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22 September 2025

Dr Alex Robson
Deputy Chair
Productivity Commission
Locked Bag 2, Collins St East
MELBOURNE VIC 3008

By email: 5pillars@pc.gov.au

Dear Alex,

Pillar 1: Creating A More Dynamic and Resilient Economy – Interim Report

As the leading representative for major firms on tax matters affecting the large business sector, the Corporate Tax Association (**CTA**)[1] welcomes the opportunity to make a submission to the Productivity Commission (**PC**) in relation to its interim report on *Pillar 1: Creating A More Dynamic and Resilient Economy Inquiry* (**PC report**).

The CTA is a member of the Alliance of Industry Associations on the Economic Reform Roundtable and has been working alongside the Business Council of Australia (**BCA**) and others in calling for red-tape reduction and a process for productive tax reform that doesn't raise costs for consumers or businesses[2] and endorse the BCA's response to the PC report and its key observations on corporate tax reform to spur business investment and regulating to promote business dynamism, which capture the views and concerns of the CTA's members.

Additionally, we are providing the PC with some further comments and observations. Our comments and observations relate specifically to the two limbs covered in the PC report and are provided through the lens of our membership, who pay a significant proportion of all large business income tax, as well as the CTA's intimate understanding of large business tax regulation in Australia. These comments and observations are summarised below:

Net Cashflow Tax (NCT)

- **The NCT is extremely risky and uncertain**: International experience shows that models of this nature have been tried and have ultimately failed.
- **The NCT will increase the tax differential between Australia and the rest of the world**: An increased tax differential equates to an increase in the risk and likelihood of domestic mobile capital in large firms being invested offshore. Given that the marginal investor is

[1] Our membership comprises over 160 large economic groups, including Australian publicly listed, foreign listed, and large private groups. A list of our members and further information on the CTA can be found here.
[2] See: Statement from the Alliance of Industry Associations on the Economic Reform Roundtable - Business Council of Australia

foreign and generally invests in companies with a turnover of over $1 billion, a 40% increase (a 5 percentage point increase from the current 30%) on new investments will likely deter new large-scale investment.

- **The NCT has not been considered in a full imputation environment**: If the NCT is franked, then domestic shareholders are no better off compared to the current tax settings. If unfranked, it generally results in a worse outcome for domestic shareholders, particularly those in companies with a turnover of less than $50 million.
- **The NCT would create a two-tiered system that will increase regulation and compliance costs for both taxpayers and the ATO:** Other simpler options that do not change the tax headline rate but provide clear, creditable and fiscally responsible pathways to increased productivity should be investigated and modelled further[3].

Regulating to improve business dynamism

- **The rollercoaster of regulatory imposition, which has continued unabated in Australia without any consideration of its cost to economic dynamism and productivity, must be brought to a stop:** Policymakers and regulators require clear direction from government on avoiding taking risk-averse approaches, to assess and address the burden that regulations place on business and to stop pursuing narrow goals at the expense of broader, economy-wide objectives.
- **Clear commitments and transparency from regulators and policymakers around their approaches and strategies for the regulatory systems they manage are required if we are to move Australia's productivity dial in the right direction:** The effective implementation of regulations, how regulators engage with business and what regulators require of business to demonstrate compliance are crucial stepping stones to creating a more productive and resilient economy.

Further detailed commentary on the above can be found in ***Attachments A*** *and* ***B*** to this letter.

The CTA is committed to continuing to engage constructively with the PC on creating a more dynamic and resilient economy. We appreciate the opportunity the PC has provided to engage in robust policy discussion and debate, and we offer our ongoing support in terms of exchanging ideas on how best to encourage investment and productivity growth in Australia.

Should you have any questions, please do not hesitate to contact me on [redacted] or at [redacted].

