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Institute of Public Affairs

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Productivity Commission
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Dear sir or madam,

Submission to the Productivity Commission 5 Pillars of Productivity inquiry

The Institute of Public Affairs welcomes the opportunity to comment the Productivity Commission's recently published suite of interim reports that seek to improve Australia's economic performance.

The IPA would like to offer specific comments on three of the reports, which relate respectively to economic resilience, policies to achieve 'net zero', and improving workforce productivity.

Creating a more dynamic and resilient economy

The Commission proposes lowering the company income tax rate to 20 per cent for firms with turnover below $1 billion, which the IPA agrees is a vital step toward improving investment incentives and attracting foreign capital.

The interim report's modelling suggests that this reform could increase investment by $7.4 billion (1.6 per cent), GDP by $14.6 billion (0.5 per cent) and labour productivity by 0.4 per cent. These findings are consistent with IPA research showing that lowering business taxes directly improves wages and job opportunities.[1]

While we support the Commission's proposed reduction – and note that with greater spending restraint the rate could and should be lowered further – we caution against setting arbitrary thresholds. Limiting the 20 per cent rate to firms below $1 billion entrenches distortions and creates a disincentive to grow. International experience, such as Ireland's 12.5 per cent corporate tax rate and Estonia's 20 per cent flat tax, shows that broad-based reform attracts investment and sustains growth across the economy.

The Commission also proposes introducing a 5 per cent net cashflow tax (NCT) alongside a reduced company income tax rate. While the intention is to reward investment, this measure risks creating a dual tax system that increases compliance costs and complexity.

The IPA opposes the NCT for three reasons:

- Complexity: The interim report itself acknowledges further consultation will be needed to finalise the NCT's design. Creating parallel regimes introduces uncertainty for investors.

[1] See Matthew Lesh, '3.55 Million Workers Will Benefit From Enterprise Tax Plan No. 2. 2018' (2018): https://ipa.org.au/publications-ipa/3-55-million-workers-will-benefit-from-enterprise-tax-plan-no-2; and Adam Creighton, 'ALP majority a cause for optimism on tax reform, productivity. 2025' (2025): https://ipa.org.au/research/australias-prosperity/alp-majority-a-cause-for-optimism-on-tax-reform-productivity.

- Compliance burdens: IPA research shows regulatory duplication imposes huge costs:
  - *The Growth of Regulation in Australia* estimated regulatory compliance costs at $176 billion per year.[2]
  - *Red Tape Army: 2025-26 budget update* showed that over 107,000 federal employees enforce regulation at a cost of $15 billion per year. Adding a second corporate tax regime would worsen this burden.[3]
- Distorted incentives: As argued in *Six Myths About the Business Tax Cut*,[4] poorly designed business taxes reduce competitiveness and deter investment (IPA, 2017). The NCT risks favouring some forms of capital expenditure while penalising others, distorting allocation of capital.

The IPA urges the Commission to abandon the NCT proposal and instead allow full expensing of capital expenditure within the existing company income tax framework. This achieves the intended investment incentives without duplicating systems.

The interim report also notes that "the ever-growing burden of regulation puts a significant brake on productivity growth". The IPA strongly supports this assessment. Our research has consistently documented the costs of excessive regulation:

- *Red Tape Is Costing Australia $176b A Year* quantified the macroeconomic drag of regulatory compliance.[5]
- *The Growth of Regulation in Australia* applied RegData, a text-analytics tool developed with the Mercatus Center, to measure over 540,000 regulatory restrictions in force.
- *Red Tape Army* exposed the growing regulatory workforce and its cost burden.

The IPA recommends the Commission adopt RegData as a standard tool for monitoring and auditing regulatory growth and set binding reduction targets (e.g. 20 per cent reduction over five years). This would provide a measurable counterweight to what the Commission rightly describes as a "thicket of regulations".

To deliver meaningful productivity reforms under its five-pillar agenda, the IPA urges the Commission to:

1. Endorse a uniform 20 per cent CIT rate for all companies, phased in over three years, avoiding arbitrary thresholds.
2. Abandon the NCT proposal in favour of full expensing within the current company income tax framework.

