Level 38, International Towers Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7621
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

Productivity Commission
4 National Circuit
Barton ACT 2600

15 September 2025

Productivity Commission Interim Report: *Creating a more dynamic and resilient economy – Corporate tax reform to spur business investment* – KPMG submission

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators – and the wider community.

We strive to contribute in a positive way to the debate that is shaping the Australian economy. Earlier this year, we were pleased to provide a submission to the Productivity Commission's (PC) initial consultation. In that submission, we emphasised the need for a tax system that is efficient, equitable, sustainable and transparent, while also recommending the simplification of complex rules, alignment with international approaches, and regular reviews to reduce compliance burden and support business investment.

We welcome the opportunity to provide a subsequent submission in response to the PC's interim report *Creating a more dynamic and resilient economy* (the report). In this response, we have again focused on the 'Corporate tax reform to spur business investment' policy reform area.

When looking at the corporate tax system, some of the key elements that impact the level of investment are the relatively high Australian corporate tax rate, and the complexity and uncertainty of the taxation law.

It is pleasing that the PC has chosen to examine the impact of the corporate tax system on investment decisions, however there are a number of key concerns with the PC proposal that are summarised here and expanded on in the Appendix:

- The PC proposal results in a higher effective tax rate for both small businesses (where debt funded) and large businesses.
- It discriminates against large Australian based businesses and offers large foreign owned global groups concessionary treatment based solely on the size of their Australian operations.
- The net cashflow tax (NCT) design principles ignore the important role that debt plays in funding investment and indeed penalises the use of debt financing, making the effective tax rates of companies using debt financing higher than the headline rates.
- The NCT is untested, with minimal 'real world' examples from which to gauge whether the academic findings of improvements to productivity are achievable in practice. It is not clear whether the NCT would achieve its productivity objectives.
- The NCT could be described as a quasi-consumption/value added tax but without the full tax efficiency that exists in the existing GST.
- While the PC report acknowledges that the imputation system (as part of personal tax) is out of scope, the preliminary proposal to limit franking credits to corporate taxes paid

undermines the imputation system, as it can result in double taxation of profits in the hands of shareholders and increases the ultimate tax burden on company profits across small, medium and large companies.

We anticipate many complexities and uncertainties associated with the design of the NCT, including in relation to the interactions with existing income tax law and Australia's tax treaties. In the international context, there is the risk that implementing an NCT could be interpreted by some jurisdictions as imposing an additional trade barrier.

Implementing an NCT would come at a high cost for both government and taxpayer, with the NCT needing a new ecosystem to be built around it, to sit alongside an existing corporate tax system which already has a high cost of compliance. We therefore consider that its introduction would likely hamper rather than stimulate productivity.

We appreciate the practical challenges in achieving meaningful reforms, particularly those that may challenge public perceptions of equity and fairness. While reform options can include mechanisms to compensate individuals and businesses, tax reform is necessary to tackle the economic challenges facing this country.

Where the government does embark on broad based tax reform, this should include a package that includes a uniform reduction in the corporate tax rate to enhance Australia's global competitiveness (the benefits of which are set out in the PC report).

If a rate cut within the current fiscal environment is not possible or only a very modest rate cut is possible, then consideration should be given to a permanent, broad-based investment allowance or accelerated depreciation measure. Such measures would be more narrowly targeted towards new investment.

If revenue constraints mean that neither option is possible, our recommendation would be to keep the existing tax system rather than introducing a hybrid system.

In addition, the government should focus on simplifying and providing certainty within the existing tax framework and reducing the compliance burden. These are factors that are also essential to fostering productivity and attracting sustainable investment.

We have provided more detailed comments at the Appendix on the PC proposal and our alternative recommendations. We look forward to continuing to work with the PC on its productivity inquiries. If you would like to discuss this letter further, please contact us.

Yours sincerely,

Alia Lum
Tax Policy Lead
KPMG Australia

In accordance with Section 20 of the Tax Agent Services (Code of Professional Conduct) Determination 2024 we disclose that we provide professional services to businesses who are potentially impacted by this issue. We have not received a financial benefit from any clients for making this submission and do not have a direct financial interest in the outcome. We do however provide certain services through corporate entities that would be impacted by changes to the company tax system.

