



Discussion Paper

Taxing Aspiration and Innovation into Oblivion: How
the Unrealised Gains Tax and the Failure to Index Will
Decimate Australia's Innovation

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1. Letter from Geoff Wilson AO

Dear reader,

In April 2025, Wilson Asset Management released a comprehensive discussion paper, *'Critiquing the Proposed Taxation on Unrealised Gains in Superannuation'*. That paper detailed the fundamental economic flaws, the breach of the social contract with Australians, and the inherent unfairness of imposing a tax on paper profits within our superannuation system. We highlighted the significant deadweight loss to the economy and the detrimental behavioural changes such a policy would inevitably trigger.

Today, we release a follow-up paper, *'Taxing Innovation into Oblivion: How the Unrealised Gains Tax and the Failure to Index Will Decimate Australia's Innovation'*. This new analysis includes survey data that highlights 83% of respondents do not believe a tax on unrealised gains is a fair way for the government to generate revenue, and if the tax is implemented, 67% of respondents will reduce holdings in start-ups and high growth companies.

This paper highlights that the proposed tax on unrealised gains will not merely be a burden on individual superannuation accounts exceeding \$3 million, the failure to index means a 25-year-old who today starts with a zero-superannuation balance will be captured by the time they reach retirement. We will then illustrate how the economic theory of innovation and S-Curves means \$19.73 billion in taxation revenue could be lost from 611,823 start-ups if we tax unrealised gains, as critical sources of funding that support small companies will be eroded.

The evidence presented in this follow-up paper paints a grim picture. It is a policy that threatens to undermine the foundations of Australia's economic dynamism by inhibiting the very companies that drive innovation, competition and future growth. It will stifle investment and it will not deliver the productivity reform that is desperately needed. It is also a policy that may discourage the emerging investment preferences taking place with younger generations who are increasingly allocating to cryptocurrency, an asset class with high volatility.

We urge policymakers, industry stakeholders and the wider Australian public to consider the significant and far-reaching implications outlined in this new research. Australia's long-term prosperity depends on fostering a vibrant and innovative corporate sector, supported by a fair and economically sound superannuation and taxation system. In our view, the proposal to tax unrealised gains undermines these objectives.

We welcome your consideration of this critical issue.

Yours sincerely,



Geoff Wilson AO

Founder and Chairman, Wilson Asset Management

2. Executive Summary

This discussion paper is a follow up to the April 2025 Wilson Asset Management paper '*Critiquing the Proposed Taxation on Unrealised Gains in Superannuation*'. This paper contends that such a tax is economically unsound and outlines the following critical concerns:

- **Public Opposition:** 83% of survey respondents believe a tax on unrealised gains is not a fair way to generate government revenue, 67% will reduce holdings in startups, smaller capitalisation or high growth companies, and 63% will no longer be willing to hold investments longer than five years.
- **Failure to Index:** Without indexation, inflation and wage growth will push millions into the tax net. Anyone aged 27 years or younger (2.9 million Australians are aged 18-27) who starts with a zero-superannuation balance will be captured, as will anyone aged 34 or under (5.4 million Australians are aged 18-34) with an average starting superannuation balance.
- **Lost Taxation Revenue:** 611,823 Australian companies, that are either start-ups or small growth companies, are projected to forgo \$19.73 billion in taxation contributions to the Government during the maturity phase of the S-Curve life cycle.
- **Start-Up Flight:** Each year, 55,096 corporate start-ups are expected to be captured by the taxation of unrealised gains. As a result, we estimate an annual loss of \$444.3 million in taxation revenue once these companies reach the mature stage of the S-Curve.
- **The Flight from Prudent Risk-Taking:** Self-managed superannuation funds (SMSFs) will be forced to abandon growth-oriented investments. The need to manage annual tax liabilities will drive a shift towards lower-risk, yield-focused assets such as debt and fixed interest instruments, or top ASX 100 listed companies. This reallocation will deprive innovative companies of critical funding and contribute to dangerous levels of market concentration and potential overvaluation in large-cap stocks, introducing idiosyncratic risks to the broader market.
- **Cryptocurrency:** While cryptocurrency represents 1% of total SMSF assets, it accounts for a remarkable 7% of newly established SMSF portfolios. We illustrate that the historical drawdown in cryptocurrency has exceeded 80%, raising serious concerns about the ability for an investor to meet tax liabilities on hypothetical gains when there is a medium-high probability those gains will reverse the next year. This challenges the reliability of Treasury's tax revenue forecasts, which assume taxable cryptocurrency gains.
- **Capital Drought for Emerging Companies:** We highlight the challenges faced by smaller, often pre-profitability companies that rely on external capital to fund research, development and growth. The proposed tax will make it significantly more difficult for these entities to attract investment, increasing the risk of failures and shrinking the pipeline of future Australian success stories. Using the S-Curve, a long-standing economic theory on the life cycle of a company, we illustrate that taxing unrealised gains restricts reinvestment during the critical development stages, limiting a company's ability to reach maturity where profitability and tax contributions are at its maximum.
- **Erosion of the Innovation Ecosystem:** The paper explores the broader shift away from investment in start-ups and innovative ventures as capital is increasingly redirected towards private credit, debt and fixed interest instruments in an effort to avoid the complexity and volatility of unrealised gains tax on equities. The recent decline in initial public offerings (IPOs) on the ASX underscores a shrinking public market that limits wealth creation opportunities for

retail investors and reduces access to capital for angel investing and venture capital. Our modelling shows that taxing innovation can result in a drag on future taxation revenue of up to 53%. As we enter the critical sixth wave innovation cycle, driven by artificial intelligence (AI) and green technology, it is essential that we do not undermine the ecosystem that enables progress and global competitiveness.

- **Non-Bank Financial Intermediation (NBFI) Sector:** The sector plays a vital role in funding superannuation funds and bridging gaps left by traditional banks, particularly in supporting venture capital and growth companies. Taxing unrealised gains risks cutting off this critical funding source.
- **Compounding Existing Policy Flaws:** We examine how the 'Your Future Your Super' (YFYS) reforms have disadvantaged smaller publicly listed companies that are not included in major indices by encouraging institutional fund managers to closely track benchmarks ('benchmark hugging'). The proposed tax on unrealised gains will compound this distortion, creating an even greater barrier to capital allocation for both listed and unlisted small growth companies.

3. Introduction: A Handbrake on Australia's Growth Engine

This paper builds upon Wilson Asset Management's comprehensive April 2025 discussion paper, *'Critiquing the Proposed Taxation on Unrealised Gains in Superannuation'*.

Our initial analysis highlighted the fundamental economic flaws, broken social contract and inherent unfairness of taxing unrealised 'paper' profits. We now turn to a critical ramification: the disproportionately destructive impact this proposed tax will have on the Australian ecosystem of small growth companies, the venture capital sector, and by extension, the nation's capacity for innovation and future economic prosperity.

The proposed Division 296 tax, which imposes an additional 15% tax on superannuation earnings linked to balances over \$3 million, is particularly damaging because it taxes unrealised gains and fails index the \$3 million threshold. This creates a systemic disincentive to make long-term, growth-oriented investments that underpin emerging enterprises. The government has stated that the tax will have a limited impact, affecting only 0.5% of superannuation account holders. This narrow framing overlooks the significant consequences to the broader economy and population and does not consider the impact of 'bracket creep' on the \$3 million threshold. Inflation, wage growth and ordinary investment returns will inevitably draw a far wider cohort of Australians into this tax net. Our modelling, shown in the Appendix, indicates those aged 27 and under with a zero starting superannuation balance would exceed the unindexed cap before retirement. This has led to some characterising it as a 'stealth tax', one that fundamentally alters the long-term investment incentives within superannuation.

The policy will constrict the flow of essential risk capital to the engine room of the Australian economy: our small and medium-sized enterprises (SMEs) and innovative start-ups. It will compel a flight to perceived safety in larger, potentially overvalued assets, increase market concentration, place further strain on an already challenged IPO market and weaken Australia's economic dynamism. The taxation of unrealised gains, without indexation, risks misaligning with the investment horizon required for small growth companies and venture capital success. These sectors typically involve extended periods of value accretion before any gains are realised in cash. Taxing the 'paper' increase in value annually forces investors to find cash to pay taxes on gains they have not received, potentially by selling other assets or prematurely selling the investment itself, a situation particularly problematic for illiquid assets.

This creates a strong bias towards assets that generate regular, realised income or possess high liquidity, characteristics not common in most early-stage growth investments, as well as undermining the patient capital these businesses rely on.

4. The Exodus from Innovation: SMSFs Forced to Abandon Small Growth Companies

SMSFs have long been recognised as a vital source of patient capital for Australia's emerging companies, particularly in the small and venture capital space. Their capacity to take a longer-term view and invest in less liquid, higher-growth potential assets has been instrumental in fostering innovation. The proposed tax on unrealised gains threatens to weaken this crucial funding channel by altering the risk-reward dynamic for SMSF trustees.

The core issue is the enforced shift in risk appetite. Faced with an annual tax on unrealised appreciation, SMSF trustees, particularly those with balances exceeding or approaching the \$3 million non-indexed threshold, will have a strong incentive to de-risk their portfolios. This would lead to reallocating away from typically volatile small growth companies, where gains are typically unrealised for longer time horizons, and towards more stable, income-generating assets. For example, by investing in high-yield debt instruments or highly liquid large, listed companies to manage potential tax liabilities. This behavioural shift, while a rational response to a punitive tax, risks significantly reducing the \$1.1 trillion pool of patient capital held in SMSFs that is critical to supporting innovation and emerging enterprise.