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[2] The Growth of Regulation in Australia. 2023 https://ipa.org.au/wp-content/uploads/2023/11/IPA-Research-Growth-of-Regulations-Causes-and-Solutions-FINAL.pdf

[3] Red Tape Army: Headcount and Cost of the Federal Regulatory Workforce. 2024 https://ipa.org.au/wp-content/uploads/2024/02/IPA-Research-Note-Red-Tape-Army-Headcount-and-Cost-of-the-Federal-Regulatory-Workforce-FINAL-1.pdf

[4]Six Myths About the Business Tax Cut. 2017 https://ipa.org.au/publications-ipa/research-papers/six-myths-business-tax-cut

[5] Red Tape Is Costing Australia $176b A Year: https://ipa.org.au/publications-ipa/red-tape-is-costing-australia-176b-a-year

3. Integrate RegData into regulatory audits and commit to measurable reductions in red tape.

Investing in cheaper, cleaner energy and the net zero transformation

The IPA has long called for a rational debate over the costs and benefits of Australia's policy of net zero emissions by 2050, and it appears that the Productivity Commission shares some of these concerns. On the first page of the Interim Report, the PC states that "Australia faces significant climate-related risks regardless of future emissions reductions." If this is the case, then a productivity-minded approach would be to focus on mitigation measures (the focus of the final part of the Interim Report), and not further spending, regulation, and subsidies in an effort to transform Australia's economy and society.

The IPA has concerns with some of the specific policy measures advocated by the PC in the Interim Report. For example, the PC proposed effectively imposing an 18.4 cents per litre charge on users of heavy vehicles, including trucks, regardless of where the fuel is consumed, as an "incentive" for them to reduce their carbon emissions. In 2023-24, trucks were responsible for 23.3 million tonnes of CO2-e.

Using the PC's cited diesel emissions intensity factor,[6] analysis undertaken by the IPA shows that the PC's proposed policy amounts to a $1.6 billion annual tax on Australia's trucking industry. The efficacy of such a new tax is uncertain, as acknowledged by the PC. The Interim Report states that: "It will probably not be viable in the short term for the industry to switch to clean fuels and vehicles at scale, even with a strong price incentive. Technologies like electric trucks, hydrogen trucks and renewable diesel are relatively expensive and are not ready for widespread use." The PC has presented a potential policy option that would impose a significant new burden on heavy vehicle users while acknowledging that it is "probably not viable" for them to seek any alternate technologies and thereby avoid these burdens. This is not a productivity-enhancing policy, but simply a new tax proposal.

Relatedly, the IPA has concerns about the additional burden that would be placed on business and investment if the PC's suggested policy of lowering the Safeguard Mechanism (SGM) participation threshold to 25,000 tonnes of CO2-e or more of annual emissions were adopted. The IPA has identified that there are at least 64 currently proposed major resources projects that would be captured by this expanded SGM scheme, placing some $49 billion of investment at risk. At a time when new private sector business investment is low, and amid reports some 80 per cent of major resources projects are no longer likely to progress to completion,[7] the PC should carefully analyse the potential impacts on new business investment of expanding the SGM.

The IPA agrees with the PC that reform of Australia's national environment laws (the EPBC Act) is needed. In a submission to the Samuel Review of the EPBC Act, the IPA highlighted

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[6] 2.7 kilograms of carbon dioxide per litre of fuel burned.
[7] Tania Constable, "Australia's Investment Pipeline Leaking $68 Billion Every Year," Minerals Council of Australia, 26 April 2024, https://minerals.org.au/resources/australias-investment-pipeline-leaking-68-billion-every-year/.

that regulation under the Act had grown by 445 per cent between 2000 and 2019.[8] The IPA provided a number of recommendations at the time that would improve Australia's regulatory environment and productivity, including:

- Reducing the total volume of regulation in the EPBC Act and associated subsidiary legislation to the year 2000 levels.
- Repealing Section 487.
- Removing the 'water trigger' from the list of Matters of National Environmental Significance.
- Repealing Section 140A of the Act, which prohibits the development of nuclear power in Australia.
- Advance bilateral assessment and approval agreements with the states and territories, reducing duplication and enabling faster approvals pathways under a nationally agreed framework of environment protection (this was the original intent of the EPBC Act).
- Shifting focus from process compliance to outcomes, enabling faster approvals at lower cost to both taxpayers and project proponents.

