CREATING A MORE DYNAMIC AND RESILIENT ECONOMY - COMMENTS ON PRODUCTIVITY COMMISSION'S INTERIM REPORT

I was astounded to see that that the Productivity Commission is proposing tax reforms that would create perverse incentives and as well as potential loss of revenue. This is on top of the very narrow focus of the Interim Report.

Most people choose to minimise the tax they pay. People who understand how the tax system works and have the education and means to do so even pay for help to reduce their tax.

If the company tax rate is lowered below the tax rate that majority of individual taxpayers pay, then those individuals have an incentive to incorporate so they could access the (lower) company tax rate. People on high incomes, where their personal marginal tax rate is higher than the company tax rate, already do this.

Furthermore, there are plenty of big companies in the Australian economy that pay no or very little tax in Australia. Mostly these are multinational companies………

The Parliamentary Budget Office points out that Australian Government's income 'involves a strong and growing reliance on personal income tax' and the Office's modelling and reports 'shows that, in the absence of government intervention, the tax mix will continue to be weighted more strongly towards personal income tax over time.' [1] Currently, personal income tax accounts for nearly half of the Australian Government's income and company tax accounts for nearly a quarter of it (although it is much more variable and plenty of big, mainly multinational, companies in the Australian economy that pay no or very little tax in Australia).[2]

The Australian Government's financial situation would therefore be adversely affected by the taxation changes proposed in the Interim Report.

The amount of revenue that the Government receives would therefore likely be reduced by:

1. reducing the company tax alone
2. reducing the company tax without reducing the personal income tax rate for the majority of individual taxpayers
3. reducing both the company tax and the personal income tax rate for the majority of individual taxpayers

This in turn would increase pressures on the Budget by reducing the amount of money to pay for things like health, defence and infrastructure.

The Productivity Commission's final report needs to ensure that it does not include recommendations that create perverse incentives or reduce revenue streams for the Government.

Gillian King, 15 September 2025

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[1] Parliamentary Budget Office. 'Australia's Tax Mix: The roles played by different taxes and how they have changed over time', Budget explainer, 14 November 2024, p. 1, https://www.pbo.gov.au/sites/default/files/2024-11/PBO%20Australia%27s%20Tax%20Mix-Budget-Explainer.pdf

[2] Grudnoff, M., Richardson, D. and Littleton, E. 2022. 'Raising revenue in Australia'. Discussion paper, The Australia Institute, p. 2, https://australiainstitute.org.au/wp-content/uploads/2022/11/P1262-Revenue-Summit-Paper-WEB.pdf