Parliamentary Budget Office

ECR-2025-3194

40% excess profits tax on corporations with over $100 million in turnover	
Party:	Australian Greens

Summary of proposal:

The proposal would introduce a 40% excessive profits tax (EPT) on corporations with over $100 million in turnover. The proposal would allow for a reasonable rate of return (defined as 5% plus the long-term bond rate) on shareholder equity, allows for companies to carry forward credits for years that saw substantial revenue drops, and avoids financial cliffs that discourage smaller enterprises from expanding.

The proposal would start on 1 July 2025.

Additional information (based on further advice provided):

- Only post-company tax Australian-sourced profits would be subject to the proposal.
- Companies would be entitled to a tax offset that would refund the equivalent of the EPT paid on the first $100 million of turnover.
- The allowance for corporate equity means that if a company’s return on equity is below 5% plus the long-term bond rate, no excessive profits tax would be payable.
  - A company in this situation would accrue non-refundable EPT credits which could be carried forward to later years and used to offset future excessive profits.
- Companies would be able to look back over the 10 years prior to the introduction of the proposal and accumulate a balance of excessive profits credits that could be utilised from the start of the proposal.
- Payment of EPT would not be deductible for company tax purposes.
- Payment of EPT would generate franking credits (excessive profits based) that can be distributed to shareholders.
- Resources and fossil fuel companies subject to sector specific excessive profits taxes would be exempt from this proposal.

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balances by around $89.6 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact reflects, in order of significance:

- an increase in tax revenue from EPT payments
- a decrease in income tax payments due to tax offsets/refunds from EPT-specific franking credits

- a decrease in income tax receipts due to decreased dividend income receipts by Australian taxpayers, partially offset by an increase in income tax receipts due to a decrease in company tax franking credit distributions and related offsets/refunds
- an increase in departmental expenses for the Australian Taxation Office (ATO).

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: 40% excess profits tax on corporations with over $100 million in turnover – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	13,125.0	22,005.0	26,305.0	28,205.0	**89,640.0**
Underlying cash balance	13,125.0	22,005.0	26,305.0	28,205.0	**89,640.0**

(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

There is a high degree of uncertainty associated with this costing and caution should be taken when interpreting the results.

The main component for the excessive profits tax is very sensitive to international and domestic economic conditions. Company after tax profit represents the net of two relatively large revenue and cost amounts which themselves can be quite volatile. The value of shareholder equity can also fluctuate over time. Any short-term fluctuations at the time of the equity valuation will impact the allowance calculations, and thus the tax payable. Any of these sources of volatility could have significant implications on the amount of tax payable from year to year.

There are also inherent uncertainties associated with the methodology used to undertake the costing because it is based on historic levels of economic activity and company profits.

This response draws on 15 years of company tax data up to and including 2022-23. There is some uncertainty associated with projecting the super-profits tax revenue into future years, given the uncertainty about growth in different industries post COVID and fluctuations in key economic indicators.

In addition, there is inherent uncertainty regarding the behaviour response of companies to this proposal, by changing their level of equity or debt, and altering business structures. The PBO has factored in behavioural impacts but notes that they could be greater or smaller than estimated which would substantially change the financial impact of the proposal.

Some companies may take the one-time opportunity to engage in tax planning arbitrage in the year before the start of the excess profit tax, by seeking to bring forward revenue into 2024-25 from 2025-26 or delay expenditure from 2024-25 until 2025-26. This would lead to an increase in company tax initially for 2024-25, and then a corresponding decrease the next year.

As per the Charter of Budget Honesty's policy costing guidelines, the Parliamentary Budget Office's (PBO) costings do not include broader second round effect of this policy.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Prior to the policy start date, all required legislation would be passed.
- The ATO would be able to undertake the necessary departmental preparations and activities to implement this proposed policy in 2025-26.
- Companies operating under the following industry codes as per the 2006 *Australian and New Zealand Standard Industrial Classification* (ANZSIC) will be subject to other sector-specific excessive profits taxes for resources and fossil fuel companies, and would be exempt from the proposed policy:

  Subdivisions:

  – 06: Coal Mining

  – 07: Oil & Gas Extraction

  Classes:

  – 0801: Iron Ore Mining

  – 0802: Bauxite Mining[1]

  – 0803: Copper Ore Mining

  – 0804: Gold Ore Mining

  – 1011: Petroleum & Gas Exploration
- The long-term bond rate used to calculate the specified “reasonable rate of return” on shareholder equity would be the Australian Government 10-year bond yield.
- Excessive profits tax liabilities would be calculated and raised on a quarterly basis, with all repayments made within the following quarter.
- Companies would pay out 58% of their after-tax profits as dividends.
- Companies would, on average, pay out dividends with an average franking rate of 93%.
- Domestic shareholders would receive 65% of total dividends paid out.
- Personal income tax liabilities for a given financial year are raised and paid in full in the following financial year.
- All tax liabilities (or refunds) associated with received dividends and franking credits are raised and paid in the financial year after the dividends and franking credits are paid.
- The methodological approach outlined below factors in a company behavioural response to the introduction of the excess profits tax. This accounts for changes to equity vs debt financing, further adjustments to Australian based profits, or other business structuring.