Yours sincerely,

[redacted]

Michelle de Niese
Executive Director

[3] See: Depreciation and Full Expensing Discussion Paper

Attachment A - Comments on the Net Cashflow Tax (NCT)

The current

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policy reform option is not optimal

1. We understand the PC remit is to consider changes to the corporate income tax (**CIT**) system that should be fiscally neutral in the medium term and funded from within the company tax system.[4] Imposing this limitation in the context of identifying opportunities to create a more dynamic and resilient economy drastically limits options for capital deepening, particularly as corporate tax has one of the highest marginal excess burdens compared to other tax reform options.[5]

2. The choice of the $1 billion turnover threshold as to when the higher 30% CIT rate plus the net cashflow tax (**NCT**) applies can be seen as a proxy for taxing rents at a higher rate. A scan of the 2023 ATO tax transparency data reveals 518 entities with a turnover above $1 billion across a wide range of industries.[6]

3. In a small open economy (with a full imputation system) and with non-residents as the marginal investor, any increase in tax (be it CIT or a NCT) must deter the foreign marginal investor in firms with turnover above $1 billion and increase the likelihood of mobile

[4] We assume the medium term is a 7-10 year window. We note the CoPS report that accompanies the PC Interim Report concludes a CIT reduction to 20% for firms with turnover less than $1 billion in 2050 some 35 years away.
[5] Recent work by Chris Murphy shows that changes to the corporate rate and/or the corporate tax base have some of the highest marginal economic burdens . See Table 3 in TTPI working paper 10/2025 at Modelling Reform Packages for Property, Corporate and Household Taxes | Crawford School of Public Policy
[6] See Corporate Tax Transparency - Dataset - Data.gov.au

capital being employed by larger firms outside Australia where statutory and marginal effective tax rates are lower.

4. We note the CoPS report (which shows an increase in GNI from a reduction in the CIT rate to 20% for firms with less than $1 billion turnover) is paid for by increased personal income tax, so it is not 'neutral' within the company tax system window, albeit neutral by 2050. The key reason why the CoPS model gives its favourable result is due to the low level of foreign ownership of smaller firms. The CoPS report notes that "we find the current schedule of corporate tax rates outperforms any tax cut scenario when national income and welfare are the key metrics (emphasis added)"[7] This reinforces the need to focus on the non-resident marginal investor in the proposed NCT option, given that smaller firms are heavily dominated by resident investors who benefit from the imputation system bias.

5. We note the supporting modelling shows full-expensing with interest deductibility has higher rates of improved productivity and GDP than the current proposal, albeit a larger initial revenue hit. It is unclear to the CTA how the NCT is modelled in relation to starting balances, what assets are being fully expensed (in particular, does it include trading stock, land, intangibles, buildings, plant and equipment, or only parts thereof) and how this is impacting the NCT revenue results. Further transparency on the modelling timeframes and assumptions regarding starting balances and imputation impacts will also assist stakeholders in conducting a comprehensive analysis of proposals.

6. We note that other simpler options, such as partial accelerated depreciation without changing the CIT, are not modelled. We note that New Zealand has recently introduced a partial accelerated depreciation model, while retaining interest deductibility (subject to thin capitalisation restrictions). Many other countries have adopted similar partial accelerated depreciation policies.[8] Accelerated depreciation could also be targeted to specific industries and/or company size, and unlike NCT, does not require complex additions to the taxpayer and ATO tax infrastructure or starting balances to deal with higher effective tax rates.

7. NCT also requires a 'third' tier of tax system to deal with financial services, adding further complexity and compliance costs. This is not required in simple accelerated depreciation/full expensing models.

International experiences with NCT and ACE show that care is needed

8. As is noted by Chris Murphy in the concluding comments in his PC paper, there is a need for care in adopting the conclusions of the modelling with the current NCT proposal. He notes at page 22:

[7] See page 6 of the CoPS Working Paper No. G-356 July 2025 that accompanied the PC Interim Report.
[8] See the CTA's previous submission showing examples.

"The second reason for care is that these conclusions are based on modelling of hypothetical changes to the corporate tax system. There is more precedent around the world for some of the policy changes and less precedent for other policy changes. Thus, the practicality of implementing a simulated policy change needs to be assessed (sic) before any final commitment to it. Some of the implementation issues are discussed in the Modelling Appendix."

9. We note there are examples of full expensing (or accelerated depreciation regimes) around the world, which we outlined in our previous submission. It is disappointing that accelerated depreciation options, whilst retaining interest deductibility (rather than only full expensing), are not modelled. These options could be calibrated to have similar revenue impacts to the PC's suggestion.

