AUSTRALIAN INVESTMENT COUNCIL

29 January 2021

Budget Policy Division
Department of The Treasury
Langton Crescent
PARKES ACT 2600

By upload to consultation website

Pre-Budget Submission

Dear Sir/Madam,

As the voice of private capital in Australia, the Australian Investment Council is pleased to present its submission to Treasury for the 2021-22 federal budget.

Private capital investment has played a central role in the growth and expansion of thousands of Australian businesses and represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include private equity (**PE**)**,** venture capital (**VC**) and private credit (**PC**) funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers. Our members include both Australian domestic and offshore-based firms.

Private capital fund managers invest billions of dollars into Australian companies across every industry sector of the economy every year. Australian-based PE and VC assets under management reached $33 billion in 2019 with an additional $13 billion in equity capital available to be invested in the short-term. Companies that partner with private capital fund managers contribute one in every nine new jobs in Australia and provide 2.6% of our nation's GDP.[1] The private capital industry can be a significant contributor to and driver of Australia's economic recovery and the development of Australia's industries of the future.

The COVID-19 pandemic continues to weigh on busines confidence and economic activity. While Australia's economy has not contracted as severely as expected, the lingering health-related restrictions continue to create an economic drag on activity on growth. Business and travel restrictions were identified by private capital-backed businesses as the number one barrier to business recovery.[2] As a result of COVID-19 restrictions, 81% of firms in our survey stopped some or all of their commercial activities, with 75% forced to reduce their workforce.

The government's decisive support actions have buoyed the economy. Unfortunately, some businesses, including many start-up businesses, were ineligible for government assistance, such as the very important JobKeeper Program. With economic uncertainty lingering, it is vital that Australia leverage its advantage from managing the health crisis so successfully to provide the regulatory and policy settings that will assist our economy to evolve and return back to sustained long-term economic growth into the future.

[1] Deloitte Access Economics (2018) *Private equity: growth and innovation*, April

[2] Australian Investment Council (2020) *Roadmap to Recovery: Creating a stronger and more dynamic economy*, June

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To regain our economic momentum and evolve our economy, the Australian Investment Council has identified seven policy priority reform areas, detailed below. Focusing on these areas will help underpin the next phase of prosperity and income growth for all Australians.

More specifically for the private capital industry, the Council has identified three policy areas where government action can assist the industry to continue supporting investment into high-growth potential Australian businesses. These areas, explored in detail in this submission, focus on:

1) Outstanding legislation and inconsistencies;
2) Co-investment to drive high growth Australian businesses; and
3) Skills and talent.

The industry is conscious of the fiscal demands arising from the COVID-19 pandemic. Many of the initiatives proposed in this submission have little, or no, impact on the federal budget. As an example, the proposed co-investment fund would potentially require an allocation of funding from the budget, which would amount to a capital account investment similar in nature to the existing Biomedical Translation Fund.

The Council looks forward to participating in any future discussion about the themes set out in this submission as part of the government's federal budget process. If you have any questions about specific points made in our submission, please do not hesitate to contact me or Brendon Harper, the Australian Investment Council's Head of Policy and Research, on 02 8243 7000.

Yours sincerely

Yasser El-Ansary
Chief Executive

Introduction

The impact of the COVID-19 pandemic on every corner of the Australian economy has clearly been significant. The comprehensive nature of the government's public health response has allowed Australia the opportunity to benefit from being part of the 'first-mover' group of nations emerging from the COVID-19 pandemic, while many other developed economies continue to endure ongoing widespread shutdowns and restrictions on business activities. Given the competitive position in which Australia finds itself, there is a unique opportunity to reimagine and reshape the national economy for the future and to support this by continuing to grow investment into innovation and technology as building blocks for a more dynamic and agile economy.

To effectively capitalise on Australia's comparative advantage, the recovery must be underpinned by a comprehensive plan by government to bring about meaningful economic reforms for long-term prosperity. Key policy recommendations to support these broader economic reforms are outlined in the Australian Investment Council's Roadmap to Recovery policy paper of June 2020. In our view, the three pillars of Australia's future economic prosperity must be:

1. maximising the penetration and utilisation of technology as an enabler of economy-wide productivity growth and job creation;
2. going 'narrow and deep' in developing industries where Australia is, or could be, a world leader; and
3. supporting Australia's entrepreneurs and fast-growth businesses to create Australia's next generation of world leading businesses.

The recommendations outlined in this submission focus on these pillars and opportunities to secure Australia's future prosperity.

Australia in a global context

Through strong leadership and fortuitous geographical separation, Australia has weathered the COVID-19 storm relatively well. While the pandemic halted Australia's record period of uninterrupted economic growth, strong and decisive government intervention appears to have prevented a deep recession. This provides an opportunity to accelerate our transition into a more knowledge-based, high value-adding economy. The government's modern manufacturing initiatives are a positive step in this regard.

Despite our high standard of living, Australia has a long way to go in its journey into a knowledge-based economy. The latest available rankings of economic complexity, developed by Harvard University's Center for International Development, ranked Australia 87rd globally – the lowest ranked of all developed economies and lower than many developing countries. Since 1996, when Australia was ranked 57th globally for economic complexity, our standing has continued to deteriorate. Furthermore, Harvard University concludes that "Australia is less complex than expected for its income level. As a result, its economy is projected to grow slowly"[3], with Australia's growth projection to 2027 ranked 94h out of the 133 countries assessed.

This result is backed by the 2019 Global Innovation Index (**GII**), which ranked Australia 22nd globally, down from 20th in 2018, behind nations such as the USA, Republic of Korea, China and Iceland. "The 2019 GII found Australia to be weak across knowledge and technology outputs, creative outputs, and business sophistication, relative to the top 25 innovation nations globally."[4] This shows that we need to do much more if we want to build and future-proof a sustainable and growing economy that can attract talent and capital from international markets.

It is therefore important that the economic challenges that Australia faces are recognised and tackled through leadership in long-term and visionary policy reforms. Industry as a whole has a role to play in informing and engaging with all sides of politics on these challenges. This includes the private capital industry, which invests in a wide range of Australian businesses, be they early-stage tech start-ups or long-established agricultural or manufacturing businesses. In particular,

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[3] Harvard University's Center for International Development, *Atlas of Economic Complexity*, accessed 25 January 2021

[4] Senate Select Committee on Financial Technology and Regulatory Technology, (2019) *Issue Paper*, p.3

our members seek to invest in high-growth companies that use that capital to expand their workforce, increase sales growth and engage in new research and development.

More broadly, Australian jobs and industry rely on a steady flow of foreign capital to support investment into growing businesses across all sectors of the economy. Australia's demand for capital continues to be greater than the domestic supply. As a result, Australia is a net importer of capital. Private capital firms are an important vehicle for attracting (domestic and) foreign capital into Australia and into Australian businesses.

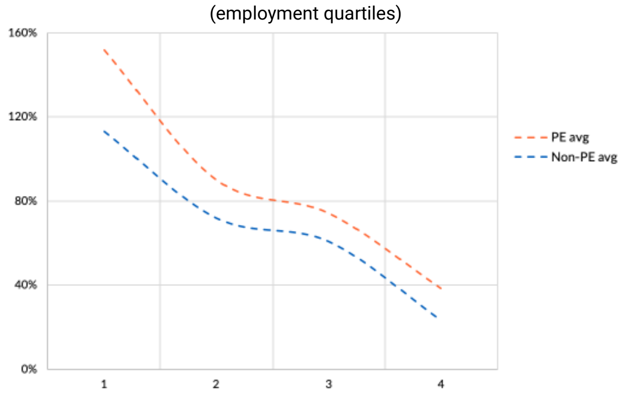
Impact of the private capital industry

The private capital industry contributes 2.6% of Australia's GDP and creates 1 in 9 new Australian jobs.

Businesses benefit from partnering with private capital firms not only from the capital invested but also from leveraging private capital firms' expertise, strategic support and access to global networks. Private capital managers work closely with their investee businesses each day in an active way to support management teams to achieve the businesses' strategic ambitions. This level of deep engagement and commitment is core to the proposition of how private capital firms help Australian businesses grow and expand within domestic and global markets. In fact, businesses who partner with private equity firms have been found to grow faster and increase their workforce quicker than firms that do not partner with private equity investment firms (Figure 1).[5]

Figure 1: Employment growth by company size

(employment quartiles)



Source: Wilhelmus and Lee (2019)

Australia's $33 billion private capital investment industry employs close to 200,000 domestic workers across the economy and is a critically important investment and efficiency driver for Australian industries and businesses. Fund managers invest capital from a wide variety of domestic and offshore institutional investors to support the growth of thousands of high-potential Australian businesses.

Private capital makes a significant contribution to the Australian economy and accounts for 2.6% of our nation's GDP.[6] As Australia begins the long-term economic rebound over the months and years ahead, private capital's investment contribution will accelerate as a result of the industry's focus on high-growth businesses that tend to outpace non-private

[5] Wilhelmus and Lee (2019) *Milken Institute: Private Equity IPOs – Generating Faster Job Growth and More Investment*

This relationship holds true even when comparing within sectors and holding firm characteristics, such as size, constant. Logically, the same relationship would hold true for firms that partner with venture capital and private credit firms.

