



CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

- ▼ *Tax Incentives for Early Stage Investors*
Australian Government - The Treasury

FEBRUARY 2016

CCIQ Position

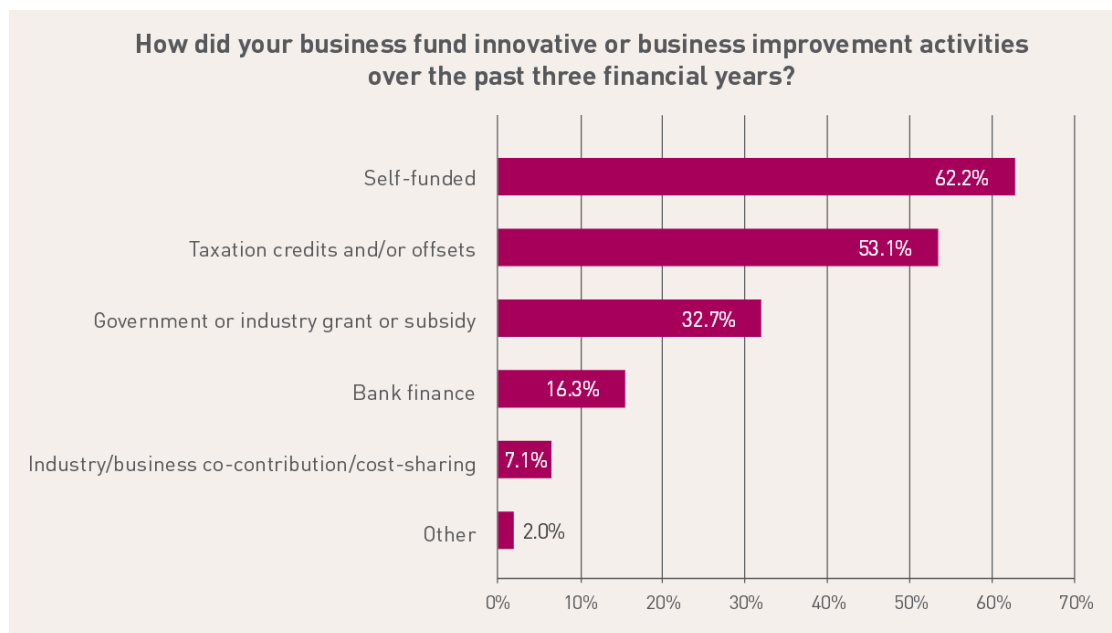
1. As Queensland's peak business body, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide a submission to Treasury regarding the *Tax Incentives for Early Stage Investors Policy Discussion Paper*.
2. CCIQ is supportive of the government's plan to provide concessional tax treatment for investors of Australian innovation companies who are having difficulty accessing equity finance to assist with commercialisation.
3. As stated in the policy discussion paper, a cornerstone of the consultation process is the definition of an innovation company. CCIQ wishes to provide input on the appropriate definition of an innovation company and how the eligibility principles and criteria can leverage off existing industry concepts and business practices.
4. Business owners often struggle to find enough cash to fund their dream business or the next big project. Extensive research undertaken by CCIQ found that the lack of money and other financial pressures acted as the single biggest barrier to innovation and improvement for small businesses. If traditional sources of finance don't appeal or are proving difficult to access, crowd-sourced equity funding is a promising option already successfully used around the world.



Source: CCIQ Innovation Survey 2013

5. Traditional bank loans and even small business loans have not typically suited small businesses or were unattainable in many instances, as the 'risk' associated with start-ups and certain innovative small businesses were perceived to be too high by the bank. As such, over 62 per cent

of businesses self-fund their own innovation or business improvements activities which then stalled expansion and the employment of more staff.



Source: CCIQ Innovation Survey 2013

6. As such, CCIQ supports the three proposed methods of identifying an innovation company where it does not preclude existing small businesses from being able to create innovative products or services. 'Innovative' in this sense must be an approach that has never been done before or at the very least significantly increasing the value of existing models.
7. The first method of defining an innovation company based on principles, particularly those in line with the Oslo Manual published by the Organisation for Economic Co-operation and Development, is accepted. Emphasis should be heavily placed on the point of creating "a new product or service that other organisations or consumers could use" as this is fostering innovation that creates the most impact. The company's ability to exhibit high growth potential is key to growing Australia's innovation ecosystem.
8. However, CCIQ believes that the criteria as outlined in method two pertaining to 'gateways and safe harbours' is extremely prohibitive and will exclude the majority of businesses seeking investments in innovation.
9. Currently, the tests outlined in the policy discussion paper contain external factors which are out of the control of many businesses. As an example, the requirement to have completed or have been accepted into an approved accelerator programme is dependent on the number of programs available and further, the number of positions granted.
10. Australia, having a less advanced innovation ecosystem compared to many developed countries, has a comparatively low number of accelerator programs. While the application process may be open to anyone, it is largely recognised that entry is highly competitive. As an example, Blue Chilli is one of the leading start-up accelerators in Australia and accepts only 1% of businesses who pitch.

11. Furthermore, the requirement to have one or more existing third party financial investors that have previously subscribed for equity interests would typically mean that there has been relative success in obtaining equity finance. As to redirect the purpose of the concessional tax incentives back to companies who are finding it difficult to access funding, the criteria should also support those who are yet to achieve funding further to those who have.
12. CCIQ recognises that method three which is ‘determination’ allows companies to seek advice from the Australian Tax Office on whether it qualifies. This is a sensible approach in avoiding a “one size fits all situation” and is supported, although through strengthening method two will allow government resources to be used more efficiently.
13. Finally, CCIQ supports an ‘exclusions list’ to ensure the tax incentives are not abused. However, when drafting the final paper and in the implementation of the initiative, it is vital that a clause is included which states that truly innovative products, services and activities are not prevented from accessing the incentive. Using the example in the policy discussion paper, investment in property should not in itself be eligible for the incentive; but on the other hand, technology platforms that interact with the property sector may be eligible.

Further enquiries

14. We thank Treasury for the opportunity to provide comment and welcome any feedback. Please contact Catherine Pham, Policy Advisor, at cpham@cciq.com.au for matters relating to this submission.