10. We also note the BCA's submission on the Pillar 1 Interim Report, which provides a list of economy-wide NCT proposals around the world and outlines some of the practical issues as to why an NCT has not been adopted or was abandoned.[9]

11. The NCT is similar in principle to an allowance for corporate equity (ACE) by trying to tax economic rents and remove the debt/equity bias. Where an ACE has been implemented overseas, in almost every case, it has been wound back to only cover new equity or has been abolished because of complexity and its cost to revenue. We note that the European Commission, which once advocated for an ACE-type tax (the DEBRA), has now abandoned that proposal unless it is considered as part of a broader corporate tax reform agenda.[10] As has been noted in both the Henry Review and the Business Tax Working Group reports, an ACE has never been considered in the context of a full imputation regime.

12. Whilst both ACE and NCT regimes attempt to tax economic rents, they also aim to deal with the debt/equity bias. Australia's imputation system already achieves this for domestic investors by ensuring the same after-tax result at the shareholder level, regardless of where the debt funding is placed. For resident and non-resident controlled entities, excessive gearing (and excessive interest rates) is managed via the thin capitalisation, debt deduction creation and transfer pricing rules, which have recently been reviewed and strengthened in Australia.

Comments on imputation

13. The suggested 'pivot' of the current CIT system to a hybrid CIT and NCT regime is seen as taxing rents more and normal profits less. It can also be seen as a pivot away from full imputation to a partial imputation if the NCT is non-frankable. If NCT is frankable,

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[9] Whilst Australian PRRT and Norwegian PRT are cash flow taxes, they are ringfenced to the oil and gas sector and are paid in lieu of production royalties. See The Petroleum Tax System - Norwegianpetroleum.no

[10] See EU Commission's proposed new tax incentive for equity has a sting in the tail - Arthur Cox LLP and _a-new-plan-for-europe-s-sustainable-prosperity-and-competitivenessdebra-proposala-new-plan-for-europe-s-sustainable-prosperity-and-competitiveness_a-new-plan-for-europe-s-sustainable-prosperity-and-competitiveness9401.pdf

serious questions arise as to whether the outcome for domestic shareholders is, in fact, any different from the current system, as all that is happening is moving the same amount of ultimate shareholder tax from being collected at the company level rather than the shareholder level. We also note that many academics have noted that an imputation system lacks logic if the marginal investor is foreign.[11]

14. It is critical when discussing corporate tax reform that the imputation system is part of that conversation and analysis. To suggest the imputation system is a personal tax issue and outside the scope of corporate tax reform ignores the reality that it is inexorably linked to company tax.[12] In our view, to consider corporate tax reform without analysing the downstream impacts of the imputation system on the contributors of capital (both resident and non-resident) results in a flawed analysis of the impacts of the proposed reforms.

15. We have previously provided a simple model[13] to the PC which can be adjusted to show the after-tax outcome at the company and shareholder level of the proposed changes, where the NCT is frankable or unfrankable. The model assumes the case of a company having existing profits derived from historic investments (and no NCT starting base in the NCT calculation). The spreadsheet depicts the outcome on:

    a. a domestic shareholder taxed at the 47% marginal rate;
    b. a superannuation fund during the accumulation phase, taxed at 15%;
    c. a superannuation fund during the pension phase, taxed at 0%; and
    d. a foreign shareholder.

    where a 20% CIT and 5% NCT, and a 30% CIT and 5% NCT applies, to a wholly debt funded investment which is less than (set at 50%), equal to, or more than (200%) of the amount of taxable income in a given year.

    The following tables summarise the outcomes of applying the model to 3 capex simulations where the NCT is unfrankable and frankable.