[6] Deloitte Access Economics (2018) Private equity: growth and innovation, April.

capital backed businesses[7]. In fact, economic analysis confirms that one in nine new Australian jobs are created by private capital-backed Australian businesses, which reinforces the important job-creating role that private capital investment can play across all sectors of the economy.[8]

While Australia's private capital industry has grown strongly over recent years, its continued ability to support Australian businesses over the short to medium term is being constrained by key areas of government policy, a lack of local talent in key areas, and uncertainty around funding pipelines in the medium-term.

To realise the economic gains from the scaling-up phase of early-stage businesses, it is imperative that initiatives are put into place now to support the ongoing investment needed to sustain and grow our innovation ecosystem. Without support, private capital fund managers risk not being able to fund future investments into Australian businesses and entrepreneurs. This will result in Australian ideas and Australian companies either not being funded, or being forced to relocate overseas, which would hinder Australia's economic recovery and jobs creation.

Government policy can play an important role in ensure a supportive legal a d regulatory environment that assists the growth of our next generation of entrepreneurs and the continued flow of early-stage capital.

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[7] Wilhelmus, J. and Lee, W. (2019) *Private Equity IPOs – Generating Faster Job Growth and More Investment*, Milken Institute, September
[8] Deloitte Access Economics (2018) *Private equity: growth and innovation*, April.

Summary of Recommendations

Recommendation 1: *Fast-track the implementation of the new LP CIV regime*
The Council recommends steps be taken to fast-track the introduction of a new Limited Partnership CIV that aligns with international best practice with a target start date of 1 July 2021.

Recommendation 2: *Improve existing VCLP and ESVCLP vehicles*
The Council recommends the 14 technical and interpretative issues in the ESVCLP and VCLP regimes be adopted and implemented as a priority.

Recommendation 3: *Increase support for CVCs and innovation labs*
The Council recommends government increases support for CVCs and Innovation labs through the introduction of new programs to attract greater public-private investment into high growth Australian companies.

Recommendation 4: *Relaunch the R&D Tax Incentive*
The Council recommends government harnesses the opportunity to relaunch and promote the RDTI and its benefits prior to implementation of the new R&D Tax Law on 1 July 2021.

Recommendation 5: *Consolidate RDTI guidance material*
The Council recommends the RDTI Roundtable reviews the current guidance material with the view of developing one, useful and accurate repository of information for the RDTI.

Recommendation 6: *Introduce R&D incentives for Fintech companies*
The Council recommends government considers incentives, such as tax credits, for Fintech companies to invest in R&D consistent with the approach adopted by the UK government.

Recommendation 7: *Introduce Matching Grants for R&D*
The Council recommends government introduces matching grants for R&D to boost innovation and growth.

Recommendation 8: *Reduce tax uncertainties for private capital investment*
The Council recommends the Australian government, including the ATO, work with industry to reduce the uncertainties and inconsistencies in the tax treatment of private capital investment into Australian businesses.

Recommendation 9: *Implement a national co-investment program*
The Council recommends the government establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

Recommendation 10: *Support infrastructure and national areas most in need*
The Council recommends government introduces incentives for investment into regions and areas most in need based on similar model to the United States' economic 'Opportunity Zones'.

Recommendation 11: *Attract the best and brightest talent*
The Council recommends government boosts the offshore marketing of its Global Talent programs, alongside the GBTAT, to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.

Recommendation 12: *Extend visas for foreign students*
The Council recommends government extends visas for foreign students who graduate from Australian universities in disciples where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy.

Recommendation 13: *Fast-track the establishment of 'STEM Schools'*
The Council recommends government further embed STEM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of 'STEM schools', modelled on Sydney Science College in Epping.

1. Policy priorities to help our economic recovery

Australia must embrace its health policy success to lay down a visionary plan that will underpin the next phase of prosperity and income growth for all Australians.

To support the economic recovery challenge over the period ahead, Australia must embrace this moment in time as an opportunity to lay down a visionary plan that will underpin the next phase of prosperity and incomes growth for all Australians.

The Australian Investment Council has for a long time been committed to advancing economic and social policy reforms that support economic growth by providing a stable framework for investment capital that drives productivity gains, improved market competition, and employment growth. In this context, the Council, in partnership with its members, has identified seven policy priority areas.

These policy priorities are explored in detail in the Council's *Roadmap to Recovery: Creating a Stronger and More Dynamic Economy* policy document which is attached to this submission.

The policy initiatives identified in the *Roadmap to Recovery* are aimed at creating a more prosperous nation for all Australians and for all Australian businesses. Policy initiatives targeted specifically at empowering the private capital industry support Australian entrepreneurs and Australian businesses are explored in greater detail below.

SEVEN POLICY PRIORITY AREAS

01 Taxation reform

02 Market deregulation and red tape reduction

03 Innovation, technology and skills

04 Industrial relations reform

05 Infrastructure spending

06 International competitiveness

07 Superannuation and Australia's ageing population

2. Fast track outstanding legislation and remove inconsistencies to make Australia more competitive

Differences to international practices or unexpected policy changes make Australia a less attractive investment location for offshore investors.

As a mid-level player on the global scene Australia remains an attractive, but often 'optional', investment location for many offshore institutional investors. Differences to international practices or unexpected policy changes typically make Australia a less attractive investment location in the eyes of those offshore institutional investors. Unfortunately, Australia's legal and tax framework for private capital investment is inconsistent with international best practice in a number of areas. It currently necessitates duplicate and complex structures and deters higher levels of foreign investment.

The recommendations below provide practical policy solutions to increase Australia's attractiveness internationally. These changes, if implemented, would assist Australian businesses now and in the future to source the funds they need to grow and prosper.

Collective Investment Vehicles

Australia's framework for collective investment vehicles (**CIVs**) is inconsistent with international practice. These vehicles play a vitally important role in aggregating international capital for investment into Australian businesses. There are reports of Australian funds missing out on funding that due to international uncertainty surrounding Australia's CIV framework. A number of large international investors have identified the current structure of Australian CIVs as a material deterrent for investing more into Australia. As a result, these international investors are making decisions to invest in jurisdictions that have CIV regimes they are more familiar with. This often means Australia misses out on significant volumes of capital due to a policy infrastructure that is not as competitive and consistent with global practices as it should be.

A world-class competitive CIV regime is an essential ingredient in building and expanding the pool of capital that can be attracted into Australian businesses. Approximately 64% of commitments to Australian PE funds[9] typically come from offshore investors, all of which flow through some form of CIV based in Australia. The importance of improving the alignment of Australia's CIV framework to international best practice is evident.

The differences continue despite the government's announcement in the 2016 federal budget – consistent with the recommendations of the 2009 Johnson Review into *Australia as a Financial Centre* – that it would introduce two new CIVs to grow Australia's capacity to attract inbound investment into our economy. These two CIVs, known as a corporate CIV and a limited partnership CIV, are yet to be implemented. The Council understands that work on the Limited Partnership CIV is yet to commence and is being held-up by delays in developing the corporate CIV.

Recommendation 1: *Fast-track the implementation of the new LP CIV regime*
The Council recommends steps be taken to fast-track the introduction of a new Limited Partnership CIV that aligns with international best practice with a target start date of 1 July 2021.

Venture Capital Limited Partnerships

In a move supporting investment into Australian businesses, the government implemented changes to early-stage venture capital limited partnerships (**ESVCLPs**) and venture capital limited partnerships (**VCLPs**) on 1 July 2016. These changes were broadly supported by Australia's private capital investment sector. However, due to the speed with which they were introduced, there are a number of areas where technical and interpretative amendments and clarifications regarding these investment vehicles are necessary.

Over four years later, only minor changes have been made to the ESVCLP and VCLP frameworks with the majority of outstanding amendments still unactioned. During this time, the VC sector has continued to mature and grow in importance as employers and contributors to Australia's economic growth, notwithstanding the fact that key frameworks such as the ESVCLP and VCLP regimes have not kept pace with the growth of the industry.

Since 2015, a total of 824 VC deals have been completed for Australian start-up companies, for an aggregate value of $7.2bn ($1.44 billion per year; Figure 2). This is up from an average of $0.24 billion in the preceding 5 years.[10]

Recent analysis by the Australian Investment Council has found the portfolio companies of Australia's largest VC funds currently have approximately 1500 job vacancies[11]. These are signs of the sector's ongoing ability to deliver meaningful employment and growth opportunities. This strong contribution is likely to continue if nurtured by a supportive, internationally competitive regulatory framework.