Appendix

Reduced company tax rate

KPMG agrees with the PC's view that the relatively high Australian corporate tax rate makes the country less competitive when it comes to attracting foreign capital. However, the PC recommendation on this issue does not adequately consider the impact on foreign investment and does not have sufficient regard to the contribution of large business investment generally.

As a result of the recommendation, the headline corporate tax rate in Australia will increase from 30 percent to 35 percent, as the company income tax (CIT) rate and NCT rate will be added together in any summary of the Australian corporate tax environment.

In our view, a reduced company tax rate should apply on a uniform basis regardless of company size. Such an approach would make a number of the points made in the following section no longer applicable.

Revenue threshold

The PC report proposes a revenue threshold between the medium and large company tiers, stating that the threshold figure ($1 billion) is set as high as possible to reduce the tax rate for the largest number of companies and generate a larger investment response. However, we consider that the use of a threshold will adversely impact decision-making regarding investment decisions and gives rise to competition issues.

Deterrent to growth

Under the proposal, the growth of a business would come with the risk of exceeding the revenue threshold, resulting in a loss of the lower tax rate. For those that exceed the threshold, they are now subject to a rate that is well in excess of OECD average tax rates, an issue exacerbated by the addition of the NCT. Investors will need to factor this into long-term return on investment decisions, which could tip the decision towards investing into other markets.

A foreign company deciding to establish a new business in Australia may decide to only set up minimal operations to ensure the Australian revenue is below the threshold (in order to access the lower rate). Or a foreign company with existing Australian operations may decide to maintain existing levels of investment and apply its capital elsewhere to continue operating below the revenue threshold.

Unfair competitive advantage for foreign multinationals over Australian businesses

The revenue threshold test proposed by the PC is $1 billion in 'domestic sales and exports'. Such a threshold provides large foreign multinational groups with an unfair competitive advantage over large Australian businesses.

Using the proposed model, an Australian headquartered group with Australian revenue in excess of $1 billion would be taxed at 30 percent (+5 percent NCT), but a large multinational foreign headquartered group with Australian revenue of less than $1 billion would be taxed at 20 percent (+5 percent NCT). This disparity would then have flow-on consequences to competition and consumer prices. This is likely not an intended outcome of the measure.

Measurement of size

The use of a threshold test that looks at only Australian sales means that high margin businesses with low turnover are advantaged, and low margin businesses with high turnover are disadvantaged (e.g. high sales volume but low profitability).

If there is to be a revenue threshold, then we would recommend relying on existing concepts within the tax law; the 'significant global entity' or 'country-by-country reporting entity' tests are examples of more appropriate tests. These very broadly look at the accounting revenue of a global group. If the threshold is set at $1 billion, it would exclude a significant cohort of foreign groups from accessing the lower tax rate; indeed, many more than the 500 businesses cited in the PC report.

However, this means that a much larger volume of taxpayers would now be subject to a 30 percent corporate tax rate plus a 5 percent NCT, which would dampen foreign investment into Australia rather than achieve the stated aim of increasing it. In other words, with the current settings of the PC proposal, either way the revenue threshold is set has a detrimental impact – it either hurts Australian businesses competing against large foreign investors, or if changed to exclude those large foreign multinationals, it will deter foreign investment.

Integrity concerns

The PC report notes that Australia has an existing two-tiered system with no evidence of 'bunching' below the threshold. However, this overlooks the following:

- The margin between the existing rates is smaller than what is proposed by the PC (25/30 percent under existing rules versus 20/30 percent under the PC proposal);
- The threshold is significantly lower (revenue of $50 million rather than the proposed $1 billion); and
- Foreign headquartered groups with Australian operations are effectively excluded from the lower tax rate under the existing rules.

Therefore, the existing two-tiered system has minimal impact on large and/or foreign business decision making.

