Australian
Finance
Industry
Association

15 September 2025

Ms Danielle Wood
Chair
Productivity Commission
Level 8, Two Melbourne Quarter
697 Collins Street
DOCKLANDS VIC 3008
By email: 5pillars@pc.gov.au

Dear Chair

INTERIM REPORTS – FIVE PILLARS OF PRODUCTIVITY INQUIRIES

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.[1] We appreciate the opportunity to respond to the Productivity Commission's interim reports on creating a more dynamic and resilient economy, investing in cheaper, cleaner energy and the net zero transformation, and harnessing data and digital technology, as part of the five pillars of productivity inquiries.[2]

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

[1] Australian Finance Industry Association (afia.asn.au).
[2] Productivity Commission, *Five pillars of productivity inquiries*, (13 December 2024).

INTRODUCTORY COMMENTS

As Australia reaches for productivity gains, AFIA notes that the finance industry is a first adopter in terms of adopting efficiency enhancing technology. Consequently, we believe data and the digital economy must be central to any policy responses. Nowhere are the dividends of digital innovation more evident than in financial services, with financial services representing 7.5 per cent of national output, but less than 4 per cent of the workforce.[3]

Ultimately regulation is where Australia's productivity manifests—because regulation determines where scarce capital, labour and technological resources are allocated. The challenge for policymakers is getting the balance right. In a financial system which requires balancing stability with dynamism, the risk is always that if regulation leans too far towards caution, the trade-off becomes one of protection for today's risks at the expense of tomorrow's gains.[4]

CREATING A MORE DYNAMIC AND RESILIENT ECONOMY

AFIA notes the Productivity Commission's (PC) recommendations on reform of corporate taxation. Although, the ambition to encourage greater capital deepening is welcomed, the risk in the Productivity Commission's (PC's) proposals is in reducing corporate income tax for some and raising it for others, the opportunities for arbitrage and complexity increase, as well as potentially reinforcing growth penalties for expanding firms.

AFIA appreciates the extent of the productivity challenge and the fiscal challenge facing the nation. In that regard, corporate tax reform is an important tool to drive productivity. However, corporate tax changes should be part of a holistic review of taxation in Australia, with a long-term vision which considers all components of the revenue base and a program of comprehensive reform with productivity growth, the scope and reach of government and intergenerational fairness front of mind.

Fundamentally, as a nation we have become too reliant on income tax, which disproportionately burdens those in the workforce in the context of an ageing population as well as affects work incentives and other factors. An overall tax reform agenda would need to ensure corporate tax arrangements are clear and competitive, ensure the contestability of taxation decisions, and address any multinational and cross-border complexities that may inhibit capital investment into Australia.

The PC's interim report on corporate tax reform, as part of its inquiry into creating a more dynamic and resilient economy, makes the argument that the different treatment of debt and equity financing in our company income tax system distort capital expenditure decisions and makes Australia a less attractive destination for business investment.[5] The PC argues that the current corporate income tax system favours debt over equity,

---

[3] Jobs and Skills Australia, *Financial and Insurance Services*, (accessed 9 September 2025).

[4] See AFIA's submission to the Economic Reform Roundtable: https://www.afia.asn.au/newshub/policy-reform-regulate-growth-risk.

[5] Productivity Commission, *Creating a more dynamic and resilient economy – interim report*, (31 July 2025), pp. 8-9.

disadvantaging smaller or new companies on the basis that such companies are more likely to rely on equity financing and retained earnings to fund capital expenditure.[6]

As part of its net cashflow tax (NCT) proposal, the PC states that the cost of financing investments in the form of interest payments will not be deductible, which they say will reduce the tax system's bias towards debt and help newer and growing firms to compete with larger incumbents.[7]

In arriving at this conclusion, the PC have made the implicit assumption that tax deductibility of debt interest is the key determinant of a company's capital structure, and therefore a company's preference for debt over equity financing. This assumption may be too simplified. For example, restructuring and performance decisions by investors can also determine a company's leverage. Similarly, other determinants for a company's capital structuring decisions include, the life-cycle stage of the firm, business risk, prevailing market conditions, the relative cost of capital, management objectives and the broader regulatory environment. Focusing on the corporate tax rate as the main capital structuring determinant for firms is too narrow.