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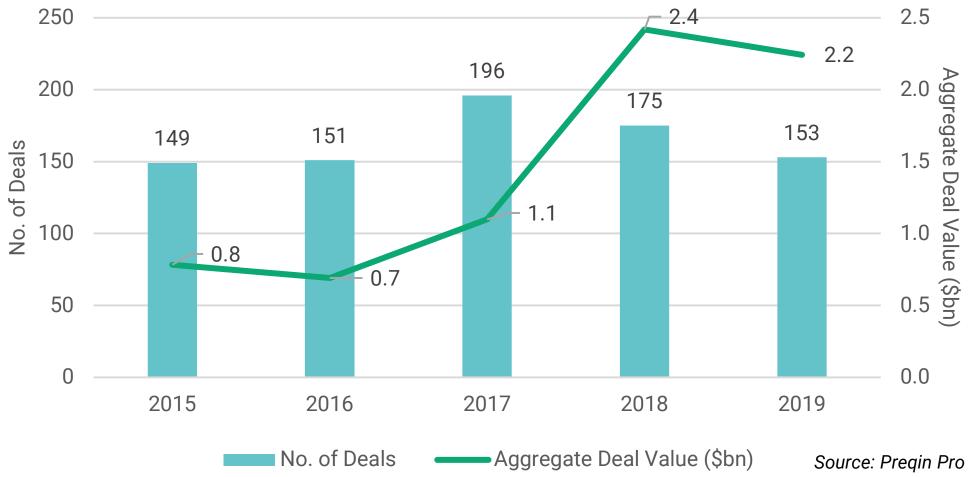
[9] For FY2013-2017.

[10] Preqin & Australian Investment Council Yearbook 2020

[11] As at 31 December 2020.

Figure 2: Venture Capital Deals in Australia, 2015-2019



Source: Preqin Pro

The technical issues that exist are now more prominent as successful start-ups have grown and being constrained by the framework. These companies are working with uncertain parameters which is hindering future growth prospects and is presenting a risk to investors. In this context, there is a need for the framework to be amended as a priority to provide certainty to VC companies and their investors so they can plan for continued growth.

An example of the uncertainties with the current regime is the tax treatment of investments whose value increase to exceed $250 million. It remains unclear if these investments remain exempt from 'excess' gains, under sections 51-54 and 118-408 of the Income Tax Assessment Act 1997 (Cth). Material uncertainty around the application of key principles within the tax law create a significant deterrence effect for domestic and international investors who require clarity on the operation of tax laws in order to determine the net, after fees and taxes return on investments.

ESVCLP and VCLP investment vehicles play a critically important role in supporting high-growth Australian business via access to venture capital and growth capital investment. Because Australia does not yet have an internationally competitive Limited Partnership collective investment vehicle, the ESVCLP and VCLP regimes provide valuable mechanisms to assist in attracting investment capital into the innovation ecosystem. Reducing barriers and inefficiencies within the ESVCLP and VCLP framework to resolve increasingly problematic technical issues will give Australia's high growth companies confidence and certainty on the framework and will encourage them to remain within the country rather than look at competitive offshore locations to domicile their businesses.

To this effect, there are 14 separate technical and interpretative issues around the current ESVCLP and VCLP regimes which need to be amended as a matter of priority. These have been attached for reference.

Recommendation 2: *Improve existing VCLP and ESVCLP vehicles*

The Council recommends the 14 outstanding technical and interpretative issues in the ESVCLP and VCLP regimes be adopted and implemented as a priority.

Empowering Corporate Venture Capital arms and innovation labs

Australia has seen a substantial growth in the number of corporates with corporate venture capital (**CVC**) arms or innovation labs, marking the important role that large organisations can play in driving and nurturing Australia's innovation economy. Despite this growth, research by the University of Sydney has demonstrated there is more work to be done as Australian boards are failing to understand the importance of innovation.[12] The study found that 57% of surveyed board members agreed that 'innovation has never been or was only an occasional board agenda item' with only

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[12] Garbuio, M (2019) *Driving Innovation: The Boardroom Gap, 2019 Innovation Study*, September

3% having science or technology expertise. An alarming 57% did not know how much their organisations spent on R&D and innovation.

Start-ups and SMEs can greatly benefit from increased support and investment by government through partnerships, grants and procurement. Government equity co-investment through the introduction of new programs to attract greater public-private investment into high growth Australian companies would have a positive impact on productivity, jobs and economic growth.

Recommendation 3: *Increase support for CVCs and innovation labs*
The Council recommends government increases support for CVCs and Innovation labs through the introduction of new programs to attract greater public-private investment into high growth Australian companies.

Research & Development Tax Incentive

The Research and Development program (**R&D**) is a critically important policy support mechanism which drives large parts of Australia's innovation ecosystem. The Australian Investment Council led the call to abandon proposed changes to introduce new caps on refundable R&D credits and was pleased to see that the Government discarded the previously announced reforms in the October 2020 Federal Budget.

A strong, robust and competitive R&D program is essential for ensuring that the Australian economy can continue to adapt to a more dynamic and innovative global marketplace. This is especially important at this time as the nation resets for future growth. In transitioning to the new economic climate, it is critical to ensure that big gains in innovation and technology drive increased productivity in every sector of the economy. Implementation of the new R&D Tax Law on 1 July 2021 presents an opportunity for government to relaunch the R&D Tax Incentive (**RDTI**) and restore its profile as the keystone for supporting R&D and innovation.

There would be considerable benefits in outlining the benefits, access and useability of the RDTI to current and potential program participants in the lead up to 1 July 2021.

Recommendation 4: *Relaunch the R&D Tax Incentive*

The Council recommends government harnesses the opportunity to relaunch and promote the RDTI and its benefits prior to implementation of the new R&D Tax Law on 1 July 2021.

The Council is supportive of a robust R&D program that is underpinned by guidance material that is comprehensive and consistent and can be easily accessed by those seeking to benefit from the RDTI. The Refreshed Guide to Interpretation[13] released by AusIndustry and the Department of Industry, Science, Energy & Resources in November 2020 has been a positive step in providing a more consolidated approach to the regime. However, work remains to be done in streamlining the material. This is particularly relevant in the area of eligible software development that continues to be a source of confusion amongst claimants. Currently, there are three separate documents on the business.gov.au site that apply to eligible software claims that overlap in content and contain no examples of how the claims work in practice.

Numerous sectors would gain confidence in the program if there was one, comprehensive, accurate and coherent repository of information. The RDTI Roundtable's Terms of Reference provides the facility to form working groups to look at these issues and would be a relevant resource for reviewing and making recommendations on streamlining and simplifying the guidance material.

Recommendation 5: *Consolidate RDTI guidance material*

The Council recommends the RDTI Roundtable reviews the current guidance material with the view of developing one, useful and accurate repository of information for the RDTI.

[13] R&D Tax Incentive, Guide to Interpretation, November 2020

Fintech has continued to evolve and become a technological enabler for businesses and the ongoing development of business solutions across the Australian economy. R&D investment is a critical factor for supporting Fintech growth to find new efficiencies, analytical tools and to protect data sensitivity. In recognition of Fintech's importance to economic and productivity growth, the UK government has introduced tax credits for R&D in the Fintech sector.[14] The Council recommends the Australian government consider implementing a similar scheme.

Recommendation 6: *Introduce R&D tax credits for Fintech companies*

The Council recommends government considers incentives, such as tax credits, for Fintech companies to invest in R&D consistent with the approach adopted by the UK government.

Australia's R&D investment is relatively low against similar western countries. The current level of competitive funding offered in the Accelerating Commercialisation grants program is also relatively low, although we note that the Department of Industry, Science, Energy and Resources is consulting with industry to access grants under this regime.

To be competitive and encourage and attract investment in critical and emerging technologies, Australia needs to increase its incentives for R&D. Encouraging emerging and innovative companies through sovereign investment is also important, so there are investments in technologies that are in Australia's national interest and secure our economic and social future.

For almost three decades from the early 1980s to 2008, the Federal Government provided competitive matching grants to organisations to help fund worthy R&D projects. These were shut down midway through the Cutler innovation review. A competitive grants element to fund R&D is a recurrent feature of many government ecosystems and they address different and complementary areas of the innovation landscape.

The contribution that strategic step change R&D projects can make has been more than borne out by the pandemic. It is a perfect time to act.

Recommendation 7: *Introduce Matching Grants for R&D*

The Council recommends government introduces matching grants to boost innovation and growth.

Reduce tax uncertainties

Private capital managers invest with the expectation of holding and growing their investments for a number of years. As such, those managers consider the potential performance and risks of their investments over the medium to long-term. Uncertainties due to variations in the tax treatments of investments increase investment risk, making investing in Australia less attractive. Inconsistencies in tax treatment have occurred, and continue to occur, in a number of areas.

These include, but are not limited to:

1. the tax treatment of investments whose value increase to exceed $250 million (detailed above in the *Venture Capital Limited Partnerships* section);
2. The deemed 'grouping' of independent private capital-backed businesses as one corporate group for the purposes of testing under certain federal and state-based tax regimes, for example in respect of the criteria contained within the current JobKeeper Program. Unlike consolidated corporate groups owned by a common parent entity, independent investee businesses within private capital fund structures are unrelated with one another and cannot participate in any cross-guarantees or subsidies that might otherwise be available in a typical consolidated corporate group structure;
3. Definitional issues such as the narrow interpretation of 'experiments' in the R&D Tax Incentive Law which are inhibiting investment into new innovations, especially for early-stage companies (outlined in the *Research and Development Tax Incentives* section); and

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[14] R&D tax credits for FinTech companies, GovGrant UK

4. Requirements to publish R&D entitlement which have caused inconsistencies, where claims which were initially accepted, were later rejected by the Australian Taxation Office (**ATO**).