The PC report, while recommending using 'Australian' revenue rather than global revenue for the purposes of this threshold, notes that grouping and anti-avoidance rules will be required to prevent artificial structuring to meet the threshold. These will add complexity and uncertainty to the taxation outcome.

Net cashflows as a basis for taxation

We consider a NCT to largely be a theoretical proposition. There are academic views on both sides – some are proponents and believe a form of cashflow tax would achieve its aims,[1] but others have their doubts.[2]

What is clear is that the NCT is untested with minimal 'real world' examples from which to gauge whether the improvements to productivity from the theory are achievable in practice:

- Latvia and Estonia have cashflow tax regimes. While these are considered to be relatively successful,[3] the structure of the cashflow tax in these jurisdictions is different to the PC

[1] Replacing Corporate Income Tax with a Cash Flow Tax - The Australian National University; Destination-Based Cash Flow Taxation by Alan J. Auerbach, Michael P. Devereux, Michael Keen, John Vella :: SSRN.
[2] Company Income Tax and Business Investment The New "Option 2"? The Henry Review's Broad Based Cash Flow Tax.
[3] Comparing Corporate Tax Systems in Europe, 2023. However the IMF recently reviewed Estonia's tax regime, finding its tax mix reliant on consumption taxes and made recommendations to make its tax system more robust and growth friendly while strengthening revenue: Options to Strengthen the Tax System in Estonia: Republic of Estonia.

proposal. These jurisdictions solely operate cashflow tax regimes (i.e. not a hybrid of corporate income tax and NCT) and are closer to the S-base model of a cashflow tax (being a tax on gross distributions) rather than the R-base model of the PC proposal.

- Mexico introduced a cashflow tax alongside its corporate income tax system.[4] The cashflow tax was abandoned in 2014 mainly due to the administrative burden that an additional tax put on businesses.[5]
- A form of cashflow tax (a 'destination based cashflow tax' or 'border adjusted cashflow tax') has been previously considered in the United States (US),[6] but the proposal did not proceed given many unknowns associated with it.[7]
- Although several decades ago, Bolivia and Colombia considered implementing NCTs, but these did not proceed. A key issue was the detrimental impact on US investment in these countries given the uncertainty as to whether a US foreign tax credit would be available in respect of payment of the NCT.[8]
- Many countries with corporate income tax regimes include elements of a cashflow tax system. Relevantly, the Australian petroleum resource rent tax (PRRT) is a profits-based tax which aims to capture the 'economic rent' associated with the development of petroleum resources. The PRRT has been assessed as the preferred way to achieve a fair return to the community without discouraging investment. However, recommendations have been made (and mostly implemented) to make the rules more compatible with the current state of the sector, and it is a complex regime requiring specialist tax knowledge. We consider that as a secondary tax which is sector specific, it is difficult to draw analogies between the PRRT and a broader NCT.

Accordingly, it is presently unclear as to whether a jurisdiction can effectively operate a hybrid corporate tax and NCT system, let alone whether such a system would boost productivity.

In addition, there are a number of other considerations which potentially inhibit the PC proposal's aims that we raise under the themes below.

The tax base

The base includes a number of sectors/products/services that will be subject to a higher rate of taxation as a result of this proposal that have been afforded concessional treatment for GST purposes. That is, education, food and medical services provided by small and large businesses will be subject to higher rates of taxation than is the case under existing corporate tax rules.

The NCT is likely to be more beneficial to capital intensive businesses (e.g. property, infrastructure and mining sectors) where an immediate deduction for capital expenditure could stimulate investment thereby boosting productivity. However, for other businesses (e.g. services) there is less opportunity or need for ongoing capital expenditure and hence the NCT may not achieve productivity aims in these sectors.

---

[4] The Mexican cashflow tax applied to general businesses as well as the financial sector.
[5] European Commission 'Experiences with cash-flow taxation and prospects' Deciphering the GloBE in a Low-Tax Jurisdiction in: IMF Working Papers Volume 2024 Issue 064 (2024).
[6] What Would a Cash Flow Tax Look Like For U.S. Companies? Lessons from a Historical Panel.
[7] The border-tax idea is dead, and Arizona businesses are elated | Congressman Andy Biggs.
[8] European Commission 'Experiences with cash-flow taxation and prospects'.