Furthermore, AFIA submits that interest is a legitimate business expense, the deductibility of which has been a part of tax systems in many countries for decades. Not allowing a deduction for interest would be out of step with international norms, would further deter investment in Australia, and raise after tax financing costs for businesses that rely on loans as a material funding source.

Although the PC's assumption that small businesses are more likely to rely on equity financing is more realistic, this is largely because debt financing can be less accessible or attractive for such businesses. While we note that AFIA members seek to serve the needs of small businesses through a variety of mainstream, specialist, and online lending options, access has been a problem recognised by small business representatives, including the Australian Small Business and Family Enterprise Ombudsman (ASBFEO).[8]

The PC's position also ignores the reality of Australia's underdeveloped market for small business equity financing via venture capital, which is highly sensitive to overall capital gains tax rates rather than income tax rates in general. If the PC wishes to encourage equity financing for small businesses, we suggest the focus should be given to tax incentives to attract both domestic and foreign capital to small and innovative Australian companies.

For the sake of simplicity, the PC has said that financial transactions, including interest income, should be excluded from sales/turnover for the purposes of the net cashflow tax, and therefore some financial services entities would be excluded:

[6] Ibid., p. 10.
[7] Ibid., p. 23.
[8] ABSFEO, *Media Release*, 'Ombudsman shares RBA concern over small business access to finance', (17 March 2021).

To ensure that the net cashflow tax is simple, financial transactions would be excluded from both sales and expenses. The key implication of this is that interest earnings would not be recognised as turnover, nor interest payments as expenses. Therefore, some financial services would be excluded from this tax …[9]

Furthermore, the PC has noted that as interest income is excluded in the net cashflow tax design, and "modelling assumes that in this sector the tax will raise relatively little revenue and generate limited additional incentives", therefore a different approach will be needed for the finance industry.[10]

The PC proposes two options, the first being a financial net cashflow tax made up of the difference between financial inflows and outflows.[11] This would essentially constitute the net interest margin (NIM) as the proxy for the gross margin of the financial services business, and therefore the tax base of the cashflow tax. As with authorised deposit-taking institutions (ADIs), the NIM is the primary gross margin source for non-bank lenders. Instead of paying interest to depositors, non-bank lenders pay interest to investors and creditors. Any exclusions in the design of the net cashflow tax would have to extend to all financial services businesses that rely on net interest income as their primary income. Non-bank lenders source their funding through securitisation, corporate loans, and private market funding. This option would also require significant clarity from policymakers on the specific types of financial entities captured.

The second option proposed would be an additional company income tax levy on financial services companies, equivalent to the next cashflow rate, above the revenue threshold.[12] This method, which would constitute an inefficient tax hike on financial services businesses, which are among the most efficient sectors in the Australian economy, would have the effect of inducing reduced capital expenditure, not additional.

AFIA is of the view that it is not apparent at all that a net cashflow tax on the (NIM) or gross margin of financial services businesses will induce additional capital expenditure on productivity enhancing activities. Financial services businesses are already highly efficient and innovative enterprises, and impediments to productivity in the finance industry are largely due to the regulatory burden that such businesses face.

As opposed to increasing tax complexity, AFIA supports the PC's regulatory policy that supports business dynamism, including:

- a whole-of-government statement on regulation, including explicit reference to the need for regulators and policymakers to consider the implications of their decisions on broader economic and social objectives. This includes avoiding excessive risk aversion, tunnel vision and actively seeking to promote growth.[13] Furthermore, the statement should include explicit reference to the need for regulators and policymakers to consider the impact on regulated parties of individual regulations and the cumulative burden of regulation.

