Back to the Future
Company tax cuts diminish welfare, they do not improve it

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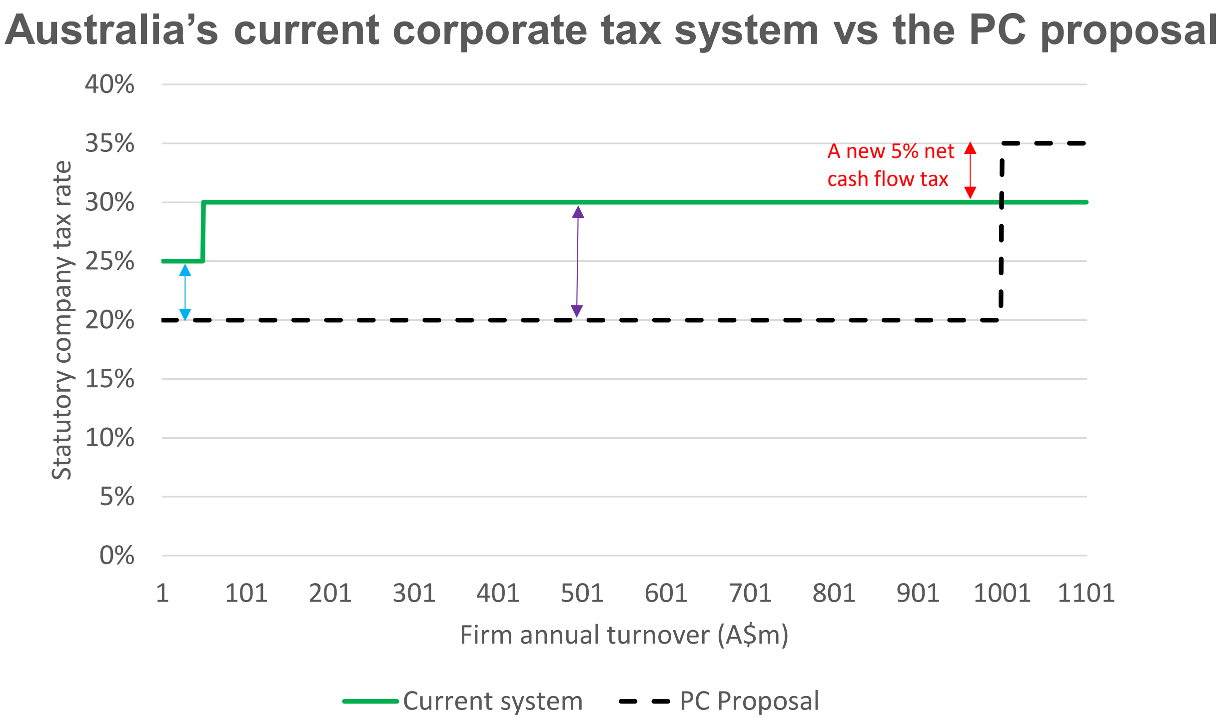
The PC Interim Report
Creating a more dynamic and resilient economy



The PC interim report proposes:

- Company tax cuts for firms with turnover below A$50m of 5 percentage points;
- Company tax cuts for firms with turnover below A$1b of 10 percentage points;
- A cash flow tax on firms with turnover above A$1b of 5 percentage points.
    - Instant expensing of assets;
    - No interest deductibility.

The PC Interim Report Modelling
Same, same, but different

Modelling results summary: the PC CIT proposal

Table B.8 – Comparative modelling outputs of the Murphy and CoPS models

	Murphy model[a]	CoPS model[b]
Business investment (%)	1.4%	0.6%
Productivity (%)	0.4%	0.3%
Before-tax wages (real, %)	0.6%	0.6%
After-tax wages (real, %)	0.0%	-0.5%
GDP (%)	0.4%	0.2%
Consumer welfare ($b)	$2.0	-$11.2
GNI (%)	0.2%	-0.3%

