Australian Chamber of Commerce and Industry

Creating a more dynamic and resilient economy

ACCI Submission

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Introduction

ACCI welcomes the opportunity to provide comment on the recommendations provided by the Productivity Commission in the interim report on *Creating a More Dynamic and Resilient Economy*.

Business investment is a catalyst for productivity growth, as it typically introduces new technologies, skills development and innovation. There is a clear connection between Australia's productivity downturn and falling business investment. The current business environment, with elevated operating costs, high taxes, excessive regulation and an inflexible workforce, provides little incentive for businesses to invest and grow.

More needs to be done to lift these burdens and create the right environment for business to prosper. When businesses see a better policy environment, they are quick to respond with investment. This requires changes to the corporate tax and regulatory systems, to improve the structure and give flexibility to the environment in which businesses operate and create the entrepreneurial culture, dynamism, resilience and competitiveness that will enable business to meet future challenges and seize opportunities.

ACCI welcomes the Productivity Commissions efforts to look at different options and new opportunities to reduce the tax and regulatory burden on business to unleash business investment, innovation and create more competitive markets.

The following responds to the recommendations the Productivity Commission has proposed in the interim report.

Corporate tax reforms to spur business investment

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

ACCI **does not support** the PC's recommendation to introduce a new net cashflow tax (NCT) as a means of lowering the corporate income tax (CIT) for medium-sized businesses. The proposed model would maintain, albeit in a reconfigured form, the existing two-tiered CIT while adding an additional NCT on all businesses. Rather than improving efficiency, the NCT would impose an extra layer of compliance and complexity on an already complicated tax framework. This all appears to be at odds with the objective of the reforms that deliver productivity improvements.

Australia's corporate tax rate of 30 per cent for medium-sized and large businesses ranks well above the OECD average of 23 per cent. It is among the least competitive in the world, lagging behind peer economies such as New Zealand, the United States, and the United Kingdom. While small businesses with a turnover below $50 million do benefit from a reduced tax rate of 25 per cent, the partial implementation of this earlier tax reform has created a two-tier framework that distorts investment decisions and undermines overall productivity.

ACCI does not support the recommendation in the *Creating a More Dynamic and Resilient Economy* interim report, to cut the corporate income tax rate (CIT) to 20 per cent for businesses with annual turnover below $1 billion and at the same time introducing a 5 per cent net cashflow tax (NCT) to all businesses.

Some medium-sized businesses may benefit from an lower overall rate, but the implementation of a NCT would create a complex multilayer tax corporate system, on top of the current two-tiered CIT.

ACCI has long called for a unified corporate tax rate to eliminate investment distortions, reduce administrative complexity, and better align Australia with global capital markets. A tax rate of 25 per cent for all businesses would 'increase the size of the pie' with more businesses achieving higher profits, reinvesting in their operations, and growing the economy.

International experience demonstrates the benefits of lower, unified, stable corporate tax rates. For instance, Ireland reduced its corporate tax rate from 40 per cent to 12.5 per cent by 2003[1]. Combined with a stable, pro-investment policy environment, this positioned Ireland as a leading destination for foreign direct investment. Similarly, Canada undertook a series of federal corporate tax cuts, reducing its rate from 28 per cent to 15 per cent over time[2] resulting in higher business investment, improved productivity, and increased employment

Draft recommendation 1.3: Introducing a net cashflow tax of 5%

ACCI **does not support** the implementation of a 5 per cent NCT, as it would exacerbate Australia's already uncompetitive tax settings. Large businesses would face a 30 per cent CIT plus an additional 5 per cent NCT, further discouraging investment and potentially driving activity offshore.

For small businesses, the NCT offers no real benefit. The combined 20 per cent CIT and 5 per cent NCT would result in a similar tax liability to a single 25 per cent CIT, but with significantly greater complexity and compliance burden.