[1] This ANZSIC class consists of units with primary activities of bauxite mining (the most common ore of aluminium) or other aluminium ore mining.

Methodology

Excessive Profits Tax

The financial implications of this proposal were estimated using the outputs of a microsimulation model developed by the PBO that uses historical longitudinal data over the period from 2008-09 to 2022-23. The historical financial implications were then grown over the actual period that the tax would apply (from 2025-26 onwards).

- The excessive profits tax liability for each affected company was determined based on their reported net profit, net company tax, turnover and shareholder equity for each historical financial year, sourced from company tax return data.
- Excessive profits tax credits were then accumulated over the 10 years until to 30 June 2018 (the simulated 10-year loss look back period) for each company. The accumulated excessive profits credit balance was used to offset any excessive profits that were made in the years from 1 July 2018. Additional excessive profits credits that accrue after 1 July 2018 were also added to the rolling balance.
- If no prior year excessive profits credits were accumulated to 30 June 2018 the company would become liable for excessive profits tax from the simulated start date if its calculated excess profit was large enough.
- The revenue impact of the proposal was modelled using the profile of the simulated historical excessive profits tax estimate for 2019-20 to 2022-23, with an allowance in the first 2 years for the effect of the stock of losses from the 10 year 'look back' period. This impact was then grown from 2025-26 (start year of proposal) through to 2035-36 by the projected growth rate of corporate gross operating surplus (GOS) as per the 2025-26 Budget parameters.
- As specified in the proposal, the estimates take into account the imputation system flow through effect on personal income tax.
  - EPT would lower company profits and in turn the distribution of dividends and the company tax franking credits attached to those dividends.
  - EPT paid would also generate EPT-specific franking credits.

Departmental expenses

Ongoing departmental expenses to administer the proposal were based on the departmental expenses for previous measures with similar levels of administrative complexity. The additional cost in 2025-26 represents the costs of preparing to implement the new tax (new and updated IT systems, modification of activity statements and income tax returns, preparing guidance for companies and educating the sector).

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

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

Data sources

The ATO provided anonymised company-level tax return data for the 2008-09 to 2022-23 financial years.

ATO (Australian Taxation Office) (2024) *Taxation statistics 2021–22*, ATO website, Australian Government, accessed 20 May 2025.

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

Department of the Treasury (2024) *2024-25 Tax Expenditures and Insights Statement*, Treasury website, Australian Government, accessed 20 May 2025.

Attachment A – 40% excess profits tax on corporations with over $100 million in turnover – Financial implications

Table A1: 40% excess profits tax on corporations with over $100 million in turnover – Fiscal and underlying cash balances ($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
Tax revenue													
Company excessive profits tax	*13,200.0*	*24,300.0*	*29,500.0*	*31,800.0*	*33,700.0*	*35,600.0*	*37,600.0*	*39,500.0*	*41,500.0*	*43,600.0*	*45,800.0*	***98,800.0***	***376,100.0***
Income tax receipt changes due to dividend and franking credit changes	*-*	*690.0*	*1,280.0*	*1,550.0*	*1,650.0*	*1,720.0*	*1,800.0*	*1,860.0*	*1,930.0*	*2,000.0*	*2,070.0*	***3,520.0***	***16,550.0***
Income tax receipt changes due to EPT-specific franking credits	*-*	*-2,960.0*	*-4,450.0*	*-5,120.0*	*-5,480.0*	*-5,850.0*	*-6,220.0*	*-6,600.0*	*-6,990.0*	*-7,400.0*	*-7,830.0*	***-12,530.0***	***-58,900.0***
Expenses													
Departmental													
Australian Taxation Office	*-75.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	***-150.0***	***-325.0***
Total – expenses	**-75.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-150.0**	**-325.0**
Total (excluding PDI)	**13,125.0**	**22,005.0**	**26,305.0**	**28,205.0**	**29,845.0**	**31,445.0**	**33,155.0**	**34,735.0**	**36,415.0**	**38,175.0**	**40,015.0**	**89,640.0**	**333,425.0**

(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: 40% excess profits tax on corporations with over $100 million in turnover – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($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	*300.0*	*1,100.0*	*2,200.0*	*3,500.0*	*4,900.0*	*6,500.0*	*8,300.0*	*10,200.0*	*12,200.0*	*14,500.0*	*17,000.0*	***7,100.0***	***80,700.0***
Underlying cash balance	*200.0*	*900.0*	*1,900.0*	*3,200.0*	*4,600.0*	*6,100.0*	*7,800.0*	*9,700.0*	*11,700.0*	*13,900.0*	*16,300.0*	***6,200.0***	***76,300.0***

(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.

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