The Australian Investment Council is available to assist the government explore these instances of inconsistent tax treatment to find solutions that will drive increased investment into Australian businesses.

Recommendation 8: *Reduce tax uncertainties for private capital investment*

The Council recommends the Australian Government, including the ATO, work with industry to reduce the uncertainties and inconsistencies in the tax treatment of private capital investment into Australian businesses

3. Encourage equity co-investment into high growth Australian businesses

The timing is appropriate now to establish a new co-investment fund that can support the expansion of the funding pipeline for Australia's innovation ecosystem.

Australian jobs and industries rely on a steady flow of capital to support investment into growing businesses across all sectors of the economy. Australia's demand for capital continues to be greater than domestic supply and as a result, Australia is a net importer of capital and relies on foreign investment to support local business and production growth. Private capital firms are an important vehicle for attracting both domestic and foreign capital into Australia and into Australian business.

The COVID-19 pandemic has challenged every sector of the Australian economy. Government initiatives have provided much needed assistance with the financing of some sectors of the business community. The government's Coronavirus SME loan guarantee has assisted businesses with turnovers up to $50 million obtain traditional finance, for example credit from a bank, where this might have otherwise not been available. Similarly, the Australian Business Growth Fund (**ABGF**) is a positive initiative. The genesis of the policy drivers for the ABGF was to respond to a defined market failure in respect of established small and medium-sized businesses having access to debt financing, and the need to often provide the family home as collateral. The ABGF provides equity finance for SMEs with the eligible turnover between $2 million and $100 million.[15] Industry analysis suggests that the ABGF's investments are typically more than $20 million.[16]

While useful and valuable, these initiatives do not assist early-stage businesses and businesses with low or no revenue. Some of these businesses were also ineligible for broader support initiatives, for example the Government JobKeeper program which was not available to start-up companies without a sales history.

Scaling-up and fast-growth businesses can bring significant employment and economic benefits that will flow to all sectors of the Australian economy. It is therefore critical that the current generation of entrepreneurs is supported and encouraged to drive innovation and contribute to the next wave of employment and economic growth. Without this support, Australia risks losing the next generation of new, internationally competitive Australian businesses and becoming an innovation laggard.

While Australia's private capital industry had experienced strong growth before the COVID-19 pandemic and is currently able to support Australian entrepreneurs and start-ups, the industry's ability to continue to do so over the medium term is constrained for the following reasons:

[15] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd1920a/20bd79

[16] https://legalvision.com.au/australian-business-growth-fund/

1) History showing investment into innovation and research falls after a crisis, despite being a key economic driver;
2) Early evidence of 'capital rationing' and some risk aversion materialising;
3) Constraints on access to institutional investment from superannuation funds due to a heightened focus on maintaining liquid positions and uncertainty in relation to future valuations; and
4) COVID-19 restrictions hampering the ability of fund managers to connect with (potential) investee businesses and institutional investors. This is particularly acute for new funds that do not have established relationships.

Without support, private capital fund managers will be forced to ration their available committed capital, with the result being a potential slow-down in future investments into Australian businesses and entrepreneurs. This will result in Australian ideas and Australian companies either not being funded to the extent necessary domestically or being forced to relocate offshore. At this time, it is vitally important that the private sector partners with the government to maintain the capacity to assist the innovation ecosystem, emerging entrepreneurs and their businesses.

Establish a new co-investment fund

A meaningful and proven way that the government can work with the private sector to boost investment for Australian entrepreneurs and Australian businesses over the medium-term is to utilise well proven co-investment funding programs. The timing is also appropriate now to establish a new co-investment fund that can support the expansion of the funding pipeline for Australia's innovation ecosystem.

The proposed co-investment fund would have very little, or no, impact on the federal budget. It would potentially require an allocation of funding from the budget, which would amount to a capital account investment which would essentially be budget neutral.

This program could be modelled on established structures using qualified fund managers. For example, the Biomedical Translation Fund (BTF) is a program structure that is well recognised within government as a leading private and public sector collaborative model and could form the basis for a new national co-investment fund. There are alterative models for such programs which could assess the merits of a structure that is based on a 'fund-of-funds' type approach, versus direct investment into underlying investee businesses. The private capital industry is open to canvassing the relative merits of each approach, which takes account of the priorities of the government in this area of policy.

Government co-investment to support early stage and high growth businesses is a well-tested policy response. Co-investment programs are heavily used in the UK, USA, Canada, New Zealand, Germany, France and many other countries across the globe. Domestically, various co-investment programs exist at the state level, complemented by targeted national programs. Examples of co-investment funds are included in *Attachment 2*.

Recommendation 9: *Implement a national co-investment program*
The Council recommends the government establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

Objective of a new co-investment program

The objective of a new co-investment program would be to support the functioning of the Australian VC investment market through the current dislocation and to maintain the sectors ability to support highly innovative Australian businesses and entrepreneurs in the early-stage and start-up phases.

The building momentum of Australia's private capital industry – of which VC is one component – growing to $33 billion in assets under management in 2019,[17] is testament to its role within the Australian economy. The industry's contribution to the domestic economy through employment and GDP illustrates the important role it can play in helping drive our economic recovery and creating meaningful, high paid jobs for Australians. Analysis by Deloitte Access

[17] Preqin and Australian Investment Council, Yearbook 2020

Economics has shown that one in nine new Australian jobs are created by private capital-backed Australian businesses.[18]

While the private capital industry has committed funds available to support short-term investment over the next one to two years, the COVID-19 pandemic has created uncertainty in respect of access to funds over the medium-term (as discussed above). Without government support, there is a risk of losing a generation of highly innovative Australian businesses to other markets.

Supporting infrastructure and national areas of most need

The government could provide additional support to specific areas of the economy to support new ventures and innovative businesses in industries where Australia has a comparative advantage or in areas most in need. This is particularly true for some businesses located in regional and rural areas of Australia, despite the fact that regional Australia contributes one third of national output and is home to 8.8 million people.

Recent successful initiatives to tackle the issue of regional under-development include the establishment of the BTF and overseas schemes, such as the Opportunity Zones program in the US. These provide a blueprint for launching programs which couple government funding and private capital, directing it towards specific areas of need. The Australian Business Securitisation Fund is another positive example of encouraging higher levels of business lending into a specific sector, the SME market in this case, which otherwise would have been untapped. Such a pragmatic policy approach, coupled with strong industry consultation, could be effective in unlocking new sources of capital for investment into SMEs and high growth businesses more generally.

Recommendation 10: *Support infrastructure and national areas most in need*
The Council recommends government introduces incentives for investment into regions and areas most in need based on similar model to the United States' economic 'Opportunity Zones'.

4. Skills and Talent

Australian businesses need access to the world's best talent. Where local companies cannot access the necessary talent, they can be forced to relocate overseas, taking with them jobs and revenue.

Skills and talent (and capital) are the lifeblood of growing and innovative businesses. Australia has a golden opportunity to be a destination of choice for high calibre talent through its attractive lifestyle, stable political system and future growth opportunities. The government's Global Business and Talent Acquisition Taskforce (**GBTAT**)and tertiary education reforms are positive steps towards acquiring and generating the skills required in the future.

As the pipeline of talent is grown within Australia, there are currently skills and talent gaps within the private capital sector which need to be filled as a priority. An analysis of the portfolio companies from the 9 largest VC funds showed there approximately 1500 job vacancies within those companies at 31 December 2020.[19]Jobs requiring IT and engineering skills dominated the job vacancies accounting for approximately one-third of the roles. The analysis also showed that at the Director or Vice-President level, special and specific qualifications such as Scientists, Engineers, Operations and Strategic Management were the skills most in demand. While Australia builds a local talent base, there has an opportunity to attract the best and brightest talent from offshore. This is particularly true with a number of developed countries implementing restrictive migration regimes and continuing to struggle to contain the COVID-19

[18] Deloitte Access Economics (2018) *Private equity: growth and innovation*, April.
[19] Source: Australian Investment Council analysis December 31 2020

pandemic. To this extent, the current environment may be conducive to attracting the Australian diaspora who may have developed specialist skills overseas to return home.

Recommendation 11: *Attract the best and brightest talent*

The Council recommends government boosts the offshore marketing of its Global Talent programs, alongside the GBTAT, to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.

5. Build the next generation of local talent

To compete against the world's best, Australia needs to attract and retain the world's best talent. This is particularly true for Australia as a net importer of capital and highly skilled talent. Education reforms, particularly in STEM disciplines, will help build the next generation of local talent. This will complement the shorter-term immigration reforms.

Skilled migration has been a key feature of Australia's migration system, playing an important role in generating economic growth for successive decades. Australia has had a long history of supportive policies to attract business entrepreneurs. However, the rising global mobility of workers and heightened competition for talent means that it is important for Australia to have policy settings that are effective in attracting a critical mass of "new economy" skilled workers. These entrepreneurs will help generate new and sustainable business opportunities within the Australian economy into the future and every effort must be taken to attract and retain that talent.

