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Australian
**Small Business and
Family Enterprise**
Ombudsman

16 September 2025

Ms Danielle Wood
Chair
Productivity Commission
Locked Bag 2, Collins St East
MELBOURNE VIC 8003

via email to: 5pillars@pc.gov.au

Dear Ms Wood,

Five pillars of productivity inquiries – interim reports

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) appreciates the opportunity to comment on the interim reports of the Productivity Commission's five pillars of productivity inquiries. We recognise the significant scale of work the Commission has put into these inquiries. So too the significant and valuable input from a variety of stakeholders representing Australian small business that has informed the Commission's work.

We welcome the Productivity Commission (PC) draft recommendations in areas that would improve the operating environment for small business, including a lower company tax rate, regulatory reform and harmonisation, and unlocking the potential of data and digital technology and emerging artificial intelligence (AI). We recognise many recommendations are consistent with our advocacy for right-sized regulation that supports entrepreneurship, productivity, and resilience, and we hope they illicit a commitment from government to implement reforms that enable small businesses to survive and thrive.

While we support the intent of the Productivity Commission's proposed tax reforms to stimulate investment and innovation, we caution against proposals that add complexity and raise the potential for small businesses to incur more tax. We encourage the Commission to explore the feasibility of early-stage incentives such as a tax discount or offset scheme, a modest investment in helping emerging businesses to make it to through the challenging formation and early years, and to become the employers and tax paying enterprises of tomorrow.

We provide feedback on the relevant recommendations in each of the interim reports as follows.



Creating a more dynamic and resilient economy

Draft recommendation 1.2 – Lower the headline company tax rate to 20%

Draft recommendation 1.3. – Introduce a net cashflow tax of 5%

The ASBFEO supports tax reform, including to company tax, where it is capable of fostering innovation and investment, reduces regulatory burden and complexity, and makes Australia more internationally competitive. We support in principle a reduction of the headline company tax rate to 20%, however, we do not support it in combination with the proposed 5% cash flow tax (NCFT). We believe the proposed reform would create significant additional complexity in Australia's tax system and potentially higher taxes for small businesses.

The proposed reform introduces in essence a third tax, a NCFT alongside the existing GST and corporate income tax (CIT). While the NCFT may appear simple to calculate, its benefits are most evident when businesses invest in capital using equity financing. As highlighted in the Productivity Commission's 2021 *Small business access to finance: The evolving lending market* report, small businesses are three times more likely to apply for debt financing than equity financing. This suggests that the NCFT may not align with the typical financial behaviour of small firms.

Small businesses would overall benefit from a lower company tax rate. However, a combination of a 5% NCFT and a reduced CIT (25% to 20%), may result in overall higher tax burden for small business that do not make capital investments during the relevant period.

We support the intent of tax reform to stimulate investment and innovation. We emphasise that business creation and entrepreneurship are critical drivers of economic growth and employment. The early years of a business however are often perilous, marked by significant financial challenges including cash flow and access to financing. This period is known as the 'valley of death' for good reason. But those businesses that survive and thrive past this valley become the employers and taxpaying enterprises of tomorrow. Tax settings and modest investments in businesses to make it past this valley are sensible.

We encourage the Productivity Commission to explore the feasibility of an early-stage tax incentive such as a tax discount or offset scheme. Mindful of the fiscal constraints, ASBFEO has advocated a model that provides a company tax discount of 50% in the first year of a new firm, 33% in year 2 and 25% in year 3 to bolster critical cashflow through the challenging early stages of an enterprise. We ask that the Commission reconsider this proposal and are happy to engage further. The proposal would allow emerging businesses to retain a greater share of their initial earnings, facilitating re-investment during the critical early stages of business growth. Such a measure would promote entrepreneurship, reward innovation and risk taking, contributing to a more dynamic and competitive economy.

Singapore's *Start-up Tax Exemption Scheme* offers a useful reference point. It provides eligible new companies with tax exemptions for the first three years, reducing their taxable income by 75% for the first \$100,000 of income and by 50% for the next \$100,000.

Any such scheme should include safeguards to prevent misuse, drawing on existing initiatives such as DirectorID to combat illegal phoenixing and ensure integrity.



Finally, we encourage the Commission to consider whether a more generous and durable Instant Asset write-off (IAWO) scheme is a more effective and targeted mechanism for supporting small business investment. Certainty around the amount and rules of the IAWO scheme is essential, as year-to-year variability undermines planning and investment decisions for small businesses.

