions, such as late lodgment or failure to meet documentation standards, regardless of the actual risk to the revenue.

Overlap and duplication in international tax disclosures
The proliferation of uncoordinated tax reporting obligations imposes disproportionate compliance burdens on business.

Large businesses and multinationals operating in Australia must comply with multiple layers of international tax disclosure obligations, including:
• Country-by-Country Reporting (CbCR) under OECD BEPS Action 13 (private CbCR)
• Public CbCR (from 1 July 2024), which introduces jurisdiction-level disclosure of revenues, profits and taxes paid for certain jurisdictions
• Reportable Tax Position (RTP) schedules, which require disclosure of positions that are uncertain or material in tax effect
• International Dealings Schedules (IDS), which provide transaction-level detail on cross-border related party dealings
• Contemporaneous transfer pricing documentation (master file/local file requirements) under Australia's self-assessment regime.

While each reporting requirements serves a legitimate transparency or risk-identification purpose, their combined effect results in an overlapping, duplicative, and overly granular regime exceeding international norms. Businesses are frequently required to repackage the same data in multiple formats with different levels of aggregation, timeframes, and materiality thresholds. This is particularly inefficient where the disclosures relate to low-risk or well-established structures and transactions.

Moreover, this duplication undermines the intended benefits of the ATO's justified trust framework. Businesses that proactively and transparently disclose their tax affairs are still required to complete a full suite of forms and schedules, which suggests limited reward for voluntary transparency or cooperative compliance. The result is an erosion of trust between taxpayers and the ATO and increasing frustration within the large corporate sector, particularly those investing heavily in internal controls, documentation and governance and assurance processes.

CPA Australia recommends that the government should commit to a convergence and simplification strategy for international tax reporting obligations. The Board of Taxation could lead the review to rationalise, harmonise and align existing disclosure requirements with global norms. A tiered, risk-based approach would reduce compliance costs while maintaining tax integrity.

2. Reduce the impact of regulation on business dynamism

1. What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?

To foster a more dynamic and resilient business environment, we recommend the government:
• fund ongoing regulatory reviews to identify and eliminate or improve inefficient or outdated regulations and processes
• prioritise non-regulatory solutions in response to identified mischiefs, reserving regulation as a last resort
• improve public consultation processes to ensure meaningful public engagement
• increase its investment in technology and data to streamline interactions between business, advisers and government
• support the development of RegTech solutions to reduce compliance costs and administrative burdens.

2. How has your regulatory burden changed over time?

Our members and the broader business community consistently report that the volume and complexity of regulation continues to increase. Senior decision-makers in business and NFPs dedicate more of their time to compliance, both maintaining compliance with existing laws and implementing processes to comply with new laws. This shift is diverting attention and resources from core business operations, hindering growth and innovation.

3. What regulations do you find time-consuming, overly complex or otherwise constraining business dynamism and resilience? What are the reasons for your answer?

Many regulations are poorly designed, overly prescriptive, complex, and onerous. These issues, combined with the discretionary powers of government decision-makers and outdated government systems and processes, create barriers to entry, high costs, and commercial uncertainty.

To address these concerns, Treasury-led sector-specific taskforces should conduct regulatory reviews to identify reform opportunities. However, simply reducing existing red tape is not enough. Australia must also curb the growth of new regulation. This means reforming the regulatory development process – from their being a regulatory solution to every problem, to one where it is truly a last resort. Ministers and departments must be held accountable for adhering to this principle.

Below are examples of legislation and regulatory processes we believe should be reformed:

Strengthen the assessment framework for industry levy proposals
Industry levies can stifle business dynamism. To promote greater policy discipline and transparency in the development and application of industry levies, we recommend the government incorporate into its Budget Process Operational Rules:
• a standardised economic framework for assessing industry levy proposals
• mandating periodic reviews of existing industry levies to ensure they remain relevant and efficient.

Remove the mandatory assurance requirement for Group 3 climate statements

The mandatory assurance requirements for Group 3 entities under the Corporations Act 2001, will be time-consuming, overly complex and mostly of little value to the regulator, markets and the reporter. We propose:
• raising the turnover threshold for Group 3 entities to $100 million in consolidated revenue, limiting this to entities that are Public Interest Entities or Disclosing Entities, or
• removing or limiting the assurance requirement to Public Interest Entities or Disclosing Entities, particularly in cases where no material climate risks or opportunities exist.

Abolish ASIC Companies Registry search fees
Charging for access to company information on the ASIC Companies Registry discourages due diligence. Making ASIC companies registry searches free would lower business costs and encourage good business practices.

Red tape reduction in the not-for-profit sector
Despite some progress, Australia's NFP sector still faces excessive regulation, including:
• fragmented fundraising laws across different states and territories
• inconsistent Commonwealth reporting obligations.

Resignation of auditors
The auditor resignation requirements set out in ASICs Regulatory Guide 26 are unnecessarily complex, duplicative and resource-intensive, with little benefit.

This is particularly so where an audit firm undergoes a change in structure or trading name. Even though there is no substantive change to the auditor, the full resignation process in RG 26 for outgoing auditors and the appointment of the incoming auditor must be followed. This creates a disproportionate administrative burden for audit firms, company directors, and their legal advisers.

This process requires:
• The auditor must notify ASIC of their intention to resign.
• The resignation is subject to ASIC's consent. The auditor must provide reasons for the resignation along with supporting information.
• The auditor must notify the company's directors and audit committee of their intention to resign.
• The company must appoint a new auditor. This appointment must be approved by the company's shareholders at a general meeting.
• All relevant documentation, including the resignation notice and ASIC's consent, must be properly filed and recorded to ensure compliance with regulatory requirements.

Another challenge for auditors of public companies is the difficulty clients face in finding a suitable replacement auditor who meets all regulatory requirements in a timely manner. This issue, which lies outside the control of the current auditor, often compels the current auditor to continue their engagement because a replacement auditor cannot be found. Additionally, auditors may face legal or professional consequences if their resignation is perceived as an abandonment of their duties.

4. Can you share any specific examples of where you think a regulator has done a good or bad job of understanding and reducing regulatory burden on businesses and why?

An effective public consultation process is critical for developing practical and well-informed policies that align with community and business expectations. This involves actively seeking input from the public, industry experts and community groups to ensure policies are well-informed and balanced.

Recent instances of rushed legislative changes with inadequate or no consultation are of concern to CPA Australia. For example, the very short consultation period for Treasury's consultation paper Review of eligibility requirements for registration with the Tax Practitioners Board; and the inadequate consultation on the Tax Agent Services (Code of Conduct) Determination 2024. In fact, the consultation period for this review by the Commission is too short, and does not comply with the minimum 30-day consultation set by the Office of Impact Analysis.

Effective consultation requires:
• adequate time for stakeholder input
• avoiding consultation overload (for example running multiple consultations simultaneously or close together on related topics can overwhelm stakeholders)
• clear feedback to inform participants of outcomes.

By engaging stakeholders early and effectively, the government can build consensus, identify potential challenges and solutions early, and improve policy outcomes.
To improve consultation and policy design, we urge the government to:
• enforce its Best Practice Consultation guidelines
• require agencies to disclose noncompliance with these guidelines
• appoint an independent body to monitor and publicly report on agency compliance with these guidelines.