The global search for talent is compounded by ever-more-rapid changes brought about by technology and innovation. Australia has to stay competitive to attract and retain the best and brightest. The Council is supportive of the government's Global Talent – Sponsored and Independent Programs. While it is still early days in the lifecycle of these policies, the Council believes that they represent a step in the right direction for Australia's future capability around skills development. Further refinement of skilled migration occupation lists will play an important supporting role in identifying those specific niche skills that Australia should prioritise in order to build future growth.

Australia has a strong record of attracting foreign students to tertiary education. Many of these students arrive on visas that are valid for the duration of their studies, and then return to their home countries to develop their careers once their education here is completed. This pipeline of talent represents a potential source of the skills needed to address labour shortages in the short to medium-term.

Recommendation 12: *Extend visas for foreign students*

The Council recommends government extends visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy.

As outlined in the *Australia 2030 Prosperity Through Innovation* report[20] released by Innovation and Science Australia, growth in jobs and occupations requiring STEM skills are outstripping overall employment growth across the economy. While skilled migration will help to address skills shortages in the near future, building a workforce from within Australia with relevant STEM skills will contribute to employment and future economic growth.

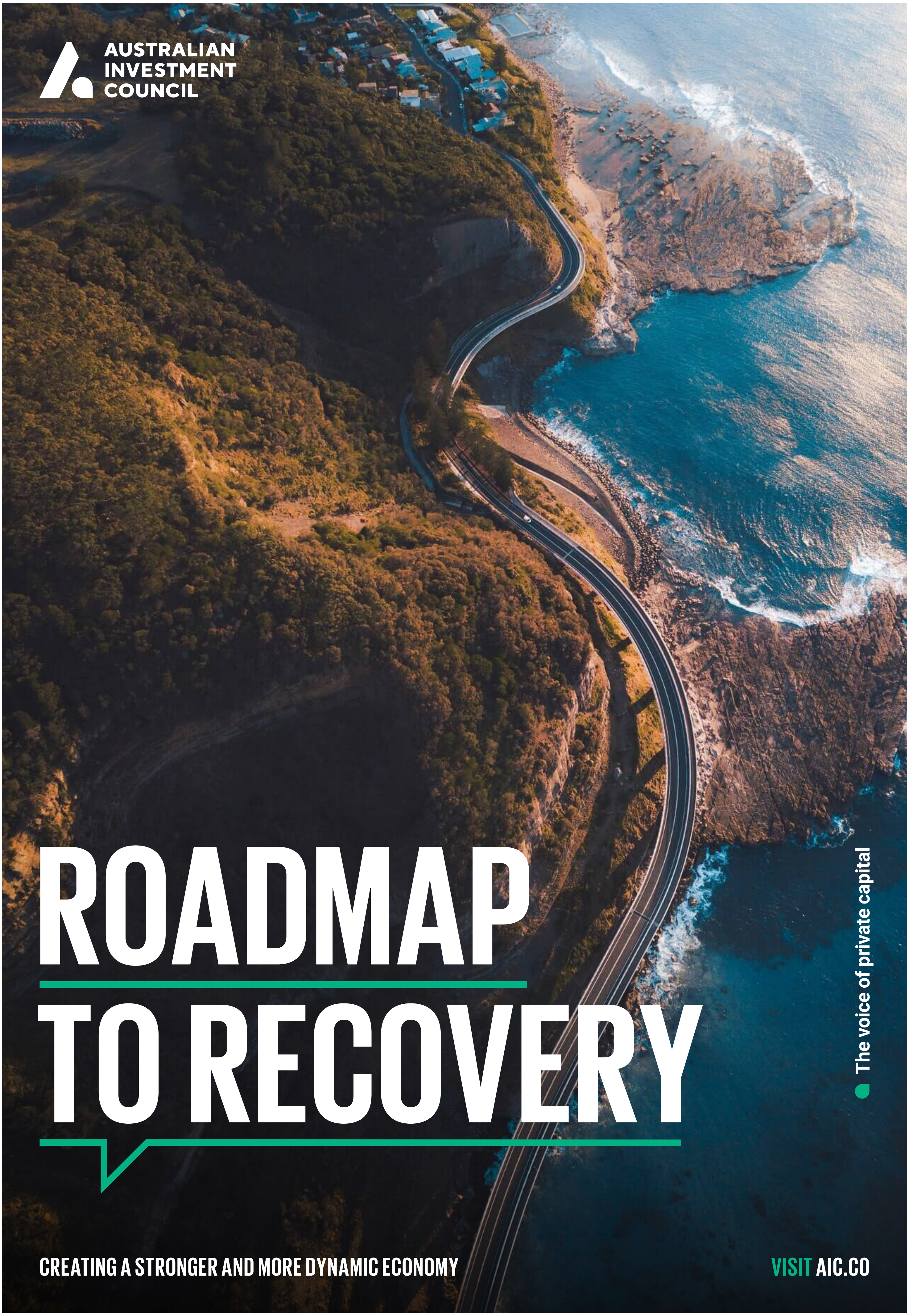
In the longer-term, building a pipeline of future employees with STEM skills from the Australian school system would help to increase the job prospects for Australians in the future.

[20] Australia 2030: Prosperity Through Innovation; Innovation and Science Australia 2017, Australian Government, Canberra

Recommendation 13: *Fast-track the establishment of 'STEM Schools'*

The Council recommends government further embed STEM skills into the Australian School curriculum, from primary school years through to tertiary education and fast-tracks the establishment of 'STEM Schools' modelled on Sydney Science College in Epping.[21]

[21] Sydney Science College



AUSTRALIAN INVESTMENT COUNCIL

ROADMAP TO RECOVERY

The voice of private capital

CREATING A STRONGER AND MORE DYNAMIC ECONOMY

VISIT AIC.CO

ROADMAP TO RECOVERY: CREATING A STRONGER AND MORE DYNAMIC ECONOMY

COVID-19 creates a catalyst for Australia to closely assess its sovereign capability in a number of key industry sectors.

Australia's relatively successful proactive management of the public health crisis arising from the pandemic provides an opportunity to capitalise on the nation's position as part of the group of 'first-mover' nations to emerge out the downturn and to harness the opportunities that the future can bring.

To support the economic recovery challenge over the period ahead, Australia must embrace this moment in time as an opportunity to lay down a visionary plan that will underpin the next phase of prosperity and incomes growth for all Australians.

To assist in the development of that vision, the Australian Investment Council conducted a comprehensive member survey and identified the major barriers and the key policy priority areas essential to Australia's economic recovery and the expansion of businesses.

FOUR MAIN BARRIERS TO BUSINESS RECOVERY

01 Business and travel restrictions

02 Cash flow and access to funds

03 Economic uncertainty and consumer confidence

04 Social distancing and 'second wave' concerns

SEVEN POLICY PRIORITY AREAS

01 Taxation reform

02 Market deregulation and red tape reduction

03 Innovation, technology and skills

04 Industrial relations reform

05 Infrastructure spending

06 International competitiveness

07 Superannuation and Australia's ageing population

THE IMPACT OF COVID-19 ON PRIVATE CAPITAL-BACKED AUSTRALIAN BUSINESSES[1]

81%

81% have **stopped some or all commercial activities** due to COVID-19 restrictions

JOB

75% have been forced to **reduce their workforce**

66%

Over 6,000 jobs lost — **66%** of businesses expect further job losses

WE ARE READY TO SUPPORT AUSTRALIAN BUSINESSES AND ASSIST REBUILDING THE ECONOMY[2]

The private capital industry manages **$33bn** in total Assets Under Management

1 in 9 new jobs in Australia are created by highly innovative private capital-backed businesses.

2.6%

The industry contributes **2.6% of Australia's GDP**

The industry employs **200,000 Australian workers**

Jobs growth is higher in private capital-backed businesses

The private capital industry has **$13bn available to invest** into great Australian businesses today

[1]Data from the Australian Investment Council's member survey (May 2020).
[2]Data from Private equity: Growth and innovation and the Preqin & Australian Investment Council Yearbook 2020.

AUSTRALIAN INVESTMENT COUNCIL

THE PRIVATE CAPITAL INDUSTRY CAN MAKE A SIGNIFICANT CONTRIBUTION TO AUSTRALIA'S ECONOMIC RECOVERY

The global COVID-19 pandemic and the government imposed restrictions on individual movements and business activities have had a significant impact on every dimension of the Australian economy.

In April alone, 600,000 jobs were lost and the participation rate crumbled as almost 500,000 people left the workforce.[3] The underutilisation rate has already risen to 19.9%[4], and analysts project the unemployment rate to hit 12-15%;[5] a rate that would certainly be higher if not for important government support initiatives such as the JobKeeper Program.

Economically, the silver lining that emerges from the COVID-19 pandemic is that it has created a catalyst for Australia to closely assess its sovereign capability in a number of key industry sectors. To capitalise on Australia's comparative advantage and to harness the opportunities that the future can bring, our roadmap to recovery must be underpinned by a comprehensive plan by government to bring about meaningful economic reforms for long-term prosperity.