The NCT was originally proposed in the 2010 Henry Tax Review as a replacement for corporate income tax to simplify the system. However, the Productivity Commission's proposal does the opposite as it layers a new tax on top of the existing CIT, creating a more complex and burdensome system. Even the Productivity Commission has acknowledged that while a NCT has theoretical appeal, there is little empirical support for its effectiveness in practice.

The proposal would exacerbate Australia's already uncompetitive tax settings for large businesses, which already shoulder the bulk of Australia's company income tax revenue[3] and play a central role in business investment, research, development, and innovation. Loading large businesses with an even more uncompetitive tax setting risks undermining the very incentives that drive large-scale investment and innovation, inadvertently stifling productivity growth across the wider economy. It is also likely to motivate some large businesses to expand and invest offshore rather than in Australia.

There are several important issues that remain unresolved in the proposed design: it is unclear whether companies paying the NCT would generate franking credits, whether the tax would be recognised by foreign jurisdictions (to avoid double taxation), or what the actual effective tax rate on businesses would be under this system.

Furthermore, the way the NCT would operate in practice is problematic. Businesses may see an initial benefit in the first year, but would then repay those gains through higher taxes in later years unless they make continuous, recurring investments. Since most business investments are large, transformational, and often one-off in nature, the long-term benefit of the system is negligible for many companies. The

[1] Center for City Development Policy (2025). *Ireland's FDI Success Story: A Policy Framework Analysis.* (Published 3 February 2025). Center for City Development Policy

[2] Bédard, M. & Michel, A. (2018). *Canada's Corporate Tax Cut Success: A Lesson for Americans.* Montreal Economic Institute – Economic Note.

[3] Data from the ATO shows the largest 100 corporates pay $75 billion or 55% of all corporate income tax. Of this the 10 largest corporates contributed $41 billion or 30% of all corporate income tax.

system would disproportionately favour asset-heavy industries like mining and infrastructure, while disadvantaging service-based or IP-intensive sectors that rely more on incremental expenditure.

For a small business, the NCT delivers no meaningful benefit. A combined 20 per cent CIT plus 5 per cent NCT is roughly equivalent to the current 25 per cent CIT. However, it will greatly increase the complexity and the administrative burden of the tax system for a small business. In addition to the administration of the CIT payment, the small business owner will need to understand the complexities of the NCT (what they can and cannot claim as deductible), then use a separate accounting module to calculate the amount of tax payable and file a separate NCT return.

The NCT does have some attractive features, allowing the immediate deduction of capital costs, eliminating the need for depreciation and removing interest deductibility, which may lower the cost of capital and potentially increase the willingness of SMEs to invest. However, the overall productivity gains from such reforms would be limited as large businesses, which typically contribute the most business investment, would be penalised with an additional tax under the new regime.

Another fundamental challenge lies in how businesses actually operate. Large companies do not run on a single, simple cash account. They manage highly complex flows of revenue, costs, and investment through subsidiaries, intercompany transfers, and cross-border operations. Determining which flows are deductible and which are taxable would not be straightforward, and the potential for regulatory arbitrage would be considerable. Even defining what qualifies as “investment” is contentious.

The PC has argued that NCT only taxes “economic rents”. Yet this rests on the assumption that such rents can be clearly identified and taxed without consequence. In reality, so-called rents often arise from entrepreneurial risk-taking, innovation, and foresight. Taxing them creates a chilling effect, as when the firms know that upside gains will be taxed away, they will take fewer risks.

Ultimately, at 30 per cent, our statutory corporate tax rate for large businesses remains well above the OECD average, making Australia a less attractive destination for investment. Adding an NCT makes the Australian tax system even less competitive.

International experience reinforces this view. No country has implemented a cashflow tax at the national level. Jurisdictions such as New Zealand and Norway have explored the option but ultimately rejected it. Without real-world evidence to support its effectiveness, the NCT would carry significant risk.

