Parliamentary Budget Office

ECR-2025-2472

Entrepreneurship Accelerator Tax Incentive	
Party:	The Coalition
Summary of proposal: The policy would create an Entrepreneur Accelerator Tax Incentive (EATI) that reduces the taxable income for new companies. Under the EATI, start-ups will receive a tapered reduction in tax on their first $200,000 of taxable income over three years. The reduction would only be available to incorporated entities (companies) and would be available for the first 3 years after a company's incorporation. The policy start date is 1 July 2025.	
Additional information (based on further advice provided): The policy will run as a trial for the first 3 years and sunset in year 3, with a legislated review in year 2. Companies eligibility will be grandfathered (i.e. a new company that is created in 2027-28 - the final year of the policy, would remain eligible for the offset for their first 3 years). The proposal would support start-up or growth companies to invest and grow through the early stages of the company lifecycle by a tapered offset with the following: • In year 1, taxable income reduced by 75% for the first $100,000 of income, and 50% for the second $100,000 of income. • In year 2, taxable income reduced by 60% for the first $100,000 of income, and 40% for the second $100,000 of income. • In year 3, taxable income reduced by 50% of the first $100,000 of income, and 30% for the second $100,000. Taxable income above $200,000 does not attract the EATI, nor does any taxable income earned in year 4 or later.	

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around $1.8 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact primarily reflects a decrease in tax revenue.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

Table 1: Entrepreneurship Accelerator Tax Incentive – Financial implications ($m)[a][b]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	-4.1	-387.9	-610.6	-789.4	**-1,792.0**
Underlying cash balance	-4.1	-387.9	-610.6	-789.4	**-1,792.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Uncertainties

The financial implications of the proposal are highly sensitive to several factors, including but not limited to the following:

- The entry rate and survival rate of new companies.
- The behavioural response to the incentives created by the proposal, and the ability of non-company businesses to change structure to a company to be able to utilise the policy in the expected timeframe.

Furthermore, the proposed policy may result in second-order effects that affect the financial implications, such as increases in the entry rate, survival rate, and/or profitability of new companies. As per costing guidelines from the *Charter of Budget Honest Act 1998*, these have not been factored into the financial impacts.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Eligible entities would claim the EATI when they lodge their income tax return, and it would not be factored into company tax instalments.
- The Australian Taxation Office (ATO) will require additional funding to administer and conduct compliance operations for the proposed policy. The policy will have integrity rules to minimise incorrect use by existing companies.
- To account for a possible behavioural response from existing companies seeking to take advantage of the proposed policy (by opening a new company and rolling over their activities), a 2.5% increase in the cost of the policy has been factored in.
- The average estimated number of eligible companies represents approximately 4% of all incorporated entities in a year. This is projected to grow in line with pre-COVID-19 companies growth trends, at an average annual rate of around 2%, informed by de-identified unit record company tax return data.
  - The estimated survival rate for eligible companies is assumed to be 72% of new companies in the second year, and 64% to the third year. These estimates are based on average survival rates derived from matched company tax unit data between 2018 and 2022.
  - Eligible companies are assumed to be those entities in a tax-paying position (i.e. with taxable income above nil) in a given year.
  - An adjustment factor of approximately 5% was applied to account for companies that may not lodged in a given year (due to non-lodgement of not being required too) but are expected to become active and lodge in a future year.

- All additional profits for companies resulting from the EATI will be retained and directed towards business development activities, rather than paid out to owners/shareholders.

Methodology

The financial implications of the proposal are calculated using historical, de-identified unit record company tax return data to determine the average taxable income and the number of new companies paying tax currently. The proposed EATI concessions were then applied to eligible companies. The net impact on taxable income was derived by comparing outcomes between the base and policy scenarios. These costs grown forward to the relevant tax years, and were uplifted for a behavioural response from existing companies.

- The number of eligible companies was estimated based on projected entry and survival rates of new Australian businesses, as indicated in the *Key Assumption*.

The departmental costs for the ATO to administer the proposed EATI including a legislated review in year 2 were calculated based on the departmental costs associated with comparable historical taxation policy implementation[1], and projected forwards using the Wage Cost Index 3 (WCI 3) less an efficiency dividend, plus additional staff to enforce compliance.

Financial implications were rounded consistent with the PBO's rounding rules.[2]

Data sources

The Australian Taxation Office provided de-identified *Company Tax* unit data from 2013 to 2023 years.

ATO (Australian Taxation Office) (2024) *Taxation Statistics 2021-22, Company - Table 6* [dataset], data.gov.au, Australian Government, accessed 28 May 2025.

ATO (Australian Taxation Office) (2024) *Taxation Statistics 2021-22, Snapshot - Table 4* [dataset], data.gov.au, Australian Government, accessed 28 May 2025.

Commonwealth of Australia (2022) *Budget 2022-23*, Commonwealth of Australia.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

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[1] Budget 2022-23 measure *Small Business – technology investment boost*.

[2] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Attachment A – Entrepreneurship Accelerator Tax Incentive – Financial implications

Table A1: Entrepreneurship Accelerator Tax Incentive – Fiscal and underlying cash balances ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Revenue													
Administered tax													
Company income tax - EATI	-	*-382.0*	*-608.0*	*-788.0*	*-396.0*	*-173.0*	-	-	-	-	-	***-1,778.0***	***-2,347.0***
Total – revenue	**-**	**-382.0**	**-608.0**	**-788.0**	**-396.0**	**-173.0**	**-**	**-**	**-**	**-**	**-**	**-1,778.0**	**-2,347.0**
Expenses													
Departmental													
Australian Taxation Office	*-4.1*	*-5.9*	*-2.6*	*-1.4*	*-1.4*	*-1.4*	-	-	-	-	-	***-14.0***	***-16.8***
Total – expenses	**-4.1**	**-5.9**	**-2.6**	**-1.4**	**-1.4**	**-1.4**	**-**	**-**	**-**	**-**	**-**	**-14.0**	**-16.8**
Total (excluding PDI)	**-4.1**	**-387.9**	**-610.6**	**-789.4**	**-397.4**	**-174.4**	-	-	-	-	-	**-1,792.0**	**-2,363.8**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A2: Entrepreneurship Accelerator Tax Incentive – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Fiscal balance	..	*-9.0*	*-31.0*	*-64.0*	*-93.0*	*-110.0*	*-119.0*	*-124.0*	*-130.0*	*-135.0*	*-142.0*	***-104.0***	***-957.0***
Underlying cash balance	..	*-7.0*	*-26.0*	*-56.0*	*-86.0*	*-106.0*	*-116.0*	*-123.0*	*-128.0*	*-134.0*	*-140.0*	***-89.0***	***-922.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[3].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

.. Not zero but rounded to zero.

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[3] [Online budget glossary – Parliamentary Budget Office (pbo.gov.au)]