Business Council of Australia

Creating a more dynamic and resilient economy

BCA response to the Productivity Commission's Interim Report

September 2025

Contents

1. BCA response to the Productivity Commission's Interim Reports

The BCA welcomes the opportunity to respond to all five interim reports developed as part of the Productivity Commission's Five Pillars of Productivity Inquiries. We are a member-led organisation, and our submissions reflect engagement with those members and the expertise and practical experience they bring.

Australians have long enjoyed rising living standards, supported by productivity growth, abundant natural resources, a skilled population, and strong institutions. But this is now under pressure. Living standards are falling amid rising costs and sluggish productivity. At the same time, geopolitical tension, shifting trade patterns, decarbonisation, and digital transformation are reshaping the world economy. The only sustainable path to higher living standards and real wage growth is faster productivity growth. This means improving skills, attracting capital, innovating, and allocating resources efficiently.

Australia's productivity growth over the previous decade was the weakest in 60 years, and Budget forecasts suggest it will be even lower this decade. This outlook is based on an assumed return to pre-COVID productivity trends — a risky bet that ignores the scale of the challenge we face.

What's needed is a shift in mindset, one that recognises our deteriorating competitiveness and puts productivity back at the centre of the national reform agenda. That means doubling down on the fundamentals: investment and innovation.

There are practical, positive steps we can take, and ones that we believe could unite business, government, and the broader community. We must make it easier to do business, without compromising the protections and standards that underpin trust in our economy. That starts with cutting the needless red tape that adds cost but delivers no value.

We believe Australia should set a national ambition: to reduce the cost of regulation by 25 per cent by 2030. We welcome the Treasurer's commitment to seek Productivity Commission advice on benchmarking and targets – and what they might look like in an Australian context.[1]

The Productivity Commission gets this challenge, and we acknowledge the extensive work that it has undertaken to develop detailed and actionable recommendations that seek to support Australian governments to deliver meaningful and measurable reforms to boost productivity. The BCA does not support every recommendation in the interim reports; however, we welcome the constructive exchange of ideas and the opportunity for robust policy debate.

This report focuses on our response to the report titled *Creating a more dynamic and resilient economy* released for comment on 31 July 2025. In section two we provide our detailed observations and recommendations in response to the draft recommendations and information requests. These are summarised below:

- The BCA strongly opposes the introduction of a complex and distortionary Net Cashflow Tax that would further raise Australia's already uncompetitive corporate tax rate for large firms, distort investment decisions, and risk entrenching a sub-optimal two-tier system; The BCA welcomes recognition that the current inefficient corporate tax system is in need of reform. This has been a longstanding point of advocacy on the part of the BCA, and we would welcome, and actively contribute to a wider discussion on tax reform to boost productivity.
- A key theme from the report and the Economic Reform Roundtable is the urgent need to improve Australia's regulatory environment. Poorly designed, duplicative, and inconsistent regulation imposes significant costs on businesses and consumers, discourages investment, and weakens Australia's competitiveness. By contrast, better regulation reduces red tape, supports business productivity, fosters job creation, and delivers better outcomes for consumers. The BCA's *Better Regulation*[2] report outlines a

[1] https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/transcripts/interview-sarah-ferguson-730-abc-27; https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/transcripts/press-conference-canberra-26

[2] https://www.bca.com.au/better_regulation_report

comprehensive reform agenda, including the appointment of a Cabinet-level Minister for Better Regulation, a legislated commitment to regulatory stocktakes and cost-reduction targets (e.g. 25 per cent red tape reduction by 2030), improved policy impact analysis, better coordination through an expanded regulatory grid, and a regulatory economic star rating for new policies. We support all three of the Productivity Commission's draft recommendations on regulatory reform and emphasise the need for whole-of-system accountability to drive meaningful regulatory reform that makes it easier to do business in Australia.

2. Key observations and recommendations

2.1 Corporate tax reform to spur business investment

2.1.1 Draft Recommendations

Table 1 Draft recommendations

No.	Draft Recommendation	BCA Response
1.1	Pivot the corporate tax system to a more efficient mix of taxes	We oppose further complicating an already complex corporate tax system with a new tax that raises an already internationally uncompetitive tax rate for large firms. A two-tier, dual corporate income and Net Cashflow Tax (NCT) system is not a more efficient tax mix and will distort investment decisions to favour investments with lower capital productivity.
1.2	Lower the headline company tax rate to 20 per cent	We support a lower headline corporate tax rate, but this must be on a uniform basis so that firms of all sizes are incentivised to increase their investment spending. The PC's proposal raises the statutory and effective rate on Australia's biggest investors with the highest capital productivity.
1.3	Introduce a net cashflow tax of 5 per cent	The proposed net cashflow tax flow tax is highly uncertain in its application and implications, as the PC's recommendation for a phased introduction effectively concedes. Reliance on the NCT to fund a reduction in the corporate tax rate for small- and medium-sized firms risks locking in a sub-optimal tax system. The assumed benefit to economic growth relies on a positive effect on total business investment that is both highly uncertain and unlikely.

