INSTITUTE OF PUBLIC ACCOUNTANTS®

15 September 2025

By email to: 5pillars@pc.gov.au

Creating a more dynamic and resilient economy

The Institute of Public Accountants (IPA) welcomes the opportunity to make a submission in relation to the Productivity Commission (PC)'s interim report titled *Creating a more dynamic and resilient economy* (the interim report).

The IPA is one of the three professional accounting bodies in Australia, representing over 50,000 members and students in Australia and in over 100 countries. Approximately three-quarters of the IPA's members work in or are advisers to small business and small to medium enterprises.

We welcome the draft recommendations put forward by the PC for public debate.

In response to the draft recommendations, we make the following points:

Draft recommendation 1: Pivot the corporate tax system to a more efficient mix of taxes

Our key concern in relation to the proposal to pivot the corporate tax system to a dual system comprising corporate tax and a net cash flow (NCF) tax for all corporate entities is the additional compliance burden, which may be significant for small businesses. Implementing a NCF may also be antithetical to the principle of simplicity if it is not appropriately designed. We note that in the aftermath of the recent economic roundtable, the Treasurer emphasised this principle.

Alternatives that incentivise capital investment but do not add as much complexity should not be excluded from consideration. These alternatives may include:

- reintroducing an investment allowance
- an immediate asset deduction for businesses of all sizes and structures
- permanently increasing the threshold for the small business instant asset write-off
- a bonus deduction for technology-related expenditure, similar to the Small Business Technology Investment Boost, which was available for the 2022-23 tax year.

We acknowledge these 'simpler' alternatives would not give rise to additional revenue to offset the corresponding reduction in the corporate tax rate; however, the benefits of increased investment and the boost to productivity would outweigh any impact on revenue.

Preparing and submitting a NCF tax statement and paying the NCF tax liability represent an extra annual obligation. If a NCF tax were to proceed, consideration must be given to minimise additional burden by incorporating the NCF tax reporting and payment processes into those that already exist for corporate tax.

The NCF report could form part of the corporate tax return as an additional schedule with necessary adjustments to the corporate entity's taxable income or loss figure. Any NCF tax liability could be included on the Notice of Assessment and due at the same time as the income tax liability.

We also encourage the PC to consider the reduction of other compliance obligations on companies that carry on businesses so that the overall regulatory burden will be reduced even with the introduction of a new NCF tax.

We would require clarification of how the NCF tax will interact with the existing franking account and franking credit rules — in particular, whether NCF tax paid will be available as franking credits.

Investments in human capital should also be incentivised. In an ever-changing labour market, few expect a job for life, and it will be more likely that individuals will have multiple careers over their lifetime. Skills in demand are ever-changing, as demonstrated by the demise of the manufacturing sector. An aging population also necessitates the reskilling of the population, both in the aged care sector and for workers who need a skill update to remain employable. The increased rate of globalisation and technological change are other drivers contributing to the need for continued skill upgrading. Our current tax settings do not support or encourage the retraining and reskilling once an individual has commenced earning an income in their chosen field.

Currently, individuals have a limited ability to claim tax deductions for expenditures that they personally incur on upskilling or retraining. Generally, the individual's course or other training undertaken needs to relate directly to their current job or lead to an increase in income from their current job. Education expenses that lack a sufficient connection to an individual's current employment are, therefore, not deductible and may deter people from dedicating their money, time, and other resources to reskilling for another industry.

In the 2020-21 Budget, the former Government announced that it would consult on allowing individuals to deduct education and training expenses they incur, where the expense is not related to their current employment. We see this working hand in hand with the exemption for FBT employer-provided education, under which employer-provided retraining and reskilling benefits to redundant, or soon to be redundant, employees, where the benefit may not relate to their current employment, are exempt from FBT. To provide equity, it is important to extend a similar tax concession to individuals who do not have employer support for the costs of reskilling or retraining.

In the business taxation context, we suggest that the PC consider the merits of a permanent bonus deduction, akin to the former small business skills and training boost, for eligible training costs incurred by businesses to upskill or reskill employees.

We also recommend permanently reinstating the Small Business Technology Boost for businesses in certain stages of the lifecycle, such as firms or startups undertaking qualifying digitalisation.

Draft recommendation 2: Lower the headline company tax rate to 20 per cent

We submit that a reduction to the company tax rate for companies with turnover up to $1 billion should be accompanied by complementary changes to the personal tax regime.

Under the proposed changes, the headline company tax rate would be reduced to 20 per cent, which would increase the differential with many shareholders' marginal tax rates by five or 10 percentage points.

