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Dr Alex Robson
Deputy Chair
Productivity Commission
4 National Circuit
BARTON ACT 2600

Online submission: 5pillars@pc.gov.au

Dear Dr Robson

CPA Australia response to "*Creating a more dynamic and resilient economy*" interim report

As one of the world's largest professional accounting bodies, CPA Australia represents more than 175,000 members working in over 100 jurisdictions and regions around the world. We make this submission in response to the Productivity Commission's interim report, *Creating a more dynamic and resilient economy* on behalf of our members and in the broader public interest.

CPA Australia makes the following key observations on the interim report:

- we do not support the proposed net cashflow tax (NCFT). Instead, we recommend immediate expensing as a simpler approach to achieve the same policy objective
- we continue to advocate for comprehensive tax reform as a foundation for a more dynamic and productive economy
- we support efforts to reduce regulatory burden and encourage regulators and policymakers to embrace a growth mindset.

The interim report correctly highlights declining business investment and structural weaknesses in the corporate tax system as key barriers to productivity growth. We agree that reforming corporate tax settings is important to restoring Australia's economic dynamism, competitiveness, and resilience.

However, meaningful reform must extend beyond isolated changes to company tax. It requires a comprehensive, well-sequenced tax reform roadmap that addresses broader productivity challenges and provides long-term certainty for businesses and investors. For further information, we refer you to CPA Australia's Policy Statement - Tax Reform.

Australia's declining business investment and productivity performance requires bold but carefully designed reforms. The proposed NCFT raises significant design, complexity and international compatibility issues that must be resolved before any consideration of adoption. CPA Australia therefore supports immediate expensing as a priority measure to incentivise investment.

Unnecessary and duplicated regulations continues to hinder businesses and government agencies. While short-term red tape reductions are welcome, they are not sufficient. All levels of government must also curb the growth of new regulation by embracing a growth mindset and treating regulation as a genuine last resort, not a default. Ministers and departments should be held accountable for upholding this principle.

Attached are our responses to selected draft recommendations and information requests from the interim report.

If you require further information, please contact me at [REDACTED], or Jenny Wong at [REDACTED].

Yours sincerely,

[REDACTED]

Gavan Ord
Business and Investment Lead

Encl.

Please note, CPA Australia limits its responses to the following draft recommendations and information requests.

Corporate tax reform to spur business investment

Draft recommendation 1.1 - Pivot the corporate tax system to a more efficient mix of taxes

Do not support

Please refer to our response to draft recommendation 1.3 below for further detail.

However, CPA Australia supports recalibrating the overall tax mix to reduce Australia's over-reliance on personal and corporate income taxes, and exploring the broader use of consumption taxes, including GST. Compared to most advanced economies, Australia's tax system draws a disproportionate share of revenue from income taxes, resulting in a relatively narrow and volatile revenue base.

To move toward a more efficient and sustainable tax mix, we recommend:

- ***broadening the GST base***
- ***adjusting personal income tax thresholds to address bracket creep***
- ***reforming inefficient state taxes such as stamp duties and insurance levies.***

Draft recommendation 1.2 - Lowering the corporate tax rate to 20 per cent

Support in principle

CPA Australia supports a reduction in the corporate tax rate for all companies to enhance Australia's international competitiveness and stimulate greater business investment. Australia's headline corporate tax rate of 30 per cent (or 25 per cent for smaller entities) is among the highest in the OECD, making investment and risk-taking in Australia less attractive.

However, CPA Australia does not support limiting a corporate tax rate cut to companies with a turnover under $1 billion. This creates a hard threshold that increases incentives for tax arbitrage, corporate restructuring and other integrity risks.

These concerns are compounded by the widening gap between the top marginal personal income tax rate and the proposed company tax rate, which risks further distorting the tax system and undermining the reform's effectiveness.

This real-world interaction between various elements of the tax system underscores the need for holistic tax reform. Changes to the corporate tax system in isolation from other parts of the tax system risk adding complexity to an already burdensome and uncompetitive system.

