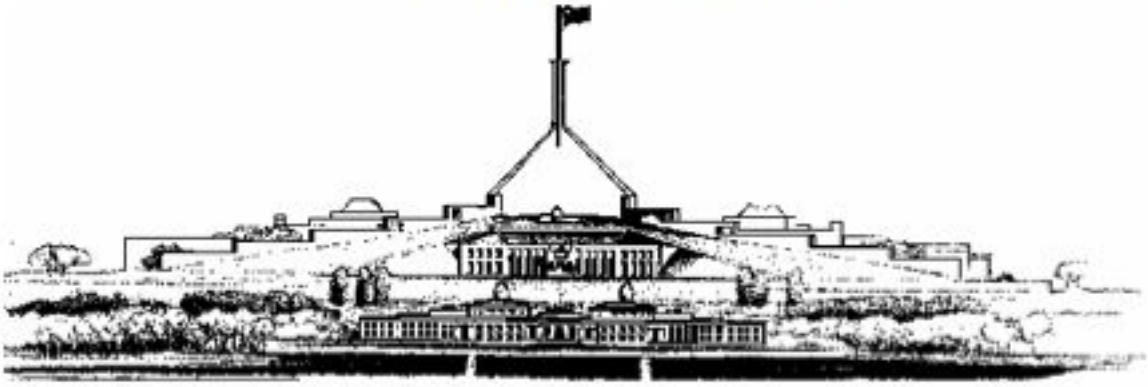
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

BILLS

Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016

Second Reading

SPEECH

Wednesday, 16 March 2016

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Wednesday, 16 March 2016	**Source**	House
Page	3251	**Proof**	No
Questioner		**Responder**	
Speaker	Morrison, Scott, MP	**Question No.**	

Mr MORRISON (Cook—Treasurer) (09:21): I move:

That the bill be now read a second time.

I am pleased to introduce this bill which amends our taxation laws to implement a range of new incentives to drive economic growth and jobs in our transitioning economy. How we manage the successful transitioning economy is the most significant challenge facing our country today; certainly from an economic perspective. It is the key to how we ensure future prosperity and to how we ensure future jobs in the 21st century, and this is the key challenge that we face economically, particularly as we lead up to the budget.

These measures will help encourage innovation, risk-taking and an entrepreneurial culture in Australia. It is backing the risk-takers to be the growth-makers in our economy.

These measures go to the heart of the government's National Innovation and Science Agenda, and represent its commitment to making Australia a more modern, dynamic, 21st-century economy. There has never been a more important time for innovation to be at the centre of government policy, because that innovation will drive the productivity that is essential to support national incomes, at a time when we have seen the terms of trade turn to historical levels, coming some 30 per cent off its peak. The country cannot rely on those factors to support national incomes, going forward. We need to earn more, and we need to earn more by increased innovation to drive greater productivity—and that is why innovation sits at the heart of the government's economic agenda and plan to manage the successful transitioning of our economy.

These actions also go towards ensuring Australia remains a world leader when it comes to doing business.

The government is investing $1.1 billion to incentivise innovation and entrepreneurship.

This bill delivers upon two commitments: providing concessional tax treatment to investment in innovative, high-growth start-ups; and reforms to the arrangements for Venture Capital Limited Partnerships to improve access to capital, and make the regime more user-friendly and more internationally competitive.

The first measure, schedule 1 to this bill, amends the *Income Tax Assessment Act 1997* to improve investment into early stage innovation companies through incentivising investors with business expertise and experience to assist entrepreneurs with commercialising their concepts and ideas.

The second measure, schedule 2 to this bill, will amend the *Venture Capital Act 2002* andthe *Income Tax Assessment Act 1997* to reform the arrangements for venture capital investments, which is expected to attract greater levels of investments at the growth stage of developing a concept, while improving the international competitiveness of investing in entrepreneurs at this stage of the financing life cycle.

This bill is an important step for Australia—investors, venture capital funds and innovation companies in all industries will benefit from these measures.

These measures have specifically been designed to foster a shift towards a culture of innovation, whereby entrepreneurial risk-taking is encouraged and rewarded.

The tax incentives for early stage investors measure aims to support early stage investment by encouraging more businesses to develop innovative ideas.

Within the early stages of an innovation company's financing life cycle, difficulty attracting funding can prevent entrepreneurs from developing and commercialising their ideas. In fact, this stage is sometimes described as the 'valley of death' where many start-ups find themselves unable to meet their cash flow requirements. It is important

that the government help connect business expertise with entrepreneurs so that innovative ideas can reach the market through commercialisation. This is what we mean when we say that we are backing Australians in our transitioning economy to make that transition a success.

The tax incentives include a 20 per cent carry-forward non-refundable offset on investments capped at $200,000 per year, and a 10-year exemption on capital gains tax for investments held in the form of shares in the innovation company for at least 12 months, provided that the shares held do not constitute more than a 30 per cent interest in the innovation company. The tax offset will be available upon investment, not when the funds are used by the innovation company, and any sale of the shares will be taxed on a 'deemed capital account' basis.

Innovation in Australia is dynamic. A regulation-making power is also included so the government can keep the measure up to date and up to speed.

The tax incentives for funding provided through venture capital limited partnerships including early stage venture capital limited partnerships are designed to attract investments at the growth stage of a company's development. At this stage, entrepreneurs can face further difficulties accessing funding, despite typically receiving a few rounds of initial funding, as they are not yet able to market themselves for public or broader investor buy-in. Although Australia has experienced recent momentum in this field, with over $600 million in venture capital raised or planned since 30 June 2015, this funding has been generally concentrated within the technology sector. The measure will continue to build on the current momentum through improving funding for promising projects across the economy and in industries beyond the technology sector.

We are introducing a number of new arrangements to venture capital limited partnerships and early stage venture capital limited partnerships. Notably, there will be:

a non-refundable tax offset of 10 per cent of the value of new capital invested into early stage venture capital limited partnerships during the income year;

an increase in the maximum fund size of early stage venture capital limited partnerships from $100 million to $200 million;

improved access to funding from managed investment trusts; and

broadened and simplified rules for both venture capital limited partnerships and early stage venture capital limited partnerships.

The cost of all of these measures were fully offset in the Mid-Year Economic and Fiscal Outlook statement that was released in December of last year.

Once the bill receives royal assent, these incentives will apply to the 2016-17 income year.

Consultation has been conducted across a range of sectors and industries, including experienced investors, start-up founders and pioneers and industry bodies, to design these measures in a way that attracts investment without creating unnecessary regulatory burdens on either the government or entrepreneurs.

We are answering a call from industry. We are creating the ecosystem that Australia needs to succeed in this modern world and for our transitioning economy.

We are setting up the environment to reward our innovators and our entrepreneurs who have the concepts and ideas and the passion that will benefit all Australians.

Backing innovation to drive productivity is a cornerstone of the Turnbull government's economic plan to successfully manage our economic transition. The Turnbull government know that our transitioning economy requires increased investment and we will create and continue to create the conditions necessary for that investment, as demonstrated in these measures, by reducing the tax burden on those who are investing in our economy.

This is another practical example of how the Turnbull government is acting to support the positive transition that is taking place in our economy and why the Turnbull government can be trusted to continue to undertake that task.

Debate adjourned.