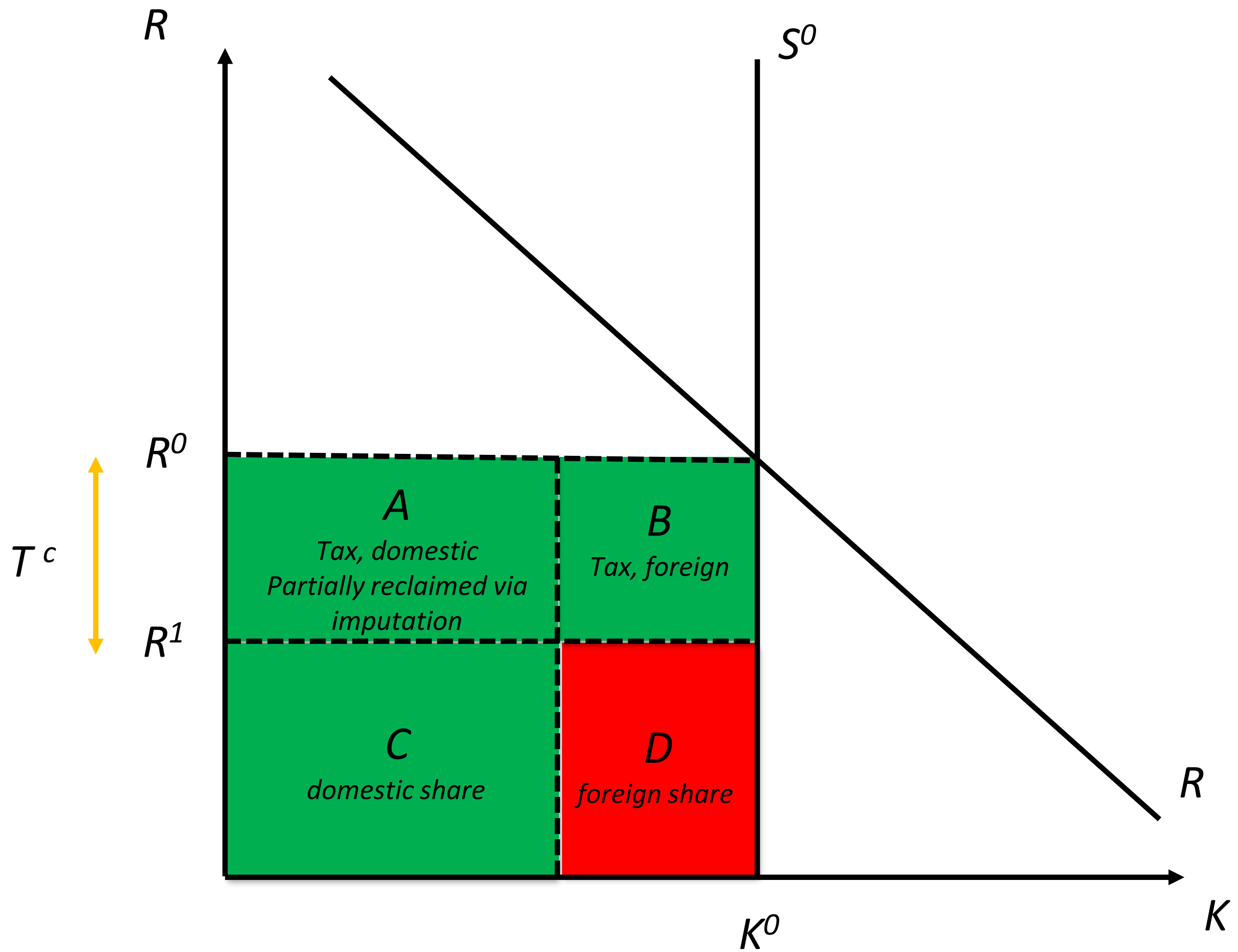
a. Refers to Scenario PC1. **b.** Refers to the Core Scenario. For long-run comparability, these model outputs refer to 2050 outputs under scenario 2. Revenue neutrality is achieved by a non-distorting lump-sum tax.

Sources: Murphy (2025); Nassios et al. (2025).