Further to the above, while the NCT is likely to have an initial stimulatory impact, there will be limits to the amount of capital investment a business can make (and whether it is consistently productive capital investment is another question). As such, we query whether the behavioural change to increase investment would be sufficient in the long term to offset the increased compliance burden and higher effective tax rate for many businesses.

Treatment of interest

Under the NCT proposal, interest expense would be permanently non-deductible in order to reduce the bias towards debt financing. However, in practice, businesses do not always have a choice whether to fund with debt or equity. If, commercially, a business makes the choice to use debt finance, they incur a true outgoing for which it is fair that a deduction is available.

Australia has a robust set of existing tax rules which limit the amount of debt in Australia,[9] and we consider these to be sufficient to mitigate the amount of debt Australian businesses have. We note there have been recent changes to these rules which provide a further bias against the use of debt funding.[10]

The following table shows the overall impact of the exclusion of interest expense on different taxpayers where the interest expense is at the thin capitalisation fixed ratio test limit of 30 percent of ‘tax EBITDA’. The resulting effective tax rates are even higher.

Table 1:

Taxpayer with existing debt

Interest expense as % of EBITDA	**30.0%**

Tax payable under the company income tax	**Year 1**	**Year 1**	**Year 1**
Curent corporate tax rate	25.0%	30.0%	30.0%
Interest expense included in calculating profit	-$ 214,286	-$ 214,286	-$ 214,286
Net profit from other operations	$ 500,000	$ 500,000	$ 500,000
Taxable Income	$ 500,000	$ 500,000	$ 500,000
CIT Payable	**$ 125,000**	**$ 150,000**	**$ 150,000**
After-tax profit	**$ 375,000**	**$ 350,000**	**$ 350,000**
Effective Tax Rate	25.0%	30.0%	30.0%

Tax payable including the cashflow tax	**Year 1**	**Year 1**	**Year 1**
Curent corporate tax rate	20.0%	20.0%	30.0%
Interest expense included in calculating profit	-$ 214,286	-$ 214,286	-$ 214,286
Net profits from other operations	$ 500,000	$ 500,000	$ 500,000
Taxable Income	$ 500,000	$ 500,000	$ 500,000
CIT Payable	**$ 100,000**	**$ 100,000**	**$ 150,000**
NCT payable	**$ 35,714**	**$ 35,714**	**$ 35,714**
Total Tax Payable	**$ 135,714**	**$ 135,714**	**$ 185,714**
After-tax profits	**$ 364,286**	**$ 364,286**	**$ 314,286**
Effective Tax Rate	27.1%	27.1%	37.1%

[9] These include the thin capitalisation rules and transfer pricing rules.
[10] In 2023, the thin capitalisation rules were amended and a new debt deduction creation rule introduced.

In the table above, the first column depicts a base rate entity (i.e. 25 percent rate) taxpayer, the second column is a taxpayer currently subject to 30 percent rate and subject to 20 percent under the PC proposal (e.g. medium business), and the third column is a large taxpayer who continues to be subject to the 30 percent rate under the PC proposal.

The table illustrates that, for existing small (base rate) taxpayers, the PC proposal is a tax increase where they have any existing debt. At the other end, large taxpayers also have a tax increase under the proposal. The only taxpayers that are better off are those who drop from 30 percent to 20 percent under the PC proposal, but this group still only obtains a 2.9 percent tax cut if they are geared to 30 percent of 'tax EBTIDA' (i.e. the thin capitalisation limit).

Treatment of other types of income

The treatment of other types of income needs to be carefully considered in the design of the NCT. For example, the inclusion of dividend income in the NCT tax base would result in multiple levels of taxation as profits flow through the system. The 'tax EBITDA' calculation used in the thin capitalisation rules would be a reasonable place to start, although all dividends/distributions, not just those from associates, should be excluded to avoid double taxation.

The position in relation to rental income should also be considered. If the tax base only comprises sales of goods and services, rental income would be excluded.

