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Department of Treasury
The Treasury Building
Langton Cres
PARKES ACT 2600

Dear Sir / Madam

ECONOMIC REFORM ROUNDTABLE

Pitcher Partners Advisors Proprietary Limited (**Pitcher Partners**) welcomes the opportunity to contribute this submission to the economic reform roundtable. Pitcher Partners specialises in advising taxpayers in what is commonly referred to as the middle market. The middle market is a vital engine of economic activity, contributing to approximately half of the economic activity and employment of our nation.

This submission outlines our top six recommendations aimed at making a real difference to reduce systemic complexity, minimise regulatory burden, and foster investment. These reforms are essential to ensuring that there is sustainable growth and a continual increase in productivity of this critical sector of our economy into the future.

While most proposals are expected to be revenue neutral, any potential shortfall could be offset by a comprehensive review of the GST system, aligning it with international standards.

Many of our recommendations contained in this letter are drawn from our 2015 detailed Treasury submission, which is currently being updated and will be shared upon completion. We have only summarised the key items in this letter and would be happy to discuss further details on how each option could be implemented.

If you would like to discuss this submission further, please contact me at either alexis.kokkinos@pitcher.com.au or (03) 8610 5170.

Yours faithfully



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Executive Director

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1. REPLACE THE TRUST PROVISIONS WITH A UNIFORM ENTITY REGIME

The existing trust taxation framework is overly complex. A simplified alternative regime could consist of a uniform private corporate tax flow-through model, applicable to trusts, partnerships, and companies. This model, akin to Treasury's 2011 Trustee Assessment Deduction (**TAD**) model¹, would exclude public companies.

Under this proposal, all entities would be taxed at the corporate tax rate, with deductions being allowed for certain qualifying distributions. Qualifying distributions could include certain income classes (e.g., CGT) that are distributed shortly after year-end (e.g., within a three month period). Such distributions would be assessable to investors in the prior year based on the quantum of the distribution and would be given the character of the distribution. A deduction for the prior year would be allowed up to the net amount of the distribution that is included in the net taxable income of the entity.

A uniform system, with limited flow-through, can help to reduce the need for multiple entities within the structure, and could significantly reduce complexity and administration. Furthermore, a uniform entity regime could help to reduce reliance on integrity measures like Division 7A.

2. TAX CONSOLIDATION FOR MIDDLE MARKET ENTITIES

A significant obstacle to implementing a proposed uniform entity taxation regime is the lack of consolidation that would be available to private groups. Currently, an appropriate consolidation of trusts effectively occurs by allowing trusts to distribute income to other trusts within the same family group. However, this is currently accompanied by complex integrity rules such as family trust elections, income injection rules and other integrity measures such as section 100A.

A move to a uniform entity taxation regime (of itself) would remove the ability to consolidate discretionary trusts. To ensure that a uniform entity taxation regime is viable, it is critical to ensure that discretionary trusts can be grouped for income tax purposes in a simple manner. To retain tax grouping, and to remove the current complexity of the trust taxation system, we recommend consideration be given to allowing private family groups to expand the current "tax consolidated" regime to allow discretionary trusts to consolidate with a group of wholly owned companies or unit trusts.

This reform proposal could help to eliminate the need for: trust distributions to occur between entities within a group; the need for family trust elections for tax losses; the associated family trust distribution tax provisions; and could help limit Division 7A to distributions to individuals.

3. FLATTEN THE PERSONAL INCOME TAX RATE STRUCTURE

Flattening the personal income tax rate structure would help to reduce incentives for income splitting and tax-driven structuring. Aligning the top marginal rate with the corporate rate, or expanding the bracket taxed at the corporate rate, would alleviate such pressure on the system. This alignment could diminish the need for anti-avoidance measures like the personal

¹ See Treasury public paper titled "Modernising the taxation of trust income", November 2011.

services income rules and Division 7A, thereby improving transparency and administrative efficiency within the system.

4. ENABLE INCOME SHARING BETWEEN SPOUSES

Australia's individual-based tax system does not reflect the shared nature of household income. Allowing spouses to share tax brackets would help foster equity and reduce penalising single-income families. It would also discourage artificial income splitting through complex structures. Provisions for single-parent families could also ensure fairness within the proposal.

5. GST REFORMS

Australia's GST base is among the narrowest in the OECD, excluding essential categories like fresh food, education, and health. Broadening the base and increasing the rate (e.g., to 15%) could enhance revenue stability and reduce dependence on income taxes. This reform could coincide with targeted support for low-income households and align Australia's consumption tax with global standards. Greater coordination between States on GST, including revenue and housing measures (such as build-to-rent concessions, EV road user charges and stamp duty) could also reduce red tape and encourage investment.

6. INVESTMENT INCENTIVES

Incentives can impose a substantial fiscal cost and, as such, represent a trade-off against the capacity to reduce the corporate tax rate. Many tax incentives are directed toward specific activities or assets, yet often lack a meaningful connection to the core objectives of a business, particularly its capacity to enhance business and labour productivity and efficiency.

We believe that incentives should be strategically aligned with outcomes, rewarding businesses that demonstrably improve labour productivity. For instance, incentives could be better targeted to support successful research and development initiatives that lead to measurable improvements in business practices (rather than the current system that rewards failed experiments). This could include incentivising the integration of artificial intelligence into business operations; an area currently overlooked by the tax system. Targeted incentives of this nature, that encourages continual business improvement, could significantly enhance both business efficiency and labour productivity.

Many tax incentives are also characterised by complexity and frequent change. For example, the small business CGT concessions involve intricate provisions, while the instant asset write-off has seen annual adjustments to thresholds and eligibility criteria. To be effective, investment incentives must be straightforward to apply and clearly understood by the business and taxpayer community.

A uniform capital allowance regime that promotes capital investment should offer greater certainty and predictability for taxpayers. Recent judicial decisions, such as *Sharpcan*² and *Healius*³, have highlighted how capital expenditure may be denied allowances based on interpretations of legal agreements, rather than economic substance. Such outcomes

² [2019] HCA 36

³ [2020] FCAFC 173

introduce unnecessary investment risk, hinder efficient resource allocation, and ultimately discourage businesses from increasing investment and enhancing labour productivity.