A cornerstone of our national plan to secure Australia's future economic, employment and productivity growth should be to support the acceleration and development of our domestic technology as an enabler of businesses across all sectors of our economy. The technology industry has the ability to directly make a significant contribution to high-value economic output[6] and to lift productivity, global competitiveness and create jobs across the entire economy. A stronger technology capability would represent a significant new building block in designing a future-proof Australia that generates sustainable economic and incomes growth for all, and positions our market with a competitive edge against other developed economies around the world.

The Australian Investment Council believes that we should aim to ***double the size and output of Australia's technology industry by 2030***. The significant benefits of this would flow to almost every industry in Australia through growth, improved productivity and new high-value job creation. This objective can be achieved through fostering deeper and more meaningful partnerships between industry, government and academic institutions, and increasing the skills of our workforce. Additionally, the role of technology should be central in any new regulation and legislation to help create an environment that incentivises investment and removes regulatory burdens. Government procurement should play a critically important role in supporting the growth of technology across all areas of social and business policy and programs, helping to turbo-charge the work being done by the Digital Transformation Agency.

The Australian Investment Council has brought together the collective insights of the private capital industry through a combination of survey and qualitative input, to identify those reform priorities that will create the most significant opportunities for Australian businesses in the years ahead.

The private capital industry is a critically important investment and efficiency driver for Australian industries, and businesses. Fund managers invest capital from a wide variety of domestic and offshore institutional investors to support the growth of thousands of high-potential Australian businesses. In combination with that, private capital investors deliver to those businesses a mix of strategic support, value-enhancing innovation, and connections to help them unlock growth opportunities in domestic and international markets, which underpins the creation of new jobs across every sector of the economy.

THE AUSTRALIAN INVESTMENT COUNCIL BELIEVES THAT WE SHOULD AIM TO DOUBLE THE SIZE AND OUTPUT OF AUSTRALIA'S TECHNOLOGY INDUSTRY BY 2030.

In addition to taking action on the broader policy areas identified below, a variety of specific changes should be implemented to more directly assist the private capital industry in growing the pool of capital available to support investment into Australian businesses. To lift equity and debt capital investment into the SME market and larger businesses, the priority changes are:

(1) implementing a globally competitive limited partnership collective investment vehicle, as recommended by the 2009 Johnson Review into *Australia as a Financial Centre*, to attract greater inbound investment from offshore, given Australia's credentials as a market capable of delivering exceptionally strong returns for investors;

(2) removing the temporary barriers to inbound investment capital sourced from offshore under Australia's foreign investment policy framework (announced on 29 March 2020);

(3) continuing to improve the sophistication of the regulatory environment around superannuation, to nurture a system that is focused on long-term net returns, along with ensuring that the Early Release Scheme does not establish a precedent for future policy changes of this nature.

To benefit early-stage high-potential businesses across all sectors of the economy, the Council recommends that the government work closely with the venture capital investment sector to establish a long-term action plan that seeks to lift Australia's innovation ranking through significant improvements in the translation and commercialisation of research discoveries. Numerous reviews and analyses completed over the past decade have consistently pointed to the nation's failure to secure more tangible returns on publicly-funded research investments as one of the major constraints facing the innovation pipeline. A cohesive strategy that seeks to address this issue, while at the same time facilitating improvements in Australia's capacity to attract the world's best and brightest talent with key STEM-related skill sets, will underpin the next wave of economic growth for the decade ahead.

[3]ABS (2020) Media Release: Employment Falls 594,000 in April to 12.4 million, 14 May.
[4]Ibid.
[5]NAB Group Chief Economist, Alan Oster (in his 14 May 2020 podcast) and various other analysts.
[6]The technology industry directly employs around 580,000 people (5% of Australia's workforce) and contributes more than $144 billion to the economy each year, representing 6.6% of GDP. Australia's Digital Opportunity, Alphabeta September 2019.

BARRIERS TO OUR ECONOMIC RECOVERY AND EXPANSION

Through a comprehensive member survey, a number of barriers to the economic recovery and expansion of Australian businesses were identified. Alleviating the most problematic aspects of these barriers, and developing a medium-term plan to address all of these issues, will go a long way towards allowing businesses and markets to re-build over time.

01

Business and travel restrictions

Restrictions on business operations and travel are the biggest barriers to economic recovery.

Until travel resumes, and businesses are permitted to operate freely within the appropriate regulatory framework, the economy will continue to be adversely impacted by a lower-than-normal pace of activity.

Many businesses will not be profitable until restrictions on business operations are lifted. The imposition of public health strategies that limit the types of services which can be delivered, and the number of customers that can be present, has had a profound impact on normal business operations. Returning to full activity will allow cafes and restaurants to put staff back on their rosters, personal trainers to return to fitness studios, and hotels to resume checking-in guests.

In the medium-term, easing international travel restrictions will support improvements in supply chains, and allow for the resumption of export and import trade activities across all industry sectors.

02

Cash flow and access to funding

The rapid drop-off in revenue experienced by countless industries over recent months has presented an existential challenge for businesses, who have had to rely to a large extent on government support programs to remain viable.

Access to funding and maintaining cashflow liquidity have consumed the leaders of all businesses, especially those in the SME segment, where prior years' reserves may have been exhausted. This has occurred at a time of significant capital market dislocation as domestic and international investors re-balance their exposure to risk. Evidence of capital 'rationing' has emerged over recent weeks, which evidences the extent of financial stress experienced by business.

Access to funding remains a material issue for most Australian businesses, despite the government guarantee of some categories of SME loans. In addition, institutional investors are facing their own challenges, notwithstanding the record-low interest rates and depressed market valuations in many industry sectors.

While federal, state and local government initiatives have been essential in supporting businesses through the low-point in economic activity, it is recognised that those programs cannot continue indefinitely, and it is important for organic cash flows to return. This pickup in activity will not materialise quickly, and it will only return when consumer confidence improves, and freedom of movement and spending levels increase.

03

Economic uncertainty and consumer confidence

COVID-19 has negatively impacted business and consumer confidence at a time when the economic outlook was already under pressure despite the longest period of uninterrupted growth in recorded global history.

The additional erosion of confidence has further driven down market demand and consumer spending, while at the same time, eroding job security and household incomes.

With businesses focused on survival, risk appetites have been re-balanced, leading to growth and expansion plans being shelved. Expenditure on research has fallen further, and management teams have – by necessity – turned increasingly inward-looking in their strategic focus. Money markets have exacerbated these conditions with the tightening of capital flows due to uncertainty about the short and medium-term outlook.

FOUR MAIN BARRIERS TO BUSINESS RECOVERY

01 Business and travel restrictions

02 Cash flow and access to funding

03 Economic uncertainty and consumer confidence

04 Social distancing and 'second wave' concerns

04

Social distancing and 'second wave' concerns

Compliance with social distancing rules and concerns about the potential for a 'second wave' of the COVID-19 pandemic will continue to have a clear and direct impact on business activity and confidence.

The public health ramifications of a second wave will be deeply damaging for the wellbeing of all households across the country, and the impact on businesses has the potential to be more significant and damaging than the first round of shutdowns. The priority for governments at all levels should be to maintain a careful balance between the need for various levels of strict controls to support public health management, while allowing measured steps to the resumption of normal daily life and economic activity.

REFORM PRIORITIES AND OPPORTUNITIES

To support the economic recovery challenge over the period ahead, ***Australia must embrace this moment in time as an opportunity to lay down a visionary plan that will underpin the next phase of prosperity and incomes growth for all Australians.***

The Australian Investment Council has for a long time been committed to advancing economic and social policy reforms that support economic growth by providing a stable framework for investment capital that drives productivity gains, improved market competition, and employment growth.

Governments at all levels have demonstrated over recent months a preparedness to collaborate and unite to deliver nationally important outcomes for the benefit of everyone in our community. The economic roadmap to recovery should be developed on the back of a wide range of inputs from all corners of society, and it should be dynamic in the way that it responds to evolution and change in the domestic and international context within which we exist.

As part of the 'first-mover' group of nations emerging from the COVID-19 pandemic, Australia has a unique opportunity to reshape the national economy for the future. The success of our willingness to embrace and capitalise on this opportunity will be defined by our preparedness to bring about meaningful long-term policy change that improves the standard of living for all Australians.

The Australian Investment Council's survey has identified seven key policy reform areas that should be prioritised.

01

Taxation reform

Reforming Australia's taxation regime is broadly considered to be the policy area with the greatest potential to reinvigorate Australia's economy over the long-term.

Australia's taxation system has been the subject of numerous reviews over the past decade, and many of the most significant recommendations set out in reviews remain relevant today. The most comprehensive of the recent reviews is the 2010 Australia's Future Tax System (AFTS) Review, led by former Treasury Secretary, Dr Ken Henry.

Many of the recommendations from that review are yet to be progressed. Taken as a whole, the tax reform blueprint set out in that work represents a compelling, growth-enhancing plan for a staged transformation of the tax mix across federal and state-based tax regimes. Some state jurisdictions within Australia have adopted elements of the blueprint in bringing about reform in their own regimes, but a coordinated national approach has not been agreed. The success of the National Cabinet of heads of government could serve as the perfect foundation on which consensus for reform could be built, and the unity around the common cause of building a stronger and more innovative Australian economy for the future could serve as the catalyst for change that has been absent in the past.