2.1.2 Information Requests

Table 2 Information requests

No.	Information Request	BCA Response
1.1	The PC is interested in views on further information about the interaction between the proposed cashflow tax (i.e. the net cashflow tax) and Australia's dividend imputation system.	The interaction between the NCT and other elements of the corporate tax system, including dividend imputation, would significantly complicate an already complex system. The potential absence of franking credits under the NCT means the cost of capital may increase for some investors.
1.2	The PC is interested in views on the most appropriate way to tax financial services in a manner that is consistent with the proposed changes and induces additional capital expenditure in a similar manner to the net cashflow tax.	Introducing another tax or levy on banks may increase borrowing costs for households and businesses, including by adding even more complexity and compliance costs. The 2010 Australia's Future Tax System review noted a cash flow tax is not appropriate for financial services and did not recommend this approach.
1.3	The PC is interested in views on whether a phased or package approach to the proposed changes is preferable, and the	The phased approach recommended by the Commission will increase uncertainty about the long-run form of the corporate tax system. This uncertainty will also weigh on business investment in addition to the increased tax burden on large business. A phased approach will also

No.	Information Request	BCA Response
	lead time government and companies would need.	need to pay careful attention to the treatment of past investments.

Further observations and recommendations:

The Productivity Commission is correct to highlight recent weakness in business investment as a significant factor in explaining Australia's recent poor productivity performance. It is also correct in concluding that the corporate tax system is one of the biggest levers the government can pull to encourage greater business investment, achieve capital deepening and promote faster productivity growth.

The BCA welcomes recognition that the current inefficient corporate tax system is in need of reform. This has been a longstanding point of advocacy on the part of the BCA. As the Commission notes, "our statutory [corporate tax] rate has fallen out of step with peer countries, as competition for global capital becomes more intense."[3] BCA members have consistently highlighted competition for global capital and local tax settings as a major impediment to new investment and growth. The BCA agrees with the Commission that the corporate tax rate "should be close to the OECD average, which is around 21 per cent."[4] As the interim report notes, "the relationship between lower company income tax rates and higher capital expenditure is well established in the economic literature." [5]

The interim report proposes lowering the company tax rate to 20 per cent for all companies with turnover below $1 billion. The lower company tax rate would be accompanied by the introduction of a 5 per cent net cashflow tax (NCT) for all companies and separate arrangements for the financial services sector. Under the NCT, all investment spending can be deducted as it is incurred, and losses can be used to offset company tax or carried forward with an uplift.

The leap of faith in this experimental two-tier, dual corporate tax system is the assumption that it will not deter investment *and* that it will help drive investment. By contrast, the status quo of doing nothing while the rest of the world increases competitiveness means nothing positive will happen to spur investment in Australia. In a joint statement, more than 20 peak business and industry bodies, representing large and small businesses, including the BCA, noted that "This approach punishes some of our most productive companies and industries."[6]

2.1.3 A higher corporate tax burden for large firms would make Australia more uncompetitive

While this would represent a reduction in the overall corporate tax for businesses with a turnover below $1 billion, it would also constitute a significant tax increase for those businesses with turnover above $1 billion. A 35 per cent headline tax rate would leave those businesses facing one of the highest statutory corporate tax rates in the world and the equal second highest in the OECD after France. To the extent the current 30 per cent statutory rate is "out of step with peer countries", for larger firms, this would make an already uncompetitive corporate tax system even more uncompetitive. This will drive globally mobile capital and the most productive investors away from Australia. Other jurisdictions have lowered their corporate tax rate, including most notably the first Trump administration's 2017 Tax Cuts and Jobs Act, which lowered the corporate tax rate to 21 per cent. The United States also recently made permanent other corporate tax reforms as part of the Trump administration's One Big Beautiful Bill. Germany will lower its federal corporate tax rate by 5 percentage points over the next five years while providing accelerated depreciation for fixed assets.[7]

The interim report effectively acknowledges that the higher rate through the cash flow tax could be expected to reduce investment spending by larger firms, offsetting the expected increase in investment spending on the part

[3] Productivity Commission, Creating a more dynamic and resilient economy: interim report, 2025. p. 5.
[4] Productivity Commission, Creating a more dynamic and resilient economy: interim report, 2025. p. 12.
[5] Productivity Commission, Creating a more dynamic and resilient economy: interim report, 2025. p. 16.
[6] Joint Group of Industry Organisations statement in response to Productivity Commission report, 1 August 2025. https://www.bca.com.au/joint_group_of_industry_organisations_statement_in_response_to_productivity_commission_report
[7] Germany enacts tax investment program to enhance country's appeal as business location, EYTax News Update, July 28, 2025.

of smaller firms. A smaller reduction in the corporate tax rate to a uniform rate without the introduction of the cash flow tax would be a preferable approach. BCA members are making some of the largest and most impactful investments in the Australian economy, including investments essential to the energy transition. Big business can do more if the economics of these large, high-risk investments are better supported through corporate tax settings. This is because these businesses tend to be more capital-intensive and have a higher productivity of capital than small- to medium-sized firms.

2.1.4 Adding complexity to the corporate tax system

According to the Tax Foundation's International Tax Competitiveness Index, Australia ranks only 32nd out of the 38 OECD countries for its overall corporate tax system, and 33rd for its cross-border tax rules, which are an important influence on cross-border investment flows. The Commission's proposed dual corporate tax system would add significant complexity to an already overly complicated corporate tax system.

Australia currently has a two-tier tax system with a lower corporate tax rate of 25 per cent for all companies with a turnover up to $50 million and a 30 per cent rate for those with turnover above $50 million (or with more than 80 per cent of their income derived from passive sources).

The proposal in the interim report would increase the complexity, distortions and disincentives from the existing two-tier, dual tax system and may offset the potential gains from increased investment spending on the part of smaller firms. The interim report concedes that "the use of a threshold risks distorting private sector decisions about company structure and size" and the proposal would lean on grouping and anti-avoidance rules.[8] The two-tier system is likely to result in highly productive large organisations divesting business units as these would be more valuable to other owners when they fall under the lower tax threshold. This distortion would be disadvantageous from a productivity perspective as large organisations are better resourced to optimise efficiency and productivity of those business units.