International Experience

Norway
In 2014, Norway’s Scheel Committee examined replacing corporate income tax with NCT. It rejected the idea for several reasons:

- International inconsistencies in income and cost definitions raised concerns about the risk of double taxation which were especially problematic for a small, open economy trying to attract foreign investment.
- A NCT would be difficult to align with existing tax treaties and legal obligations.
- Revenue from a NCT would be more volatile and countercyclical, declining during periods of high investment (due to large deductible outflows) and increasing during low-investment periods, further complicating fiscal planning.

New Zealand

New Zealand explored a NCT in 2001 and again in 2002 (specifically for small businesses). Both proposals were abandoned. Key concerns included:

- Transition problems, such as the new investments made by firms would receive an immediate deduction (in the form of large cash outflows) under an NCT, while investments made prior to its imposition would have to forego future years of tax-deductible depreciation.
- The 2002 review proposed three potential options, with differing winners and losers and potential consequences. For example, allowing firms to deduct the remaining undepreciated value of pre-existing assets upon transition to the NCT would result in significant tax revenue loss for the government, which would need to be offset by higher income taxes on workers.
- There were also concerns about tax avoidance, with companies potentially structuring large outflows domestically while generating future inflows abroad.
- For small-business-only schemes, there were concerns about transitioning firms that grow beyond the threshold and would need to switch tax regimes, creating additional administrative complexity.

Temporary Expensing Scheme and other alternative measures

Rather than introducing a net cashflow tax, alternative measures should be considered, ones that have proven to support business investment and productivity growth. One such measure is the reinstatement of the Temporary Full Expensing Scheme as a permanent measure. This was introduced during the COVID-19 pandemic but expired on 30 June 2023. This scheme allowed any small, medium, or large enterprise with an aggregated turnover of less than $5 billion to immediately deduct the full cost of eligible assets, whether new or second-hand, rather than depreciating them over several years. The scheme was highly successful, stimulating substantial business investment during the COVID period, a time when most businesses were under considerable financial stress and faced considerable uncertainty about their future.

Unlike the standard instant asset write-off scheme, temporary full expensing provided broader eligibility and applied to a wider range of assets. By enabling businesses to claim an immediate tax deduction for the full cost of qualifying assets in the year they were first used, the scheme significantly improved cash flow and encouraged timely investment. For example, a restaurant, could claim the full cost of qualifying kitchen equipment as an immediate deduction, thereby freeing up capital for further business development.

Reintroducing and making a full expensing scheme permanent would deliver strong incentives for investment in new capital assets that are critical to lifting productivity and sustaining long-term economic growth.

While the instant asset write-off (IAW) scheme remains in place, its current $20,000 cap and $10 million aggregate turnover eligibility limit severely limits its effectiveness. The IAW has had very little meaningful impact on overall investment due to its focus on very small business and very low value eligible assets such as a new fridge for a restaurant or a basic computer system for a professional office.

A full expensing measure for all businesses would create a stronger, more predictable investment environment that rewards businesses of all sizes for investing in the assets and technologies necessary to drive productivity growth and secure Australia's future economic prosperity.

Regulation to promote business dynamism

Draft recommendation 2.1: Setting a clear agenda for regulatory reform

ACCI **supports** the recommendation that the Government should adopt a whole-of-government statement on regulatory reform. This should focus on identifying priority areas for reform and setting measurable, quantitative targets for reducing regulatory costs, such as a 25 per cent reduction in regulatory costs by 2030.

Over recent decades, the growing red tape burden has imposed serious costs on Australian businesses in terms of time, money and stress. Excessive regulation, coupled with inconsistent and outdated policy frameworks, has significantly constrained innovation, delayed investment, and undermined business confidence. The result is a regulatory landscape that hinders the adoption of new technologies and impedes efficient resource allocation.

A comprehensive reform agenda is needed to create growth-oriented regulatory framework. This should include establishing a dedicated Minister for Red Tape Reduction tasked with leading an economy-wide regulatory stocktake and overseeing the implementation of reform measures. The framework should include clearly identified priority areas for reform, quantify the regulatory burden, and set measurable targets, such as the goal of achieving a 25 per cent reduction in regulatory costs by 2030 adopted by the UK and EU. Additionally, mechanisms such as the National Productivity Fund could be used to incentivise states and territories to adopt fast-track planning processes and deliver measurable improvements in approval timeframes.