Draft recommendation 2.1 – Set a clear agenda for regulatory reform

Draft recommendation 2.2 – Bolster high-level scrutiny of regulations

Draft recommendation 2.3 – Enhance regulatory practice to deliver growth, competition and innovation

The ASBFEO broadly supports the Commission's draft recommendations on regulatory reform to promote business dynamism, deliver growth, competition and innovation. The complex regulatory environment and cumulative compliance burden create enormous challenges for many small businesses and has a chilling effect on entrepreneurship. Legislative and compliance complexity is compounded by the lack of consistency and unnecessary duplication across all levels of government and jurisdictions. We hear this loud and clear from small business. The increased complexity and burden of regulation means the perceived risks grow and potential rewards shrink, reducing the incentives for small business to invest in growth, invest in ideas and invest in people.

We have consistently advocated for reforms to achieve right-sized regulation, and for the interests of small business, competition and productivity to be considered early and genuinely in the policymaking process. We support the Commission's recommendations for setting a clear regulatory reform agenda, bolstering scrutiny of regulations and enhancing regulatory practice.

We would encourage the Commission's further consideration of the policy formation and decision-making institutional and process reforms ASBFEO has been advocating. These support 'front of mind' consideration of small business interests, concerns and capacity; a dedicated small business impact section in Cabinet submissions; genuine 'risk-based' and proportionate approaches to regulation that applies a minimum effective intervention discipline; and a reinvigoration and earlier activation of the regulatory impact assessment and option evaluation. ASBFEO was created to support and enable deeper and more informed engagement with small business to enhance policy development processes.

We would also encourage the Commission to consider a key small business compliance concern, 'white tape'. We define 'white tape' as the compliance and administrative requirements imposed on small business by other entities, that are beyond the formal and enforceable obligations required for the lawful conduct of the small business. It can include the practice whereby large organisations, often when subject to statutory or regulatory obligations, request input or other actions from smaller entities with whom they do business (e.g., subcontractors, suppliers, or service providers) in order to meet their obligations, often without proportional support or resources. In other words, the regulatory, compliance or reporting requirements 'cascade' through to the small business through tasking from the larger organisation.



Building a skilled and adaptable workforce

Draft recommendation 2.2 – Better target incentives to lift work-related training rates in small and medium enterprises (SMEs)

Small business employers are a positive contributor to the livelihood opportunities of Australians and a vital part of upskilling our nation. ASBFEO strongly supports better targeting incentives aimed at lifting work-related training rates in SMEs. We have consistently highlighted the importance of work-related training for small businesses, especially in adapting to digital transformation, improving management practices, and building workforce resilience.

Small businesses face unique and disproportionate barriers to engaging in structured training activities. These include cost pressures, time constraints, lack of a training culture, high staff turnover, and limited systems to assess skill needs or navigate training ecosystems.

We support the Productivity Commission's draft recommendation to introduce targeted financial incentives and to trial advisory services to support training uptake. Providing small businesses with incentives and support to implement employee training opportunities would benefit both employees and small businesses by increasing specialised skills and supporting innovation, which would then lead to better business offerings.

We support tax incentives such as tax credits or offsets for their relative simplicity and flexibility. Tax incentives are preferable to proposed alternatives such as training grants or levies which have administrative and cost burdens.

We also support the Commission's proposal to embed data collection and evaluation mechanisms into program design. This will ensure that future initiatives are evidence-based and responsive to the diverse needs of small businesses.

Draft recommendation 3.1 – Remove excessive occupational entry regulations that offer limited benefits

Draft recommendation 3.2 – Expand entry pathways and streamline qualification requirements for occupations

Draft recommendation 3.3. – Improve the regular reviews of occupational entry regulations

Draft recommendation 3.4 – Incentivise occupational entry regulations through National Competition Policy (NCP)

The proposed changes to address low levels of work-related training rates in small and medium enterprises and ensure that occupational entry regulations are fit for purpose are expected to have positive benefits for small business. Recommendations 3.1 to 3.4 align strongly with our calls for greater harmonisation of regulation, removal of outdated regulations and ongoing review of regulations to ensure they remain necessary and fit for purpose.