The current two-tier rate structure is distortionary and creates perverse incentives for companies near the relevant thresholds. The proposed NCT would create even further distortions, with up to a 10 percentage point gap in the headline rate paid by different entities, potentially creating very high effective marginal tax rates as entities near the headline rate threshold are bounced between the two rates. This in turn would likely require a proliferation of integrity rules to deal with the many edge cases and incentives likely to arise under this system.

Cash retained for the purposes of strengthening balance sheets or return to funds to shareholders would be exposed to the NCT. This would distort decisions in relation to capital structure and potentially encourage higher gearing.

A NCT would require business to undertake new and separate calculations to track all cash inflows and outflows precisely, adding an additional compliance burden to the existing corporate tax system. The introduction of a new tax concept into the Australian corporate tax system can also be expected to stretch the resourcing of the Australian Taxation Office given the NCT will require dedicated compliance and enforcement efforts. This includes new legislation (as well as consequential amendments), systems, forms, guidance and staff training.

2.1.5 A phased approach concedes the proposal is risky

The Commission's recommendation for a phased approach to the introduction of the NCT effectively concedes that this approach to corporate tax is highly uncertain in its application and effects. If the Commission lacks confidence in its initial adoption and its implications, this uncertainty will be even higher for business that has to operate under the proposed tax system and deal with its inherent complexity. The ATO will similarly face challenges with administration. There is significant uncertainty as to how the tax will operate in practice, for example, around the treatment of sales/purchases of businesses or land and for joint venture arrangements. There is also considerable uncertainty around the interaction of the NCT with features of the tax system that were introduced as part of a longstanding policy design to make Australia an attractive investment and holding

[8] Productivity Commission, Creating a more dynamic and resilient economy: interim report, 2025. p. 14.

company jurisdiction and to encourage Australian companies to expand globally and repatriate profits back to Australia. These include the non-portfolio dividend exemption and active foreign business asset (AFBAP) exemption, which, if not treated appropriately, would further erode Australia's international competitiveness.

The creation of a two-tier dual tax system consisting of both corporate income tax and NCT (and a separate tax arrangement for banks) will create incentives for continual tinkering or tweaking of thresholds, rates and bases adding further complexity to an already complex system. In turn, this would reduce any theoretical efficiency benefits in practice – undermining any potential benefits. The proposed system would also interact with other elements of the corporate tax system, such as the Petroleum Resource Rent Tax and OECD Pillar 2 obligations. The NCT may not qualify as a Covered Tax under the OECD Model Rules, giving rise to potential top up tax and effective double taxation.

Contrary to the Commission's suggestion that the NCT could be based on information already provided by business to the ATO, the proposed tax would in all likelihood require firms to prepare separate accounts to report against two very different tax concepts. The NCT will need to be complied with, even if there is no tax liability arising under the tax. A uniform corporate tax rate, by contrast, would be easier to comply with and is less susceptible to future tinkering with rates and bases and would require fewer additional integrity rules.

2.1.6 The proposed NCT also raises significant questions as to the starting base and grandfathering arrangements for existing investments, if any.

This has significant implications for revenue collected, the tax burden imposed and implications for investment. An appropriate starting base to protect existing investment and ensure prospectivity is needed to avoid adding to sovereign risk on past investment decisions which span a long, multi-year time horizon, especially for large capital-intensive businesses. If there is no recognition of prior investment, industries such as mining, construction, energy and infrastructure which have high upfront costs will be adversely impacted.

The proposal to introduce a dual tax system reflects a self-imposed medium-term revenue neutrality constraint that seeks to fund a lower corporate tax rate for small- and medium-sized firms from within the corporate tax system. This constraint leads directly to the proposed tax increase on larger firms both in absolute terms and relative to small- and medium-sized firms.

The report envisages that the current corporate income tax could be progressively replaced by the NCT. However, any such phased replacement would face the same revenue neutrality constraint if funded from within the overall corporate tax system. The danger is that the assumed revenue neutrality constraint prevents further substitution of the NCT for a lower corporate tax rate for all firms, but especially larger businesses. This will indefinitely lock Australia into a complex two-tier, dual tax system with an internationally uncompetitive statutory tax rate for large firms. Requiring any corporate tax reform to be financed from within the existing corporate tax system precludes a lowering in the aggregate corporate tax burden.

2.1.7 Flawed revenue neutrality assumptions

The proposed corporate tax changes are only revenue neutral after an assumed growth dividend flowing from the tax cut for firms below the threshold for the higher corporate tax rate and introduction of the NCT. But there is likely to be a significant offsetting disincentive effect for investment by larger firms. Foreign firms have significant discretion in where they deploy capital as investment decisions are based on expected after-tax returns. The NCT would impact these decisions about where to locate investment, whereas domestic firms will face fewer options. That is, the ultimate incidence of the company tax in Australia largely falls on workers, not owners of capital who can shift investments around the globe. It is estimated that up to two-thirds of the company tax is borne by labour.[9]

[9] Xavier Rimmer, Jazmine Smith, and Sebastian Wende, The incidence of company tax in Australia, Treasury Economic Roundup 1, 3 April 2014.

2.1.8 Phasing arrangements

The interim report suggests that the NCT is a first step towards a new company tax system. It argues that Australia could transition away from corporate income tax to the NCT over time. The Commission effectively concedes that there are significant uncertainties around the NCT and that its proposal "needs to be measured, to allow evaluation of the new tax to inform further change and to minimise unforeseen consequences."[10] As the discussion in this submission makes clear, many of the downsides of the proposed new tax are already evident.