It is also important to consider the implications of Australia's dividend imputation system. Corporate tax rate reductions primarily benefit foreign investors, who do not receive franking credits. This differential impact warrants detailed analysis to ensure that competitiveness is improved without distorting capital flows.

CPA Australia recommends that the government undertake comprehensive reform across all elements of Australia's tax system and develop a national tax reform roadmap, instead of reactive and fragmented changes.

Draft recommendation 1.3 – Introduce a net cashflow tax (NCFT) of 5 per cent

Do not support

While the proposal to introduce a NCFT allows for immediate expensing of capital expenditure and is expected to be revenue neutral in the medium term, CPA Australia has significant concerns regarding its design, implementation and broader implications.

It is unclear why splitting the corporate tax system into a traditional income tax system and a parallel cashflow-based system is preferable to targeted capital concessions such as immediate expensing or investment allowances. Such a dual system increases complexity and compliance costs, without clearly demonstrating superior investment incentives or economic outcomes.

We raise the following specific issues on the NCFT for consideration:

- **Interaction with tax exemptions**: It remains unclear whether NCFT will adopt the same exemption treatment as current income tax provisions (eg sections 23AH of the *Income Tax Assessment Act* 1936 and Division 855, Division 768-G of the *Income Tax Assessment Act 1997*). Divergence risks double taxation, unintended non-taxation and/or increased complexity.
- **Franking credits**: For SMEs, losing franking capacity on the additional 5 per cent levy could materially reduce after-tax returns. Grandfathering rules or alternative credit mechanisms would be needed to protect existing balances and shareholder outcomes.
- **Active/passive company rules**: Linking the lower tax rate to active business tests risks perpetuating current anomalies such as inconsistent treatment of non-portfolio dividends. Rules must be clarified to avoid arbitrary outcomes.
- **Tax treaties and foreign tax credits**: It is unclear whether NCFT would be recognised as an income tax under tax treaties or foreign tax credit systems or whether it would be subject to the Pillar 2 rules. Without clarity, inbound and outbound investment may face double taxation.
- **Tax-effect accounting**: Running parallel tax systems would increase compliance costs and complexity in tax-effect accounting. Practical guidance from the Australian Accounting Standards Board and ATO would be required.
- **Controlled foreign company (CFC) and offshore income**: The treatment of CFC income under NCFT is not explained. Clear rules are needed to prevent mismatches and unintended tax planning opportunities.
- **Research and Development (R&D) concession**: It is unclear whether refundable R&D credits would be treated as cashflow income under the NCFT. This could undermine the incentive or create double benefit risks.
- **Small business CGT concessions**: NCFT may adversely interact with small business CGT concessions and restructure roll-overs, particularly if sales proceeds are taxed under NCFT.
- **Division 7A and Personal Services Income (PSI)**: A lower corporate tax rate combined with NCFT could heighten pressure on Division 7A and PSI rules. SMEs and their advisers will require certainty and clear guidance.
- **Threshold effects**: A bright-line threshold between the 20 per cent and 30 per cent rates, combined with NCFT, will encourage manipulation. A phased or smoothed rate structure would help mitigate these risks.
- **SME cashflow impacts**: SMEs already face cashflow mismatches when financing investments with debt and claiming instant asset write-offs. NCFT, by taxing sale proceeds and broadening deductible expenditures, may worsen liquidity pressures. Transitional liquidity relief or exclusions for certain asset classes should be considered.
- **Entity arbitrage**: Different bases across entities may encourage structure manipulation (e.g. trusts distributing to companies). Anti-arbitrage rules and consistency in deductibility timing will be needed.
- **Administration and transition**: Implementing NCFT would require significant resources and systems development for the ATO, business and tax advisers. Clear transitional rules for existing asset pools are essential to avoid unfair outcomes.