Liquidity becomes a paramount concern. Small growth companies and venture capital investments are often characterised by their illiquidity. The requirement to pay tax on unrealised gains necessitates access to cash. If an SMSF holds a significant unrealised gain in a promising yet illiquid small company, it may be forced to sell other, more liquid assets, potentially at inopportune times, or worse, attempt a premature and discounted sale of the illiquid holding itself, simply to meet the tax obligation. This not only erodes value for the SMSF member, it also destabilises the investee company by creating forced sellers in an illiquid market. The University of Adelaide study commissioned by the SMSF Association quantifies this risk, estimating that between 3% and 11% of the 44,000 to 50,000 affected SMSF members will face immediate difficulty covering the new tax expense from liquid assets within their superannuation. This proportion is projected to rise to a concerning 13.5% due to cumulative effects within just two years, translating to potentially thousands of SMSFs facing liquidity stress.

Given that SMSF investments account for high ownership percentages of start-ups and unlisted companies, and 12% of the ASX market capitalisation, widespread selling or reallocation by this segment would have material repercussions. Exiting positions in small growth companies is further constrained by declining liquidity. Data from Goldman Sachs highlights that small growth company liquidity currently sits in the 73rd percentile of observations since 2012, with annual turnover now around 150%, well down from 250% in 2020 and 2021.

This tax introduces what can be described as a perverse 'success penalty'. The better a small company or start-up investment performs, the larger the unrealised gains, and consequently the greater the tax liability and liquidity pressure for the SMSF holder. This dynamic may force investors to exit a high-performing assets prematurely, curtailing their long-term growth trajectory purely for tax management reasons. The collective de-risking by a substantial cohort of SMSFs would lead to a structural shallowing of the angel and early-stage capital pool in Australia. This is not simply an individual portfolio adjustment; it represents a systemic contraction in the supply of sophisticated, patient risk capital essential to startups, small companies and the pre-IPO ecosystem. Ultimately, it will make capital raising materially more difficult for *a//*small innovative companies.

5. Changing Investment Preferences Towards Cryptocurrency

Australia has emerged as a leading global hub for digital asset adoption, with invested capital now totalling \$75 billion. According to Independent Reserve, 31% of Australian adults, or 6.2 million people, own or have owned Bitcoin or another form of cryptocurrency. This growing adoption is extending into retirement savings. In 2024, Australian SMSFs held \$1.044 billion in cryptocurrency, based on Australian Taxation Office (ATO) data. Just five years earlier, this figure was under \$200 million, representing growth of more than 500%. No other major asset class within the superannuation system has expanded at this rate, and all indicators suggest this momentum is accelerating.

The trend is particularly pronounced among younger Australians. A 2024 Vanguard report found that while cryptocurrency makes up just 1% of an average established SMSF portfolio, it accounts for 7% of newly formed SMSF portfolios. 32.3% of Australians aged 25 to 34 express a desire to hold Bitcoin in their superannuation and among Gen Z, cryptocurrency ownership specifically for retirement purposes increased 16% year-on-year. Additionally, data shows that 35% of Australian cryptocurrency investors are actively building their positions, contributing \$500 or more per month. Together, this signals the emergence of a new retirement philosophy, led by digital-native generations who view cryptocurrency as a core component of their long-term financial planning, challenging notions of what constitutes a legitimate retirement asset.

However, this structural shift coincides with significant policy uncertainty. The ATO classifies cryptocurrency and other digital assets as property for tax purposes and not a form of money or legal tender. This means their disposal is subject to capital gains tax (CGT) and, critically, will also be captured under the proposed tax on unrealised gains.

This presents serious implementation challenges. As illustrated in Table 1, Bitcoin and other cryptocurrencies are highly volatile, with extreme and frequent price swings. Investors could be forced to pay tax on a hypothetical gain one year, only to then suffer a substantial capital loss in the next. In practical terms, this could impose tax liabilities that are impossible to fund, making cryptocurrency the most challenged asset class to be subject to the proposed tax. The extreme volatility of cryptocurrency calls into question the reliability of Treasury's tax revenue forecasts that include unrealised capital gains.

As with the lack of indexation, younger Australians who are most likely to allocate to cryptocurrency within superannuation will be disproportionately impacted over time, particularly as their balances grow. Adding to the uncertainty, the legal status of cryptocurrency remains contested. In May 2025, a Victorian judge ruled that Bitcoin constitutes a form of currency and is therefore exempt from capital gains tax, a decision now under appeal with a hearing expected later this year.

Table 1: Volatility in Bitcoin

| Period | Peak Price | Trough Price | Decline |
|---------|------------|--------------|---------|
| 2011 | \$32 | \$2 | -94% |
| 2013 | \$260 | \$45 | -83% |
| 2013-15 | \$1,150 | \$170 | -85% |
| 2017-18 | \$19,800 | \$3,100 | -84% |
| 2021-22 | \$69,000 | \$15,500 | -77% |

Source: Factset

6. Distorting Market Integrity: Heightened Concentration and Systemic Risk

A foreseeable and damaging consequence of capital being withdrawn from the start-up and small cap sector as a result of the unrealised gains tax, is an amplified flow of funds into the S&P/ASX 100 (ASX 100). This redirection of capital is not a reflection of superior investment opportunities in large companies, yet a defensive response to a shifting tax environment, leading to significant market distortions and potentially increasing systemic risk.

The Australian equity market already exhibits a notable degree of concentration within its largest constituents, primarily in the financial and materials sectors. The proposed tax is likely to exacerbate this concentration as superannuation funds, particularly SMSFs seeking liquidity and avoidance of unrealised gains tax complexities, allocate more capital into these large, liquid stocks. This shift reduces the flow of long-term capital to Australia's small and medium size companies, which have historically played a key role driving economic growth. Over time, it would result in a less diversified market that is more exposed to the performance of a smaller number of mega-cap companies. The S&P/ASX 100, representing the top 100 companies by market capitalisation, serves as a key indicator of blue-chip performance, yet its growing dominance, including as a result of tax-related distortions, raises concerns about broader market resilience.

Such forced capital allocation can contribute to the overvaluation of ASX 100 stocks. As 'refuge capital' seeks a haven from the tax on unrealised gains, demand for large-cap stocks may increase irrespective of their intrinsic value or growth prospects. The new tax would funnel even more funds towards ASX 100 stocks, potentially inflating valuation bubbles and increasing volatility and the risk of sharp corrections. The ASX 20 is now 59% of ASX 300 and the ASX 100 Dividend Yield is now only 3.4% against 4.1% in June 2019.

Heightened market concentration increases idiosyncratic risks. If a dominant sector or a few key large companies within the ASX 100 were to face adverse conditions, whether due to domestic policy, international trade tensions (mirroring US tariff concerns), or sector-specific issues, the impact on the broader Australian market would be magnified. By discouraging investment in a more diverse base of small and medium sized companies, the proposed tax on unrealised gains inadvertently elevates systemic risk within the Australian equity market. A 'liquidity premium' would emerge for ASX 100 stocks, driven by perceptions of safety as well as for their utility in managing tax liabilities. Conversely, a 'liquidity discount' may apply to smaller, less liquid companies. This

divergence distorts valuations beyond fundamental differences and would reduce the availability of growth equity for small and medium sized companies. As a result, these companies would become more reliant on debt funding, increasing their exposure to changes in the broader economic environment.

Ultimately, by forcing capital towards a narrow segment of the market, the policy undermines the ASX's efficiency in price discovery and capital allocation across the broader economy. If investment decisions are increasingly dictated by tax considerations and liquidity management rather than by identifying and funding the most promising growth opportunities (which often lie in the small growth company sector), then capital may be systematically misallocated. This leads to suboptimal economic outcomes and a less dynamic corporate sector, echoing the deadweight loss concerns raised in our original discussion paper on this tax.

7. Capital Drought for Emerging Companies: The Plight of Micro and Small Companies

A significant cohort of Australia's most innovative companies, particularly in sectors like biotechnology, early-stage technology, and resources exploration, are typically unprofitable during their critical growth and development phases. These companies are fundamentally reliant on the equity capital markets, specifically the ASX, for sequential funding rounds to finance research and development, scale operations and ultimately achieve commercial viability and profitability. The proposed tax on unrealised gains is likely to trigger a severe 'capital drought' for these emerging enterprises.

Investors, most notably SMSFs, who have been important backers of such ventures, will be discouraged from allocating capital to companies where the primary investment return is expected as future capital growth. This is because the growth remains unrealised for extended periods and will be subject to annual taxation. The risk/reward calculus for investing in such ventures becomes fundamentally skewed and unattractive within a superannuation structure.

The data on capital raising for small companies on the ASX highlights their vulnerability. While overall IPO capital raised in 2024 was \$4.1 billion across 67 listings, a notable increase from 2023, yet below the \$4.9 billion five-year average, the picture for small growth companies is more concerning. Analysis from Finclear submitted to ASIC reveals a "92 per cent reduction in the number of small cap IPOs since 2021", indicating a severe contraction in new small companies accessing public markets. Secondary capital raisings, which are an important source of funding, totalled \$35.9 billion in 2024 and \$39.9 billion in 2022. However, if the proposed tax leads to a decline in the investor base for smaller companies, access to follow-on funding will also be constrained, particularly given these businesses typically have lower liquidity than their larger counterparts. This is against a backdrop where we are already seeing a decline in the number of listed companies on the ASX. In May 2025 there were 2,045 listed companies, compared with 2,124 in June 2019, all whilst the valuation of the combined entities has risen to \$3,108 million in May 2025, from \$2,069 million in June 2019.

