



18 February 2026

Senator Andrew Bragg
Chair
Select Committee on Productivity in Australia
PO Box 6100
Parliament House
Canberra ACT 2600

via email: productivity.sen@aph.gov.au

Dear Senator Bragg

Senate Select Committee Inquiry into Productivity in Australia

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) welcomes the opportunity to contribute to the Select Committee's inquiry into productivity in Australia.

Small businesses are the engine room of the Australian economy. In 2023-24, small businesses accounted for 32% of Australia's GDP and employed more than 5 million Australians, representing 39% of the private sector workforce.¹ While significant, this contribution has declined since 2006 when small businesses contributed 40% of GDP and employed 53% of private sector workers, indicating a relative reduction in small business participation in both employment and economic output compared with medium and large enterprises.²

Australian small business productivity has fallen in recent years, declining from a peak of \$110.40 per hour in November 2022 to \$100.30 per hour in late 2023; a decrease of approximately 9%, placing productivity at the lower end of its pre-pandemic range.³ A recent global study found that Australian small businesses are only half as productive as large firms, and that lifting small business productivity and narrowing the gap with larger businesses could lift national productivity and boost GDP by up to 5%⁴.

Productivity happens in the workplace and reflecting this, our submission focuses on three key factors impacting small business productivity where the ASBFEO has been advocating for reform.

1. A 'small business first' approach to achieve right-sized regulation

Unlike larger businesses, small businesses rarely have access to specialised regulatory teams, dedicated HR support, compliance experts or sophisticated compliance systems. Consequently, regulatory and administrative responsibilities typically fall to the owner(s) themselves. For many, this makes running a small business harder than it needs to be, with administrative obligations often completed late at night after a full day of running the business.

¹ Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Small Business Data Portal: Contribution to Australian Employment*, ASBFEO website, 2023-24, accessed 29 January 2026.

² Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Energising Enterprise*, ASBFEO website, August 2024, accessed 29 January 2026.

³ Xero Small Business insights, *Small business productivity: Trends, implications and strategies*, April 2024, Xero website, accessed 4 February 2026.

⁴ Madgavkar A, Piccitto M, White O, Ramirez M J, Mischke J and Chockalingam K, *A microscope on small businesses: Spotting opportunities to boost productivity*, May 2024, McKinsey Global Institute, Exhibit 5, p 14 and Exhibit 6, p 15.



As a result, even when business owners can identify opportunities to improve productivity, their capacity to implement the changes required to realise those gains is frequently constrained. It is not a lack of effort or ambition that impacts on a small business' owner ability to increase their company's productivity. Rather, it is the growing complexity of operating in an environment where rules, processes and expectations continue to accumulate; often without enough attention to how they interact in practice. As the operating environment grows more complex, headwinds are many and costs of getting things wrong keeps rising.

These capacity limitations and the challenges they present underpin our long-standing advocacy for right-sized regulation. This means not only making laws affecting small businesses clearer and simpler, but also ensuring businesses are provided with practical support and guidance to answer the basic question: *"What is it you want me to do?"* In this context, we were encouraged by the Productivity Commission's December 2025 report, which recommended:

"...the government should set a target to reduce the compliance and delay costs of its regulation by \$10 billion by 2030 ...commission an annual Regulation Review that reports on a broader set of indicators of regulatory quality and burden and comments on current regulatory issues [and] ... strengthen Cabinet's scrutiny of regulatory proposals by applying similar methods used to scrutinise budget proposals"⁵

While these recommendations are welcome, we consider that the Government should go further. As outlined in the third step of the *Energise Enterprise* policy agenda, we recommend mandating that every Cabinet submission, preliminary and formal regulatory impact statement, and new policy proposal include a dedicated small business impact statement. Embedding this requirement would help ensure that policies intended, or likely, to impact small and family businesses are informed by practical insights and direct input from this community. In turn, this would lead to policy settings that better reflect the scale, resources, operating practices and real-world constraints of small and family businesses.

2. Tax settings that stimulate small business innovation and investment

ASBFEO has consistently argued—echoing the findings of the Productivity Commission (PC) in its December 2025 report, *Creating a More Dynamic and Resilient Economy*—that Australia's current corporate tax settings distort and constrain investment. They tend to favour established incumbents over newer and smaller firms, dampening competition, growth, and innovation. In fact, access to finance is seen as a key constraint on efforts by small business to improve their productivity.⁶

The early years of a business, colloquially known as the 'valley of death', often experience significant financial challenges including cash flow and access to financing. One way in which this could be addressed would be to consider introducing an early stage incentive, such as a tax discount or offset, that allows businesses to retain more of their initial earnings for reinvestment when it matters most.

To this end, a useful reference point is Singapore's startup tax exemption, which grants eligible new companies tax relief for their first three years by reducing taxable income by 75% on the first

⁵ Productivity Commission, *Creating a more dynamic and resilient economy*, Recommendations 2.2 & 2.3, December 2025, Productivity Commission, p 3.

⁶ Madgavkar A, *et a*, *A microscope on small businesses: Spotting opportunities to boost productivity*, May 2024, McKinsey Global Institute, p 18



\$100,000 and by 50% on the next \$100,000. Recognising Australia’s fiscal constraints, an Australian approach need not be as generous. A phased discount—50% in the first year, 33% in year two, and 25% in year three—would nevertheless provide critical cashflow support during the most challenging phase of a new enterprise’s life cycle.

3. Enhancing access to a skilled workforce

A further factor impacting on the overall productivity levels of small businesses is their ability to source and retain skilled employees.⁷ While generally more important for those small businesses in the ICT and professional services sectors, it is a perennial concern for all small businesses. For example, a recent analysis undertaken by the Council of Small Business Organisations Australia (COSBOA) found 43% of respondents experienced difficulties finding suitable staff; the sectors reporting the greatest challenge were construction, retail and hospitality.⁸ This was weighing heavily on operations and elevating risks to operational continuity, productivity, and capacity to meet customer demand or pursue growth opportunities.

Given the impact that access to skilled migrants can have on improving the productivity of small business we suggest that the Committee review the submissions made to the Joint Standing Committee on Migration’s current inquiry into the value of skilled migration in Australia. In our submission we recommended that the committee should:

- examine in detail the cost to Australian small businesses arising from a lack of skilled workers in key sectors
- review the Department of Home Affairs’ Core Skills and Occupations List to ensure it accurately reflects current and emerging job shortages across key sectors
- consider recommending the Government provide ongoing, responsive and tailored assistance to help small businesses navigate the skilled migration process.

If you would like to discuss any of the issues raised in this submission or require further information, or clarification, please contact ASBFEO via email at advocacy@asbfeo.gov.au.

Yours sincerely

The Hon Bruce Billson

Australian Small Business and Family Enterprise Ombudsman

⁷ Madgavkar A, *et al*, *A microscope on small businesses: Spotting opportunities to boost productivity*, May 2024, McKinsey Global Institute, p 17.

⁸ Council of Small Business Organisations Australia (COSBOA), *Small business perspectives 2025 report*, COSBOA, 2025, accessed 10 December 2025, p 34.