Alternative recommendations to support investment

CPA Australia suggests the following alternatives:

- **Targeted full expensing**: There is broad consensus among stakeholders, and supporting evidence, that immediate expensing of new capital investment for all businesses is highly effective in stimulating investment while being administratively simple. In terms of budgetary impact, full expensing creates a timing difference by bringing forward deductions that would otherwise be claimed over the life of the asset.
- **Broader tax reform path**: As highlighted in our earlier submissions to the Productivity Commission, comprehensive tax reform is fundamental to lifting Australia's productivity performance. While we acknowledge that such reform is challenging, omitting it from the productivity conversation would be a missed opportunity. A well-designed tax system can stimulate economic growth, improve productivity and benefit the wider community. In contrast, a poorly structured system acts as a handbrake on progress. The current piecemeal approach to tax reform only adds complexity to an already burdensome and uncompetitive system, discouraging the investment and entrepreneurship needed to boost productivity.

CPA Australia recommends that given the myriad of unresolved issues and potential for unintended outcomes, the government not proceed with NCFT. Instead, we urge consideration of full expensing or targeted investment allowances reforms that can achieve similar policy objectives with greater clarity and lower complexity.

CPA Australia also recommends the government examine the features of Australia's tax system that discourage investment and risk-taking, and that impose the greatest compliance burden and cost as outlined in our first submission to the Five pillars of productivity inquiries.

Regulating to promote business dynamism

Information request 2.1: Examples of regulations that you think could easily be fixed by government

Many regulations in Australia are poorly designed, overly prescriptive, complex and onerous. These issues, combined with outdated government systems and processes, create barriers to entry, high business costs, and commercial uncertainty.

Below are examples of legislation and regulatory processes we believe could be easily fixed through targeted government action:

Remove the mandatory assurance requirement for Group 3 climate statements

The mandatory assurance requirement for Group 3 entities under the *Corporations Act 2001* are likely to be time-consuming, overly complex and mostly of little value to the regulator, markets and the entity. CPA Australia propose:

- raising the turnover threshold for Group 3 entities to $100 million in consolidated revenue, and limit it to entities that are Public Interest Entities or Disclosing Entities
- 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.

Simplify auditor resignation requirements

The auditor resignation requirements set out in ASICs Regulatory Guide (RG) 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 must be followed. This creates a disproportionate administrative burden for audit firms, company directors and their legal advisers.

Overlap and duplication in international tax disclosures

Large businesses and multinationals operating in Australia must comply with overlapping 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).

While each reporting requirements serves a legitimate transparency or risk-identification purpose, their combined effect results in an overly granular and duplicative regime that exceeds 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.

This duplication undermines the intended benefits of the ATO's justified trust framework. Businesses that proactively disclose their tax affairs are still required to complete a full suite of forms and schedules, which diminishes the incentive 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.

We recommend the government commit to a convergence and simplification strategy for international tax reporting obligations.

Information request 2.2: Which quantitative economywide measures of the quality of regulation and the regulatory burden should the Australian Government track? How should it set targets for these?

CPA Australia has not yet formed a definitive position on the quantitative measures the federal government should track to assess the quality of regulation and regulatory burden across the economy. However, we welcome the opportunity to work with the Productivity Commission and other stakeholders to develop such measures and set appropriate targets.

As part of our ongoing work to better understand the regulatory pressures faced by our members, CPA Australia is planning to model the compliance requirements of fictious businesses of varying sizes, locations, structures and industry. We would be happy to share our insights from this work once it is complete.

Information request 2.4: How should regulators and policymakers balance risk with growth objectives?

To foster a culture that better balances regulatory risk with growth objectives, CPA Australia recommends that all levels of government:

- prioritise non-regulatory solutions in response to identified mischiefs, reserving regulation as a last resort
- fund ongoing regulatory reviews to identify and eliminate or improve inefficient or outdated regulations and processes
- improve public consultation processes
- increase its investment in technology and data infrastructure to streamline interactions between business, advisers and government
- support the development of RegTech solutions to reduce compliance costs and administrative burdens.

At the federal level, CPA Australia recommends that the government provide additional funding to the Australian National Audit Office (ANAO) to conduct reviews of the regulatory practices of government entities. These reviews should focus on providing recommendations on how regulators can better embed a culture that supports economic growth and innovation, while maintaining appropriate safeguards.

Information request 2.5: What levers does the government have, beyond statements of expectation and guidance from central agencies, to help promulgate and embed a culture of regulatory stewardship within the APS?