The ramifications are significant: unprofitable yet high-potential small companies will face substantial, potentially insurmountable, hurdles in securing the equity funding necessary for survival and growth. This would lead to a rise in company failures, an increase in de-listings as companies seek alternative private funding (a trend already emerging) and a reduced pipeline of future Australian success stories. Chartered Accountants ANZ has highlighted that the tax is a "terrible issue" for asset-rich, cash-poor entities like farms and small businesses holding property in SMSFs, where rising asset valuations are not matched by cash flow to pay the tax. A similar dynamic applies to capital-intensive, pre-profitability small, listed companies. Data from the Australian Bureau of Statistics shows that only approximately 50% to 55% of new businesses in Australia make it past their first five years of operation.

A notable example of the importance of superannuation capital in early-stage ventures is AirTrunk founder Robin Khuda. In 2016, when the company faced a critical funding shortfall, he used funds from his SMSF to reinvest in the business, a decision that enabled AirTrunk to recover, scale and ultimately be sold to Blackstone for \$24 billion. The outcome delivered substantial economic value and significant tax contributions.

This tax will have a disproportionate impact on Australia's 'deep tech', biotechnology, and innovative resource exploration sectors. These industries are characterised by long development lead times and substantial upfront capital expenditure, with value reflected in unrealised gains long before reaching profitability. As a result, the tax discourages investment in these future-building sectors. A reduction in the number and viability of small publicly listed companies would lead to a less dynamic and more concentrated domestic economy, reducing avenues for wealth creation for ordinary Australians and diminishing public market transparency.

Table 2: Trends in ASX Capital Access for Smaller Companies

| Year | Total Number of ASX IPOs | Value of ASX IPOs (\$m) | Small-Cap IPO Trend (since 2021) | Total Capital Raised on ASX (\$m) |
|------|--------------------------|-------------------------|-------------------------------------|-----------------------------------|
| 2025 | 39 | 8,877 | N/A | 22,441 |
| 2024 | 56 | 36,368 | 92% reduction in number (Finclear) | 45,377 |
| 2023 | 57 | 2,513 | N/A | 49,209 |
| 2022 | 217 | 58,857 | N/A | 196,470 |
| 2021 | 176 | 40,754 | Baseline for 92% decline (Finclear) | 61,920 |

Sources: ASX Annual Capital Market Reviews , HLB IPO Watch Australia Report 2025, Finclear Submission to ASIC, and Goldman Sachs data submitted to Wilson Asset Management

8. The Shrinking Public Market: Initial Public Market Decline and the Pivot to Private Debt

The vitality of a nation's Initial Public Offering (IPO) market is a key indicator of its economic dynamism, capacity for innovation and ability to nurture new, growth-oriented enterprises. In recent years, Australia has experienced a notable decline of IPO activity, alongside an increase in de-listings from the ASX. The 2023-24 period saw more company departures from the ASX than in any two-year span since the 1990s recession, reflecting the challenged public market environment.

ASIC has noted the decline in IPOs and listed companies, and the ASX itself acknowledges the pressures of global competition and is exploring reforms to maintain attractiveness. The 2024-2025 IPO pipeline showed 78 filings, with healthcare and technology representing 61%, yet the overall number of listings remains low compared to historical averages. This phenomenon is not new, with Finclear noting that between 2010 and 2025, Australia's global position as a financial centre has

declined with Sydney falling by 20 places to 30th, and Melbourne falling by 5 places to 29th on the Global Financial Centre's Index.

A subdued IPO market can have material economic implications. It stifles innovation by limiting viable exit pathways for early-stage investors, thereby reducing their incentive to invest in the first place. It curtails broader economic growth by restricting access to crucial expansion capital for companies ready to scale, and it also diminishes investor choice and reduces the overall depth and diversity of Australian capital markets.

The proposed tax on unrealised gains will act as a disincentive to IPOs. Founders, early employees and pre-IPO investors who hold shares within their superannuation will face the prospect of a significant tax liability on 'paper' gains accrued up to and upon listing. This creates a deterrent to a public listing, particularly if a substantial portion of their accumulated wealth is to be immediately taxed before any actual realisation. This 'double disincentive' also extends to post-IPO buyers; if SMSFs and other super funds are deterred from investing in newly listed growth stocks due to the tax on subsequent unrealised gains, the aftermarket for IPOs weakens, reducing the overall attractiveness of the listing process.

At the same time, disincentives within the public equity market are contributing to a broader shift of investment capital towards private markets. Specifically, private credit and other debt instruments are attracting increasing allocations from institutional investors, including superannuation funds. According to ASIC, while public markets market capitalisation has doubled over the past decade, private capital funds grew by 161%, with superannuation funds being a major driver. Australian superannuation funds are actively increasing their exposure to private credit, drawn by perceived diversification benefits and the potential for steady income streams. While private markets play a role, a tax policy that accelerates a shift from public growth equity is detrimental. It risks starving the publicly accessible innovation pipeline, forcing promising companies to rely more on less transparent private debt or seek premature trade sales, thereby limiting wealth creation opportunities for the broader investing public and potentially leading to a less transparent and riskier system for funding growth.

9. Compounding the Harm: 'Your Future Your Super' and the Sidelineing of Small Companies

The Federal Government's 'Your Future, Your Super' (YFYS) reforms, introduced in 2021, have already had a discernible impact on superannuation fund investment strategies, primarily through the annual performance test. A key, often unintended, consequence has been the rise of 'benchmark hugging', where funds closely align their portfolios with prescribed benchmarks to avoid the severe penalties of failing the test. This behaviour inherently disadvantages smaller, innovative Australian companies, as they are typically not included in the major benchmark indices (e.g., S&P/ASX 100 or 200) that form the basis of these tests. This has led to record levels of index concentration. In Australia, the top 10 constituents of the ASX comprise 47% of the Index, meaning that investing in the ASX 200 is a concentrated investment in the big four banks and a small number of large resource stocks such as BHP and Rio Tinto. The influence of high passive buying due to index weights has great potential to distort price discovery and leave smaller companies behind.

Superannuation funds are actively modifying their investment strategies and fee structures to pass the YFYS test. This often translates into reducing allocations to off-benchmark assets, a category that includes many small and micro-cap stocks, venture capital, and private equity. These asset classes may possess different risk/return profiles or require longer investment horizons than those easily accommodated by standardised, short-to-medium term performance benchmarks. Treasury's own review of the YFYS laws acknowledged that the performance test "can unintentionally affect investment decisions of all funds by encouraging short-termism and benchmark hugging, as well as

discouraging certain investments." For example, infrastructure indices, a common YFYS benchmark component, tend to overlook energy transition assets, making such investments off-benchmark and carrying added YFYS risk.

The proposed tax on unrealised gains, when considered alongside the existing YFYS regime, creates a particularly hostile environment for superannuation fund investment in the Australian small growth company sector. Funds will now face a double disincentive: firstly, the career and business risk associated with deviating from YFYS benchmarks by investing in (often excluded) small growth companies; and secondly, a direct tax on the unrealised, and typically more volatile, gains that are characteristic of these growth-oriented assets, along with the associated liquidity challenges for meeting tax payments. Notably, while Treasury's rationale for some YFYS benchmark modifications was to "reduce the incentive for trustees to avoid certain investments", the proposed tax could have the effect of reinforcing those very behaviours.

The YFYS reforms and the proposed tax may create a compounding regulatory effect that discourages superannuation fund investment in actively managed strategies targeting less efficient market segments such as Australian small growth companies. In practice, this could shift capital towards passive, benchmark-aligned large-cap strategies, potentially at the expense of long-term returns from emerging companies. Over time, this combined policy impact may also reduce the presence of Australian fund managers specialising in domestic small growth and venture capital investing within the mainstream superannuation system. If this asset class becomes too challenging to invest in, the pool of specialised talent and research dedicated to unearthing and nurturing emerging Australian companies will diminish, causing long-term structural damage to Australia's capacity to fund innovation from its own significant pool of retirement savings.

10. Conclusion: A Call to Invest in and Nurture Australia's Future Innovators

As outlined in this paper, the proposed taxation of unrealised gains within Australian superannuation extends beyond a simple adjustment to tax concessions for high-balance accounts. It represents a fundamental policy shift with the potential to materially impact the viability of our capital markets and the nation's broader innovation ecosystem. In effect, it is a tax on Australia's future economic growth and dynamism. This analysis has demonstrated that the imposition of this tax will:

- Deter SMSFs and other superannuation investors from undertaking essential risk-taking, by shifting investment away from growth-focused small companies toward lower-return yield and liquidity, thereby reducing a critical source of capital for emerging enterprises.
- Capture the majority of Australians under the age of 30.
- Lead to significant liquidity challenges for cryptocurrency investors in superannuation due to the extreme volatility of the asset class, disproportionately affecting younger Australians.
- Result in up to a 53% decline in projected taxation revenue to be collected from innovative companies.
- Reduce government revenue by taxing start-ups at the wrong end of the S-Curve by inhibiting them from moving to the later stages of the cycle where profitability is highest and the contribution to government revenues is greatest.
- Artificially inflate concentration within the S&P/ASX 100, potentially leading to overvaluation in large-cap stocks and elevating systemic market risk by reducing diversification.