			Domestic Shareholder			Superannuation Fund (accumulation phase)		
	Capex Assumption		20% plus 5% NCT < $1bn turnover	30% plus 5% NCT $1bn + turnover	30% no NCT (current)	20% plus 5% NCT < $1bn turnover	30% plus 5% NCT Over $1bn turnover	30% no NCT (current)
No Franking of NCT	Capex 50% of taxable income	ETR	48.4%	48.4%	47.0%	17.2%	17.2%	15%
	Capex equal to taxable income	ETR	47.1%	47.1%	47.0%	15.2%	15.2%	15%
	Capex 200% of taxable income	ETR	44.6%	44.6%	47.0%	11.2%	11.2%	15%
Franking of NCT	Capex 50% of taxable income	ETR	47%	47%	47%	15%	15%	15%
	Capex equal to taxable income	ETR	47%	47%	47%	15%	15%	15%
	Capex 200% of taxable income	ETR	47%	47%	47%	15%	15%	15%

[11] See Bodway and Bruce (1992) mentioned by Murphy on page 3 of his report.
[12] See page 69 of the Interim Report.
[13] This model can be provided to you again upon request.

	Capex Assumption		Superannuation Fund (pension phase) 20% plus 5% NCT < $1bn turnover	Superannuation Fund (pension phase) 30% plus 5% NCT $1bn + turnover	Superannuation Fund (pension phase) 30% no NCT (current)	Foreign investor 20% plus 5% NCT < $1bn turnover	Foreign investor 30% plus 5% NCT $1bn + turnover	Foreign investor 30% no NCT (current)
No Franking of NCT	Capex 50% of taxable income	ETR	2.6%	2.6%	0%	22.6%	32.6%	30%
	Capex equal to taxable income	ETR	0.3%	0.3%	0%	20.3%	30.3%	30%
	Capex 200% of taxable income	ETR	-4.5%	-4.5%	0%	15.5%	25.5%	30%
Franking of NCT	Capex 50% of taxable income	ETR	0%	0%	0%	23%	33%	30%
	Capex equal to taxable income	ETR	0%	0%	0%	20%	30%	30%
	Capex 200% of taxable income	ETR	0%	0%	0%	16%	26%	30%

Residents

The table shows where the NCT is frankable, the ETR at the shareholder level for all domestic investor types will not change from the current rate for all taxpayer types, even in the case where capex investment in a year is larger than taxable income for that year. It also shows that the $1 billion threshold is irrelevant to the outcome, as all that is happening is shifting tax burdens from the company to the shareholder.

Where the NCT is unfrankable, resident shareholders are only better off compared to the current system in the rare case of where the level of capex in a year is greater than taxable income in that year.

Non-residents

The table shows that non-residents will always be better off by investing in entities with turnover less than $1 billion but will only be better off if investing in companies with turnover more than $1 billion, where the level of capex is greater than the amount of taxable income (as a proxy for cash flow) in the relevant year. As noted by the PC, non-residents generally invest in larger companies. Moreover, we consider the likelihood of capex being larger than pre-capex cash flow every year as remote.

Investors in entities with turnover below $50 million

16. According to the PC report, shareholders in companies with turnover below $50 million are almost exclusively domestic shareholders (who benefit from the imputation system).[14] Such firms currently have a 25% company rate. The current proposal essentially replaces this with a 20% CIT and 5% NCT.

17. For shareholders in entities below $50 million turnover, if the NCT is unfrankable, the PC proposal is always going to result in a worse outcome than the current system in every case other than where total yearly capex spend is equal to or greater than the taxable income for that year.[15]

[14] See page 71 of the PC interim report.
[15] This shows there may be a need for starting balances for all entities to shield historic profits from the NCT and income tax for all taxpayers.

18. If the NCT is frankable, there is no difference in after-tax returns to domestic shareholders in all cases.

19. The following table shows the example of a company where its capex investment in the current year is less than profit, and secondly, where it is greater than profit. If the NCT is frankable, it results in the same ETR for domestic shareholders compared to the existing 25% CIT regime. By contrast, if the NCT is unfrankable, only where capex is greater than profit in a particular year will the ETR ever be lower under an NCT environment. We suggest it would be a reasonable working assumption that capex will generally be lower than total profit in a relevant year for smaller entities.