Treatment of capital expenditure

Further consideration should be given to what types of capital expenditure would be immediately deductible under the NCT. The PC report states that all purchases would be recognised as expenses, but much of the discussion in the report focuses on assets for which tax depreciation is available. Hence it should be confirmed whether an immediate deduction would be available for:

- Both tax depreciable assets and assets where the cost is included in the owner's cost base and recouped at a future realisation event (e.g. sale of land, share cancellation, etc).
- Both acquisitions of tangible and intangible assets (e.g. legal rights).
- Capital expenses which are never deducted/ recouped under the tax law.

In addition, there are several rules in the existing tax law which change the cost of an asset for tax purposes.[11] How these rules operate, if at all, under the NCT, would need to be considered (i.e. would the appropriate deduction for NCT purposes be equal to the book or deemed tax value?).

Losses

While an uplift rate would be a good design feature, it also introduces a level of uncertainty that can detract from encouraging risk-taking. Businesses may factor in the potential for a future government to change the uplift rate,[12] so that the relative value of any carry forward losses is not maintained.

---

[11] These include the tax consolidation tax cost resetting rules and market value deeming rules for non-arm's length transactions.

[12] This has occurred under the PRRT, where there have been changes to the uplift rate in response to the PRRT Review.

Financial services

Consistent with the overall themes of our submission, we consider neither of the options proposed by the PC report are likely to stimulate investment in this sector. The introduction of a financial NCT would add complexity – all the issues relating to the general NCT would be present, as well as financial NCT specific issues around defining in-scope taxpayers and what is in or out of the tax base.

The alternative to levy additional company tax is at odds with the PC's findings regarding the high Australian corporate tax rate and should not be recommended.

We note that the financial services sector comprises different types of businesses, many of which do not generate income through interest (e.g. insurers, fund managers).

International law considerations

Tax treaties

The interaction between the NCT and Australia's tax treaties is critical. Tax treaties generally operate to reduce or eliminate double taxation caused by overlapping tax jurisdictions and provide a level of security about the tax rules that will apply to particular international transactions (e.g. by allocating taxing rights between the jurisdictions over different categories of income). For example, where a foreign company is resident of a jurisdiction with which Australia has a tax treaty:

- The foreign company is not subject to Australian income tax on its business profits, unless it has an Australian permanent establishment (i.e. a branch).
- If the foreign company is subject to tax in Australia and subject to tax in the foreign jurisdiction on the same income, it can obtain tax relief (e.g. through a foreign tax credit) in the foreign jurisdiction.

Tax treaties, therefore, provide a significant amount of tax certainty for foreign investors and investing in a 'tax treaty country' that provides adequate protections is highly desirable for foreign investors.

Where a NCT is implemented, there will be substantial complexities and uncertainties in relation to Australia's tax treaties which risks disincentivising future foreign investment. This is likely to be the case whether or not the NCT is covered by the tax treaties:

- In order for a tax treaty to apply to the NCT (and hence provide treaty benefits to foreign companies in relation to the NCT), the NCT would generally need to be considered an income tax. However, there are a number of issues that arise and no definitive answer in the literature is available.[13] In addition, this would need to be considered on a per treaty basis.[14]
- Where the NCT is outside the scope of a treaty, the double tax relief mechanisms outlined above would not apply. For example, a foreign company may not obtain a foreign tax credit in its 'home' country, in respect of income which is subject to tax in the home country and also subject to the Australian NCT, and so is taxed twice on the same amount of income.

---

[13] The Destination-Based Cash Flow Tax and Double Tax Treaties. Although these conclusions were in relation to the destination-based cash flow tax, we consider many of the arguments in this paper are equally applicable to the NCT.
[14] There are currently 47 tax treaties enacted in Australian law.

- Where the NCT is covered by a treaty, there is the potential for the operation of the treaty to constrain or frustrate the NCT.[15]

As noted above, the NCT is a new and novel type of tax, with limited practical precedent outside of academic literature. The potential uncertainty surrounding whether it would be considered as an income tax or not (for tax treaty purposes), could give rise to varying interpretations of the measure.