Three main points:

- Outcomes for GDP, output-per-worker, and pre-tax wages look very similar.
- Differences can be classed as methodological, or assumption based.
    - **Methodological:** Long-run comparative static (Murphy) versus dynamic (CoPS).
    - **Elasticities:** Murphy assumptions allow for higher capital absorption for a given labour force, and lower terms of trade losses.
    - **Other considerations:** None of the studies include threshold distortion effects

Methodological differences
A stylised capital market



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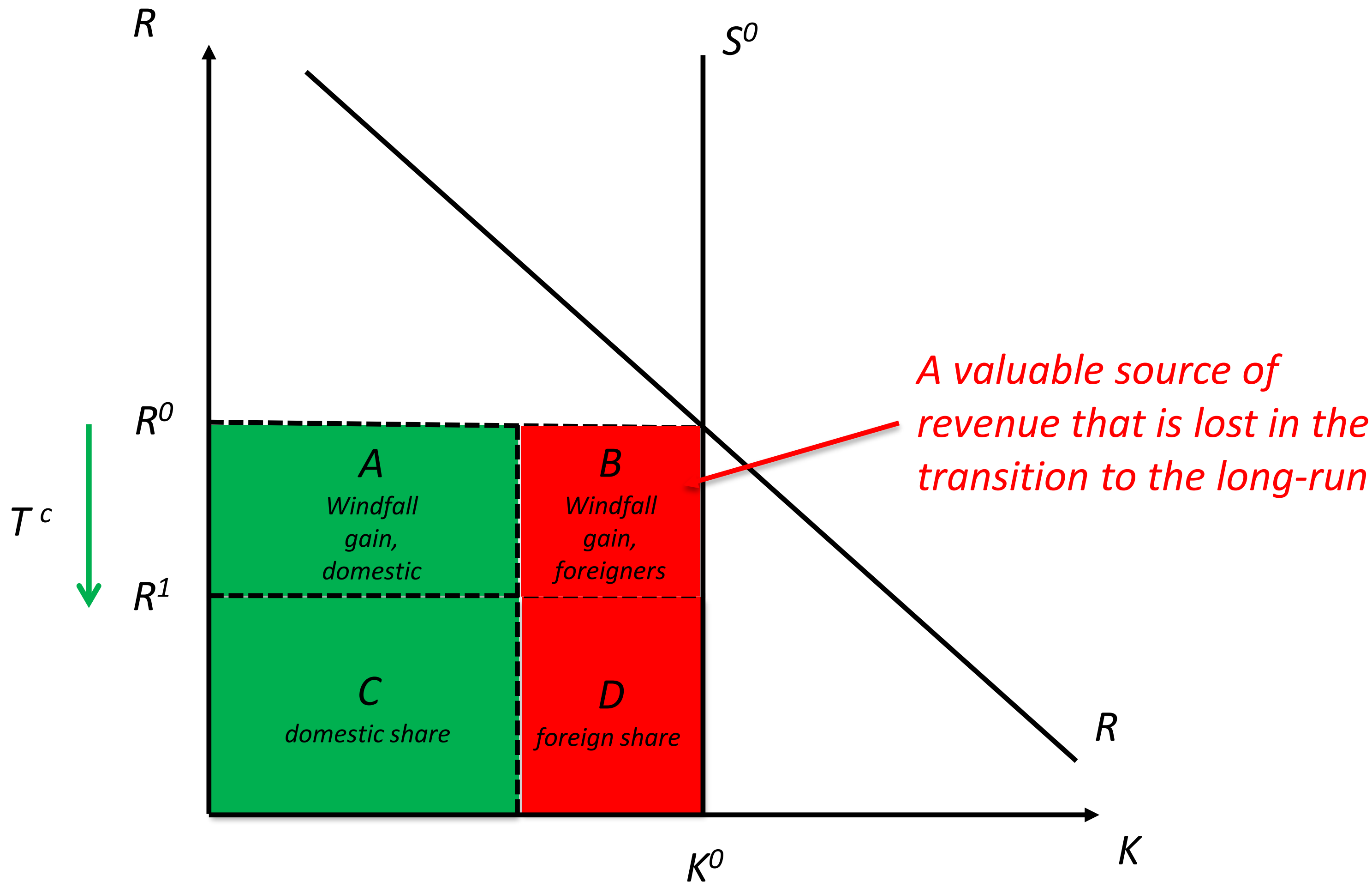
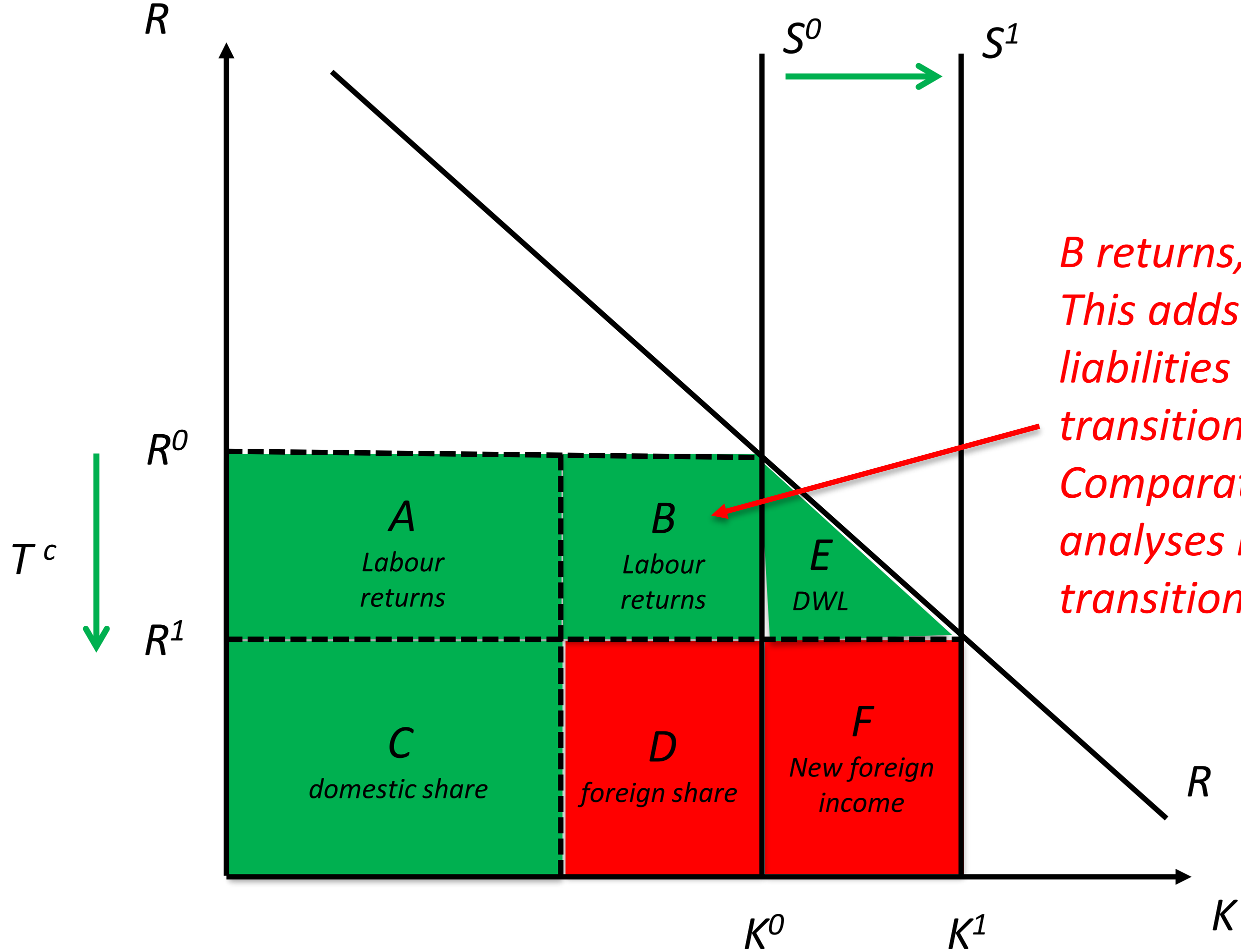
CoPS SINCE 1975