The ASBFEO is supportive of improving the use of regulatory impact assessments. In addition to improving their use and quality, we re-iterate our long-standing recommendation that the specific effects of proposed policy changes and regulation on small businesses be considered in the formation of regulatory impact assessments. This should be considered at an early stage of policy



development so that it can genuinely inform policy development and the appropriateness of a regulatory intervention.

We support measures to harmonise regulations across jurisdictions and reduce barriers to the movement of labour. We therefore support state and territory regulators working to address inconsistent occupational entry requirements between jurisdictions and the use of evidence to assess whether such requirements improve outcomes. We support the use of National Competition Policy (NCP) to incentivise reforms, believing it an effective vehicle for driving consistent federal reforms. And we support using engagement with industry to shape regulatory reforms, believing consultation and genuine engagement with industry is essential.

Valuable insights in how to lift VET course and completion rates may be gained by examining the factors that contribute to the success of the group training model.

Harnessing data and digital technology

Draft recommendation 1.1 – Productivity growth from AI will be built on existing legal foundations. Gap analysis of current rules need to be expanded and completed.

Draft recommendation 1.2 – AI specific regulation should be a last resort

Draft recommendation 1.3 – Pause steps to implement mandatory guardrails for high-risk AI

Small businesses stand to benefit significantly from the promise of emerging data and digital technologies, including artificial intelligence (AI). However, that promise will be hampered if additional and complex regulation is imposed that adds to the compliance burden, rather than supporting uptake.

The ABFEO is broadly supportive of the Productivity Commission's draft recommendations on harnessing data and digital technology through an approach that builds off existing legal frameworks and promotes right-sized regulation.

We consider that, to reduce the burden of regulatory complexity and change for Australia's small and family businesses, existing laws and regulations should be utilised wherever possible and consistency with existing legislative language, obligations and business understanding should be maintained.

Conceptually at the small business-user level, we view AI through the regulatory lens of uses and outcomes rather than as a discrete technology to be specifically regulated. AI is becoming an embedded technology in functions and processes of the natural business systems and productivity tools that small businesses use every day. AI is a component of other uses and outcomes of technology – uses and outcomes that are already contemplated across international, state, territory and Commonwealth laws. These laws are capable of adaptation where specific use cases of AI raise new risks or harms. Conceptually it makes sense to regulate AI within these existing frameworks that regulate those systems and tools.

The specific adoption of AI in a natural business system or software service is likely to be as an embedded feature or functionality and opaque to the small business end user. What matters to the small business is the purpose and outcome for which that system is being used. The use of AI does not change the business' use of a system for calculating wages, nor the existing obligation to



ensure that calculation is correct. The incorporation of AI into such a system does not change the end user or platform providers' privacy obligations for handling the personal data of employees.

Consequently, we do not consider there is a case for introducing AI-specific regulation at this time and that, in terms of policy intervention, regulation should only be considered as a last resort. The proposed gap analysis would inform whether there are specific risks and gaps that must be addressed, and whether amending established regulatory frameworks is a sensible and measured course of action to address emerging issues posed by AI.

This logic applies to the development of mandatory guardrails for high-risk AI, which sought to address some of the significant hazards perceived around AI in certain use cases. We support the Commission's proposal to pause this work so that the existing regulatory frameworks continue to be leveraged and that, only where a gap in those frameworks and compelling risks are found to exist, should amendment or other interventions be considered. There are also implications for small business with the potentially broad concept of a 'deployer' contemplated in the mandatory guardrails, which threaten to capture a wide swathe of businesses, including small businesses, and have a chilling effect on innovation.

In the recalibration of mindset from a risk emphasis to a growth and productivity imperative, we consider that action to support small business deployment and deepening of digital technology to be at least as important as the regulatory environment. In this light, it is interesting that ASBFEO's August Pulse identified that workshops or face-to-face meetings are of most interest to small business owners as the way they want to explore future business prospects in preference to online tools and resources.

Draft recommendation 2.1 – Establish lower-cost and more flexible regulatory pathways to expand data access for individuals and businesses

The ASBFEO supports expanded basic data access for individuals and business as it would bring significant potential benefits to Australia's economy and productivity. Improved data access offers potential for improved standardisation and interoperability, and greater access to relevant data. This provides an opportunity to improve small business decision making and streamline current regulatory, administrative, and financial processes. For example, it would make it easier for small businesses to compare essential service providers and manage their expenses, or for lenders to assess a small business for a loan. Making it easier to access and authorise the sharing of data using standardised formats can streamline the touch points for a small business completing government applications and reporting.

