**To:** The Chair, Productivity Commission

**Cc:** The Treasury

**From:** Noah Parfitt

**Date:** October 2025

**Title:** *Tax Where It Happens – Reforming Australia's Corporate Tax Base*

# Executive Summary

This submission proposes a structural reform of Australia's corporate income tax to better align taxation with the location of real economic activity.

The model taxes revenue generated from Australian customers while allowing deductions only for payments made to Australian employees (registered TFNs) and Australian-registered businesses (valid ABNs).

All other payments, including those made to foreign affiliates, consultants, or service providers, would be **non-deductible** for tax purposes. Corporate profits after these deductions would be taxed at the existing **30 per cent** rate.

A flat **30 per cent withholding** would then apply to all shareholder distributions (dividends, buybacks, equity redemptions), replacing the current franking-credit system. Distributions to Australian shareholders would be **final-taxed at source** and excluded from personal income tax, eliminating double taxation while closing major profit-shifting channels.

This reform would simplify compliance, reward genuine domestic activity, and broaden the tax base without raising rates. Treasury and the Productivity Commission are invited to model transitional impacts and potential future rate adjustments once behavioural responses are observed.

# 1 Rationale for Reform

Australia's corporate tax system relies on worldwide income concepts and complex transfer-pricing, thin-capitalisation and franking rules that invite avoidance and compliance costs.

Key problems include:

- **Profit shifting:** multinationals book revenue offshore or inflate deductible payments to related foreign entities.[1]
- **Complex imputation:** franking credits distort capital flows and create inequities between domestic and foreign investors.[2]
- **Uneven burden:** domestic-focused firms pay closer to the statutory rate while global firms often pay far less.[3]

By limiting deductions to verifiable payments to Australian workers and suppliers, the proposed system taxes value where it is produced and consumed, while making avoidance through offshore structures largely impossible.

# 2 Proposed Model

**Tax base:**

*Taxable income = Australian-source revenue − (payments to Australian TFN/ABN holders)*

**Corporate rate:** 30 per cent (same as current).

**Non-deductible foreign payments:** Any amount paid to a non-Australian entity, even if normally deductible under current law, is not deductible for tax purposes.

**Shareholder distributions:**

- All distributions, defined broadly (dividends, buybacks, equity redemptions, return of capital, loan forgiveness) taxed via a 30 per cent withholding.
- Domestic shareholders are exempt from further income tax on such distributions.
- The franking credit system is abolished.

[1] ATO Corporate Tax Transparency Reports 2022–24; OECD BEPS Country-by-Country Data.
[2] Treasury, *Review of the Imputation System* (2017).
[3] Productivity Commission, *Shifting the Dial* (2017) ch. 2.

**Illustrative calculation:**

For \$100 in Australian revenue with \$70 of domestic costs → taxable income \$30

→ corporate tax \$9 → post-tax \$21

If distributed, a 30 % withholding (\$6.3) applies, leaving \$14.7 to shareholders.

Total tax collected ≈ \$15.3 (≈ 15 % of revenue, 51 % of pre-tax profit).

The 30 per cent withholding thus produces an effective total rate of roughly 51 per cent on distributed profits, comparable to the top marginal rate under current integration.

Treasury and the Productivity Commission should model whether a **reduced withholding (20–25 %)** would achieve revenue-neutral parity with today's combined corporate + personal system.

# 3 Implementation and Compliance

- **Verification:** Businesses report annual spreadsheets listing payments with ABNs/TFNs and total amounts. The ATO cross-checks automatically, disallowing unverified deductions. ABN holders would disclose Ultimate Beneficial Ownership (UBO) to the registry, only payments to firms with domestic UBO are deductable.
- **Transition:** A one-year optional transition period during which existing franking balances can offset withholding liabilities.
- **Administration:** The system reuses existing PAYG and BAS infrastructure, minimising administrative overhead.
- **Anti-avoidance:** The withholding applies to *all* shareholder distributions (including capital returns and buybacks) to prevent reclassification loopholes.

# 4 Integrity and anti-avoidance

The proposed model includes complementary integrity rules:

- ABN/UBO integration so that deductions are available only to entities with verified Australian beneficial ownership.
- A clear statutory definition of 'distribution' that captures dividends, buybacks, returns of capital and synthetic equivalents.
- Consideration to exclusions or caps for certain asset classes (e.g. real estate) to avoid consequential asset price inflation or base narrowing.