Recent trends underline the urgency of this approach. The government has increasingly moved toward making previously voluntary industry codes mandatory, including in areas such as the gas market, climate-related financial reporting, merger reforms, and the Food and Grocery Code of Conduct. Similarly, Australia's inclination to exceed global regulatory standards, for example, through the potential adoption of the ILO convention on platform work, could create additional local regulations. If implemented, these developments would contribute to a multi-layered and fragmented regulatory framework, increasing compliance complexity for businesses.

To ensure the framework remains effective, the government should update it regularly, undertaking periodic economy-wide regulatory stocktakes to establish the baseline cost of red tape to businesses. This would allow progress to be measured against any regulatory reduction targets and ensure that reforms deliver tangible reductions in compliance costs. A clear, accountable, and regularly updated reform agenda will support a more dynamic and resilient economy, encourage business investment, and enhance Australia's global competitiveness.

Draft recommendation 2.2: Bolstering high-level scrutiny of regulations

ACCI **supports** the recommendation that the Government strengthen the role of the Office of Impact Analysis (OIA) to provide better oversight of impact analyses for significant regulatory proposals. However, this reform must be accompanied by adequate funding for the OIA. Without sufficient resources, these bodies may be unable to perform effectively, increasing the risk of poorly designed regulations that impose unnecessary costs on businesses. The OIA must also include a dedicated section assessing the effects on Australian small businesses, ensuring consistent consideration of their specific regulatory impacts.

The Interim Report recommends strengthening the role of the Office of Impact Analysis (OIA) to enhance accountability for the quality and rigour of regulatory impact assessments. ACCI supports this proposal, however, as we have consistently highlighted in previous submissions, this reform must be accompanied by adequate funding for the OIA, the Office of Parliamentary Counsel (OPC), and relevant departmental drafting branches. Without sufficient resourcing, these bodies cannot effectively perform their critical functions, which increases the risk of poorly designed regulations and unintended consequences for business, particularly small enterprises that lack the capacity to absorb additional compliance costs.

ACCI also recommends that the impact analysis process be updated to account for the cumulative regulatory burden on businesses, rather than assessing new regulations in isolation. This is particularly relevant in sectors affected by overlapping frameworks, such as model work health and safety laws and the Environment Protection and Biodiversity Conservation Act, which often introduce additional regulation without a full assessment of existing regulations.

Furthermore, every policy impact analysis should include a dedicated section explicitly assessing the anticipated effects on Australian small businesses. To ensure consistency and clarity, a nationally agreed definition of ‘small business’ should be applied across all assessments.

Sectors requiring immediate regulatory review

Draft recommendation 2.3: Enhancing regulatory practices to deliver growth, competition and innovation

ACCI **supports** the recommendation that the Government should raise the bar for regulators to deliver growth and dynamism outcomes. However, there needs to be better harmonisation between regulators and the Government. Regulators should regularly report to the Government on quantitative key performance indicators (KPIs) for core regulatory activities, such as time taken to grant licences and decision-making timeframes. At the same time, the Government should ensure regulators are adequately resourced to streamline these approval processes.

Some priority sectors remain heavily constrained by regulatory processes, whether through delays in gaining environmental approvals or navigating duplicate and inconsistent regulations. These are the areas discussed below, where targeted reforms could have an immediate impact. If regulators and the Government work in coordination, with clear directions and guidance, these sectors could be released from the thickets of regulation, unlocking productivity gains and driving economic growth.

Housing sector

Achieving the National Housing Accord target of building 1.2 million homes by 2029 will require urgent and coordinated regulatory reform across all states and territories. One of the most significant barriers to meeting this target is the excessive time taken to obtain planning approvals. Currently, approvals for a stand-alone house can take more than six months, while approvals for apartments often exceed twelve months. This is an unacceptable industry standard and is a key factor contributing to the housing undersupply crisis currently facing Australians.