Capex less than profit		Current 25% CIT	20% CIT and 5% NCT (NCT unfrankable)	20% CIT and 5% NCT (NCT frankable)
Investment	50			
Gearing	0%			
Interest rate	7%			
Profit before interest	100			
ETR result		47.00%	48.33%	47.00%
Company				
Profit before interest		100.0	100.0	100.0
Interest expense		0.0	0.0	0.0
Taxable income		100.0	100.0	100.0
Tax		-25.0	-20.0	-20.0
NCT			-2.50	-2.50
After tax retained profit		75.0	77.5	77.5
ETR		**25%**	**23%**	**23%**
Dividend		75.0	77.5	77.5
Shareholder				
Dividend		75.0	77.5	77.5
Franking credit		25.0	20.0	22.5
Taxable income		100.0	97.5	100.0
Tax		-47.0	-45.8	-47.0
Franking credit		25.0	20.0	22.5
Personal tax		-22.0	-25.8	-24.5
Total tax		-47.0	-48.3	-47.0
ETR		**47.0%**	**48.3%**	**47.0%**

Capex more than profit		Current 25% CIT	20% CIT and 5% NCT (NCT unfrankable)	20% CIT and 5% NCT (NCT frankable)
Investment	200			
Gearing	0%			
Interest rate	7%			
Profit before interest	100			
ETR result		47.00%	44.35%	47.00%
Company				
Profit before interest		100.0	100.0	100.0
Interest expense		0.0	0.0	0.0
Taxable income		100.0	100.0	100.0
Tax		-25.0	-20.0	-20.0
NCT			5.00	5.00
After tax retained profit		75.0	85.0	85.0
ETR		**25%**	**15%**	**15%**
Dividend		75.0	85.0	85.0
Shareholder				
Dividend		75.0	85.0	85.0
Franking credit		25.0	20.0	15.0
Taxable income		100.0	105.0	100.0
Tax		-47.0	-49.4	-47.0
Franking credit		25.0	20.0	15.0
Personal tax		-22.0	-29.4	-32.0
Total tax		-47.0	-44.4	-47.0
ETR		**47.0%**	**44.4%**	**47.0%**

Investors in entities with turnover between $50m and $1 billion

20. The PC estimates that domestic shareholders have about 80% substantive ownership in entities with turnover between $50 and $1 billion. That is, as a minimum, about 20% of current foreign investors in such companies would possibly gain from a 20%

corporate rate and the introduction of the NCT[16]. Domestic shareholders may benefit in the extreme case where capex is greater than taxable income.

Investors in entities with turnover over $1 billion

21. As the marginal investor is assumed to be foreign, those foreign investors in companies with turnover above $1 billion will always be worse off under the proposed NCT than under the current system, other than in the special case of where the amount of capital invested each year is equal to taxable profit plus any interest expense each year (and NCT starting balances are equal to the market value). This will naturally adversely impact future investment decisions and will decrease Australia's competitiveness in attracting much-needed foreign capital to support growth.

Imputation, superannuation and impact on retirement incomes

22. If the NCT is unfrankable, then the downstream impact on the domestic investment profile of the superannuation industry (and retirement incomes) needs careful consideration, particularly given the concentration of investment by superannuation funds in entities with over $1 billion turnover. If, in fact, the NCT is unfrankable, it would act as an extra tax on retirement income.

23. We note that when the UK government abolished advance corporation tax (its imputation system that granted refunds of advance corporation tax to such funds) in 1997, the UK pension industry was impacted.[17] It is worth noting that the Australian stock market has between 60% to 65% domestic ownership, and superannuation funds between 25 and 30%.[18] It is estimated that up to 12% of the superannuation industry funds are invested in the top 10 ASX-listed stocks.[19] Recent data shows superannuation funds invest about 23% of their funds in ASX-listed stocks (or about $1 trillion).[20]

24. If the NCT is frankable, then larger refunds would be expected to flow to superannuation funds and may, in fact, add to the current bias of superannuation funds investing in domestic shares.

Interest non deductibility

25. Whilst economic theory suggests a deduction for interest is a 'double dip' as the value of an investment is already discounted at the weighted average cost of capital (which factors in the deductibility of interest), there are live, practical concerns with total interest denial.