Some of the key priority reforms set out in the AFTS Review[7], as well as other growth-orientated analysis of our existing tax system, revolve around reducing the headline corporate income tax rate for all businesses to 25%, a step that would deliver incomes growth for all Australians, and at the same time, lift Australia's competitive standing in the global marketplace for capital and talent.

A reduction in the corporate income tax rate forms an important part of a broader strategy of shifting the nation's 'tax mix' by reducing reliance on direct taxes – such as personal and corporate income taxes – and re-balancing towards greater reliance on 'user pays' pricing mechanisms and indirect taxes. In the technology-enabled global marketplace in which Australian businesses operate, such a shift is vitally important to building a stronger and more sustainable budgetary position for governments at all levels into the future.

A short-term measure that should be considered is capital gains tax relief. This could induce an increase in investments into high-growth businesses and help kick-start the recovery.

SEVEN POLICY PRIORITY AREAS

- 01 Taxation reform
- 02 Market deregulation and red tape reduction
- 03 Innovation, technology and skills
- 04 Industrial relations reform
- 05 Infrastructure spending
- 06 International competitiveness
- 07 Superannuation and Australia's ageing population

01

TAXATION REFORM

- → Streamline Australia's taxation system to eliminate inefficient taxes.
- → Reduce reliance on corporate and personal tax revenue.
- → Work with states to introduce greater harmonisation in regimes.
- → Re-balance the tax mix between direct and indirect taxes.
- → Use the newly formed National Cabinet as an opportunity to unite behind the common purpose of improving the competitiveness of Australian businesses.

COVID-19 CREATES A CATALYST FOR AUSTRALIA TO CLOSELY ASSESS ITS SOVEREIGN CAPABILITY IN A NUMBER OF KEY INDUSTRY SECTORS.

[7] Australia's Future Taxation System Review.

REFORM PRIORITIES AND OPPORTUNITIES (CONT.)

02

Market deregulation and red tape reduction

The sharp downturn in economic activity and consumer spending is being compounded by an overwhelming concern that the burden of creeping red tape and regulatory compliance costs are stretching business viability.

It is well recognised that red tape and regulatory cost burdens tend to move in cyclical phases every 10-15 years. Removing red tape and introducing greater efficiencies drive increases in productivity, competitiveness and high-value jobs growth. Past experience in Australia suggests that attempts to reduce red tape at a federal and state level have sometimes been narrow in scope, and therefore failed to achieve the desired economic and business outcomes.

It may be instructive to revisit the 2013 Coalition Government analysis in *'Boost Productivity and Reduce Regulation'*[8] which outlined a whole-of-government framework to reduce the red and green tape burden by at least $1 billion per year. Amongst numerous recommendations, the report recommended at least two Parliamentary Sittings be dedicated each year to repeal counterproductive or unnecessary regulation, and that COAG meetings – now National Cabinet – include deregulation and red tape as standing items for discussion and review throughout the year.

The Council also encourages government to implement the recommendations contained in the Productivity Commission's *Shifting the Dial*[9] review in 2017, particularly in respect of the opportunity for National Cabinet to adopt a formal joint reform agenda.

Reinstatement of the core principles set out in the 2013 report, and the adoption of recommendations from the Productivity Commission's 2017 analysis, should form part of a comprehensive and clear commitment to eliminate red tape costs for businesses over the short and medium-term.

Governments and regulators should resist the temptation to develop new laws and regulations and implement additional red tape only where there is a clear and unavoidable need, for example where industry is not able to independently react to market ineffectiveness or consumer harm. Where new laws or regulations are required, they should be implemented through enabling technology.

Government regulators should also expand the use of regulatory sandboxes to help dictate new ideas and products, building on concepts of the enhanced regulatory sandbox recently announced by the Government[10].

03

Innovation, technology and skills

Innovation, technology and skilled labour have the capacity to directly contribute to economic output and to indirectly lift productivity, global competitiveness and create jobs across the economy.

Despite a skilled labour force, Australia ranks second last in the OECD – ahead of Mexico – for the relative size of our technology sector and as of 2016, was 34% behind our OECD peers across four core areas of digital innovation, including the application of digital technologies to existing industries. These results show the huge capability gaps that Australia can make up, but only if the right policy settings are adopted.

Notwithstanding our relatively low global rankings, the domestic technologies sector contributes $122 billion each year, or 6.6% of GDP, to the Australian economy[11]. This is expected to grow 40% between 2018 and 2023.[12]

The productivity-enhancing impact of a vibrant innovation and technology sector can extend across almost all existing industries while strong domestic innovation and technology skills can support and develop new sectors, such as strategic manufacturing capabilities.

For Australia to make material gains in innovation and technology, government policies need to encourage businesses to take risks, to develop new ideas, new products and to find new markets. *The Australia 2030: Prosperity through Innovation*[13] report by Innovation and Science Australia set out 30 key reform initiatives across five key strategic pillars: education, industry, government, research and development, and culture and ambition. The recommendations are targeted at creating a more knowledge-intensive innovative economy that is capable of delivering a higher standard of living for current and future generations of Australians. Increasing business investment in research and development, more impactful collaboration between universities and businesses to commercialise research discoveries, and lifting STEM capabilities within our workforce are central to achieving a more advanced economy in years to come.

02

MARKET DEREGULATION AND RED TAPE REDUCTION

- → Remove superfluous and counterproductive legislation and regulation.
- → Encourage Commonwealth, State and Territory governments to adopt a formal joint reform agenda with coordination and alignment across all agencies.
- → New laws and regulations should be implemented through enabling technology.

03

INNOVATION, TECHNOLOGY AND SKILLS

- → Focus on technology and innovation as an enabler for building employment and growth across the economy.
- → Implement the recommendations ISA's 2030 Report.
- → Identify technical skills gaps and develop programs to build a pipeline of talent within Australia.
- → Encourage highly skilled immigration as a short-term measure to fill the talent gap.
- → Unlock the transformative power of government procurement to accelerate the growth of smaller technology-enabled businesses.

[8] The Coalition's Policy to Boost Productivity and Reduce Red Tape 2013.
[9] Shifting the Dial: 5-year productivity review, Productivity Commission 2017.
[10] Media Release, Regulatory Sandbox will boost fintech innovation and competition, Senator Jane Hume, 28 May 2020.
[11] Australia's Digital Opportunity, AlphaBeta September 2019.
[12] Deloitte Access Economics, Australia's Digital Pulse 2019.
[13] Australia 2030: Prosperity through Innovation.

REFORM PRIORITIES AND OPPORTUNITIES (CONT.)

04

Industrial relations reform

A high degree of productivity is lost in Australia's industrial relations system as employers and employees try to manage their obligations within a regime that is often seen as holding us back from achieving the level of productivity gains necessary for our future economy.

A complex awards-based system, onerous workplace agreement requirements, inconsistency and uncertainty around the definition of casual employment, and the overall lack of flexibility afforded between businesses and their talent base are amongst a range of issues that warrant targeted focus by government as part of the nation's efforts to lift productivity while minimising compliance and red tape costs. The Government's announcement regarding industrial relations reforms as part of its JobMaker initiatives provides a good platform to advance these issues.

We welcome the Government's intent to develop a more flexible industrial relations system, particularly for SMEs and fast-growing businesses that need flexibility in working arrangements for their talent base and their recruitment strategies. A more flexible industrial relations system should also empower a technologically capable workforce and facilitate the ongoing inclusion of older workers – an issue which will increase in importance as our population continues to age over years to come.

Streamlining Australia's enterprise bargaining agreement process will be welcomed by many businesses as it is seen as being convoluted, complex, and overly prescriptive. The process is also inherently compliance intensive, necessitating considerable investment of time on the part of both employers and employees. There is significant scope to streamline the enterprise bargaining regime, and in doing so, deliver improved productivity outcomes and reduce unnecessary regulation and compliance costs. In this area, Australia would benefit from a closer analysis of the equivalent regime that exists in New Zealand, where there are half as many legislative provisions as those in Australia.

The Productivity Commission's *Workplace Relations Framework*[14] in 2015 made a number of recommendations that are yet to be implemented. The Council recommends that work be done to refresh the analysis completed in 2015, with an eye to defining the prioritisation of reforms that will translate to improvements in productivity and innovation across our economy. The prosperity of the future Australian economy will require a significant investment in creating industries and labour market mechanisms to enable more highly-skilled jobs to be established here, rather than abroad.

05

Infrastructure spending

Infrastructure spending should be increased to boost economic activity in the short-term and deliver productivity gains over the longer-term.

A comprehensive plan for a broad-based infrastructure spending program should be developed, with a focus on telecommunications and technology, transportation, renewable energy, and water, as key enablers of the future.

In a country as large (and sparsely populated) as Australia, there is a need for accessible, quick, efficient and reliable rail and road systems, ports and transport nodes. Such a system would improve delivery times for products and materials throughout the nation, while introducing efficiencies that reduce costs. As the local manufacturing capability grows, logistics and supply chain connections will be imperative for business productivity and profitability.

An improved transportation system will also support the domestic agriculture sector – anticipated to be Australia's next $100 billion industry. For that growth potential to be realised, Australia's water capabilities need to be improved. Freeing up water from the Murray-Darling Basin is a key priority in this area. Infrastructure Australia's high priority strategy for water[15] needs to be implemented, quickly.