The phased approach recommended by the Commission will increase uncertainty about the long-run form of the corporate tax system. This uncertainty will also weigh on business investment in addition to the increased tax burden on large business. A phased approach will also need to pay careful attention to the treatment of past investments.

2.1.9 Large business has higher capital productivity

The Commission's proposal proceeds on the basis that small- and medium-sized business might be more sensitive to changes in the corporate income tax rate, although there is limited evidence for the claim that large business has a significantly lower responsiveness to changes in the corporate tax rate. The Commission notes that there are around 7,000 firms with turnover between $50 million and $1 billion, and over 500 above, implying a larger investment dividend than from a smaller but uniform corporate tax cut.

However, there is considerable evidence that larger firms are more productive than smaller firms and that this productivity differential is largely a function of greater capital intensity driven by business investment. This points to a significant risk that even if the proposed tax arrangements generated a larger aggregate investment response on the part of small- and medium-sized firms, those investments would be less productive in relative terms and make a smaller contribution to overall productivity growth than investments driven by larger firms.

In this context, it is worth noting that Treasury has found that:

- More productive businesses pay higher real wages,
- Larger businesses are more productive and also pay higher real wages, and
- Exporters and foreign owned businesses are more productive and pay higher real wages.[11]

Reserve Bank research has examined investment and output shares by firm size for the private, non-mining sector over the period 2002-17. Large firms (defined as total revenue greater than $50 million) accounted for over 40 per cent of investment spending, but a much higher share of output.[12] As former RBA Governor Philip Lowe has observed, "In aggregate, small firms accounted for 32 per cent of investment in Australia from 2002–17, while accounting for only 17 per cent of output."[13] A clear implication of these data is that small firms (total revenue less than $2 million) and medium-sized firms (total revenue between $2 million and $50 million) have much lower capital productivity than larger firms. Smaller firms are also likely to face financing, labour market and other constraints relative to large firms that inhibit their ability to capitalise on opportunities that might otherwise be afforded by a lower corporate tax rate.

Larger firms typically have higher levels of capital intensity and capital per worker, yielding higher output per hour worked. The capital contribution value added in the largest 25 per cent of firms is four times that of the smallest 25 per cent of firms.[14] Treasury research using BLADE also shows that larger firms have lower productivity dispersion than smaller firms, suggesting that large firms are more likely to be closer to the efficient frontier.[15] In order to increase aggregate productivity, it is essential to incentivise those firms with the most productive

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[10] Productivity Commission, Creating a more dynamic and resilient economy: interim report, 2025. p. 13.
[11] Treasury, Analysis of wage growth, November 2017, https://treasury.gov.au/sites/default/files/2019-03/p2017-t237966.pdf.
[12] Lachlan Dynan, 'Which firms drive business investment? New evidence on the firm-size distribution, RBA Bulletin, 9 December 2021.
[13] Philip Lowe, 'The Recovery, Investment and Monetary Policy,' speech to AFR Business Summit, 10 March 2021.
[14] Marc Cowling and George Tanewski, 'On the productive efficiency of Australian businesses: firm size and age class effects,' *Small Business Economics*, 53, 2019.
[15] Simon Campbell, Thai Nguyen, Alexander Sibelle and Franklin Soriano, 'Measuring productivity dispersion in selected Australian industries,' Treasury-ABS Working Paper, 2019-2, February 2019. p. 19.

investment opportunities. Tax benefits directed to smaller firms at the expense of larger firms could lead to a less efficient allocation of resources. Investment by larger firms also has a critical role to play in underwriting the energy transition and meeting net zero emissions goals.

The proposed tax system creates a tax preference to buy innovations and intellectual property assets rather than developing them in-house, which would harm Australia's innovation ecosystem. It would also harm the commercialisation of intellectual property given the additional NCT of 5 per cent on any resulting cash flows.

2.1.10 Rents are difficult to identify and measure in both theory and practice

The PC analysis supporting the proposed NCT is centred around taxing economic rents in the Australian economy. But this is highly theoretical, contested, and difficult in practice. Identifying rents – let alone for tax purposes – is extremely difficult. At the same time, there is little debate around these issues within the PC analysis. For example, rents may arise due to regulatory barriers.

There is also a great deal of risk and uncertainty associated with most market investments. Rents may be temporary (quasi-rents) as higher prices may encourage greater investment and dissipate these returns. Rents may also diminish due to external factors such as project delays (including around approvals), changes in technology, policy instability, and regulatory uncertainty.

The treatment of losses and any uplift rate is also critical for the neutrality of the proposal. For companies with profits from existing investments, there is effectively no return allowed for the capital invested, to be earned before the NCT applies, as it offsets existing profit on a one-for-one basis underscoring the importance of having the NCT apply to new projects only. Firms make investment and capital allocation decisions on a risk-adjusted rate of return, not a risk-free return such as the long-term bond rate as proposed by the Commission for the uplift rate. Rents may exist where the sale of goods and services exceed the costs of production, where costs include a threshold, risk-inclusive rate of return for the investment to go ahead. However, there is no standard investment project and no consensus on a standard rate of return to be reflected through an uplift rate. The return on a project will vary with the cost of capital, location risks, project-specific risks and business-specific risks. It can also vary over time as regulations change, technology changes, new discoveries are made, substitutes are developed, or consumer preferences change.