[16] Domestic investors may be indifferent due to the imputation system.
[17] See the detailed UK report Advance Corporation Tax and Pension Funds SN00581.pdf
[18] See Managed Funds, Australia, December 2023 | Australian Bureau of Statistics
[19] The top shares of Australia's best performing super funds
[20] See 2503-Super-stats.pdf

a. The non-deductibility of interest creates a bias for domestic shareholders to incur debt at the shareholder rather than the entity level if the NCT is unfrankable and the level of investment is less than or equal to taxable income. The following table illustrates the non-deductibility of interest under a NCT regime in such a case as well as the case where the NCT is frankable. If the NCT is unfrankable and debt is incurred at the shareholder level, it has the same outcome as full expensing with interest deductibility.

	Franked NCT		**Unfranked NCT**	
	Debt at company level	Debt at shareholder level	Debt at company level	Debt at shareholder level
Investment	*50*	*50*	*50*	*50*
Gearing	*100%*	*100%*	*100%*	*100%*
Interest rate	*10%*	*10%*	*10%*	*10%*
Debt at company level				
Profit before interest	100	100	100	100
Interest expense	-5	0	-5	0
Net profit after interest	95	100	95	100
Tax at 30%	-28.5	-30	-28.5	-30
NCT at 5%	-2.5	0	-2.5	0
Dividend	66.5	70.0	64.0	70.0
Debt at shareholder level				
Dividend	66.5	70	64	70
Franking credit	28.5	30	28.5	30
Interest expense		-5		-5
taxable income	95	95	92.5	95
Tax at 47%	-44.7	-44.7	-43.5	-44.7
Franking credit	28.5	30	28.5	30
Personal tax	-16.2	-14.7	-15.0	-14.7
Total tax paid	-44.7	-44.7	-46.0	-44.7
Extra tax paid			***1.33***	

b. Some interest expense is incurred in funding recurrent operational costs (not investment) such as working capital, particularly trading stock.

c. There will be interest withholding tax costs of non-deductible interest paid to non-residents. This will increase the cost of funding of both normal profits and economic rents.

Comments on bunching

26. The PC report notes the apparent lack of bunching at the current 25% to 30% CIT $50 million threshold supports a conclusion that bunching may not be prevalent at the $1 billion turnover threshold when the corporate rate increases from 20% to 30%. In our view, this conclusion is misplaced as the current lack of bunching is most likely a result

of imputation, and companies with less than $50 million turnover are almost exclusively owned by domestic shareholders.[21]

27. Going from 25% to 30% in a fully franked context merely shifts the increased 5% company tax rate from the shareholder to the company. That is, the domestic shareholder will pay 17% rather than 22% marginal top-up tax, with the ultimate amount of tax unchanged.

28. Furthermore, the apparent lack of bunching may be further impacted by the fact that retained profits are 'parked' at the entity level to avoid paying tax at the shareholder level. In fact, the tax rate is 30% for such entities if the predominant income is passive in any event.[22]

29. Bunching is also more likely at a $1 billion threshold because more underlying shareholders are foreign, and non-residents do not benefit from franking. Moreover, you have:

    a. an outright 40% increase in tax bills (going from 25% to 35% on all income, not just marginal income) for domestic and foreign shareholders that invest in companies that just breach the $1bn turnover threshold; and
    b. an outright 17% increase in tax (going from 30% to 35%) for foreign shareholders that invest in companies that are already over the $1 billion turnover threshold.

Transitional issues

30. The NCT proposal adjusts the corporate tax mix and rate by taxing location-specific tax economic rents more and normal returns less. Whilst it might be academically appealing to tax existing economic rents more, it is critical that existing investments receive an appropriate market value starting balance on transition, which is indexed if not fully used in year one.[23]

31. The PC proposes to deal with applying NCT to existing investments by possibly having NCT starting balances to ensure current investments are not disadvantaged.[24] To deal with NCT tax payment timing differences, the Interim Report suggests that any excess NCT losses in a particular year will be available to offset CIT in that year. This would be expected to have a significant impact on CIT revenue collections in the early years, even in cases where there is no additional capital expenditure. Using a simple example, assume a company currently generates $100 per year in pre-tax income and that the business will cease in 10 years. At a 10% discount rate, this has a post pre-tax NPV (or

[21] See page 71

[22] The 30% tax rate applies to companies that are not eligible for the lower company tax rate. This includes all companies that do not meet the criteria for being a base rate entity. The 25% tax rate applies to companies that qualify as base rate entities, which are defined by having an aggregated turnover of less than $50 million and 80% or less of their assessable income coming from base rate entity passive income.