- Create a constrained capital environment for promising yet often pre-profitability small listed companies, increasing the risk of business failures, de-listings and lost opportunities to develop Australia's next generation of corporate champions.
- Further exacerbate the decline in ASX IPOs and accelerate a shift towards private credit and other non-equity funding, reducing transparency and limiting access to public market investment opportunities.
- Compound the negative impacts of the 'Your Future Your Super' reforms by discouraging institutional investment in small growth companies through a combination of benchmark-driven pressures and direct taxation on their typical gain profile.

This paper reaffirms the position outlined in our April 2025 discussion paper: taxing unrealised gains is fundamentally flawed economic policy. Survey data shows the tax is broadly opposed and widely seen as an unfair approach to revenue generation. Its application to superannuation, particularly without indexation and in a way that disproportionately affects illiquid, high-growth assets, is especially concerning.

The government's own review of the Your Future, Your Super (YFYS) reforms acknowledged that the performance test risks discouraging investment in certain asset classes. The proposed tax would compound this effect, further disincentivising investment in the companies that drive innovation, job creation and long-term productivity. Collectively, these measures reflect a shift away from supporting national innovation and entrepreneurialism through public markets, in favour of short-term revenue collection and increased risk aversion within the superannuation system. This risks long-term damage to Australia's economic structure and global competitiveness.

We urge policymakers to reconsider this approach. Australia needs policy settings that foster a dynamic and diverse capital market, encouraging long-term investment in innovation and supporting the growth of emerging businesses from inception through to listing and beyond. Limiting access to capital for small, high-potential companies undermines this objective.

As outlined in our earlier paper, *'Critiquing the Proposed Taxation on Unrealised Gains in Superannuation'*, the core issue is not a shortfall in revenue, but a structural expenditure problem. Fiscal sustainability will be better achieved through responsible spending reform, not by taxing unrealised gains. Ensuring Australians' retirement security and safeguarding our economic future requires measured, well-designed superannuation policy that avoids unintended consequences and supports the sectors critical to growth and innovation.

11. Appendices

11.1 Survey on Taxation of Unrealised Gains in Australia

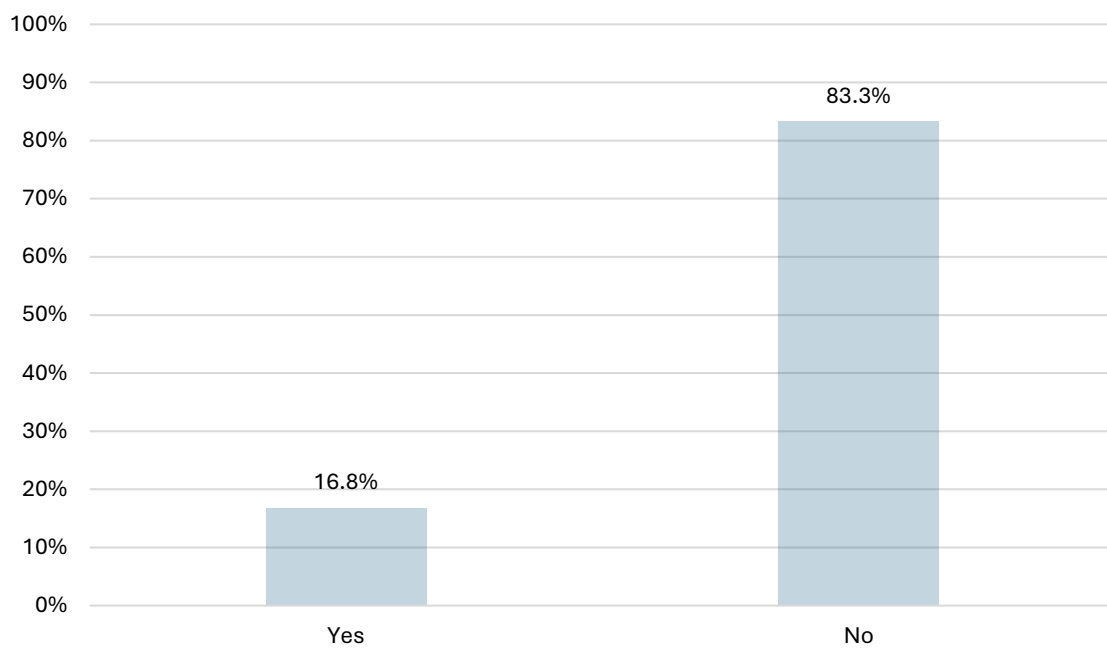
The following three questions were posed by Owen Rask, founder of rask.com.au to all Australians via his Twitter account, @OwenRask.

The survey was run on the 18th of June 2025 for 24 hours. It was open to all Australians. Total responses received was 4,801.

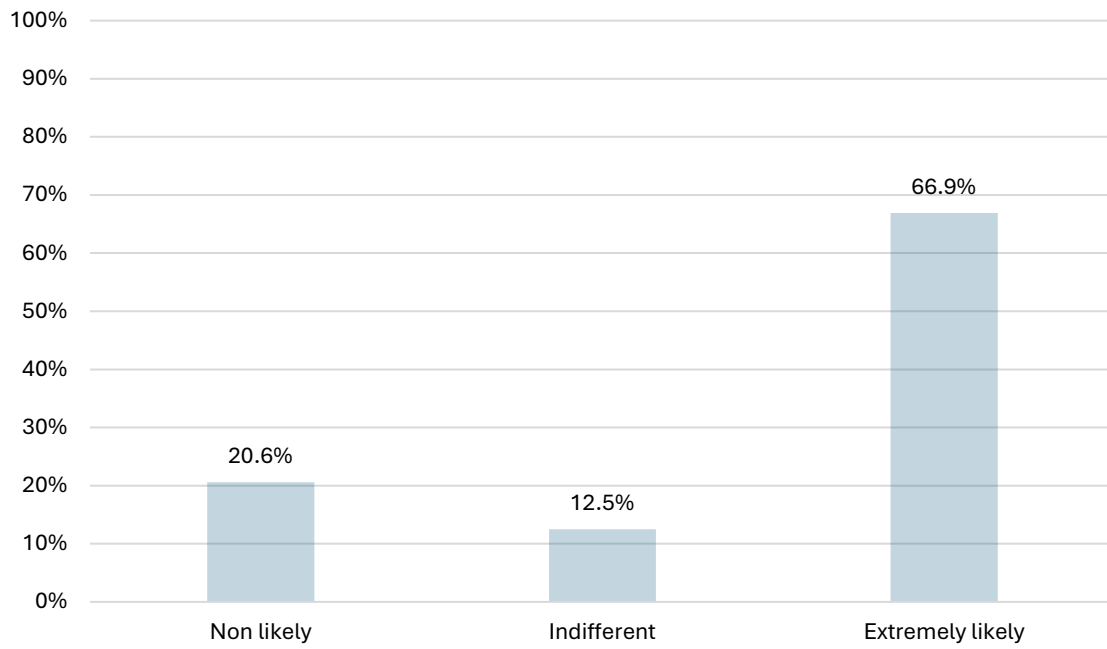
Questions and Responses

1. Do you believe a tax on unrealised gains would be a fair way to generate government revenue?

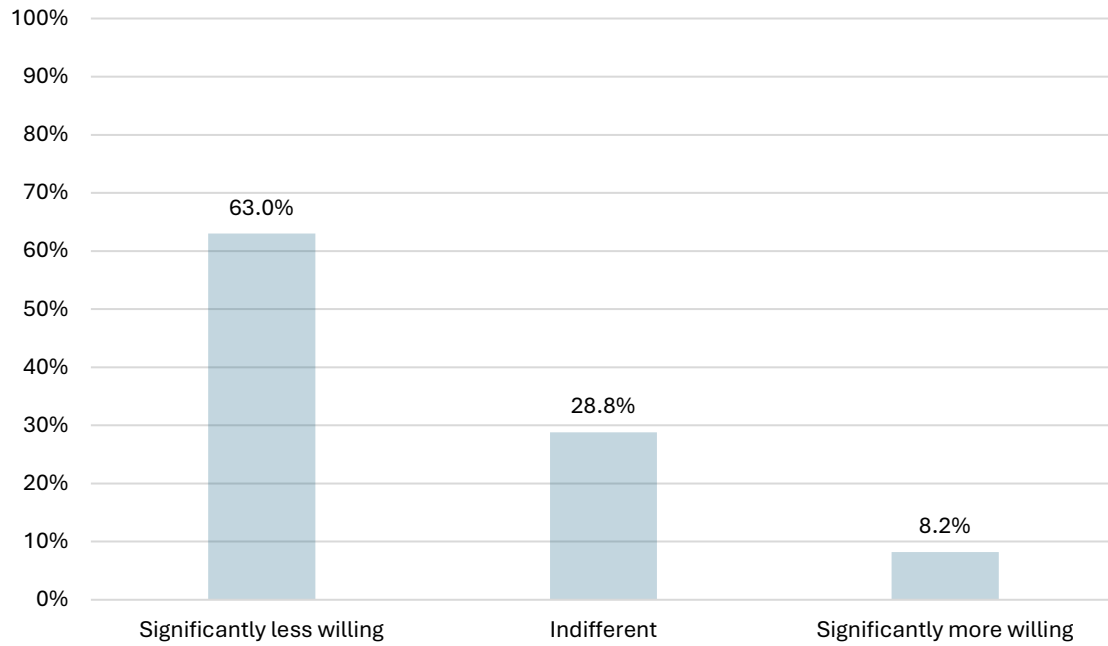
- a. Yes
- b. No



2. If a tax on unrealised capital gains were introduced in Australia, how likely would you be to reduce your holdings in start-ups, smaller capitalisation, or high growth companies?
- a. Not likely
 - b. Indifferent
 - c. Extremely likely



