THE SENATE

BILLS

Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016

Second Reading

SPEECH

Wednesday, 4 May 2016

BY AUTHORITY OF THE SENATE
Senator McKIM (Tasmania) (09:31): When we were debating the Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016 yesterday, I was just reflecting on the baby steps taken by the Australian Labor Party in relation to negative gearing and the capital gains tax discount. While we welcome Labor crab walking towards the Greens' position on these matters, we do want to be clear that we have led this debate strongly and proudly. It is based on our very firm view that having a situation in Australia where property investors and property speculators receive more financial assistance from government than do a young couple trying to buy their first home is not an acceptable position for this country, particularly given the growing gap between the have and the have-nots in Australia.

Of course, as I said yesterday, the Greens welcome steps taken by the government in this legislation to encourage the innovation ecosystem in Australia. Developments in ICT allow for an unprecedented matching of supply and demand over the internet, and there are many, many young and, at times, not so young companies that are taking advantage of the opportunities in this space. We very much support the measures that the government are bringing down today in this legislation.

As I said yesterday, we will propose an amendment to this legislation in the committee stage. I want to now run through the purpose and the intent of the Greens' amendment. As the bill now stands, an Australian incorporated company will qualify as an early-stage innovation company if it meets the tests of being at an early stage of its development—that is known as the early-stage limb—and it is developing new or significantly improved innovations with the purpose of commercialisation to generate an economic return. That is the innovation limb.

The government is proposing that a company must pass four tests to satisfy the early-stage limb of the qualifying early-stage innovation company test. These include that the company must have been incorporated in Australia within the last three income years; the company and any of its wholly owned subsidiaries must not have incurred total expenses of more than $1 million in the previous income year; the company and any of its wholly owned subsidiaries must have derived assessable income of no more than $200,000 in the previous income year; and the company must not be listed on any stock exchange.

The innovation limb proposed by the government in this legislation requires that a company must also qualify by satisfying either the 100-point innovation test or the activity based criteria. The activity based criteria is designed to provide enough legislative flexibility to accommodate both existing and future forms of innovations while specifically targeting high-growth potential companies based on the innovation company's focus and potential business capabilities.

The Greens amendment proposes to add a third limb relating to social innovation. As I said yesterday, there are many companies being established in Australia with the public good as their primary reason for existence—that is, they are being established as a company to meet a social or environmental need and to deliver a social or environmental benefit. The people who are establishing these companies have as their motivation to make Australia and the world a better place, to make us socially more equitable, to deliver social outcomes or to make us environmentally sustainable and deliver environmental outcomes. These are absolutely laudable aims and the Greens believe that companies which are established or which may be established, in this space, ought to receive the same kinds of tax breaks as this legislation proposes to establish for companies that satisfy the two limbs I mentioned earlier.

The Greens amendment adds a third limb relating to social innovation. This amendment would require a social enterprise company to satisfy both the early-stage limb that already exists in this legislation as well as the social innovation limb that the Greens are proposing. A social enterprise is a company that has a social, cultural, environmental or economic mission consistent with a public or community benefit and reinvests the majority of its profit to fulfil that mission. This would mean, under the Greens amendments, that a company would need to satisfy the early-stage and innovation requirements or satisfy the early-stage and social innovation requirements.
Social enterprises are recognised as an increasingly important sector to deliver social change in communities. They have capacity to generate employment, generate income, threaten local communities, make us a more socially just country and make us a more environmentally sustainable country. Many social entrepreneurs—and I have met many of them since being elected to the Senate—are seeking opportunities to invest, to generate social and environmental returns, rather than simply having as their priority the maximisation of the financial returns to their companies.

More investors are seeking to invest in social enterprise in Australia, and tax incentives such as these would encourage further investment in this important area. Mr David Brookes, the managing director of Social Traders, has said that social enterprises could employ over half a million Australians and contribute three to four per cent of GDP by 2025. It is worth the Senate noting that incentives for investment in social enterprises are well established in countries like the United Kingdom and Canada.

We unashamedly believe that we need to do more to incentivise investment into companies that are established with the primary aim of increasing the public good in Australia by helping transition Australia to a more equitable, more socially just and more environmentally sustainable economy and, therefore, into a more equitable socially just and environmentally sustainable country.

We would ask the Senate to approach our amendments with an open mind and give consideration to the fact that so many young people—many but not all of the people in the social enterprise space are young people—want to be part of making our world a better place. They, unashamedly, establish their companies, their start-ups, with the primary intention of doing that—not with the primary intention of making a lot of money for themselves and, one day, listing their company on the stock market, which is the goal of so many other start-ups.

We do not reflect negatively on those who establish their start-ups with the goal of one day potentially being a publicly listed company. We do not reflect negatively on that at all. In fact, that is why we are supporting these tax incentives for innovation that the government is proposing in this legislation.

But we urge the government to broaden their minds in this area, to recognise that innovation is not just limited to people who want to make a lot of money and that in fact, in the context of government support and the way the government defines innovation, innovation should include those start-ups, those innovative companies, who are using developments in information and communications technology to match supply and demand in such a way that they will deliver social and environmental benefit in Australia.

There are start-ups already in existence that do things like match up recent humanitarian entrants with training opportunities. There are start-ups already underway that do things like match up surplus food production with hungry disadvantaged people in Australia. These start-ups are designed to help make Australia a better place, and we ought to provide them with the same level of tax incentive as we are proposing to do for start-ups that are designed primarily with a financial return in mind.

We all need to broaden our minds about what innovation actually is in Australia. There is a lot to like about the government's innovation package. It is quite well known, of course, because there is $28 million of taxpayer money being invested in an advertising campaign about innovation right now. But innovation ought not to be confined in anybody's mind to companies that are designed and have been created primarily to make a profit. It ought to be broadened to include those companies that are primarily established to deliver a social and public good in Australia.

That is a real core for the Greens. It is something that we are passionate about. It is something that we have engaged with numerous stakeholders on. The message coming back to us is that currently the government's framing of innovation is too narrow, and it does not consider those companies that are established with the primary intention of delivering a public benefit, a social justice benefit or an environmental benefit. That is the reasoning behind our amendment.

I have explained in detail the way our amendment would work. It was circulated through the chamber, as I understand it, yesterday. I give notice that, once we move into the Committee of the Whole, I will be moving that amendment. But in general terms we will support this legislation because it fits with our view on encouraging innovation in Australia, notwithstanding the fact that we believe it defines innovation too narrowly.