The IPA also questions the PC's proposal to focus on providing a faster approvals process under the EPBC Act only for certain types of projects. In effect, this amounts to providing a subsidy for certain kinds of projects, equivalent in value to the time cost of longer approvals imposed on all other project proponents. To improve productivity across the entire economy, approvals processes should instead be simplified for all applicants, regardless of if they are seeking to build a new housing development or a major highway or a mine. Carving out certain kinds of projects and creating a two-tier approvals system is not consistent with promoting productivity and economic growth.

Building a skilled and adaptable workforce

The IPA has often expressed concerns about the Australian workforce, and in particular about the quality of jobs that are available to Australians in the modern, services-based economy. In 2021, the IPA's Cian Hussey explored some of the trends in Australia's workforce since the Global Financial Crisis, writing that:

> Health care and social assistance has been the fastest growing industry, responsible for 27.8% of all job creation between 2009 and 2019. At the end of 2019, average total weekly earnings in this industry were $1,166, 9% lower than the economy-wide average, and only 54.1% of all jobs were full-time. The education and training industry was responsible for 11.7% of all job creation, at the end of 2019 paid an average wage of $1,283 per week, 0.25% above the economy-wide average, and 60% of workers were employed full-time. Accommodation and food services was responsible for 8.7% of all job-creation, paid the lowest average weekly wage of $579 dollars, 55% below the economy-wide average, and only 39% of workers were employed full-time, again, the

[8] Cian Hussey, *The Growth and Complexity of Environmental Regulation* (Institute of Public Affairs, April 2020) https://ipa.org.au/wp-content/uploads/2020/04/IPA-Report-EPBC-Paper-1.pdf.

> lowest share in the economy. So, 48.2%, almost half, of all jobs created in the decade after the GFC were in these three industries.[9]

Mr Hussey went on to state that "Australia's shift towards being a services economy is not benign. It has resulted in fewer well-paying, full-time jobs." Another statistic highlighted was that: "Job growth in the low-pay, high-part-time industries of education and training, health care and social assistance, and accommodation and food services has outpaced that in the five high-paying services industries by 91% since the GFC."[10]

As a general point, the IPA would encourage the PC to explore how regulatory reform could promote the industries which provide better, higher-paying jobs for Australians, rather than accepting the structural shifts in the economy as perhaps uncontrollable and asking how the workforce can be more adaptable within an economy that offers fewer opportunities for good, high-paying, full-time work.

Specifically related to the recommendations raised by the PC in this Interim Report:

- IPA research has highlighted how the National Curriculum itself is letting Australian students down.[11] Returning to first principles, the IPA would recommend that rather than further centralising the National Curriculum and resources to teach it, it should be abolished.
- The IPA supports the PC's recommendations to remove excessive occupational entry regulations. As the IPA highlighted in a 2018 report: "occupational licensing reduces wages and employment for those outside of licensed professions, increases wages of incumbent employees, reduces labour mobility, and raises prices for consumers which has a regressive effect."[12]

We wish to thank the Productivity Commission for the opportunity to provide this submission. Please do not hesitate to contact me at **[REDACTED]** or the IPA's Director of Research, Morgan Begg, at **[REDACTED]** for further consultation or discussion.

Kind regards,

Adam Creighton
Senior Fellow and Chief Economist

[9] Cian Hussey, "Why we need a manufacturing sector," *The Spectator Australia*, 20 April 2021, https://www.spectator.com.au/2021/04/why-we-need-a-manufacturing-sector/.
[10] Ibid.
[11] Dr Bella d'Abrera and Colleen Harkin, "De-Educating Australia: How the National Curriculum is Failing Australian Children," Institute of Public Affairs, March 2023, https://ipa.org.au/wp-content/uploads/2023/03/06032023-IPA-De-Educating-Australia-Report.pdf.
[12] Daniel Wild, "The Case for Abolishing Occupational Licensing," Institute of Public Affairs, May 2018, https://ipa.org.au/wp-content/uploads/2018/06/Submission-to-Red-Tape-Committee-Occupational-Licensing-040518.pdf.