Any uplift rate would need to be set such that investors are indifferent as to whether they receive the value of the tax deductions now or later. However, this is challenging due to the above-mentioned difficulties in measuring rents – and will also vary around project- and company-specific factors. Achieving neutrality also relies on the government being as well informed about the profitability and uncertainty around a particular project as the investors themselves. The decision to invest is undertaken on the probability of making a required rate of return, based on information at a certain point in time. Of course, these numerous variables can, and generally will, change after the final investment decision is taken. Some projects will perform better than initially expected and some worse – none is likely to deliver exactly what was anticipated based on initial probability assessments of the future.

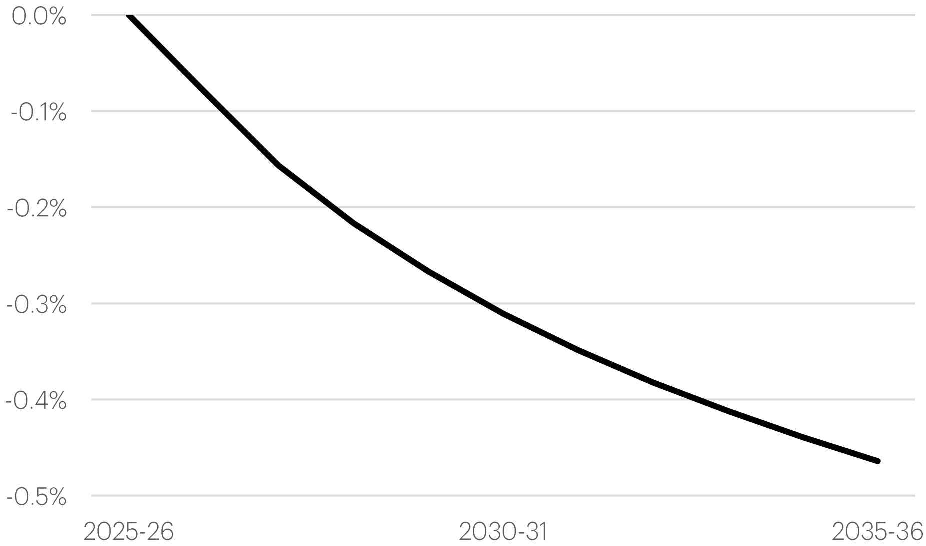
The proposal does not include a risk premium to compensate investors in the event that they never receive the tax value of the deduction, be it due to the nature of the project, or because transferral/refundability of losses is restricted or unavailable. Indeed, as noted above, it is difficult to determine a uniform uplift rate for every company, or even project.

A disconnect between the assumed theoretical effect of the NCT and the likely effect of the tax in practice will ultimately undermine – or eliminate – the benefits purported by the PC. To illustrate, the BCA commissioned modelling from Deloitte Access Economics which sought to mimic several elements of the 5 per cent NCT proposed by the PC. The modelled policy is not the same as the PC's proposal but is intended to recreate several important components of that proposal.[16]

[16] The primary differences between the policy modelled by Deloitte Access Economics and the cash flow tax policy modelled on behalf of the Productivity Commission are that a) the tax base modelled by Deloitte Access Economics does not exclude financial transactions, such as

This modelling enables the relaxing of the assumptions which underpin the economic impact of the NCT published by the PC. For example, the modelling commissioned by the BCA shows that, should the NCT affect firms' investment decisions in the same way that the existing corporate tax system does, it will reduce investment and economic growth. This is because it is assumed to lower the after-tax rate of return for large businesses, which will reduce investment and economic growth. Put simply, if the economic incidence of the NCT in practice is similar to the existing company tax system and does not proceed as per the assumptions made by the PC, an outcome which the BCA considers is likely – then the aggregate implications for investment and economic activity are likely to be negative.

Figure 1 Estimated effect of the modelled policy on real GDP assuming the economic incidence is the same as existing company tax, deviation from baseline



Source: Deloitte Access Economics modelling commissioned by the BCA. Note: The modelled policy is not the same as the PC's proposal but is intended to recreate several important components of that proposal.

2.1.11 Other issues

- Introducing another tax or levy on banks may increase borrowing costs for households and businesses, including by adding even more complexity and compliance costs.
  - The 2010 *Australia's Future Tax System* review noted a cash flow tax is not appropriate for financial services and did not recommend this approach.[17]
- Greater analysis of the mix of funding – debt, equity and retained earnings – is needed to better understand the implications of the proposal. Indeed, interest deductibility rules have been progressively tightened over recent years.
- The potential absence of franking credits under the NCT means the cost of capital may increase for some investors.
- It is unclear how the NCT would be classified as part of Australia's network of tax treaties. The treatment could have implications around foreign tax credits, taxing rights, withholding taxes and ultimately, double taxation.
  - Similarly, the treatment under the global and domestic minimum tax is unclear.

interest receipts or payments, b) the tax base modelled by Deloitte Access Economics does not exclude the financial services industry, c) the policy modelled by Deloitte Access Economics is not accompanied by a reduction in the company tax rate for companies with less than $1 billion in turnover. The modelled policy includes a 5 per cent increase in the company tax rate as well as the immediate full expensing of investment for the purposes of this additional 5 per cent tax.

[17] Treasury, 2010, *Australia's Future Tax System*, Canberra, Commonwealth of Australia.

2.1.12 International Experience

The European Commission has comprehensively reviewed the limited international experience with cashflow taxes (CFTs), including those countries that considered but then did not adopt cashflow taxes.[18] That review highlights many of the issues discussed in this submission.