Businesses operating in this sector also encounter unnecessary complexity when dealing with overlapping rules from multiple authorities. For instance, one member reported that obtaining permits for a sewer addition took more than two years and incurred over $100,000 in additional, unnecessary costs. The process was prolonged because requirements from different authorities were contradictory i.e. what one required was not allowed by the other. This example illustrates how duplicated and inconsistent regulations not only delay critical projects but also impose significant financial strain, discouraging businesses from investing in essential upgrades.

Beyond planning approvals, developers face an increasingly burdensome regulatory landscape. The National Construction Code (NCC), which sets national building standards, now spans over 2,000 pages and references more than 165 Australian Standards and 1,000 additional documents. In total, the regulatory framework exceeds 70,000 pages, even before considering licensing, workplace safety, and business compliance obligations. This extraordinary level of complexity is undermining the pace, cost-efficiency, and feasibility of delivering new homes. To address these issues, a comprehensive review of the NCC is required to reduce compliance costs and facilitate innovation. Greater emphasis should be placed on developing better information and voluntary tools to support compliance, as well as adopting recognised international standards. Making the most commonly used Australian housing standards freely available would also help reduce costs for builders and developers.

Environmental approval processes are another significant bottleneck. While the government announced addressing the EPBC backlog as one of the key outcomes from the Economic Reform Roundtable, no specific details have been provided on how this will be achieved. We recommend that the Government simplify and streamline the environmental approval process for major investments to expedite decision-making and reduce delays. Transparency must also be improved, with agencies required to report regularly on progress through each stage of the assessment process, providing greater certainty to investors. Setting statutory time limits for approvals, such as 30 days for low-complexity, low-risk projects and up to 12 months for high-complexity, high-risk projects, would further ensure timeliness. Additionally, the Commonwealth should work with states and territories to clearly delineate regulatory responsibilities to avoid duplication.

Furthermore, Australia needs a simplified and consistent development approval system. A “one house, one approval” approach should be introduced, allowing the construction of a single dwelling on appropriately zoned land to proceed via a single integrated pathway. This would drastically reduce compliance costs and approval times while preserving safety and quality standards. This approach will provide a pathway where a single dwelling would have access to a tailored design code, preferably a state code, and that where a design meets that code, there should be a one-step approval pathway available.

Reform should build on the National Planning Reform Blueprint, with a strong focus on improving consistency and efficiency in planning approval systems. Governments should eliminate unnecessary assessment layers and establish evidence-based processes that apply uniformly across jurisdictions, including local government. States and territories that adopt fast-track planning mechanisms and deliver measurable improvements in approval timeframes should be rewarded through targeted support from the National Productivity Fund.

The Housing Industry Association (HIA), through its *5 Pillars Productivity Reform* priorities, has also recommended deeper engagement with industry to review existing regulations and enhance construction productivity. This includes adopting rigorous assessment and transparency measures, implementing two-stage consultation processes, achieving greater harmonisation, and undertaking regular regulatory audits and sector-specific impact assessments aligned with the Office of Impact Analysis (OIA) best practice guidelines.

Retail sector

The retail sector continues to face significant barriers stemming from inconsistent regulation in planning and environmental approvals across jurisdictions, overlapping rules from multiple authorities, outdated workplace settings, and limited pathways for investment in new technologies and business models. Australia's fragmented regulatory approach to circular economy initiatives adds further complexity, with variations in health labelling requirements, inconsistent container deposit schemes, differing definitions of single-use plastics, uncoordinated product stewardship legislation, as well as leasing laws and tenancy rights. These inconsistencies impose a disproportionate burden on small and medium-sized enterprises (SMEs) with limited compliance capacity.

In many cases, retailers must maintain multiple reporting systems for identical products sold nationally, significantly increasing both complexity and cost. To address these challenges, states and territories must work towards nationally consistent models and the consolidation of duplicative reporting frameworks.