At a time of rising global tax and trade tensions, there is a risk that some treaty partners could consider such a tax to be beyond the scope of existing global norms and could interpret the NCT as imposing an additional form of trade barrier, particularly if companies headquartered in their jurisdiction that operate in Australia are:

- Subject to the existing 30 percent rate plus the additional 5 percent NCT rate in respect of their Australian operations; and/or
- Subject to additional Australian tax in respect of the company's foreign operations (where the double tax relief mechanisms in the tax treaty no longer operate to provide the requisite tax relief).

Pillar Two global minimum tax

There is an international tax rule recently implemented in OECD countries including Australia, known as 'BEPS 2.0' or the 'Pillar Two global minimum tax'. Pillar Two broadly introduces a global minimum corporate tax rate of 15 percent with top-up tax payable by in-scope multinational groups where they are considered to pay less than 15 percent tax in a jurisdiction. As such, the NCT would need to be designed in a way to ensure it can be included in the Pillar Two computation in a way that prevents double taxation, noting that unintended outcomes can arise under the Pillar Two rules with secondary tax regimes.

Imputation and franking credits

Where a company pays corporate income tax, the imputation system eliminates double taxation on the after-tax profits distributed by the company to its shareholder through franking credits, which can be used to offset a shareholder's tax liability.

If franking credits continue to be calculated based on the amount of CIT paid, and in the absence of a franking credit arising as a result of the payment of NCT, there will be resulting 'double taxation' of a portion of the company's profits. This undermines the existing imputation system.

As such, further consideration should be given to the economic impact of the NCT not giving rise to franking credits. Investors such as individuals and super funds would generally be subject to increased effective tax, thereby increasing the cost of investment as explained in the following analysis. This table (Table 2) uses the same three taxpayer companies as in Table 1. Dividends are received by three types of shareholders – a superfund (15 percent rate), a company (new 20 percent rate) and an individual (47 percent tax rate).

---

[15] The Destination-Based Cash Flow Tax and Double Tax Treaties. For example, where a foreign resident with an Australian branch is subject to the NCT on its Australian sales, this tax base is not necessarily aligned with the position under the relevant tax treaty, which is that the foreign company is subject to tax on the profits attributable to the Australian branch.

Table 2:

Franking outcomes

Interest expense as % of EBITDA	**30.0%**		
Tax payable under the company income tax	**Year 1**	**Year 1**	**Year 1**
Curent corporate tax rate	25.0%	30.0%	30.0%
Interest expense included in calculating profit	-$ 214,286	-$ 214,286	-$ 214,286
Net profit from other operations	$ 500,000	$ 500,000	$ 500,000
Taxable Income	$ 500,000	$ 500,000	$ 500,000
CIT Payable	**$ 125,000**	**$ 150,000**	**$ 150,000**
After-tax profit	**$ 375,000**	**$ 350,000**	**$ 350,000**
Effective Tax Rate	25.0%	30.0%	30.0%
Tax payable including the cashflow tax	**Year 1**	**Year 1**	**Year 1**
Curent corporate tax rate	20.0%	20.0%	30.0%
Interest expense included in calculating profit	-$ 214,286	-$ 214,286	-$ 214,286
Net profits from other operations	$ 500,000	$ 500,000	$ 500,000
Taxable Income	$ 500,000	$ 500,000	$ 500,000
CIT Payable	**$ 100,000**	**$ 100,000**	**$ 150,000**
NCT payable	**$ 35,714**	**$ 35,714**	**$ 35,714**
Total Tax Payable	**$ 135,714**	**$ 135,714**	**$ 185,714**
After-tax profits	**$ 364,286**	**$ 364,286**	**$ 314,286**
Effective Tax Rate	27%	27%	37%
Dividend paid by Small/Medium (20%) Company			
Franking credits generated	$ 100,000		
Profits available for distribution	$ 364,286		
Franking credits at 20%	$ 91,071		
Shareholder taxable income	$ 455,357		
Marginal Rate	**15.0%**	**20.0%**	**47.0%**
Tax Payable	$ 68,304	$ 91,071	$ 214,018
Franking credit	-$ 91,071	-$ 91,071	-$ 91,071
Tax Payable/(refundable)	-$ 22,768	$ -	$ 122,946
Post tax shareholder cash	**$ 387,054**	**$ 364,286**	**$ 241,339**
Overall tax rate (based on $500,000 net profit)	**22.6%**	**27.1%**	**51.7%**
Dividend paid by Large (30%) Company			
Franking credits generated	$ 150,000		
Profits available for distribution	$ 314,286		
Franking credits at 30%	$ 134,694		
Shareholder taxable income	$ 448,980		
Marginal Rate	**15.0%**	**20.0%**	**47.0%**
Tax Payable	$ 67,347	$ 89,796	$ 211,020
Franking credit	-$ 134,694	-$ 134,694	-$ 134,694
Tax Payable/(refundable)	-$ 67,347	-$ 44,898	$ 76,327
Post tax shareholder cash	**$ 381,633**	**$ 359,184**	**$ 237,959**
Overall tax rate (based on $500,000 net profit)	**23.7%**	**28.2%**	**52.4%**