[23] See page 21

[24] See page 21 which notes starting balance will be considered in the final report.

market value) of $399, which would then be the NCT starting base[25]. Assuming the company does not spend any future capex (and this excess is indexed at say 5%), this would result in no CIT payable for the first 2 years and no NCT payable for 2.5 years as shown in the table below:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Taxable income	100	100	100	100	100	100	100	100	100	100	1000
Starting balance (5% indexation year 2 onwards)	399	209	10	0							
Cashflow tax base	-100	-100	90	100	100	100	100	100	100	100	590
Excess base available to offset company tax	299	109	0								
Taxable income offset	-100	-100	0								
Excess carry forward starting base	199	9	0								
Income tax payable	0	0	30	30	30	30	30	30	30	30	240
NCT payable	0	0	4.5	5	5	5	5	5	5	5	40
Total tax	0	0	34.5	35	35	35	35	35	35	35	280

32. It would be expected that the marginal non-resident investor and domestic investor with internationally mobile capital will seriously consider options involving less investment in Australia if the ETR on new investment increases to 35% for large-scale capital deepening activity. There is also the risk of a flight of existing capital if current investments do not get starting balances. In fact, a lack of starting balances wipes out 7% of the value of current investments in companies with turnover above $1 billion.[26] We note that those investing in entities with turnover below $1 billion are predominantly residents, so it is likely non-resident responses to the reduction in the ETR may be muted.

33. Given that it is expected those between $50 million and less than $1 billion turnover will generally be residents and have higher retained earnings to invest when the entity ETR drops to 25%, consideration as to whether the current $50 million turnover threshold for passive income not to be taxed at 30% would require realignment to $1 billion turnover.

Implementation and compliance issues

34. Apart from the costs associated with obtaining starting base valuations, the compliance costs associated with the implementation of a two-tier corporate system will be significant for both taxpayers and the ATO.

35. Whilst the calculation of the NCT base may be considered as only requiring information extracted and manipulated from current CIT tax returns, the NCT regime is additional to, not a replacement of, the corporate tax system.

[25] This discounts the pretax NPV by 35% (being the CIT and CFT rate)
[26] The 7% reduction in NPV occurs regardless of the discount rate used.

36. That is, current CIT calculations and returns will continue, plus additional calculations and returns for the NCT. This will include the need to retain existing tax depreciation schedules and trading stock calculations, as well as to have full expensing schedules for such assets (and for assets that may not be currently depreciated) for the NCT.

37. As NCT applies to all corporate tax entities, this could be seen as equivalent to the introduction of tax consolidation in terms of scale and impact on taxpayers and the ATO in terms of transitional compliance costs.

38. Being a tax on cash flow, this may require refunds of NCT at the end of a project life where remediation costs are incurred, or some alternative system whereby remediation costs can be 'carried back' (or a reliable estimate of remediation costs expensed) during the life of a project.[27]

39. The NCT applying at an effective 35% tax rate increases the tax rate difference between Australia and other countries. Apart from making Australia more internationally uncompetitive, this may also lead to an increased profit-shifting (IPS) risk. We note that Chris Murphy estimates the share of the tax base susceptible to IPS risk currently is 10%.

40. It is far from clear if any NCT tax paid is considered a tax on business profits for tax treaty and foreign tax credit purposes.

41. If NCT is not an income tax, then there will be a limit to which a 'pivot' away from CIT can reach, given the Pillar Two rules effectively implement a global minimum tax of 15%.

[27] Refunds are given in the Norwegian PRT system.

Attachment 2 - Regulating to promote business investment

It is indisputable that productivity in Australia is being weighed down by excessive regulation. Australia's regulatory burden has grown[28] and is soaking up more and more of the business' time and efforts, at the cost of engaging in productive activities.

The CTA's annual tax team benchmarking survey paints an alarming picture of the impact of unchecked growth in corporate tax regulation in Australia, and its cost in terms of decreasing hours being spent on productive tax activity.