High personal tax rates contribute to the plethora of tax minimisation strategies that are counterproductive and promote the inefficient use of resources. If the arbitrage advantage between the top marginal personal tax rate and the corporate tax rate were significantly lowered by reducing the top marginal tax rate to complement any changes to the company tax rate, we would see many structures unwound and a return to a more sensible approach based more on commercial rationale rather than being primarily for tax reasons.

Furthermore, many small and medium-sized businesses are owned and operated by sole traders or structured as trusts and partnerships. The ATO's data show that as of 30 June 2021, the most common structure among the 4.3 million small businesses (with a turnover of less than $10 million) was sole traders, at 44 per cent. Companies accounted for only 27 per cent, with trusts and partnerships comprising the rest.[1] While the prevailing corporate tax rate may affect the taxation of distributions from trusts and partnerships to corporate beneficiaries or partners, company profits which are ultimately distributed to individuals — whether directly or indirectly through interposed entities — will be taxed at the marginal tax rate of the individual.

Therefore, the implications of the proposed reduction in the corporate tax rate need to be considered in light of the personal tax system. Due to the franking system, the total tax burden on resident shareholders will not be reduced without a change in the marginal tax rates. Shareholders with a marginal rate exceeding 20 per cent will pay more top-up tax on franked dividends under the proposed changes. Shareholders on lower incomes — such as retirees — will receive lower franking credit refunds. However, we acknowledge that a lower corporate tax rate would provide greater after-tax returns to foreign resident shareholders. The incentivisation for foreign investment will need to be weighed up against the impact on resident shareholders.

Draft recommendation 3: Introduce a net cashflow tax of 5 per cent

We welcome ideas such as the proposed NCF tax, which aim to encourage capital investment by reducing the cash flow burden.

We also appreciate the proposal to uplift NCF tax losses so that the value of carry-forward losses is not diminished. We ask the PC to consider the merits of allowing for a similar uplift of income tax and capital losses.

[1] Speech by Deborah Jenkins, Deputy Commissioner, at the CAANZ Strategic Tax Planning Conference, 6 April 2022 (QC 69214).

The adjustments to the income tax calculation, which would be required to derive the NCF taxable figure, should be kept as simple as possible and derived from existing tax information that the taxpayer would already have on hand.

We note that the PC has recommended that all sales of goods and services should be recognised as turnover for NCF tax purposes. Unlike corporate income tax, there would be no distinction between capital and revenue items. This means that the sale of land and buildings and other significant capital assets would all be included in the calculation of turnover. Our understanding is that in a year where the proceeds from a sale of a capital asset is received, 5 per cent of the gross proceeds (less associated selling costs) will be payable under the NCF tax. In some cases, this may be disadvantageous to taxpayers compared to the current tax settings, even with a lower corporate tax rate, particularly for businesses with low margins, in situations where a capital gain from the sale of an asset would be tax-free under the current rules. This could distort the timing of capital asset sales for tax reasons or discourage divestment to free up capital, which could be reinvested in a new productive asset or business venture, potentially counterproductive to the policy intent.

For CGT purposes, smaller companies with an aggregated annual turnover of less than $2 million may be eligible for the small business CGT concessions, under which the taxable capital gain may be reduced by 50 per cent up to 100 per cent. We are concerned that sales of CGT assets, which should be tax-free or eligible for significant concessions, would now be subject to a five per cent tax on gross proceeds (which would usually be a much higher amount than the net capital gain). Noting that the proposed NCF tax design already involves the exclusion of financial transactions, we recommend that the PC consider whether and how certain capital sales could be excluded or reduced, while retaining simplicity, to maintain the integrity of concessional tax treatment which applies to those sales under the CGT rules.

We also recommend that terms and expressions used in the legislated provisions should take on the same meanings as used in other parts of the tax law, where appropriate, to make it easier to comply.

We would encourage the PC to consider expanding the policy intent of the immediate deduction also to cover investments for other than identifiable, depreciable assets.

Almost three-quarters of unincorporated businesses would not benefit from the upfront deduction for capital investments. The implementation of a NCF tax could be accompanied by a permanent mechanism for the immediate full deduction of the cost of qualifying assets for unincorporated business entities. This could be effected by lifting the SBE instant asset write-off threshold and reinstating the temporary full expensing rules permanently for eligible entities in respect of qualifying assets.

Transitional period

Assuming that the reduction in corporate tax rates and the new NCF are implemented, we request that during the transitional period, penalties are not imposed for errors other than in cases of egregious misdemeanour.

A sustained educational campaign should accompany a concessional transitional approach.

Regulating to promote business dynamism

We support the Productivity Commission's (PC) three draft recommendations for regulatory reform, emphasising that an overhaul of the regulatory landscape is crucial for boosting Australia's productivity and fostering a dynamic and resilient economy.