Cost of administration and compliance

We disagree that the NCT would be relatively straightforward for businesses and the ATO to implement. While it would, as the PC report says, rely on data already submitted to the ATO, this does not mean it would be simple.

The Australian tax system is already one of the most complicated in the world, and this complexity is a deterrent to foreign investors and a drag on productivity. Adding a new system of taxation on top of this would add further complexity.

To implement the NCT, an entirely new system would need to be built, including:

- New enabling legislation, supporting rules and regulations, and consequential amendments to existing laws
- New ATO systems, including IT changes for lodgements and payments, new or amended tax returns and forms, specialist personnel, channels for taxpayer assistance, publication of guidance, risk management, such as data matching and new risk review programs
- Taxpayer and tax professional awareness and education framework

This is very different from the full expensing and instant asset write off policies, which operate within the existing income tax rules.

Further, a key issue is that the hybrid nature of the proposal creates duplication within a tax system that already has complexity and high costs of compliance that are hindering productivity.[16] While the PC report notes that the NCT requires simpler calculations, such as no depreciation calculations, this does not acknowledge that taxpayers are already undertaking tax calculations for corporate tax purposes, and this work does not go away under the PC proposal. Instead, there is additional work to then layer on another calculation for NCT purposes, as well as additional tax reporting (e.g. NCT PAYG instalments and NCT return).

This is consistent with analysis by the European Commission, which found that where a cashflow tax replaces corporate income tax, the cashflow tax has proved to lead to more administrative simplification. But when it is applied alongside a corporate income tax, it creates additional administrative burdens and is then not perceived as a simplification.[17]

For larger companies, the NCT will involve a third tax system they now need to comply with – on top of ordinary corporate income tax and the new Pillar Two global minimum tax (which can give rise to a heavy compliance burden already).

The various issues discussed in this submission relating to the complexities associated with the revenue threshold and NCT design, as well as issues arising from the transition between old and new rules (particularly regarding treatment of pre-NCT capital expenditure), would also give rise to higher costs of administration and compliance. These issues discussed are just a handful of the technical and interaction issues that would need to be considered. It is likely that in reality such a system would take years to design and would cause further strain to Treasury/ATO and company resources during the design and implementation process.

The increased compliance burden is likely to be felt more acutely by small and medium sized businesses, who typically have less capacity to absorb additional compliance costs.

---

[16] Our prior submission to the Productivity Commission's Creating a more dynamic and resilient economy inquiry outlined several aspects of the corporate tax system that disincentivise investment and are cost-intensive to comply with: Boosting Australia's productivity through tax reform · KPMG Australia | Content Plus.

[17] European Commission 'Experiences with cash-flow taxation and prospects'

Large business and their investment

Under the PC proposal, large businesses would continue to be subject to corporate tax at the 30 percent rate in addition to the 5 percent NCT. This means these businesses will, at best, continue paying tax at current levels (although with the added compliance discussed above), but otherwise, be subject to an increased tax burden, which runs counter to the PC's findings around the lack of competitiveness of the Australian tax rate. This proposal does not give adequate weight to the investment that comes from large businesses and risks disincentivising this taxpayer cohort.