# 5 Expected Outcomes

| Policy Effect | Expected Impact |
|---|---|
| **Revenue base** | Broader, with less leakage through offshore deductions. |
| **Fairness** | Equal treatment of domestic and foreign firms. |
| **Simplicity** | Removes franking, transfer-pricing, and treaty-dependent adjustments. |
| **Incentives** | Rewards employing Australians and buying from Australian suppliers. |
| **Investment** | Encourages reinvestment of profits locally (retained earnings untaxed until distribution). |

Preliminary estimates suggest a potential **net revenue gain of $50-60 billion annually**, even after behavioural adjustments, though precise modelling should be undertaken by Treasury and the Productivity Commission.[4]

# 6 Transition, Modelling and Rate Adjustment

The statutory 30 per cent rate provides stability and continuity.

However, because the reform materially broadens the base, Treasury and the Commission should:

- Model the reform's net fiscal and investment impacts.
- Identify whether a lower corporate or withholding rate could maintain revenue neutrality.
- Recommend phased adjustments once data confirms behavioural stability.

A cautious approach would retain 30 per cent during implementation and consider a later reduction to the **mid-20 per cent range** if sustainable revenues and competitive neutrality are confirmed.

[4] Illustrative estimate based on ATO tax receipts 2024–25 Budget Paper No. 1; ABS BoP Catalogue 5302.0; author calculations.

# 7 Conclusion

This proposal replaces complexity with clarity:

tax value where it arises, reward domestic employment and production, and apply one fair, enforceable rate at source.

It eliminates franking distortions, aligns revenue with national activity, and ensures that all firms (domestic or multinational) contribute proportionately to Australia’s fiscal base.

Respectfully submitted,

Noah Parfitt

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# *Annex 1 - Illustrative Fiscal and Behavioural Modelling*

## 1 Purpose

This annex provides indicative, high-level estimates to illustrate the fiscal and behavioural implications of the proposed 'Tax Where It Happens' model. Figures are not official forecasts, but plausible approximations derived from published Australian Bureau of Statistics (ABS) and Australian Taxation Office (ATO) data for 2024–25.

## 2 Illustrative Fiscal Base Expansion

| Category | Estimate (A$ billion) | Basis / Source |
|---|---|---|
| Corporate income tax collections (2024–25) | 140 | *Budget Paper No. 1, 2024–25* |
| Foreign-related deductible payments (interest, royalties, service fees, etc.) | 300 | *ABS BoP Cat. 5302.0; ATO data* |
| Share of those attributable to profit-shifting / deductible offshore arrangements | 50% | *OECD BEPS benchmarking* |
| Taxable base expansion under reform (A$300b × 50%) | 150 | *Derived* |
| Revenue gain at 30% rate | **45** | *Derived* |
| Abolition of franking credit refunds (net budget saving) | **6** | *PBO Estimates 2022* |
| Increase in withholding on foreign shareholder distributions (current ≈$6b → potential ≈$15b) | **9** | *Treasury Corporate Tax Modelling* |
| **Total potential annual uplift** | **≈ 60** | *Illustrative midpoint* |

## 3 Sensitivity: Effective Rate and Behavioural Adjustment

| Scenario | Corporate Rate | Withholding Rate | Effective Rate on Distributed Profits | Approx. Net Revenue Change |
|---|---|---|---|---|
| Baseline (current system) | 30% | - (franking) | 30-47% (depending on shareholder) | - |
| Proposed Model | 30% | 30% | ~51% | +$50–60b |
| Adjustment A | 30% | 25% | ~47.5% | +$35–40b |
| Adjustment B | 30% | 20% | ~44% | +$20–25b (near neutral) |

*Interpretation:* Even with a withholding reduction to 20 - 25%, the reform likely remains revenue-neutral or positive, owing to the broadened base and elimination of leakage. Treasury modelling should confirm optimal rates for neutrality and investment competitiveness.

## 4 Behavioural and Dynamic Effects

| Behavioural Channel | Expected Direction | Explanation |
|---|---|---|
| Profit shifting | ↓ Strongly reduced | Foreign deductions disallowed; no transfer-pricing benefit. |
| Dividend policy | ↓ Slightly reduced distributions | Some retention of earnings to avoid second layer of tax. |
| Domestic reinvestment | ↑ Increased | Retained earnings untaxed until distribution. |
| Administrative complexity | ↓ Sharp reduction | No franking, transfer-pricing, or CFC adjustments. |
| Compliance verification | ↑ Simplified automation | ATO cross-check TFN/ABN data via standard PAYG/BAS filings. |

## 5 Transition and Modelling Requests

Treasury and the Productivity Commission are invited to:

1. Model macroeconomic effects (investment, wages, GDP) using Computable General Equilibrium (CGE) techniques.
2. Analyse long-term revenue neutrality under alternative withholding rates.
3. Quantify potential compliance cost savings relative to current transfer-pricing regimes.