- The most relevant international example is Mexico's Impuesto Empresarial a Tasa Única (IETU), also known as the Business Flat Tax, introduced in 2008. The IETU was a general CFT that operated in parallel with the existing CIT system.
  - It was abandoned in 2014 primarily due to the administrative burden it placed on Mexican businesses, as it required additional tax calculations without reducing existing compliance requirements.
  - Business heavily criticised it for disallowing certain deductions, such as royalties, interest paid to related parties, and wages.
  - It created distortions because its deduction and inclusion systems differed from the CIT, despite being complementary.
  - The tax did not fully recognise previous investments made before its introduction (except for limited cases), and specific avoidance schemes were identified, such as structuring asset transfers to create deductible rental fees.
  - IETU never reached its programmed annual collection goal.

  Several countries have considered implementing CFTs as part of tax reviews but ultimately decided against it because of the many issues highlighted in this submission.

- New Zealand considered a CFT in the context of its 2001 Tax Review and a subsequent Treasury study in December 2002. Reasons for not adopting a CFT included:
  - CFT proposals were rejected due to severe transitional problems, particularly concerning debt-financed investments and existing assets. Holders of debt could potentially avoid tax when liquidating assets, while others could not.
  - Concerns about the impact on asset valuations were also noted.
  - The tax posed ongoing revenue risks for the government, as it would effectively fund part of investments with uncertain future taxable cash inflows, and foreign firms could potentially generate losses and shift profits elsewhere.
  - The complexity of managing assets of an enduring nature during the transition from a CFT to an income tax system was deemed insurmountable, requiring intricate rules for depreciation and asset sales.
  - The various options for dealing with existing assets (e.g., "free entry," "cold turkey," or running parallel systems) each presented significant fiscal, insolvency, or administrative challenges.
- In Norway, the 2014 Scheel Committee considered a general Cash-Flow Tax (CFT) system as a potential replacement for the existing corporate income tax system. However, the committee ultimately did not recommend replacing the current corporate income tax system with any of the general CFT models. Their reasons included:
  - Concerns that tax revenues would vary to a greater degree, potentially falling during periods of major investments and increasing during times of low investment, which could be disadvantageous for economic stability.
  - A general CFT would deviate from common international standards, leading to significant practical challenges, particularly with cross-border operations. The committee noted that different treatment of income and costs between countries could increase double taxation and non-taxation, and such a model would be difficult to implement within existing tax treaties and Norway's international obligations.
  - Despite acknowledging that CFTs treat debt and equity equally and offer good investment incentives, the committee found that they do not resolve challenges related to profit shifting.

[18] European Commission, EY, 'Experiences with cash-flow taxation and prospects – final report,' Taxation Papers, Working Paper No. 55, 2015. https://taxation-customs.ec.europa.eu/system/files/2016-09/taxation_paper_55.pdf

- Sweden
  - A CFT system was discussed in an official report in 2002 but eventually discarded as not practically possible to implement at the time, particularly due to uncertainties regarding its interaction with double tax treaties.
- Switzerland
  - CFTs were discussed in a Ministry of Finance green paper in 2004 but never considered a serious political alternative to the existing CIT system because the paper indicated they were not creditable in the United States.

2.1.13 Further modelling

The interim report notes that the Commission will undertake further modelling of its proposed changes. The BCA recommends that the Commission investigate the implications of differences in capital productivity between small, medium and large business for the expected investment and growth dividend arising from its proposed reforms.

2.1.14 Alternative approaches to drive investment

Corporate tax reform, including a lower corporate tax rate, is an essential component of any productivity agenda focused on growing business investment, raising productivity, boosting real wages and improving Australia's attractiveness to foreign investment. Corporate tax reform needs to be placed in the context of a comprehensive tax reform effort that addresses inefficiencies, complexities and inequities in the broader tax system.

To the extent that the Productivity Commission has a self-imposed revenue constraint within the corporate tax system, full expensing, without modification to tax deductibility for interest expenses, and R&D incentives could be an alternative approach to consider. This would not have a permanent budget impact as it simply represents a shift in the timing of realising depreciation deductions. Modelling for the Productivity Commission estimates full expensing with interest deductions could lift business investment 18.9 per cent, productivity 4.8 per cent and GDP around 4.6 per cent.[19]

The BCA has also previously advocated for a broad-based 20 per cent investment allowance to incentivise business investment. It would apply to all businesses – of all sectors and sizes – and all types of investment to maximise the benefits. The BCA recommends the PC to comprehensively model the impact of an investment allowance as part of its analysis in response to its request for alternative ideas to assess. Reserve Bank of Australia analysis found the investment allowance introduced during the global financial crisis "had a strong effect on business-level investment".[20]

The BCA recently commissioned analysis of reforms to the R&D Tax Incentive.[21] The reforms could unlock almost $8 billion of annual economic output, generating $5 of value for every $1 of government expenditure over the next decade. The net fiscal impact of the reforms is expected to be neutral when accounting for the additional tax revenue that government would collect.

Comprehensive reform of the tax system is necessary to ensure the system is fit for the 21st century and capable of addressing the challenges Australia will face into the future. Broad-based tax reform should rebalance Australia's tax mix in a way that better promotes growth and investment.

A fundamental requirement is to ensure that Australia's tax system can raise sufficient revenue to fund government, but in a way that is least harmful to economic growth and better able to contain the volatility we face as a small open economy. The Commission's proposed corporate tax changes do not pass this test.