[9] Productivity Commission, *Creating a more dynamic and resilient economy – interim report*, (31 July 2025), p. 20.
[10] Ibid., p. 20.
[11] Ibid.
[12] Ibid.
[13] Ibid. p. 35.

- strengthening scrutiny, review and evaluation mechanisms of regulation via Cabinet, an independent Office of Impact Analysis, the Parliament, and independent regulatory reviews.[14]
- enhancing regulatory and policymaking practice to increase growth and dynamism, including via ministerial statements of expectations to regulators to consider economic growth and competition in their decisions and actions.[15]

AFIA also recommends the Government undertake a more ambitious program of 'better regulation' reforms, streamlining and simplifying regulatory obligations and leveraging mechanisms, such as the regulatory Initiatives Grid (RIG), to ensure regulatory activities are better sequenced and coordinated.

INVESTING IN CHEAPER, CLEANER ENERGY AND THE NET ZERO TRANSFORMATION

In terms of reducing the cost of meeting emissions targets, AFIA restricts its comments to the transport sector. Market interventions for the purposes of the net zero transformation should be well-designed, targeted and justified through evidence-based and proven policies.

The PC has recommended that the Government phase out the fringe benefits tax (FBT) exemption for electric vehicles (EVs), arguing it duplicates the work of the New Vehicle Efficiency Standard (NVES) in terms of the cost of emissions abatement in the transport sector.[16]

AFIA believes this position is misplaced, as the policies are not duplicative in function. The NVES is a supply side lever. Without the existing FBT incentives (or an equivalent incentive) demand for EVs is unlikely to keep pace with the significant increase in supply of such vehicles coming into the country as a result of the NVES. Without a corresponding demand side incentive, there is the potential for oversupply and high volatility for new and used vehicle prices. This is something that would need to be very carefully considered in light of aspirations to achieve net zero.

The Government's FBT exemption for EVs and plug-in hybrid vehicles has supercharged Australia's uptake rates, helping Australia progress towards achieving its 2030 emissions reduction target. Furthermore, this initiative will play a key role in creating a second-hand EV and hybrid market that makes the transition to low emissions transport sustainable and accessible for Australia.

According to the Department of Climate Change, Energy, Environment and Water, the transport sector accounts for 22 per cent of Australia's emissions, our third largest emitter. Passenger cars and light commercial vehicles contributed 60 per cent of our transport emissions alone, and over 10 per cent of total emissions.[17]

---

[14] Ibid. pp. 35-38.
[15] Ibid., 39-40.
[16] Productivity Commission, *Investing in cheaper, cleaner energy and the net zero transformation - interim report*, (3 August 2025), p. 28.
[17] Department of Climate Change, Energy, the Environment and Water, *Reducing transport Emissions*, (accessed 22 July 2025), https://www.dcceew.gov.au/energy/transport

AFIA has consistently supported the FBT exemption as a key component of the Government's policy agenda to reduce emissions and as an important part of achieving our emissions reduction targets and net zero ambitions. We encourage the Government to look at the results of the policy pragmatically and with a view to the wider range of benefits the FBT exemption brings immediately and longer-term.[18] Premature withdrawal from this policy would risk undermining Australia's climate targets and EV market momentum.

According to AFIA's recent EV and Hybrid Finance report, the demand for low-emissions vehicles is surging, with over $6.17 billion in electric and hybrid vehicle finance delivered in 2024 — a 50% year-on-year jump.[19] Commercial finance is driving the transition, accounting for the majority of growth in 2024, with novated leasing remaining a major driver, representing nearly 70% of all transactions.A recent report published by AFIA, commissioned with Deloitte Access Economics –*The Role of the Finance Industry in the Transition to Sustainable Transport* – identified key barriers to EV and hybrid vehicle uptake, including underdeveloped charging infrastructure, fragmented policy settings, and the phasing out of financial incentives.[20]

While 2024 closed with record-breaking numbers, early 2025 revealed the sensitivity of the low emissions vehicle market to policy shifts. Following the announcement of the end of the FBT exemption for plug-in hybrid electric vehicles (PHEVs), vehicle sales in this category saw a sharp decline in April 2025.