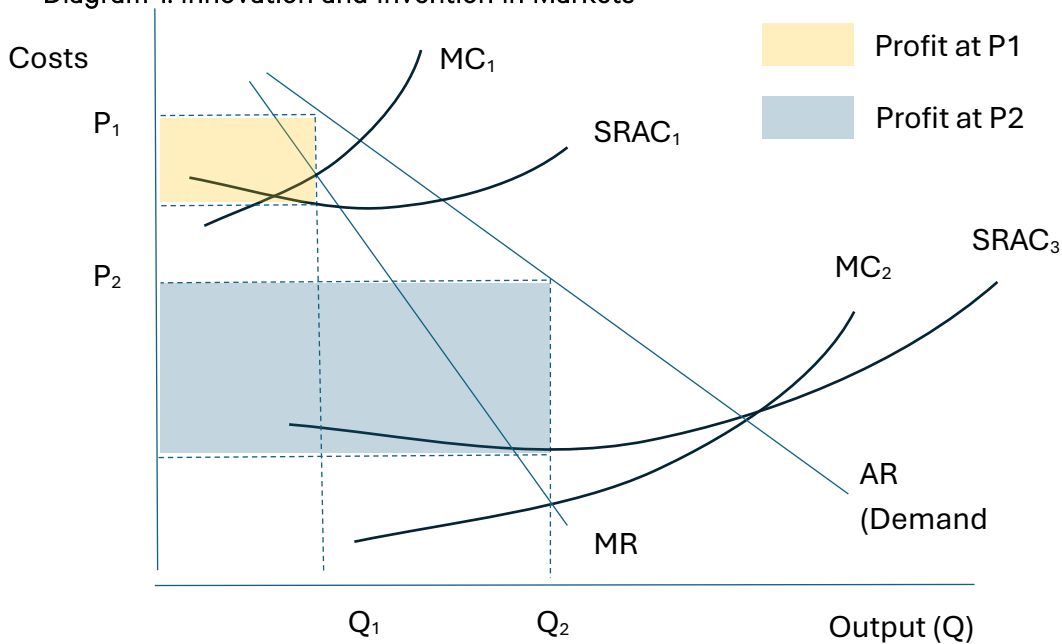
3. If a tax on unrealised gains were introduced, how would it affect your willingness to hold investments for more than 5 years?
- a. Significantly less willing
 - b. Indifferent
 - c. Significant more willing



11.2 Economic Explanation of how Taxation creates a drag on Innovation

To understand innovation more concretely, consider the following economic diagram. We illustrate the general case of innovation in a typical market and then relate it to the context of taxation of unrealised gains. Diagram 1 below depicts a firm facing a significant increase in its production costs, from taxation which leads to lower profits.

Diagram 1: Innovation and Invention in Markets



Assumptions:

- Setup: The Firm and Market
- Let's assume the firm is a monopolistic competitor (like a popular tech gadget maker) facing the following market conditions, which are consistent with the diagram's curves.
- Market Demand (AR): The demand for the firm's product is given by the traditional demand equation: $P=4.0-0.04Q$ where P is the price per unit and Q is the quantity (in millions of units).
- Marginal Revenue (MR): The firm's marginal revenue is: $MR=4.0-0.08Q$ for this linear demand curve.
- Profit Motive: The firm's goal is to maximise profit by producing where marginal revenue equals marginal cost ($MR=MC$).
- Tax: The firm's profit is subject to Australia's corporate tax rate of 25%.

Line by line:

Phase 1: Initial State (High Profit)

This phase corresponds to the yellow shaded area and the cost curves labelled with a "1" (MC₁, SRAC₁). The firm is operating efficiently with lower costs.

Initial Costs: The firm's initial cost structure is represented by:

- Marginal Cost: $MC1=1.2+0.02Q$
- At the optimal output, let's assume the Short-Run Average Cost (SRAC1) is \$1.80.

Step 1: Find Initial Profit-Maximising Quantity (Q1)

- Set $MR=MC1$: $4.0-0.08Q=1.2+0.02Q$
- Solve for Q: $2.8=0.10Q$ $Q1=28$

Step 2: Find Initial Price (P1)

- Plug Q1 into the demand (AR) curve: $P1=4.0-0.04(28)=4.0-1.12$ $P1=\$2.88$

Step 3: Calculate Initial Profit ($\pi1$) - The Yellow Area

- Profit per unit = Price - Average Cost = $P1-SRAC1$ $\$2.88-\$1.80=\$1.08$
- Total Profit = Profit per unit \times Quantity $\pi1=\$1.08\times 28=\30.24
- This \$30.24 represents the economic profit shown by the yellow rectangle.

Phase 2: After a Negative Shock (Cost Increase through Taxation)

This phase corresponds to the teal shaded area. Here, the firm has been hit by a negative event, causing its costs to rise significantly. This could be due to rising wages, higher material prices or new regulatory compliance costs. In this case we assume the taxation on unrealised gains is imposed on the individual which limits the ability of the individual to fund start-ups with the incremental investment, that rather now goes to the government and not the firm. This imposes a burden on the firm who needs to find additional funding sources and so has to change its operating model through raising prices or reducing its cost base to deliver a similar profit structure. The cost curves shift upwards and to the left to MC2 and SRAC3.

New Costs: The firm's new, higher cost structure is represented by:

- Marginal Cost: $MC2=2.0+0.02Q$
- At the new output level, let's assume the new Short-Run Average Cost (SRAC3) is \$2.50.

Step 1: Find the *New* Profit-Maximising Quantity (Q2)

- The firm must re-evaluate its output. It will now set $MR=MC2$: $4.0-0.08Q=2.0+0.02Q$
- Solve for the *new* Q: $2.0=0.10Q$ $Q2=20$
- As shown in the diagram, the higher marginal cost forces the firm to reduce its output from 28 to 20.

Step 2: Find the *New* Profit-Maximising Price (P2)

- Plug the new quantity Q2 into the demand (AR) curve: $P2=4.0-0.04(20)=4.0-0.80$ $P2=\$3.20$
- Note on the Diagram's Flaw: The provided diagram incorrectly shows P2 as being *lower* than P1. In reality, a profit-maximising firm facing higher costs must reduce output and increase its price. The calculation above shows the correct outcome. The diagram is drawn with an economic inconsistency.

Step 3: Calculate the New, Lower Profit (π_2)

- Profit per unit = New Price - New Average Cost = $P_2 - SRAC_3 = \$3.20 - \$2.50 = \$0.70$
- New Total Profit = Profit per unit \times New Quantity $\pi_2 = \$0.70 \times 20 = \14.00
- The firm's profit has fallen dramatically from over \$30 to just \$14.

Step 4: Calculate Post-Innovation Tax Revenue Loss

- Tax Revenue = Profit \times Tax Rate
- Tax₂ = $(\$14.00 \text{ million} \times 0.25) - (\$30.24 \text{ million} \times 0.25)$
- Tax₂ = \$4 million

In summary, the diagram illustrates a negative economic shock. The firm's costs increased ($MC_1 \rightarrow MC_2$), forcing it to make the painful yet rational decision to produce less ($Q_1 \rightarrow Q_2$) and charge a higher price ($P_1 \rightarrow P_2$), which resulted in a significant drop in its overall profitability. Consumers are hurt with higher prices and lower output. The firm's efficiency drops and inhibits future innovation. Finally the government's tax take shrinks by \$4.06 million or 53% because the total profit pool (the tax base) contracts significantly.

| Metric | Phase 1 (Low) | Phase 2 (High) | Change |
|--------------------|----------------|----------------|-----------------------------|
| Optimal Output (Q) | 28 units | 20 units | -28.6% |
| Optimal Price (P) | \$2.88 | \$3.20 | +11.1% |
| Profit (π) | \$30.24 | \$14.00 | -\$16.24 (-53.7%) |
| Tax Revenue | \$7.56 million | \$3.50 million | +\$4.06 million (-53.7%) |

Phase 3: Ascertain How Many Firms Impacted

In Australia there are 3,538,593 million registered companies, yet only 2,662,998 are actively trading businesses (sole traders, partnerships, trusts, companies) according to the ABS.

As shown by the breakdown of turnover by company below, over 91% have annual turnover less than \$2 million. At the higher end of the spectrum a relatively small number of the businesses generate a substantial revenue. Just over 3% of businesses have turnover exceeding \$5 million.

| Turnover Range | Number of Businesses | Percentage of Total |
|---------------------------------------|-----------------------------|----------------------------|
| \$0 to less than \$50,000 | 703,778 | 26.4% |
| \$50,000 to less than \$200,000 | 848,603 | 31.9% |
| \$200,000 to less than \$2 million | 895,806 | 33.6% |
| \$2 million to less than \$5 million | 117,843 | 4.4% |
| \$5 million to less than \$10 million | 43,729 | 1.6% |
| \$10 million or more | 47,718 | 1.8% |
| Total | 2,662,998 | 100% |

Source: Australian Bureau of Statistics, Counts of Australian Businesses, including Entries and Exits.