A new tax reform process should proceed on the basis that the tax system must be reviewed holistically and the community deserves to be informed about the full suite of possibilities, the benefits they bring and the trade-offs they involve. Tax reform options must be carefully assessed on their merits and how they collectively contribute

[19] Productivity Commission, Creating a more dynamic and resilient economy: interim report, 2025. p. 74.
[20] David Rodgers and Jonathan Hambur, 2018, 'The GFC Investment Tax Break', Research Discussion Paper – RDP 2018-07.
[21] https://www.bca.com.au/unlocking_australia_s_r_d_potential

to a more effective tax system, not in the context of preconceptions about their political palatability. To not do so would be grossly unfair to Australians and fail to acknowledge their capacity to understand and embrace choices that deliver overall benefits over the long term. To this extent, the BCA has undertaken analysis of various tax reform options and would welcome the opportunity to engage with Treasury and the PC on the detail. The Joint Group of Industry Associations submission to the Economic Reform Roundtable called for kickstarting comprehensive tax reform by appointing a range of stakeholders, including business representatives for a review supported by the PC and Treasury, underpinned by principles for tax reform which encourage investment and economic growth.[22]

2.2 Regulating to promote business dynamism

2.2.1 Draft Recommendations

Table 3 Draft recommendations

No.	Draft Recommendation	BCA Response
2.1	Set a clear agenda for regulatory reform	We support this recommendation.
2.2	Bolster high level scrutiny of regulations	We support the overall recommendation that the Government should review regulation to ensure its impact on growth and dynamism is more fully considered but believe there is scope to further strengthen this recommendation.
2.3	Enhance regulatory practice to deliver growth, competition and innovation	We support this recommendation.

Further observations and recommendations:

A common theme emerging from this report, and reinforced throughout the Economic Reform Roundtable, is the imperative to accelerate improvements in policy and regulation. Where it is badly designed, the burden ultimately falls on consumers through higher costs, delays and fewer choices. Unnecessary and inefficient regulation makes it harder to do business in Australia, makes the country less competitive and a less attractive place to invest. By contrast, better regulation means less unnecessary red tape and more productive businesses. It supports more job creation, better products and lower prices for consumers.

The burden of regulation is a significant issue for Australian companies, which face duplication and inconsistencies across various levels of government, frequent changes to laws and regulations, and a poor understanding from policymakers and regulators of the complexity, time and cost of implementing these changes. Regulation can also be applied through guidelines, contracts and funding arrangements. Unnecessary and inefficient policy and regulation in Australia is making it harder to do business here, so global investors are looking elsewhere.

The BCA's Better Regulation Report outlines a range of reforms to improve regulation in Australia. The report also notes the Commonwealth Government'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 per cent of GDP. In today's dollars, this represents a compliance burden of over $110 billion – before even accounting for any increase in regulation since. The report also includes several proposals to improve how we make and deal with regulation in Australia, many of which are synergistic with recommendations in the PC interim report. We encourage the PC to have careful regard to these proposals in finalising the report and would be delighted to engage with you on any of them at the next level of detail, including:

- The appointment of a **Minister for Better Regulation** with clear responsibility across departments to help drive a better regulation agenda that makes it easier to do business in Australia.

[22] https://www.bca.com.au/joint_submission_to_the_economic_reform_roundtable

- An **exemplary Impact Analysis mandate** before any policy can proceed to support better policy making to address genuine policy problems with genuine policy solutions that deliver net benefits to the community.
- Requirement for **a regulatory stocktake and regulatory burden reduction targets** to help both highlight, and reduce, the significant cumulative regulatory burden over time.
- An **expansion and improvement of the regulatory grid** currently in place for the financial services sector, to help better coordinate regulation and help drive better outcomes in other key sectors of the economy – such as telecommunications.
- A commitment to **reduced reliance on legislative instruments** when enacting policy reforms, particularly reforms that are not time sensitive, to ensure adequate consultation and appropriate scrutiny.
- Introduction of a **regulatory economic star rating** that reflects the estimated net economic growth, productivity and dynamism impact of each new policy and regulation to provide for simpler, more consistent, and more transparent assessments of impacts on Australian businesses and on the economy in these key areas.
- A commitment to **improving regulation opportunities through any future inquiries** to address the cumulative burden of regulation.

We support all three recommendations in this section of the report and note:

- Draft recommendation 2.1, we believe that that Government should enshrine in legislation a commitment to undertake and publish a regulatory stocktake and set targets for reducing total costs over time, starting with a commitment such as **reducing red tape by 25 per cent by 2030**. This should also be adopted by state and territory governments. A suitable government body, for example the Productivity Commission, could be tasked with establishing a robust, cost effective and common method to assess the total cost of regulation.
- Draft Recommendation 2.2, we submit that the creation of an independent statutory commissioner to oversee the Office of Impact Analysis may not be as effective as other options. In our view, driving better regulation and outcomes requires overarching accountability for the entire regulatory system, as well as a simpler, more impactful, transparent and consistent assessment process. **We therefore support the appointment of a Cabinet-level Minister for Better Regulation with clear cross-departmental responsibility.** Such a role would bring sustained focus, ensure meaningful progress, and help deliver a regulatory reform agenda that makes it easier to do business in Australia.

2.2.2 Information Requests

Table 3 Information requests

No.	Information Request	BCA Response
2.1	The taxonomy proposed above represents regulatory failures that have been raised regularly with the PC during consultation. We have heard of a number of broad examples that align with these categories – for example, duplicate and inconsistent regulations emerge when regulators are unable to adopt standards from comparable regulators from other states, or from overseas. We would like to hear specific examples of regulations that you think align with the categories above, and that could easily be fixed by government.	We agreed with the PC's analysis that the most common issues that lead to poor regulation include band-aid regulation; duplicate or inconsistent regulation; overly prescriptive and rigid regulation; overly risk adverse regulation; regulatory delay; and the cumulative burden. We include a number of specific examples of regulations that align with these categories in our July 2025 submission to Treasury: Better Regulation.