Methodological differences
Windfall gains

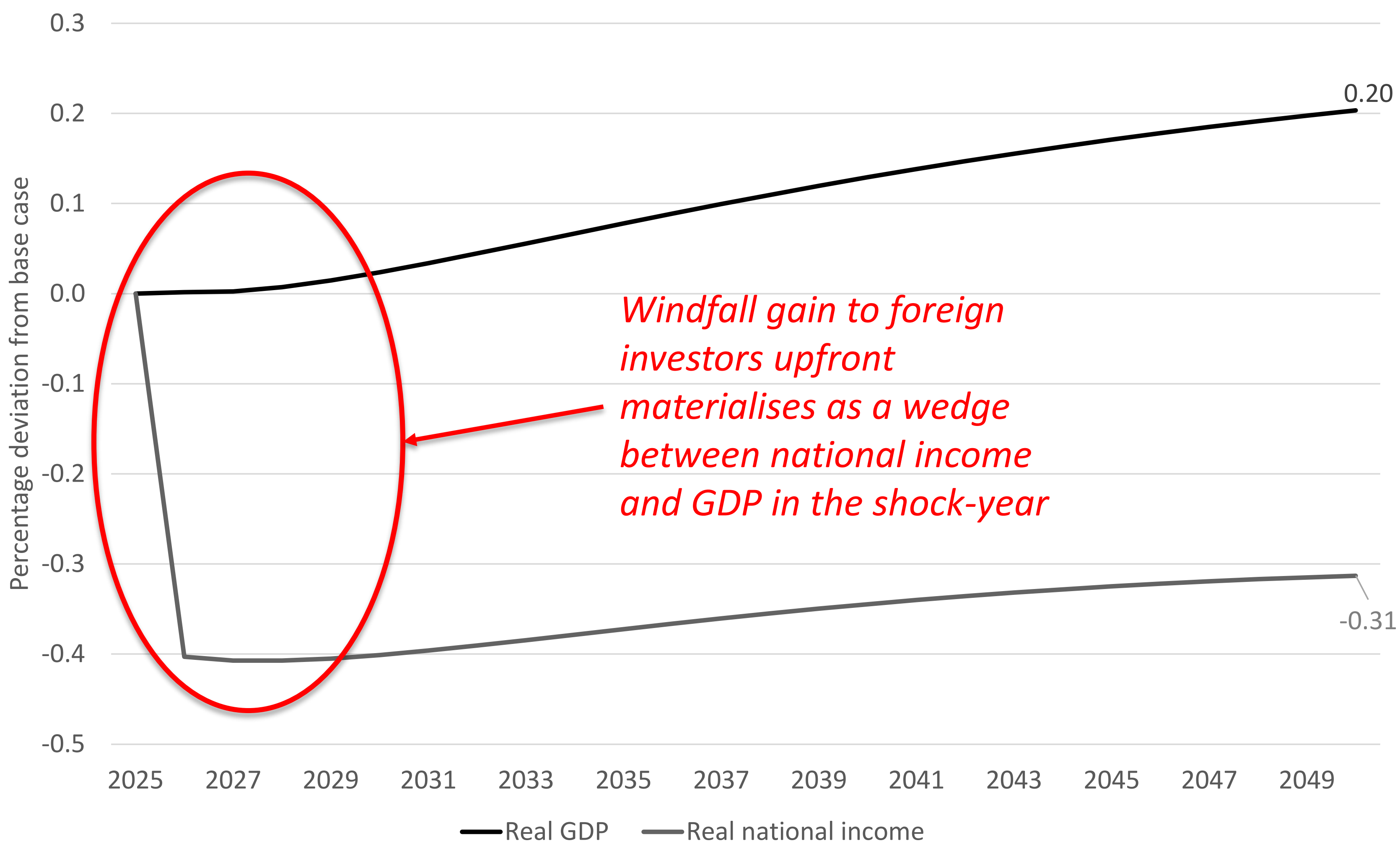


Methodological differences
Dynamics

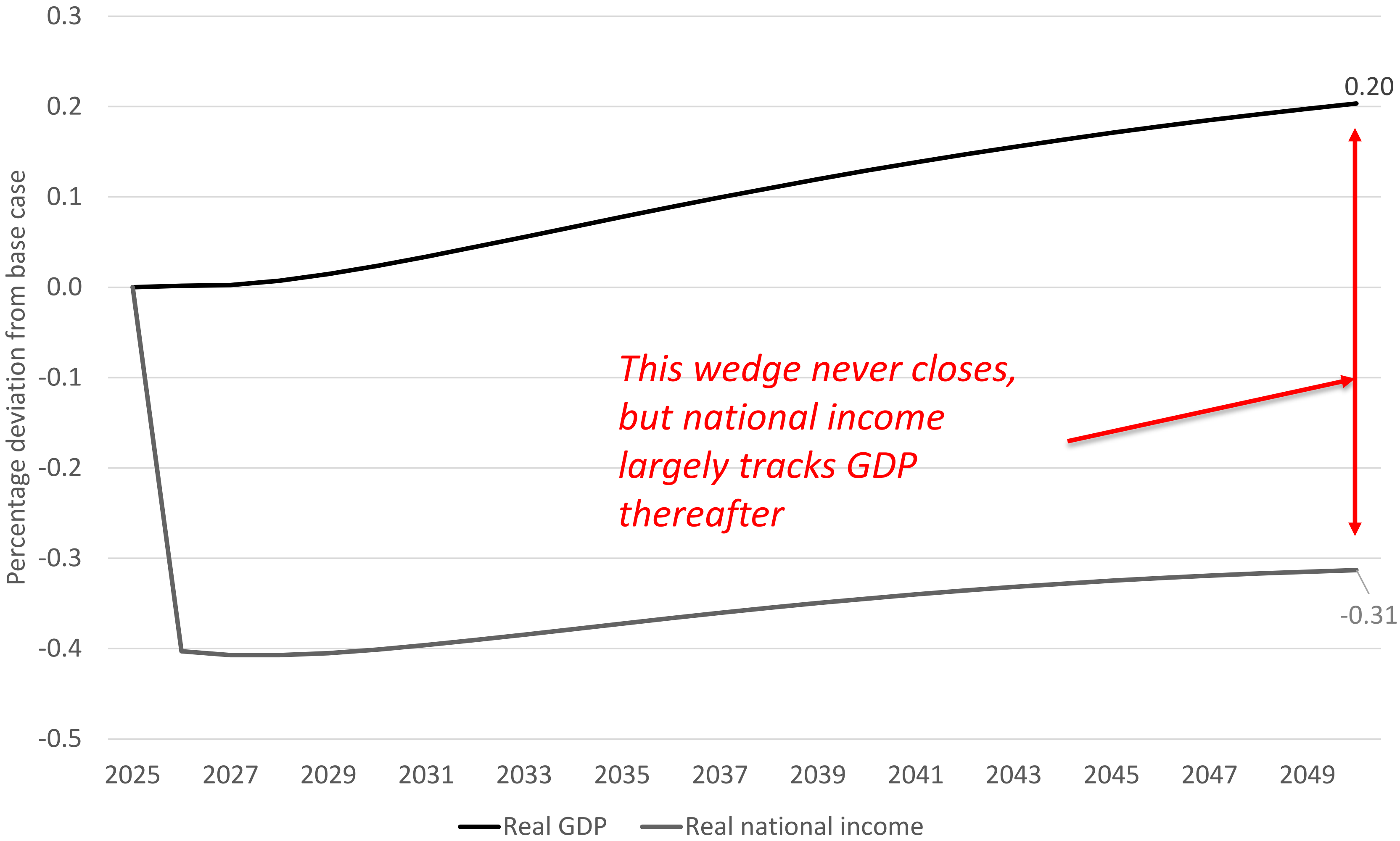


B returns, but over time. This adds to foreign liabilities over the transition period. Comparative static analyses miss this transition cost.