The decrease in PHEVs being financed after losing the exemption proves this policy was working and shows that the policy is still required to drive lasting changes in consumer purchasing behaviour, especially given Australia is lagging other parts of the world in the deployment of public and private charging infrastructure. Incentives to change behaviour must be based on policies that are proven to work, including learning lessons from overseas, and applying these in meaningful ways for Australia, and acknowledging the requirements of Australians and our markets. Australia's approach to EV incentives aligns with successful models overseas, whereby incentives are maintained until markets mature.

AFIA's latest data for July 2025 shows that new finance for hybrids was down over 7 percent compared to 12 months ago, while non-ICE/EV finance was up over 32 percent over the same period.[21]

AFIA recommends maintaining Australia's progress transitioning to lower-emissions transport through a package of interrelated national policies and programs, leveraging those policies that are working in Australia and learning from the success of policies in other countries, particularly Europe, where policies have focused on ensuring infrastructure, flexibility in financing, flexibility in transport modes and fleet modernisation, and energy security and integration of energy models.

The Government should:

---

[18] AFIA submission to Senate Economics Committee, *Inquiry into Treasury Laws Amendment (Electric Car Discount) Bill 2022*, (17 August 2022).
[19] AFIA, *Australia's finance boom: $6 billion in 2024 as electric and hybrid vehicle funding surges*, (16 June 2025).
[20] AFIA, *AFIA calls for stronger policy support to accelerate Australia's transition to net zero transport*, (28 March 2025).
[21] AFIA data.

1. maintain the FBT exemption for EVs and re-introduce the FBT exemption for plug-in hybrids, giving flexibility for novated leasing and fleets.
2. introduce upfront discounts and adjust the luxury car tax (LCT), giving incentives for those wanting to purchase and own their vehicle.
3. fast-track deployment of charging infrastructure, via public and public-private partnership investment and integration of vehicle, charging and household/business energy management.
4. double down on public-private partnerships, such as through the Clean Energy Finance Corporation (CEFC).

AFIA, along with National Automotive Leasing and Salary Packaging Association (NALPSA), and the Electric Vehicle Council (EVC), have commissioned a report by Magenta Advisory and Pragmatic Policy Group (PPG) which has found continuing the FBT exemption for battery electric vehicles (BEV) and reinstating it for PHEV for the next decade could lead to a 50 per cent reduction in carbon emissions by 2035.[22] AFIA supports the findings of this report, which will be jointly submitted in response to the PC's interim report, which also found that the FBT exemption contributed to an estimated 105,500 additional EV purchases between 2022-2024.

HARNESSING DATA AND DIGITAL TECHNOLOGY

Artificial intelligence (AI) is emerging as a key driver of productivity growth in the Australian economy. Within financial services, the adoption of AI technologies is already delivering measurable benefits in operational efficiency, customer service, and risk management. As the PC has highlighted, the challenge for Government is to harness these benefits while managing potential risks, without unnecessarily constraining innovation.

To contribute to the national discussion on AI and its role in Australia's productivity agenda, AFIA commissioned independent research by King & Wood Mallesons and Sapere.[23] The report examines the current and emerging use cases of AI across the finance industry, the economic impacts of increased adoption, and the regulatory settings needed to enable safe and effective deployment. It provides a strong evidence base for targeted reform and outlines how the right regulatory approach can support sustained productivity gains while preserving trust, security, and fairness. Importantly, the economic modelling identifies that AI has the potential to contribute up to $60 billion to Australia's GDP by 2035, without structural reform. While certain jobs will be impacted by AI, requiring support for new workforce and technology-related skills, overall there will be more jobs across Australia's economy.

AI, including both traditional and generative forms, has the potential to deliver substantial productivity gains across Australia's economy. In financial services, these gains are already being realised through automation, enhanced decision-making, and improvements to service delivery and customer experience. AI is also playing an important role in improving regulatory compliance, detecting fraud, and identifying consumer vulnerability. These benefits are most visible where AI is deployed in a targeted and risk-aware way.