With \$137.89 billion on tax collected by Australian corporates last fiscal year, each company at the average provides approximately \$51,779 in taxation revenue to the Australian Government. However this does not distinguish between the large corporates who provide the lions share of corporate taxation revenue. By splitting out the large corporates the ATO's Corporate Tax Transparency Report indicates 3,985 entities (revenue of \$100m or more) account for approximately \$97.9 billion in tax payable, representing 71% of the total corporate income tax. This leaves a residual pool of \$39.99 billion in corporate tax paid from 2,659,013 entities (2,662,998 – 3,985 entities).

To ascertain the contribution of smaller companies to the corporate income tax base, as 91.9% have turnover less than \$2.0 million, being 2,447,295 companies we can take \$39.99 billion and multiply by the 91.9% contribution to estimate a tax contribution of \$36.75 billion. Therefore each small company with revenue under \$2.0 million contributes an estimated \$15,015.91 in tax to Australia (36,748,350,704 tax / 2,447,295 entities).

Now not all these companies are a pool where SMSF funding would be required. The most direct recent data comes from the CPA Australia Asia-Pacific Small Business Survey for 2023-2024 finding that 25% of Australian small businesses sourced funds from an external source. The need for external funding is often driven by significant cash flow pressures. A January 2025 survey commissioned by CommBank revealed that nearly 80% of Australian small to medium-sized businesses (SMBs) experienced impacts on their cash flow in the preceding 12 months. Underscoring the funding challenges, the CommBank research also found that more than a quarter

(27%) of small business owners dipped into their personal savings or did not pay themselves a salary in the past year to manage their business's cash flow.

So the potential pool of companies to be impacted requiring external financing (e.g. SMSF) is more realistically 25%. Therefore of the 2,447,295 companies with turnover less than \$2.0 million there are approximately 611,823 small companies ($2,447,295 * 25\%$), that would require SMSF funding or personal contributions. As personal contributions come from the individual where they would be liable for taxation costs on unrealised gains it is prudent as a cross check to have them captured, as a trade-off decision for a small business owner to invest in superannuation with extra contributions or keep the business afloat.

If then as we calculated each small company contributes an estimated \$15,015.91 in taxation, then total taxation revenue is \$9.19 billion ($\$15,015.91 * 611,823$) in corporate tax. As we estimated above that a potential 53.7% fall in taxation revenue could occur from the taxation of unrealised gains, then the reduced corporate taxation revenue is \$4.93 billion. New taxation revenue captured is therefore \$4.25 billion. As we outline in the S-Curve work (Appendix 11.3 – 11.4) at Maturity stage the peak profit and sales is typically 4 years. So \$19.73 billion in lost taxation revenue ($\$4.93b * 4$ years) is the lost taxation revenue from small companies from the taxation of unrealised gains.

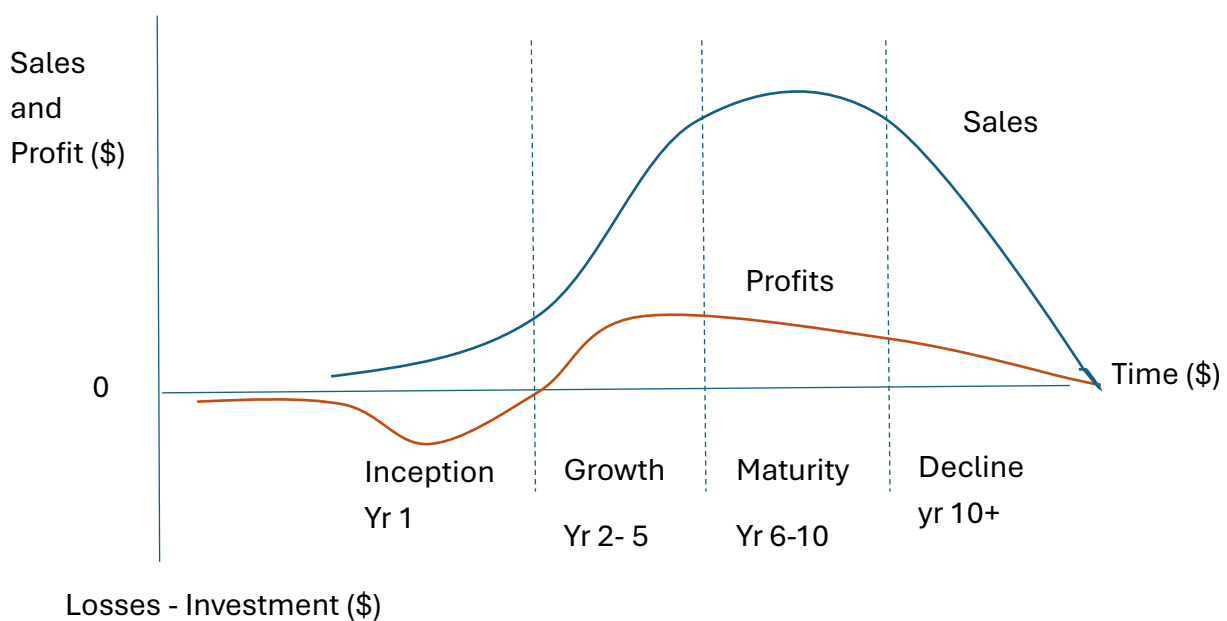
Yet this is only the existing cohort of companies. There was 436,018 new businesses created in the 2023-24 fiscal year according to the ABS. As indicated in the S-Curve work (Appendix 11.3) only 55% make it to the maturity cycle due to failure. So 239,809 companies make it to maturity stage. Then as 91.9% are \$2.0 million or less turnover, 220,385 are small growth companies. Yet only 25% of these require external financing, so 55,096 each year are being added the potential pool of companies requiring financing. With total corporate tax at maturity of \$827.32 million per annum from this group, we risk losing \$444.27 million per annum from startups each year due to the 53.7% fall in taxation revenue.

11.3 S-Curves Diagrams

The S-Curve Theory in economics provides a powerful framework for understanding the life cycle of a company, a product, or even an entire industry. It illustrates a typical trajectory of growth, starting slowly, accelerating rapidly, and then leveling off as maturity is reached. The distinctive "S" shape of the curve visually represents the distinct stages of a firm's journey: **Inception, Growth, Maturity and Decline**, as shown in Diagram 1 below and detailed by stage in the following pages. The S-Curve theory helps businesses understand their current position, anticipate future challenges and make strategic decisions to sustain momentum or pivot towards new growth. The important distinction is that sales and profit levels differ at the various stages of the S-Curve.

The S-Curve is particularly important in the context of taxation of unrealised gains as taxing unprofitable start-ups in the Inception and Growth phases will prohibit them from even making it to the later stages of the evolution cycle, where the taxation pool is the greatest. One must remember survivor bias is very real as in Australia data from the ABS shows that only approximately 55% of new businesses in Australia make it past their first five years of operation, which is where they hit the Maturity side of the cycle.

Diagram 1: The Traditional S-Curve

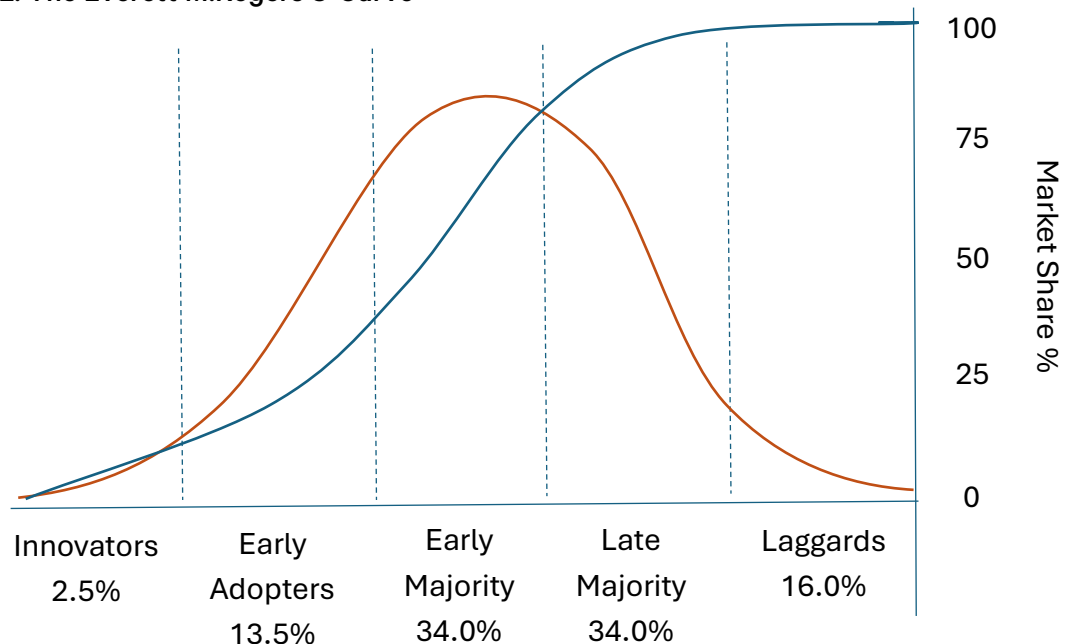


The earliest seeds of the S-Curve can be traced back to the French sociologist **Gabriel Tarde**, who in his 1890 work "The Laws of Imitation," describing the process by which new ideas and behaviours spread through society. Tarde observed that the adoption of an innovation does not happen all at once yet follows a slow initial uptake, followed by a rapid acceleration as it becomes mainstream and finally a leveling off as the potential pool of adopters is exhausted.

