Policy statement – tax reform

Building a sustainable and competitive tax system for Australia

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Tax reform: Unlocking Australia's productive potential

Australia's productivity growth has been persistently weak since the Global Financial Crisis, undermining economic progress and living standards. Tax reform must be central to any national strategy for lifting productivity and competitiveness.

Key observations and recommendations

CPA Australia recommends:

- **Recalibrating the tax mix** to reduce over-reliance on personal and corporate income taxes and to explore broader use of consumption taxes, including GST.
- **Establishing an Independent Tax Reform body**, based on the New Zealand model, to deliver bipartisan, long-term tax policy advice and ensure political continuity in reform agendas.
- **Developing a national tax reform roadmap**, with clear goals for 2030, 2040 and 2050, instead of reactive and fragmented changes.
- **Simplifying the corporate tax system**, especially overlapping integrity measures and international rules, to improve business certainty and reduce compliance friction.
- **Providing targeted support for small businesses**, including permanent investment incentives and startup support, in recognition of their role in employment and innovation.
- **Modernising outdated residency and source rules**, especially for mobile individuals and small globally connected businesses, by implementing Board of Taxation recommendations.
- **Reducing compliance burdens through regulatory reform**, such as creating a small business simplicity index and simplifying fringe benefits tax (FBT) and complex international tax rules.
- **Leading national reform of state taxes**, especially payroll tax, via the Council on Federal Financial Relations (CFFR), to reduce business friction and lift labour mobility.

Why tax reform matters

Australia's tax system directly affects our capacity to lift productivity, attract capital, support innovation, and ensure a sustainable fiscal position. A system that is overly complex, inefficient or misaligned with global practices acts as a handbrake on growth.

- A well-designed tax system supports entrepreneurship, business investment and job creation, while enabling governments to fund essential services sustainably.

- With an ageing population and shrinking workforce participation, Australia must future-proof its tax base by shifting toward more stable and growth-friendly revenue sources.
- As global competition for talent and investment intensifies, Australia must ensure its tax system does not deter global and local enterprise from operating here.
- Reform is not optional — it is essential for a more dynamic, equitable and resilient Australia**.**

Where Australia falls short

- **An over-reliance on direct taxation**: Australia draws too much revenue from personal and corporate income taxes, in contrast to most advanced economies that utilise broader consumption taxes. This makes our system volatile and narrow.
- **An outdated and piecemeal reform process**: Successive governments have made incremental changes, adding complexity without addressing structural issues. The absence of a long-term vision means reforms are inconsistent and reactive.
- **Growing compliance burdens**: Businesses face increasing red tape, complex rules, and duplicated reporting obligations — reducing their ability to invest and grow. Current tax laws affecting family trusts are highly complex, leading to unintended consequences and harsh penalties.
- **Outdated tax residency rules**: Tax law has not kept pace with the rise of remote work, digital entrepreneurship, and global freelancing. This creates uncertainty and hinders cross-border engagement.
- **Neglected state tax reform**: Payroll taxes remain fragmented and inefficient across states and territories, distorting labour markets and adding administrative burden.
- **Missed opportunities to support small business innovation and succession**: Policy settings often overlook the specific needs of SMEs, especially older business owners and new entrepreneurs.

How Australia can do better

1. **Reform the tax mix for sustainability and growth**
    - Explore options to broaden the GST base and adjust income tax thresholds to address bracket creep and declining PAYG coverage caused by demographic shifts.
    - Review inefficient state taxes, including stamp duties and insurance taxes, to move toward a more efficient tax mix.
2. **Create a long-term tax strategy**
    - Establish an independent tax reform body to provide apolitical, evidence-based reform advice that is durable across election cycles.
    - Develop a clear reform roadmap aligned to national economic priorities with phased implementation goals out to 2050.
3. **Modernise the business and international tax framework**
    - Undertake a systematic review of corporate tax rules, particularly those around international integrity measures, to simplify overly complex rules and address overlapping integrity measures targeting base erosion and profit shifting as well as international tax reporting requirements for significant global entities.

- Implement the Board of Taxation's residency reforms to provide certainty for individuals and global businesses operating in and out of Australia.
- Simplification of FBT rules, potentially through introducing FBT grouping provisions to reduce disproportionately high compliance costs relative to revenue collected

4. **Support small business participation and investment**
    - Introduce a small business simplicity index to assess the regulatory impact of new tax proposals.
    - Make the instant asset write-off permanent and introduce targeted incentives for early-stage businesses and entrepreneurs.
    - Reform the family trust taxation rules to align family trust distribution tax with its original purpose.

5. **Coordinate national tax reform with States and Territories**
    - Lead harmonisation of payroll tax rates and rules across jurisdictions through the CFFR.
    - Digitise and streamline payroll and state tax systems to improve business compliance and reduce administrative costs.

Conclusion

Tax reform is essential for unlocking Australia's productive potential. The current system is holding Australia back – it is too complex, too reliant on the wrong levers, and not responsive to the realities of modern work and global business. Reform requires national leadership, long-term planning and a commitment to the collective good.

CPA Australia urges the Australian government to place tax reform at the heart of its productivity and economic resilience agenda and to work collaboratively with all stakeholders to design a future-ready tax system.

Further reading

For more detail, please refer to:

- CPA Australia Pre-Budget submission 2025-26
- CPA Australia submission on Productivity Inquiry
- CPA Australia media release on the Federal Treasurer's tax reform speech
- CPA Australia-funded research, Towards Better Tax Policy and Tax Reform