The OECD considers that large firms generally exhibit higher productivity than smaller companies.[18] At a local level, RBA research has found business investment to be highly concentrated in the largest companies, with the top 20 percent of firms by output representing around 80 percent of all investment, while the top 1 percent of firms account for around half of all non-mining investment activity.[19] We acknowledge that these analyses do not readily distinguish between different sized large businesses, however the findings nevertheless demonstrate the need to ensure large businesses are sufficiently incentivised under any proposed reform to drive investment.

Business structures and integrity concerns

Given the PC proposal is focused on corporate tax reforms, the changes would be primarily impacting companies and hence businesses conducted through other entities, such as unincorporated small businesses, trusts and partnerships would not be affected by the proposals. This could mean that some taxpayers make decisions to either move towards, or away from, company structures in order to achieve a better tax outcome. For example, given the differential between the 20 percent corporate tax rate and the 47 percent highest marginal personal tax rate, some individuals may move their unincorporated businesses into a corporate structure in order to initially access a lower tax rate (although the proposed reduction in franking credits discussed above may mean there is not less effective tax overall). Alternatively, others may move away from a corporate structure to avoid the added cost of compliance.

Alternative reform options

Where the government does embark on broad based tax reform, given Australia's dependence on foreign investment a uniform reduction in the corporate tax rate would enhance Australia's global competitiveness (the benefits of which are set out in the PC report). We appreciate that any reduction could not be done in a revenue neutral manner and would need to be done as part of a holistic review of the tax mix in Australia.

Alternatively, if a rate cut within the current fiscal environment is not possible or only a very modest rate cut is possible, the government should consider an enhanced investment allowance regime. This could comprise an instant asset write-off (that applies on a permanent basis to more businesses and assets)[20] or an accelerated depreciation measure.[21] Such measures would be more narrowly targeted towards new investment.

---

[18] OECD Compendium of Productivity Indicators 2025: Productivity in SMEs and large firms | OECD.
[19] Which Firms Drive Business Investment? New Evidence on the Firm-size Distribution | Bulletin – December 2021 | RBA.
[20] The existing instant asset write off rules apply to businesses with less than $10 million aggregated turnover and assets up to a $20,000 cap.
[21]For example, New Zealand has recently announced of a new asset investment boost, where businesses can claim 20 percent of the cost of new assets as an expense, then claim depreciation as usual on the remaining 80 percent.

If the current fiscal environment means that a reduction in the company tax rate or stimulating investment other than in a revenue neutral way within the corporate tax system is not possible, then our recommendation would be to remain with the status quo rather than the implementation of the proposed two-tier tax rate system and NCT.

In addition, the government should focus on improving our existing tax settings to encourage investment and boost productivity. In this regard, productivity gains would also be achieved through the simplification of the existing corporate tax system. While the Australian tax legislation has been substantial for many decades, the complexity has been exacerbated in recent years, resulting in uncertainty, delayed timeframes, and a higher cost of doing businesses – these can be particular investment barriers for foreign investors and local small and medium businesses.

Some examples of the complexity that should be addressed include the following (these are discussed in more detail in our prior submission).

- Increasing number of integrity measures (often overlapping in their operation)
- Measures that unnecessarily go beyond comparable international rules and approaches
- Volume of tax filings, including tax information required to be submitted as part of Foreign Investment Review Board applications.

One measure to reduce complexity and improve certainty is an automatic debrief and review process, which should be in place for significant tax law changes.

There should also be regular reviews of the tax compliance framework to ensure administration, such as tax return disclosures, reports, notices, and elections, strike the right balance between providing the ATO with sufficient information and ensuring costs of compliance are kept to a minimum.

Closing comments

We commend the PC for its supporting analysis around the need for a reduction in the company tax rate to boost productivity and for considering some bold ideas in the complex area of tax reform. However, as outlined in our submission, there are many fundamental issues that would need to be resolved for such a proposal, which would likely undo many of the investment and productivity benefits sought.