While Tarde first described the S-Curve concept, it was **Everett M. Rogers**, an American communication theorist and sociologist, who popularised the S-Curve in his seminal 1962 book, *Diffusion of Innovations*. Rogers synthesised the research of over 500 diffusion studies and articulated a comprehensive theory of how, why and at what rate new ideas and technologies spread. Rogers used the S-curve to visually represent the cumulative rate of adoption, showing how

an innovation is taken up by different segments of a population over time. He famously classified adopters into five categories: **Innovators, Early Adopters, Early Majority, Late Majority and Laggards**, ascribing a weight of time to each phase. His work cemented the S-curve as a central model in marketing, sociology, and communication studies. The phases are shown in Diagram 2 below.

Diagram 2: The Everett M.Rogers S-Curve



The Everett Rogers S-Curve was most notably championed by Richard Foster of McKinsey & Company in the 1980s. In his influential 1986 book, *Innovation: The Attacker's Advantage*, he demonstrated that the performance of a technology, when plotted against the effort or investment put into it, follows an S-shaped trajectory. In mature technologies they eventually reach a point of diminishing returns, and he advised companies to strategically jump from one S-Curve to a new, emerging one to maintain a competitive advantage: a concept now central to discussions of disruptive innovation.

11.4 S-Curves Stages

The Four Stages of the S-Curve

1. Inception (or Infancy)

This is the initial, flat part of the "S" where a company is just starting out. It is a period of high uncertainty, significant investment and slow initial returns.

- Economic Characteristics:
 - High Investment: The firm pours capital into research and development, product design, establishing infrastructure, and initial marketing efforts.
 - Negative or Low Cash Flow: Costs are high and revenue is minimal as the company works to find its product-market fit.
 - Low Market Penetration: The product or service is new and customer awareness is limited. The primary goal is to prove the concept and acquire the first set of customers (innovators and early adopters).
- Business Focus: The main challenges are survival, innovation and learning. The company is highly experimental, refining its business model and operational processes. Failure rates are at their highest during this phase.

2. Growth (or Expansion)

This is the steepest part of the S-Curve, representing a period of rapid acceleration. The company has found its footing and the market is responding positively.

- Economic Characteristics:
 - Rapid Revenue Growth: Sales begin to increase exponentially as the product gains wider acceptance and market share expands.
 - Economies of Scale: As production and sales volume increase, the cost per unit often decreases, leading to improving profit margins.
 - Increasing Competition: The company's success attracts competitors who want to enter the lucrative market.
- Business Focus: The priority shifts from survival to scaling operations. The firm must invest heavily in marketing, sales and production capacity to meet surging demand. The key challenge is managing this rapid growth without sacrificing quality or succumbing to operational chaos.

3. Maturity

The curve begins to flatten at the top, indicating that growth is slowing down. The market is becoming saturated and the company has likely captured a significant portion of its potential customer base.

- Economic Characteristics:
 - Slowing Growth Rate: The rate of new customer acquisition declines. Most of the addressable market has been reached.
 - Peak Profitability & Market Share: The company is often at its most profitable and holds a dominant or stable market position.

- Intense Competition: Competition becomes a "zero-sum game," where gaining market share means taking it directly from established rivals. This often leads to price wars and increased marketing spend to defend market position.
- Business Focus: The emphasis shifts from growth to efficiency and optimisation. The company focuses on maximising profits from its existing operations, managing costs and fending off competitors. There is a risk of complacency and bureaucracy setting in.

4. Decline (or Stagnation)

This is the final stage where the curve plateaus or begins to dip downwards. The company's offerings may have become obsolete or the market itself may be shrinking.

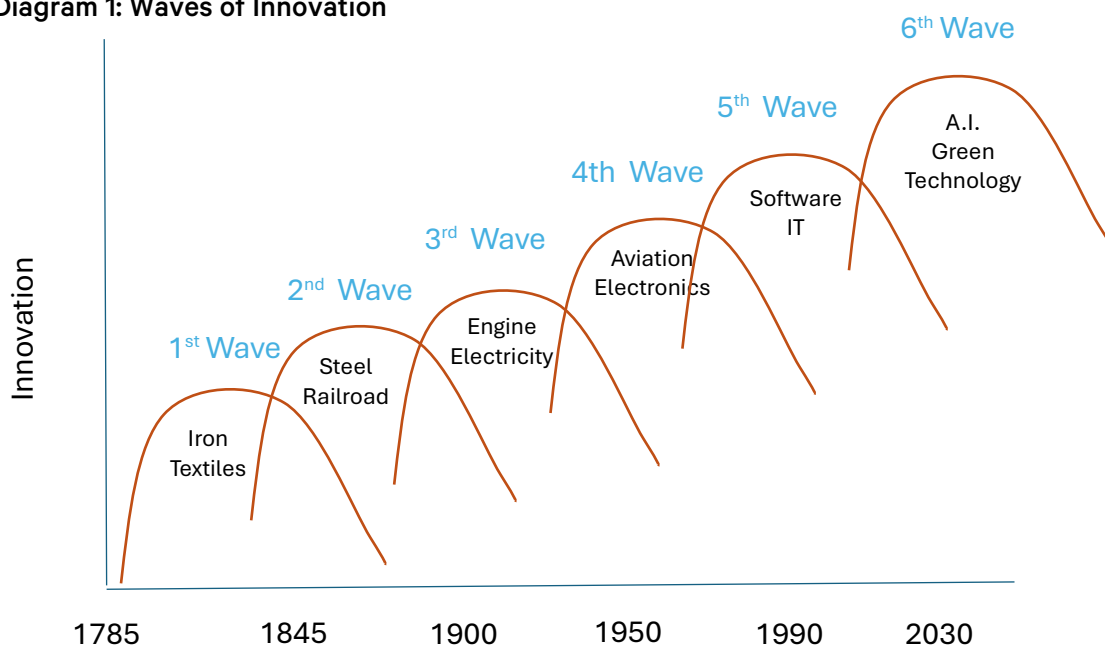
- Economic Characteristics:
 - Declining Revenue and Profits: Sales begin to fall as customers switch to newer, more innovative products from competitors or as overall demand wanes.
 - Diseconomies of Scale: The large, bureaucratic structures built during the maturity phase can now lead to inefficiency and an inability to adapt.
 - Market Disruption: The firm is often being disrupted by new technologies or business models.
- Business Focus: The company faces a critical choice:
 - Harvest: Maximise short-term cash flow by cutting costs and not reinvesting.
 - Divest: Sell the business or product line.
 - Renew: Find a way to jump to a new S-Curve.

11.5 Innovation Cycles

Innovation Economics is a branch of economics that focuses on how innovations, technological changes and knowledge-based factors contribute to economic growth.

The theory crafted by Hargroves, K. and M Smith (2005) in the literature titled '*Natural Advantage of Nations: Business Opportunities, Innovation, and Governance for the 21st Century*,' this field of economics integrates aspects of industrial organisation, development economics and economic growth theory to explain how new technologies and innovations drive productivity and economic expansion. Unlike traditional economic theories that prioritise factors like labor and capital, Innovation Economics significantly emphasises the role of ideas, innovation and intangible assets in economic performance.

Diagram 1: Waves of Innovation



11.6 Non-Bank Lending

11.6.1 Introduction

The Australian Non-Bank Financial Intermediation (NBF) sector is an increasingly significant component of the nation's financial landscape. NBFs, are entities that provide financial services yet do not hold a banking licence. NBF firms play a vital role in the Australian financial system, either complementing or competing with traditional banks by offering a broad spectrum of often highly specialised financial services. Their activities span various domains, including managing investments for superannuation funds, investment funds and insurers; facilitating credit intermediation through non-bank lenders; enabling financial market trading via market-makers and prime brokers; and providing critical infrastructure for market functioning, such as central counterparties. Unlike Authorised Deposit-taking Institutions, NBFs do not accept deposits for funding, instead sourcing capital from private investors, wholesale markets or other financial institutions.

11.6.2 Size and Trends in NBF

The Australian NBF sector is substantial, broadly comparable in size to those in other advanced economies, accounting for almost half of domestic financial assets. The RBA Bulletin April 2024 noted nearly \$1.5 trillion in financing sits within the NBF sector, up from \$300 billion in 2005.

A distinctive feature of the Australian landscape is the significant proportion of NBF assets held by superannuation funds, which constitute approximately half of the total, a considerably larger share than in many other advanced economies. The NBF assets are in recent years shifting towards more Australian non-bank lending. Non-bank lenders are increasingly shifting their focus towards riskier market segments, including lending to self-employed workers, offering low documentation loans, interest-only loans and investor loans. They have also expanded their lending to businesses, particularly in areas where banks have pulled back, such as property, construction lending and loans to SMSFs.

11.6.3 Challenges and Policy Considerations for Taxing NBF Realised Gains

Data Gaps and Transparency Issues: The distribution of exposures and leverage within NBF models, such as unlisted trusts, is opaque. Similarly, data on non-bank commercial real estate (CRE) lenders is incomplete; some Registered Financial Corporations (RFCs) do not report their holdings (e.g., due to being below size thresholds for APRA reporting), and other private credit lenders (debt funds) are not captured in regulatory reporting. Furthermore, non-bank lenders do not consistently report on CRE lending quality and insights from securitisation datasets are limited given that only a small share of NBF CRE lending is securitised. This lack of comprehensive and granular data creates a systemic tax risk due to inherent information asymmetry between NBFs and tax authorities. If regulators lack sufficient information on NBF activities, their leverage and the quality of their assets, it logically follows that tax authorities face similar or even greater difficulties in accurately assessing and collecting tax on unrealised gains.