In addition, retail supply chains are under pressure from heightened geopolitical and environmental risks. Improving supply chain resilience will require greater investment in domestic capability, streamlined freight and logistics systems, and better coordination across the supply chain. A national approach is needed to harmonise freight and transport regulations, including standardising vehicle weight limits, delivery curfews, and operational rules. Investment in freight-dedicated infrastructure corridors, particularly on strategic road and rail routes, should be prioritised to reduce congestion and improve the flow of goods.

Healthcare

Australia's health technology assessment pathways are currently slow, complex, and inconsistent, resulting in significant delays in patient access to new medicines and vaccines. On average, it takes 466 days for a medicine to progress from Therapeutic Goods Administration (TGA) registration to Pharmaceutical Benefits Scheme (PBS) listing which is almost 100 days longer than the OECD average, and over 300 days longer than in countries such as Japan, Germany, and the UK. These delays have a direct impact on patient health outcomes and broader economy as treatment is delayed.

Access to improved medicines and vaccines has a direct correlation with reductions in absenteeism (missing work due to illness) and presenteeism (attending work despite feeling unwell, leading to reduced productivity and potential harm to their health and the broader workplace) and consequent economic benefits from increased tax receipts and reduced expenditure on social welfare programs. However, Australia's current evaluation framework fails to account for these broader economic benefits when assessing the value of new medicines and vaccines. A reformed funding model is needed to better reflect the real-world value of preventative health interventions, enabling faster approvals and allowing market signals to determine their long-term impact on workforce participation, business performance, and economic resilience.

Insurance

The rising cost of insurance is emerging as a major financial pressure pain for businesses across Australia. Each state and territory impose different requirements on businesses regarding insurance coverage. For instance, some jurisdictions mandate insurance for all businesses, while others impose sector-specific obligations.

For instance, insurance taxes are higher in NSW than in any other Australian jurisdiction. According to Business NSW's Quarterly Business Conditions Reports, insurance costs are consistently listed as a top three significant cost concern for businesses in NSW; in fact, across all four quarters in 2024, it has remained the most significant cost concern. Over 90 per cent of businesses surveyed had experienced an increase in general insurance costs in 2024 in property and contents, public liability, professional indemnity, equipment and business continuity. In the last 12 months, the majority of these businesses reported an increase of between 11 and 30 per cent. However, about one in four businesses reported an increase of *more than 30 per cent*, which is even more alarming.

Furthermore, many states and territories apply duties, taxes, and/or levies to insurance policies within their jurisdiction, adding up to 40 per cent to the cost of premiums. As premiums continue to rise, these taxes act as a disincentive to investment and undermine long-term sustainability. Collecting taxes on insurance is increasingly out of step with the risk environment and should be re-evaluated to support resilience and economic viability, particularly for vulnerable sectors such as tourism.

Work health and safety

Since the Model Work Health and Safety laws were introduced, there has been increasing duplication and complexity caused by the overlap of WHS regulation and industry/hazard specific safety legislation.

Increasingly, employers are being asked to manage workplace issues with regard to more than one piece of legislation. Some pertinent examples of industry or hazard specific legislation that overlap with WHS include:

- Fair Work legislation
- Aviation Safety
- Non-conforming building products
- State Criminal legislation
- Mining Safety
- Environmental Protection
- Sex Discrimination laws

These intersecting obligations add layers of complexity and make compliance more difficult. It also increases the regulatory burden for business, often without evidence of any demonstrated improvement in WHS outcomes.

Further, the number, length and complexity of Model Codes of Practice are also of particular concern. Long and complex Codes of Practice do little to assist businesses to meet their WHS duties.

Industry experience is that for businesses of all sizes, the best way to improve safety outcomes is to provide clear and practical solutions to common safety issues (written in plain language) accompanied by strong education and awareness programs. Addressing duplicative regulation should include tasking Safe Work Australia with identifying and eliminating overlaps between the Model WHS laws, industry-specific legislation, and other workplace-related regulations.

About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth, and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education, and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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