No.	Information Request	BCA Response
2.2	Which quantitative economy-wide measures of the quality of regulation and the regulatory burden should the Australian Government track? How should it set targets for these?	Following the lead of the UK Government and EU, we strongly advocate for the adoption of an overarching quantitative target: a commitment to reduce red tape by 25 per cent by 2030. This headline goal, reported against regularly, should serve as the benchmark for driving regulatory reduction initiatives across all levels of government. When it comes to quantitatively measuring the quality of regulation, the BCA would be happy to engage further with the PC on how this might be done. For example, in our Better Regulation, report includes a recommendation to consider a new regulatory economic star rating system that would measure and reflect the estimated net economic growth, productivity and dynamism impact of each new policy and regulation on Australian businesses and the economy.
2.3	In which sectors or regulatory systems is immediate regulatory review most warranted, and why?	In our view, the most effective approach to regulatory review is twofold: through a holistic, whole-of-government assessment (see our comments above on a regulatory stocktake), complemented by a focus on clearly defined national priorities. In our Better Regulation report, we highlight the following national objectives for regulatory reform: ▪ Make it easier to invest ▪ Make it easier to employ people ▪ Make it easier to do business ▪ Make it easier to do trade ▪ Support the transition to net zero with affordable and reliable energy ▪ Support the modernisation of the Australian economy ▪ Make it easier to support small businesses
2.4	How should regulators and policymakers balance risk with growth objectives? What guidance should governments give? What are the constraints which impede regulators and policymakers from better balancing risk and growth objectives? What guidance can governments give to help?	In our view, regulators and policy makers can achieve a better balance between risk and growth by: ▪ Updating the Impact Analysis framework to require a more comprehensive assessment of economy-wide costs associated with new regulations. This should include explicit analysis of potential impacts on economic growth, investment, and innovation. In addition, the framework should require consideration of the cumulative regulatory burden on businesses, specifically how the proposed regulation interacts with existing obligations, including at the state and local government level. This would ensure a more holistic understanding of the overall regulatory impact before new measures are introduced. ▪ Addressing both the *stock* and *flow* issues identified in the report, namely "paring back inappropriate regulations that already exist (the stock), and from screening out inappropriate regulations before they are enacted (the flow)". ▪ Setting clear statements of expectation for regulators that acknowledge the tension between regulation that seeks to prevent harm against regulation that impedes growth. ▪ Introducing an economic star rating applied to all new policies and regulations impacting Australian businesses, based on the

No.	Information Request	BCA Response
		net impacts of the policy on economic growth, productivity and dynamism. That is, a five-star rating for a policy more likely to promote growth, and a half star rating for poorly designed regulation that saps growth. This ratings system, which could be overseen by Treasury, might provide a transparent and consistent mechanism to allow for assessments of the balance of risk and growth objectives of new regulation and policy both within and across different sectors of the economy. ▪ More comprehensive consideration should be given to whether primary legislation, delegated legislation, or additional guidance is the most appropriate mechanism to address behaviours causing harm to the economy or Australian consumers. Each avenue has distinct advantages and disadvantages, yet too often these are not fully assessed, resulting in regulatory responses that are not fit for purpose. ▪ In principle, all regulations should be subject to a robust and effective review mechanism. This should include formal processes such as post-implementation reviews. For new regulations that affect control over or access to economic assets, full merits review rights should also be available. These rights provide businesses with the legal certainty necessary to support investment and operational decision-making. ▪ Mandate, where practicable, coordination across regulators. Too often we see instances of an obligation being created through one regulator, conflicting with another obligation in a different regulatory regime, for example managing obligations to limit the *retention* of personal information or *use* of personal information under both the Privacy and Spam Acts, against the need to hold data for other retention periods defined in other regulatory regimes or requirements to communicate with consumers to prevent or address scams. A *Regulatory Initiatives Grid* was developed for the financial services sector to address these issues. We believe that further regulatory initiative grids should be developed to improve on the existing financial services sector regulatory grid. The grid should: – Involve a rolling 24-month forward program of all regulatory initiatives that will materially affect stakeholders, updated twice a year. – Include regulatory initiatives such as proposed changes to legislation, rules, standards, consultation processes, and data collection processes. – Be expanded on a sector-by-sector basis, starting with industries that face high levels of intersecting regulatory obligations, such as the telecommunications sector. For example, new regulations are already impacted by existing regulations including from the ACCC, the ACMA and the Attorney General's Department, and the Departments of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts, Home Affairs, and Treasury. ▪ An expanded regulatory grid will help better coordinate regulation and help drive better outcomes. This will give

No.	Information Request	BCA Response
		businesses clear visibility of regulation that may impact businesses and support engagement with proposed reforms and their implementation. It also aligns with the first principle of the Regulator Performance Guide – Continuous improvement and building trust. This includes harmonisation with other regulators and producing common guidance where appropriate to provide clarity.
2.5	What levers does the government have, beyond statements of expectation and guidance from central agencies, to help promulgate and embed a culture of regulatory stewardship within the APS?	The Australian Public Service Commission (APSC) could play a key role in fostering a culture of regulatory stewardship across government by: ▪ Identifying and adapting best-practice regulatory stewardship approaches from leading overseas jurisdictions, ensuring that Australian regulators remain aligned with international standards and innovative practices. ▪ Examining case studies of transformation and culture change within the private sector, including how organisations have embedded continuous improvement and accountability. This could extend to testing the appropriateness of different workplace methodologies, such as agile, design thinking, or lean approaches, for the regulatory environment, with a view to improving responsiveness, collaboration, and outcomes for business and the community.

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