The Conceptual and Practical Challenges of Taxing Unrealised Gains: The introduction of Division 296 poses significant liquidity problems for superannuation members who use NBFIs for funding, particularly those with substantial holdings in illiquid assets such as real estate, who may not have readily available cash to meet their tax liabilities without being forced to sell assets. Such forced sales could amplify market downturns in the \$1.5 trillion NBFIs sector.

Ensuring Tax Neutrality and Competitive Fairness: Historically, certain NBFIs segments, such as superannuation funds, benefited from regulatory advantages compared to banks. The Royal Commission into Banking, Superannuation and Financial Services Industries and APRA's requirements for banks to hold more capital have led to banks curtailing lending in certain market segments, which in turn has driven an increase in NBFIs lending. This shift means NBFIs are increasingly competing with banks in various credit markets. Therefore, any significant disparities in the tax treatment of unrealised gains or revenue streams between these two sectors could create an uneven playing field, potentially influencing capital allocation and market behaviour. We need NBFIs to lead lending where Banks do not participate otherwise markets could seize up.

Impact of Foreign Investment and Cross-Border Transactions on Tax Collection: The Australian NBFIs sector is increasingly interconnected with global financial markets, with significant foreign investment and cross-border transactions. For instance, a material share of Australian CRE assets is foreign-owned and foreign owners account for a substantial portion of property trusts' funding. Similarly, Australian Real Estate Investment Trusts (A-REITs) rely heavily on market-issued debt, with around half sourced from the United States and other offshore markets. This international dimension introduces complexities for the taxation of unrealised gains.

11.6.4 Conclusion and Recommendations

The Australian NBFIs sector is a vital and evolving part of the nation's financial system, contributing diverse services and capital. The taxation of unrealised gains within this sector is a complex domain that has received no airtime, yet reforms to lending need to occur before any reforms to taxation. Imposing a tax on unrealised gains risks cutting off a funding source to Superannuation funds worth half the \$1.5 trillion sitting in the NBFIs sector, as non-bank lending is providing all the funding to the Superannuation sector. While the NBFIs sector's financial stability risks are currently contained, challenges persist in ensuring effective and equitable taxation of unrealised gains. These challenges have been listed above. Addressing these issues is crucial for maintaining the integrity of the tax system, fostering competitive markets, and supporting overall financial stability.

Continuous assessment of the tax treatment of NBFIs relative to traditional banks is necessary to ensure a level playing field. This includes reviewing areas where regulatory distinctions or historical tax advantages might create unintended competitive disparities. As NBFIs increasingly fill market segments vacated by banks, maintaining tax neutrality becomes vital to prevent tax considerations from unduly distorting capital allocation and competition within the financial system.

11.7 Indexation Capture by Age

Data from the ABS and national minimum wage guidelines provide a strong indication of earnings potential for workers aged 18 to 30.

The following data in Table 1 below is the most recent detailed breakdown from the ABS "Employee Earnings and Hours" survey, released in May 2024 with data from August 2023. The ABS provides data in age bracket. We also use median earnings, which represents the middle person and is a better guide than the average (mean), as it isn't skewed by a few very high-income earners.

Table 1: ABS "Employee Earnings and Hours" survey

| Age Bracket | Median Weekly Earnings (Full-time) | Median Hourly Earnings (All Jobs) |
|--------------------|---|--|
| 15 – 19 years | \$972.10 | \$23.00 |
| 20 – 24 years | \$1,200.00 | \$30.80 |
| 25 – 34 years | \$1,623.20 | \$40.50 |

The data above is from August 2023. As of mid-2025, you can expect these figures to be roughly 6-8% higher due to inflation and wage growth since that time. The General Retail Industry Aware, also known as the GRIA for example has trended this way. We therefore uplift Table 1 by 7% to account for Wage Price Inflation (WPI) with the results shown in Table 2 below.

Table 2: ABS "Employee Earnings and Hours" survey (with WPI)

| Age Bracket | Median Weekly Earnings (Full-time) | Median Hourly Earnings (All Jobs) |
|--------------------|---|--|
| 15 – 19 years | \$1,040.15 | \$24.61 |
| 20 – 24 years | \$1,284.00 | \$32.96 |
| 25 – 34 years | \$1,736.82 | \$43.34 |

Table 3: Assumptions

| Category | Assumption | Australian Super Model (for comparison) |
|--|---|--|
| Ending dollars | Nominal | Inflation Adjusted |
| Investment Return ¹ | 8.2% per annum | 7.5% per annum |
| CPI de-escalator | No | 2.5% per annum |
| Cost of Living De-escalator | No | 1.2% per annum |
| Asset based fees | None | \$350 per annum |
| Management Fee | 1.0% per annum | 0.88% per annum |
| Administration Fee | \$75 per annum | \$75 per annum |
| Administration Fee escalator | 3.0% per annum | None |
| Insurance Premiums | None | \$400 per annum |
| Returns credited | Annually | Annually |
| Wage Inflation | 3.7% per annum | 3.7% per annum |
| Contributions Tax | 15% | 15% |
| Employer Contributions | 12% | 12% |
| Starting Age | As chosen | As chosen |
| Retirement Age | 67 | 67 |
| Starting Superannuation Balance ² | Age 15 - 19: \$0 Age 20 - 24: \$75,000 Age 25 - 34: \$180,000 | |

¹ Investment performance is in line with the long run Equity return since 1900. Appendix 2 shows the equity return for Australia since 1900 from Credit Suisse

² Class 2024 Annual Benchmark Report – September 2024

Table 4: Output – Superannuation Balance starting at Class Data Balance

This table shows that all age cohorts under the age of 35 would be captured by the taxation on unrealised gains by retirement. There is a power law occurring whereby the earlier one begins working it provides additional years of compounding and can therefore increase the end retirement value. The homogenous salary and super balance by age clusters that the ABS uses does impact the outcome and could be improved if by age salary data was more specific however it is the only true publicly available data splitting out salary by age.

| Age Today | Salary Used (ABS Data) | Super Balance (Class Data) | Retirement Age | Retirement Value |
|------------------|-----------------------------------|---------------------------------------|-----------------------|-------------------------|
| 19 years | \$54,088 | \$0 | 2071 | \$3,490,915 |
| 20 years | \$66,768 | \$75,000 | 2072 | \$5,197,215 |
| 21 years | \$66,768 | \$75,000 | 2071 | \$4,821,051 |
| 22 years | \$66,768 | \$75,000 | 2070 | \$4,471,121 |
| 23 years | \$66,768 | \$75,000 | 2069 | \$4,145,628 |
| 24 years | \$66,768 | \$75,000 | 2068 | \$3,842,896 |
| 25 years | \$90,315 | \$180,000 | 2067 | \$6,980,800 |
| 26 years | \$90,315 | \$180,000 | 2066 | \$6,474,061 |
| 27 years | \$90,315 | \$180,000 | 2065 | \$6,002,709 |
| 28 years | \$90,315 | \$180,000 | 2064 | \$5,564,320 |
| 29 years | \$90,315 | \$180,000 | 2063 | \$5,156,634 |
| 30 years | \$90,315 | \$180,000 | 2062 | \$4,777,542 |
| 31 years | \$90,315 | \$180,000 | 2061 | \$4,425,082 |
| 32 years | \$90,315 | \$180,000 | 2060 | \$4,097,423 |
| 33 years | \$90,315 | \$180,000 | 2059 | \$3,792,858 |
| 34 years | \$90,315 | \$180,000 | 2058 | \$3,509,798 |

Table 4: Output – Superannuation Balance starting at Zero

This table shows how zero Superannuation accounts will still be captured. A person entering the workforce at Age 27 will still be captured if they start with a zero Superannuation balance. The difference in outcomes comes down to the power of the number of years of compounding due to base rates.

| Age Today | Salary Used (ABS Data) | Super Balance (Assumed) | Retirement Age | Retirement Value |
|------------------|-------------------------------|--------------------------------|-----------------------|-------------------------|
| 19 years | \$54,088 | \$0 | 2071 | \$2,984,858 |
| 20 years | \$66,768 | \$0 | 2072 | \$3,995,087 |
| 21 years | \$66,768 | \$0 | 2071 | \$3,693,242 |
| 22 years | \$66,768 | \$0 | 2070 | \$3,412,868 |
| 23 years | \$66,768 | \$0 | 2069 | \$3,152,480 |
| 24 years | \$66,768 | \$0 | 2068 | \$2,910,694 |
| 25 years | \$90,315 | \$0 | 2067 | \$3,643,053 |
| 26 years | \$90,315 | \$0 | 2066 | \$3,360,490 |
| 27 years | \$90,315 | \$0 | 2065 | \$3,098,259 |
| 28 years | \$90,315 | \$0 | 2064 | \$2,854,945 |
| 29 years | \$90,315 | \$0 | 2063 | \$2,629,232 |
| 30 years | \$90,315 | \$0 | 2062 | \$2,419,891 |
| 31 years | \$90,315 | \$0 | 2061 | \$2,225,781 |
| 32 years | \$90,315 | \$0 | 2060 | \$2,045,835 |
| 33 years | \$90,315 | \$0 | 2059 | \$1,879,064 |
| 34 years | \$90,315 | \$0 | 2058 | \$1,724,543 |

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