To foster a public sector culture that actively supports economic growth while maintaining regulatory integrity, CPA Australia recommends the following actions be adopted across the Australian Public Service:

- Improve consultation and policy design through:
  - enforcing the Office of Impact Assessment's (OIA) Best Practice Consultation guidelines
  - requiring agencies to disclose non-compliance with these guidelines
  - appointing an independent body to monitor and publicly report on agency compliance with these guidelines.
- Mandate impact analysis and small business impact statements on policy proposals prior to progression. This should curb the growth of unnecessary regulation, improve transparency and support more effective, better-targeted policy.
- Link a proportion of agency funding to demonstrated contributions to productivity and economic growth. This should encourage agencies to prioritise enhancing efficiency, reducing regulatory drag and supporting economic growth.
- Adopt a 'tell us once' compliance model**,** enabling businesses and individuals to report information once and have it shared across relevant and approved government agencies. While this requires investment in systems and processes, it would reduce duplication and improve government efficiency

Draft recommendation 2.1 – Set a clear agenda for regulatory reform

Support

Unnecessary and duplicated regulations hinder businesses and government agencies alike. While short-term red tape reduction initiatives are welcome, they are not sufficient to address the systemic issues driving regulatory overreach.

CPA Australia believes all levels of government must shift toward a culture where regulation is treated as a genuine last resort, not a default response. This requires a fundamental change in mindset and practice, where non-regulatory solutions are prioritised and regulatory proposals are subject to greater scrutiny.

Draft recommendation 2.2 – Bolster high-level scrutiny of regulations

Support

Applying the same rigorous methodology used for assessing budget proposals to evaluate regulatory proposals is a sound approach. While this may result in longer implementation timelines for regulatory proposals, it is a necessary safeguard against the growth of unnecessary regulation. It may also encourage regulators to make greater use of non-regulatory mechanisms for managing risk.

We recommend that this approach be adopted across all levels of government, not just the federal government.

We note however that many regulatory and compliance obligations are introduced under the discretionary powers of regulators, placing them outside Cabinet scrutiny. To strengthen oversight and accountability, regulators should consider establishing independent bodies to assess such regulatory proposals using methodologies aligned to budget proposal assessments.

CPA Australia also supports the appointment of an independent statutory commissioner to oversee the OIA and raise the standards of impact analyses. In addition, we recommend that:

- regulators and other government agencies be mandated to follow the standards and guidance issued by the OIA
- the OIA publicly disclose instances of non-compliance by agencies
- the independent commissioner report regularly on each agency's compliance and non-compliance with these standards
- compliance with the OIA's standards and guidance be included in ministerial statements of expectations.

We also endorse the recommendation to use external sectoral reviews to address cumulative regulatory burdens. For many businesses, it is not a single regulation but the combined effect of numerous regulations that creates the greatest frustration and cost. This recommended approach is therefore essential to improving the business environment and supporting better regulation.

Draft recommendation 2.3 - Enhance regulatory practice to deliver growth, competition and innovation

Support

CPA Australia strongly supports the Productivity Commission's recommendations on strengthening the expectations placed on public servants to make them more accountable for delivering economic growth.

We therefore endorse:

- ministerial statements of expectation that include explicit growth targets and indicate how much risk the agency should tolerate in pursuit of business dynamism
- establishing a whole-of-government statement of regulatory intent focused on productivity
- strengthened oversight of regulatory impact assessments
- embedding accountability for growth outcomes in regulatory stewardship.

In addition to these measures, CPA Australia recommends the government consider further approaches to enhance regulatory practice to deliver growth, as listed in our responses to information requests 2.4 and 2.5 above.

As noted in our earlier submission, unnecessary and duplicated regulations are a thorn in the side of businesses, not-for-profits and government agencies. While 'quick wins' in cutting red tape are welcome, they are insufficient. Australia must also curb the growth of new regulation by fostering a cultural shift, where regulation is treated as the last resort rather than a default response, and government agencies and regulators consistently adopt a growth mindset.