Expanded data access would support greater competition and level the playing field for small business. Improving consumer access to data with more standardised format will help consumers shop around and may guard against proprietary lock-in from larger dominant businesses.

Expanded data access could also help enhance cyber security for individuals and small business by allowing for greater use of safer and more secure platforms and data exchange, reducing the



reliance on ad-hoc and less secure methods such as sharing confidential documents via email or facilitating credit checks by providing banking login credentials to scrape information.

Draft recommendation 3.1 – An alternative compliance pathway for privacy

Draft recommendation 3.2 – Do not implement a right to erasure

The ASBFEO agrees with the Productivity Commission’s draft recommendation against implementing a right to erasure. We believe such a right would carry with it a substantial regulatory burden that is not proportional to the expected benefit. As information is increasingly managed in the cloud and by third party service providers, the ability for a small business to delete that data could be quite complex and beyond their reasonable control.

The Australian Privacy Principles (APPs) already provide expectations around the accuracy of data and erasure where it is no longer required. For the latter, the APPs require “reasonable steps” to destroy or deidentify information when it is no longer needed. We do not believe there is a need to go beyond this, and certainly not without a comprehensive analysis of use cases where such a need may exist and calculation of the regulatory burden and costs to be borne by business. Our expectation would be such an intervention would be informed by analysis and targeted only where there is a genuine need and where the benefits outweigh any additional burden.

We agree in principle with the Commission’s draft recommendation to develop alternative compliance paths for the Privacy Act that are outcomes based. During the consultation on the recommendation to remove the current small business exemption, advocated for the development of a clear and specific set of actions small businesses would need to take to be deemed to have satisfied privacy obligations.

ASBFEO’s ‘14 steps to Energise Enterprise’ calls for a more coherent and coordinated approach to an array of digital issues and opportunities that brings separate agencies and policy objectives together in a connected, relevant and engaging conversation with small and family businesses. This would bring any changes to the privacy framework, and adjacent issues of cyber protection, digital presence, compliance automation, eInvoicing, responsible data custodianship and Consumer Data Right utilisation into a frame that present both the opportunities and obligations.

Support would focus on awareness raising, digital knowledge and know-how, and practical and beneficial deployment. Opportunities to embed obligations and opportunities as a feature or service within the natural business systems small business utilise (e.g. accounting software) should also be explored.

Delivering quality care more efficiently

Draft recommendation 1.1 – The Australian Government should pursue greater alignment in quality and safety regulation of the care economy to improve efficiency and outcomes for care users.

Australia's care and support economy employs 2.4 million people – 16% of the workforce.¹ It covers aged and veterans care, disability support, and early childhood education. From the start of life to every stage thereafter, Australians rely on effective and efficient services that meet their expectations. The ASBFEO supports the Government's vision of person-centred care delivered effectively, sustainably and innovatively. We also support the objective of providing respect and quality outcomes for individuals using services within the care and support economy.

The complex nature of the care and support economy makes it difficult to determine exactly how many small businesses operate in the sector. There exist multiple funding and administrative systems, and a mix of government, commercial and not-for-profit providers. We know that it is one of the fastest growing sectors in the economy and we estimate small businesses provide nearly one-third of all employment opportunities.² As the sector grows, we can expect this to grow too.

Like all businesses in this sector, small businesses are caught between surging demand and persistent workforce shortages, difficulty recruiting and retaining key staff such as nurses, allied health professionals, aged care workers, disability support staff, etc amid high turnover and costly training requirements.

It will be vital to get the settings right so that small businesses are empowered to provide the quality and innovation of care that meets the Government's vision and objective.

We support the Productivity Commission's draft recommendation that Government pursues greater alignment in quality and safety regulation for the care and support economy. Small businesses generally have less capacity to manage regulatory complexity, and this is compounded by lack of legislative and regulation harmonisation across the various levels of government and systems under it. Greater harmonisation will make it easier for small business to know and comply with their obligations, to operate across jurisdictions and to scale up to provide services more efficiently.

We would like to draw the Commission's attention to the growing number of small businesses providing services under the NDIS who are seeking assistance for payment disputes. These disputes impair the ability of providers to focus on what is most important, providing quality and efficient care to individuals. And without adequate mechanisms for resolving these disputes, that impairment can be prolonged.