Methodological differences
Dynamics and windfall gains

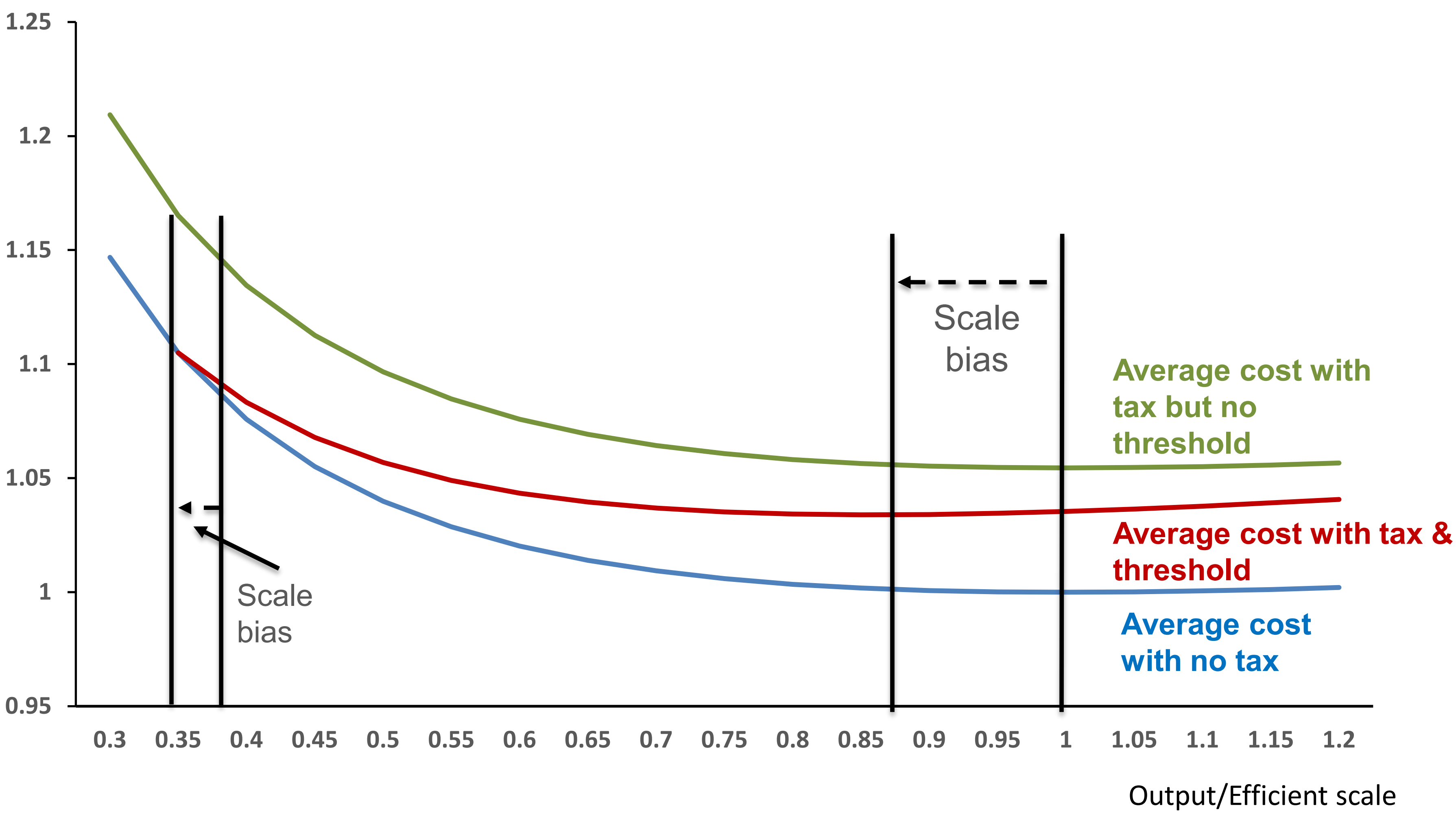


Methodological differences
Dynamics and windfall gains



Threshold distortions

Threshold alter the shape of the average cost curve



Summary

The PC Interim report proposed corporate income tax cuts, funded via a cash flow tax.

The recommendation is supported by modelling from Chris Murphy.

The Centre of Policy Studies was commissioned to study company tax cuts, funded via personal income tax increases.

Two key differences drive different long-run implications:

- Methodological: Short-run windfall gains to foreign investors drive up net foreign liabilities. These costs are missed in Chris Murphy's long-run analysis.
- Elasticities: Two key elasticity estimates differ across the studies, biasing the national income response up in Murphy relative to CoPS.

One final point mentioned but not modelled by the PC is the economic distortion introduced by the threshold.

- At A$1m in turnover firms will face a 10% CIT rate hike, plus an entirely new tax: a cash flow tax of 5%, i.e., a 15% rate hike from 20%.
- It is highly recommended that the PC commission modelling to understand its impact.