Listed

The Listed Investment Companies And Trusts Association

11th September 2025

Productivity Commission

Level 8, Two Melbourne Quarter

697 Collins Street

Docklands Vic 3008, Australia

Dear Deputy Chair and Commissioner,

SUBMISSION IN RESPONSE TO THE CREATING A MORE DYNAMIC AND RESILIENT ECONOMY CONSULTATION

We make the following submission in response to the consultation on the Interim Report: 'Creating a more dynamic and resilient economy' released 31 July 2025.

Yours faithfully,

[redacted]

A.Gluskie, Chairman

Listed Investment Companies & Trusts Association Ltd

The Listed Investment Companies and Trusts Association (Listed) is the industry body representing the interests of ASX Listed Investment Vehicles (LIVs) and investors holding interests in one or more LIV. LIVs are professionally managed investment funds listed on the Australian Securities Exchange (ASX). Listed is a non-profit company founded in 2012 with an elected board of directors.

Listed has approximately 50 members who in turn invest over $40bn on behalf of their 750,000 investors.

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Information Request 1.1 The Interaction between the proposed cashflow tax and Australia's dividend imputation system

(a) Productivity Commission Tax Principles and Objectives

At Box 1.3 and B.1 in the Interim Report the Productivity Commission states that the objectives and principles of the proposed tax changes include:

- Equity amongst taxpayers with a similar ability to pay
- A progressive tax system (that matches tax obligations with capacity to pay)
- Efficiency to reduce overall distortions in the tax system
- Simple to administer and understand.

(b) Objectives of Australia's Dividend Imputation system

Australia's dividend imputation system serves the important role of:

(a) Preventing the double taxation of business profits (thus being fundamental to the encouragement of business and investment)

(b) Ensuring that business profits are ultimately taxed at marginal rates (whereby domestic lower rate taxpayers pay less tax on business profits and higher rate domestic taxpayers pay higher rates of tax on business profits).

(c) The significant problems that would occur if a Net Cashflow Tax was not treated consistently with Company tax for imputation purposes

The exclusion of net cashflow taxes from the imputation system would result in a failure to meet many of the stated principles and objectives.

Business cash flows would be taxed on duplicate occasions (over-taxing), domestic low rate taxpayers would not benefit from their marginal tax rates on business net cash flow and domestic investors in businesses with high investment cash flows pay higher tax rates across the cycle due to higher levels of unfranked distributions.

These points are explained below.

(i) Duplicate taxation of positive net cashflow

Cash Flows would be taxed multiple times consisting of:

- The payment of Net Cashflow Tax at the company level
- The payment of Income Tax at the domestic investor level
- The payment of additional Company or Entity Tax, conceivably multiple times if net cashflow is passed through a sequence of entities.

The potential over-taxation of net cashflow would necessarily represent a significant discouragement to both business and investment and undermine the fundamentally sound rationale behind the dividend imputation system.

(ii) Domestic low rate taxpayers would pay tax at rates above their marginal tax rate on business net cashflow

A net cashflow tax that falls outside the imputation system would see:

- A minimum rate of tax being paid on all cash flows (no adjustment for domestic low rate taxpayer investors)
- Plus additional tax being paid on top of this at progressive rates by all domestic taxpayer investors.

Accordingly this is less effective than the imputation system in meeting the principles of marginal taxation for domestic low rate taxpayers.

(iii) A material increase in complexity and distortion for investors

A Net Cashflow Tax that falls outside the imputation system would see:

- A wide disparity of net effective tax rates and franking rates for companies (companies with large investment cashflows and early net cashflow losses will pay little tax and have small amounts of franked income in early years and in later years will pay significant Net Cashflow Tax but have few franking credits. Conversely companies with limited investment cash flows will have higher franked income across the life of the investment).
- Investors and businesses having to understand the complexity of multiple taxation regimes.

Accordingly, domestic investors may be discouraged from investing in businesses with large investment cashflows, as they would be penalised due to the lack of franking in both early and later years.

We further contend that it would become exceedingly difficult for professional investment analysts and other investors to assess, forecast and compare tax outcomes across multiple businesses (for the reason that total effective tax rates and franking will differ dramatically across different entities and for the same entity over time). This will result in a far less transparent and simple investment environment.

(d) Inclusion of Net Cashflow Tax in the imputation system has many benefits

In contrast, the inclusion of the Net Cashflow Tax in the imputation system would have the benefit of:

(a) Minimising complexity

(b) Avoiding duplicate taxation regimes across entities and investors

(c) Preserving the full merit of the progressive system of taxation for low rate taxpayers

(d) Encouraging investment in businesses with large investment cashflows, by treating cashflow taxes equally with company taxes.

Information request 1.2: The most appropriate way to tax financial services in a manner that is consistent with the proposed changes and induces additional capital expenditure in a similar manner to the Net Cashflow Tax.

(a) Passive investment income such as dividends and distributions must be excluded from the Net Cashflow Tax, or investment entities excluded from the Net Cashflow Tax

Open and closed end investment companies, trusts and other funds (whether listed or unlisted, private or public) are the primary source of funding for the majority of businesses in Australia.

It would be essential that dividends and distributions be excluded from the Net Cashflow Tax to prevent over-taxation or duplicate taxation of cash flows. An alternate method would be to exclude investment entities themselves from the Net Cashflow Tax.

In the absence of such a provision, cash flows would be taxed at the underlying business level, then potentially taxed again as a net cashflow in the hands of an investment entity before being taxed as income in investor hands.

[END OF SUBMISSION]