In 2018, the tax teams of Australia's largest companies were spending around 74% of their time on tax compliance. In 2024, that percentage had increased to 81%. Conversely, tax teams are spending less time on productive activities within their organisations[29]. In 2024, teams spent 16% of their time on advice (12% on income tax and 4% on GST advice), compared to 26% in 2018.

What these figures don't show is the accompanying shift in the visibility and skill sets of tax teams in Australian companies. Tax teams have traditionally been a dynamic touchpoint within large organisations, with tax team employees having a stronger understanding of the workings and risks within these organisations than other areas of the business.

Over the past decade, as productive internal engagement across the organisation has increasingly taken a back seat to tax compliance obligations, the profile of tax teams in large businesses has decreased.

This is a concerning development on two fronts:

1. The first is what it means for the future of tax functions in Australia. If the primary role of a tax function is to adhere to compliance obligations, the skill set required to work within and lead tax teams will diminish, leaving them exposed to offshoring.

2. The second impact of decreasing levels of productive internal engagement is that less, not more tax, will be paid by these companies over time, by virtue of tax functions not engaging in transformative activities and identifying tax risks within their organisations.

As observed in the PC report, regulators and policy makers face incentives to be overly risk-averse, to underweight the burden that regulations place on business and to pursue narrow goals at the expense of broader, economy-wide goals. In our experience, the policymakers and regulators dealing with large business tax laws and compliance have fallen victim to these

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[28] The Commonwealth's last regulatory stocktake in 2014 estimated there were around 86,000 regulations with a compliance burden of $65 billion over a decade ago – around 4.2% of GDP. In today's dollars this represents a compliance burden of over $110 billion – before event accounting for any increase in regulation since. See the Business Council of Australia's Better Regulation Report

[29] Productive activities include partnering with other areas of the business, advising on tax matters across the organisation and monitoring tax risks. Having tax functions engage in productive activities within their own organisations generally results in more, not less tax being paid by that organisation.

incentives. This is reflected in the results of our member survey on the Productivity Commission's consultation questions, which found that the ATO's compliance behaviour and its impact on the perception that Australia is open for business is regarded by our members as the second most discouraging feature of our corporate tax system[30].

On this point, we understand and acknowledge the need to distinguish between policy-based regulation (resulting from policymakers making changes to or introducing new tax laws) and ATO-imposed regulation (which can be described as 'self-generated' regulation). While Australia's corporate tax laws are considered to be amongst the most robust in the developed world (and are effectively administered by the ATO), it is the self-generated regulation that is responsible for the bulk of the drag on the productive activities of large corporates and their tax functions[31].

As noted in the PC report, ultimately what matters is the implementation of regulation – that is, how regulators engage with business and what they require of business to demonstrate compliance. While we recognise the challenges the ATO must grapple with in terms of large business tax compliance (including Australia's high corporate tax rate and its over-reliance on corporate income tax revenue), its heavy-handed approach to the administration of tax laws and regulations remains unchecked[32] against its significant negative impact on large business dynamism. The cost of tax regulation for large business in terms of its detraction from productive activity should also be viewed in the context of the ATO's most recent tax gap data, which reveals once again that large business is the most compliant market.[33]

As rightly observed in the PC report, many activities aimed at improving regulatory systems are either difficult to measure or have not been effective in reducing the regulatory burden. What is needed are clear commitments and transparency from regulators and policymakers around their approaches and strategies for the regulatory systems they manage. In the context of tax regulation, these strategies should state how the ATO will:

- Develop short and long-term plans for review and reform of regulation
- Monitor and justify the compliance costs of each regulatory change taking place and how changes are expected to add to or remove the regulatory burden, and
- Evaluate and report on the outcomes of regulatory change.

[30] See further the CTA's confidential submission to the PC dated 6 June 2025 on PC Pillar One Consultation Questions.

[31] The CTA notes the ATO's response to the Treasurer's letter dated 4 July 2025 for new ideas to improv regulation and reduce unnecessary compliance costs, in particular its commitment to modernize ATO assurance programs and develop a framework to estimate compliance costs. See Treasury - ATO - Response letter - R Heferen_Redacted.pdf

[32] The ATO does not currently measure or report on the compliance burdens it imposes on large business

[33] See: Commissioner's address to The Tax Institute's Tax Summit 2025 | Australian Taxation Office