Payment disputes often arise where a NDIS participant fails to pay an invoice, often owing to an exhausted NDIS allocation. NDIA does not have a pathway to accept complaints about participants or assist in resolving payment disputes. While the NDIS Quality and Safeguard Commission oversees a complaints mechanism, this focuses on participant experiences and relationships

¹ Jobs and Skills Australia, Health Care and Social Assistance, Jobs and Skills Australia, website page, accessed on 3rd September 2025, [Health Care and Social Assistance | Jobs and Skills Australia](#).

² ASBFEO, Small Business Matters, ASBFEO, June 2023.



between the participant and service providers and plan managers. The consequence is NDIS providers either accept being out of pocket or are forced to take legal action to recoup the costs. We would encourage the Commission to examine this gap in dispute resolution and identify an efficient mechanism with which to resolve them that respects the interests of service providers and dignity of system participants.

Investing in cheaper, cleaner energy and the net zero transformation

Draft recommendation 1.3 – Introduce an emissions-reduction incentive for heavy vehicles and phase out policy overlaps for light vehicles.

The ASBFEO is broadly supportive of emissions reduction incentives for heavy vehicles, noting the large number of small business owners in this sector, the contribution of heavy vehicles to Australia's carbon emissions, and the relative higher costs of lower carbon fuels and electric heavy vehicles. We do, however, caution against the reduction or removal of incentives that would raise the cost of ownership of light commercial vehicles which may raise costs for small business across a variety of sectors.

Draft recommendation 2.1 – Reform national environmental laws

The ASBFEO supports in principle the Commission's recommendation to reform national environmental laws. Reforms that would enhance regulatory consistency and efficiency, and provide accessible and useful information about environmental considerations and past decisions, would be beneficial in small business-dominated sectors such as construction and tourism. We also note that such reforms offer an opportunity to address the growing cost and impost of environmental 'white-tape' on small business, a layer of quasi-regulation imposed by larger businesses in a business-business relationship.

Draft recommendation 3.1 – Set up a climate risk information database covering all climate hazards

The ASBFEO has previously highlighted the Australian Climate Service (ACS) in the context of informing the calculation of insurance risk for small business. The ACS provides national climate science information to help manage climate and disaster risks. The 2024 Independent Review of the ACS raised concerns that the scope, methodology and format of state and territory climate information and tools were not necessarily comparable with each other. A key priority of the ACS is to collaborate with state and territory governments and private entities to create a shared approach to assessing climate risk.

We have also highlighted the role of the Australian Disaster Resilience Knowledge Hub (run by the Australian Institute for Disaster Resilience), which provides a national, open-source platform to support and inform policy and decision making in disaster resilience.

We support the Commission's recommendation for a climate risk database, suggesting that it build on and leverage existing frameworks like these and foster national consistency in data. In the context of the Commission's recommendations around data and digital, and access to data, we



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would also suggest that this database be an accessible resource for consumers, business and industry.

Draft recommendation 3.2 – Develop a nationally consistent climate resilience rating system for housing

The ASBFEO has not formed a position on recommendation 3.2 as it is relatively underdeveloped. However, in developing this idea further we suggest some aspects the Productivity Commission should consider.

We recognise the importance of adaptation in the face of challenges such as climate change and changing geo-political circumstances. Homes are a valuable asset, for many small businesses they are both home and office and for some they are vital security for businesses financing. We also recognise the importance of protecting the home as an asset, however, we are concerned that retrospective application of a rating system could have a deleterious effect on home values and consequences where the value of homes is security for a business.

Small businesses form the vast majority of construction businesses and are on the front line of new builds and renovations that can make housing stock more resilient. However, demand on the construction sector surpasses its capacity. Small businesses also face a myriad of different standards between states and territories including in differing implementation of energy efficiency standards under the National Construction Code (NCC).

The ASBFEO is concerned that the compliance burden produced by these proposed reforms would place additional pressure on an already stretched building sector. Without harmonisation of standards and planning rules needed to implement the resilience elements contemplated by a rating system, small businesses in the construction sector would face further regulatory costs. The imposition of a climate resilience rating system would present an additional compliance burden and new learning curve for small business in construction, manufacturing and other sectors.

If you require any further information, please do not hesitate to contact the Advocacy team via email at advocacy@asbfeo.gov.au.

Yours sincerely

The Hon Bruce Billson

Australian Small Business and Family Enterprise Ombudsman