[22] EVC, NALSPA & AFIA, *Modelling shows Electric Car Discount could halve vehicle emissions if continued to 2035*, (15 September 2025).
[23] AFIA, *AFIA urges government to adopt supportive AI frameworks to unlock billions in economic growth*, (22 May 2025).

AFIA supports the PC's assessment that data and digital technologies are critical to Australia's future economic growth. We also agree that AI is in the early stages of development and adoption, and that government regulation must be carefully calibrated to avoid stifling innovation. The PC's focus on an outcomes-based and risk-proportionate approach is welcome, as is the recognition that existing legal frameworks should remain the foundation for managing AI-related risks. We note that APRA and ASIC have both confirmed that existing regulations and regulatory tools for financial services adequately covered AI deployment by financial services businesses.[24]

While AFIA supports many aspects of the PC's position on AI, there are several areas where further refinement is required to ensure the policy settings are fit for purpose and aligned with the needs of the finance industry. In particular, we are concerned that the PC's framing does not sufficiently account for the complexity and regulatory maturity of individual sectors, including financial services. A cross-economy approach that does not differentiate between sectors may result in unnecessary compliance burdens and costs, duplication and complexity of obligations, and regulatory fragmentation.

AFIA supports in-principle the PC's recommendation to rely primarily on existing regulatory frameworks, but the recommendation does not adequately address the overlap between proposed AI regulation and already extensive obligations imposed on financial services businesses. Financial services businesses are already subject to detailed laws on privacy, consumer protection, credit, conduct, marketing and financial crime. New or overlapping AI-specific obligations must be carefully scoped and targeted to avoid regulatory duplication.

AI represents a critical inflection point for Australia's productivity agenda. With the right regulatory and policy settings, AI can deliver significant economic and social benefits, particularly through its application in financial services. AFIA encourages the PC to ensure its final report balances the clear opportunities for productivity growth with a practical recognition of sector-specific regulatory contexts. A framework that is proportionate, outcomes-focused, and supportive of innovation will enable industry to invest with confidence, accelerate adoption, and deliver measurable gains in efficiency, customer outcomes, and economic prosperity.

AFIA supports data sharing frameworks and rules that enhance data access. Mechanisms to support the sharing, exchange, collection and recording of data enhances efficiency, competition and innovation across numerous industries, including the finance industry. There are opportunities and risks with centralised data access systems, which need to be carefully thought through. AFIA has spent lots of time working with the Government on the Consumer Data Right (CDR) to ensure this scheme is targeted around the highest value consumer use cases.

Furthermore, we support reforms to the credit reporting framework to make it work better for industry and customers, following the Independent review of Australia's Credit Reporting Framework.[25] AFIA recognises the increasing risks with fraud and scams in the digital economy, and note the need for balanced regulation that

[24] APRA, *Member Therese McCarthy Hockey's remarks to AFIA Risk Summit 2024*, (22 May 2024), and ASIC, *Keynote address by ASIC Commissioner Alan Kirkland: Improving protection for people who use credit*, (17 June 2025).

[25] Treasury, *Review of Australia's Credit Reporting Framework – Final Report*, (30 September 2024).

protects privacy, makes sure security is maintained, and ensures simple access to credit. We must make sure that regulatory practices focus on real risks and mitigating and minimising these risks, while ensuring data sharing systems interact and enhance overall participation.

CLOSING COMMENTS

Thank you for the opportunity to contribute to this important discussion about the productivity challenge facing Australia's economy.

I would appreciate the opportunity to discuss our recommendations and provide the PC with further information about the specialised finance products, services and technologies offered across the Australian finance industry, including by large financial firms, non-bank lenders, smaller specialised lenders and fintechs. Should you wish to discuss our submission or require additional information, please contact [redacted]

Yours sincerely

[redacted]

Diane Tate
Chief Executive Officer