Draft Recommendation 2.1: set a clear agenda for regulatory reform

We agree with the need for a clear, government-wide agenda on regulatory reform. We continuously stress that fundamental reforms aimed at boosting productivity growth are overdue, and the current regulatory burden is a demonstrable drag on growth. Our recommendations for this agenda include:

- **A "Think Small First" approach:** We explicitly recommend adopting a model similar to the European Union's "Think Small First" principle. A simplified, risk-based regulatory framework was established to prevent disproportionate scrutiny of low-risk businesses. It is evident that one size doesn't fit all, and policymakers should consider SMEs from the earliest stages of reform or policy development.
- **Alignment with international standards:** Australia's regulatory system can hinder its international competitiveness. By aligning with global standards, Australia can signal to foreign investors that its rules are transparent and predictable. Adopting established international practices can help reduce the regulatory burden on SMEs; therefore, we suggest that Australia should be guided by the Organisation for Economic Co-operation and Development's (OECD) recommendations and guidelines and align its regulations with global best practices to improve efficiency and international competitiveness.
- **Simplifying specific regulations:** Simplifying tax, employment, and financial reporting regulations would make compliance less burdensome and free up resources for innovation and job creation.
- **A "one-stop shop" for small businesses:** We propose establishing a national small business agency, similar to the US Small Business Administration (SBA), to centralise support services and help businesses navigate regulatory complexities. A primary role of the agency would be to provide regulatory assistance and guidance to ease compliance burdens. It would help small businesses navigate the complex web of state and federal agencies they need to interact with, as well as access services such as capital, business development support and disaster recovery.

Draft Recommendation 2.2: Bolster High-Level Scrutiny of Regulations

We support the enhancement of high-level scrutiny and the use of robust impact analyses. Despite numerous reviews and task forces, there has been only a minor improvement in the regulatory burden. We recommend:

- **Periodic reviews:** Meaningful and genuine periodic reviews of regulatory bodies are essential to ensure they are serving the public interest and are held accountable for the burden they impose on businesses. This is a crucial step towards adopting a whole-of-government statement on regulation, signalling to all agencies that they must actively contribute to reducing regulatory friction and easing the compliance burden.
- **Strengthening the Office of Impact Analysis (OIA):** The OIA should be adequately resourced to undertake genuine evidence-based cost-benefit analysis, and political imperatives should not impact its work. We support the recommendation to appoint an independent statutory commissioner. This would raise the bar for what is considered an acceptable impact analysis.
- **Rigorous Regulation Impact Statements (RIS):** We recommend implementing robust and rigorous RIS for proposed legislation, including a specific "Small Business Impact Statement". This would ensure regulatory proposals are thoroughly vetted for their impact, especially on SMEs. A genuine RIS would force policymakers to weigh costs and benefits, and it would hold them accountable for the rules they create by ensuring analyses are completed *before* a decision has been made.

Draft Recommendation 2.3: Enhance Regulatory Practice to Deliver Growth, Competition and Innovation

We support a transformative cultural shift within regulatory practice to prioritise growth and dynamism. Our proposals focus on simplifying processes, using technology, and increasing accountability to free up business resources for more productive activities. Key points include:

- **Simplifying compliance:** Simplifying compliance in areas like tax, employment, and financial reporting is key because it directly boosts regulatory efficiency. The current system requires SMEs to allocate valuable time and resources to complex compliance, which is a demonstrable drag on growth. By streamlining these regulations, businesses can reallocate their resources toward innovation, expansion, and job creation. Without this kind of reform, compliance costs will continue to rise, limiting the ability of small businesses to invest in growth and contribute to the economy.

- **Leveraging technology (Regtech):** Simplifying tax, employment, and financial reporting is aimed at making compliance more manageable and less time-consuming. This directly contributes to regulatory efficiency, allowing businesses to redirect resources to driving innovation and job creation. Regtech solutions can automate a wide range of tasks, from regulatory monitoring and reporting to risk management, which can lead to cost savings and improved accuracy by reducing the need for manual processes and minimising human error.
- **Accountability for burden:** Meaningful and genuine periodic reviews are considered a crucial element of regulatory reform because they will hold regulators accountable for the costs their activities impose on businesses. This accountability is expected to drive better regulatory practices that actively consider economic growth and dynamism. These reviews can reveal the cumulative burden of multiple regulations that are often overlooked when assessed in isolation, which would, in turn, incentivise regulators to manage their systems and ensure they remain fit-for-purpose proactively. By encouraging this stewardship, periodic reviews would help to shift the focus from a "set and forget" mindset to a more dynamic approach that prioritises efficiency, transparency, and effective outcomes.

If you have any queries or require further information, please don't hesitate to contact Michael Davison, General Manager Advocacy & Emerging Policy at

[redacted]

Yours sincerely,

Vicki Stylianou