It is imperative that Australia has a clearly stated direction for delivery of infrastructure that will strike a balance between short, medium and long-term developments that are central to the nation's growth strategy.

04

INDUSTRIAL RELATIONS REFORM

- → Overhaul and simplify the industrial relations system to reduce compliance costs and increase productivity.
- → Increase flexibility for workplace arrangements, particularly for SMEs and fast-growth businesses.
- → Streamline the enterprise bargaining process.

05

INFRASTRUCTURE SPENDING

- → Increase infrastructure spending to boost economic activity in the short-term and productivity in the longer term.
- → Focus on telecommunications, transport and water to set up Australia for future success.
- → Improve national rail and road systems to speed up delivery times.

AUSTRALIA'S ENTERPRISE BARGAINING AGREEMENT PROCESS IS CONVOLUTED, COMPLEX, AND OVERLY PRESCRIPTIVE.

[14] Workplace Relations Framework, Productivity Commission 2015.
[15] Infrastructure Australia Priority List 2020.

REFORM PRIORITIES AND OPPORTUNITIES (CONT.)

06

International competitiveness

Australia has an opportunity to emerge from the COVID-19 pandemic as a more competitive nation in the global marketplace.

The key elements to our success will be prioritising industries where we already are – or could be – world leaders, and 'going narrow and deep' in developing these industries.

Most of these elements can be achieved by focussing on a small but targeted range of the policy reform areas identified above. In addition, growing industry sectors across and the Australian economy will require a reliable flow of inbound investment capital. As a net importer of capital, Australia must implement policy settings that not only support, but encourage foreign investment into Australian businesses.

In a recent address[16] to the National Press Club, the Industry, Science and Technology Minister, the Hon Karen Andrews MP, highlighted the need to align manufacturing with science and research efforts in areas where Australia is best placed to excel, such as: biomedical technology and therapeutics, as well as FinTech, to support the commercialisation of good ideas, and to improve access to export markets.

This points to building a strong foundation to enhance our domestic capability. This will help build a domestic manufacturing industry that will sustain the economy and make Australia internationally competitive. We recommend the government significantly enhances Australia's Export Market Development Grant (EMDG) program to enable SME market businesses who already have a demonstrable track record in the area to accelerate growth through the sale of high-value goods and services offshore.

07

Superannuation and Australia's ageing population

Amongst many things, the COVID-19 global pandemic has served the purpose of shining a spotlight on Australia's superannuation system.

Approximately 1.6 million Australians have so far applied for early access to their superannuation savings under the government's temporary measure, amounting to a combined value of $10.6 billion in early withdrawals, which will likely continue to grow over coming weeks and months.[17] While the temporary change is undoubtedly welcome relief from financial stress for thousands of households across the nation, it is important to recognise the longer-term consequences of early release on retirement savings. It is vitally important that this temporary measure does not set a precedent for future early release concessions that will have the effect of further eroding the savings base required for the long-term security of Australian workforce once they reach retirement age. The superannuation system is, by its very nature, a long-term investment strategy that should carefully balance risks and returns, with delivering a stable and sustainable retirement income in parallel with the social security system.

There is an opportunity for the government to look at longer-term policies to support superannuation fund members with recouping the drawdown in funds seen as a result of the early release scheme. For example, temporarily increasing the annual superannuation contribution threshold to allow members to make up for withdrawals should be considered as an appropriate and measured policy response to counterbalance the effect of the early release scheme.

With Australians working and living longer, superannuation investment strategies should be aligned – to the greatest extent possible – with the nation's future economic and financial needs. There is a need to clearly define our superannuation system as recommended in the Financial System Inquiry[18], and to have a consistent set of policies that work towards common objectives which deliver long-term confidence in the system.

As patient capital investors, superannuation funds provide a natural means for investment into projects and infrastructure for the long-term viability and sustainability of Australia's economy, and through that, the retirement savings system. Investments into social and low-cost housing, for example, would provide significant benefits to core groups of Australians, while investment into high-potential domestic businesses will help underpin growth in new employment and economic activity over the long-term.

A more diverse superannuation pool, with a much greater focus on after-fee net returns, will greatly assist in increasing the stability of our superannuation system, supporting our ageing population and reducing liquidity pressure.

06

INTERNATIONAL COMPETITIVENESS

- → Focus on developing the industries where Australia has a competitive advantage.
- → Enhance Australia's manufacturing capability and align it with science and research developments.
- → Support Australian businesses to leverage offshore capital and export markets to fund growth and expansion.
- → Improve the scope and funding pipeline for EMDGs.

07

SUPERANNUATION AND AUSTRALIA'S AGEING POPULATION

- → Increase diversity in superannuation investments to improve system stability, support our ageing population and reduce liquidity strains.
- → Move the focus of the public and regulators to increasing after-fee net returns and, therefore, higher superannuation balances in retirement.

[16] National Press Club Address May 2020, Karen Andrews, Minister for Industry, Science and Technology.
[17] APRA COVID-19 Early Release Scheme Dashboard at 17 May 2020.
[18] Financial System Inquiry Final Report, December 2014.

WORKING TOGETHER TO BUILD A BETTER FUTURE

We believe in building a stronger economy that supports Australians, Australian entrepreneurs and Australian businesses in a way that is environmentally responsible and socially inclusive.

The Australian Investment Council and its members have provided the insights set out above as a constructive contribution to progress the national conversation about how we can all play a role in defining the nation's roadmap to recovery over the months and years ahead.

Survey Methodology

In May 2020, the Australian Investment Council conducted a detailed quantitative and qualitative survey of its members to garner insights into the impact of the COVID-19 pandemic on Australian businesses backed by private capital investment, and into the policy options and areas most critical to nation's economic recovery. Approximately 50% of the Council's fund managers responded to the survey, along with a statistically significant proportion of the Council's large institutional investor funds and key corporate advisory firms. The Council considers that the survey responses are meaningful and representative over the private capital industry's broad views.

About the Australian Investment Council

The Australian Investment Council is the voice of private capital in Australia. Private capital investment has played a central role in the growth and expansion of thousands of businesses, which when combined represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include: private equity, venture capital and private credit funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers.

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AS PART OF THE 'FIRST-MOVER' GROUP OF NATIONS EMERGING FROM THE COVID-19 PANDEMIC, AUSTRALIA HAS A UNIQUE OPPORTUNITY TO RESHAPE THE NATIONAL ECONOMY FOR THE FUTURE.

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AUSTRALIAN INVESTMENT COUNCIL

Australian Investment Council priority reforms to the existing ESVCLP and VCLP frameworks

Note: Unless otherwise indicated, legislative references are to the *Income Tax Assessment Act 1997 (Cth)*

Issue No	Priority	Issue	Description	Proposed solution
1.	A	**Characterisation of gains from Early Stage Venture Capital Limited Partnerships covered by section 118-408**	It is unclear as to whether investors in ESVCLPs will be taxed on revenue or capital account where an ESVCLP has a gain subject to tax (i.e. where the sum of an eligible investment's asset values exceeds $250 million, any appreciation in value from six months after that point in time will be a taxable gain). Once the $250m threshold has been exceeded the exemptions in sections 51-54 and 118-408 do not apply to the 'excess' gain. Applying the ATO's view that most private equity investments are on revenue account, rather than capital account, (as per TD 2011/2), then the taxable gain by ESVCLPs may be considered to be income by the ATO. It is most likely that the gain will be considered to have an Australian source (as per TD 2011/24). Accordingly, non-resident limited partners in the ESVCLP will be subject to Australian tax on their share of the gain as income under section 6-5(3). It seems to us that those non-resident limited partners are unlikely to benefit from the business profits article in a relevant double tax treaty as they would be considered to have a permanent establishment in Australia via the general partner's activities. Accordingly, non-resident investors will need to lodge a tax return in that event.	A statutory safe harbour deeming CGT treatment should prevail where certain "brightline" tests are satisfied by the ESVCLP, including a holding period of 12 months or more or where the ESVCLP's investment is up to 30% of the shares in the company. Eligible venture investors should also be exempt, consistent with the VCLP rules.
2.	A	**Application of Part IVA where investments are transferred out of fund to provide investors with deemed CGT treatment in**	Where ESVCLPs wish to continue to divest investments that have exceeded the $250 million threshold, there needs to be clarification that the transfer of the investments out of the ESVCLP to	A specific carve-out from Part IVA where investors wish to obtain certainty of tax outcome arising from the removal of the divestiture requirement.

Issue No	Priority	Issue	Description	Proposed solution
		circumstances where section 118-408 will apply.	another entity does not result in the ATO seeking to apply Part IVA (the general anti-avoidance rule).	
3.	A	**Characterisation of gains from Venture Capital Limited Partnerships for non-super fund domestic investors**	There is significant uncertainty, especially in the light of the ATO TD 2010/21, amongst local and overseas investors that do not fall into the "eligible venture capital investor" category as to how the gains realised by VCLPs should be treated. Specifically, domestic investors which are not superannuation funds (e.g. high net wealth individuals, family offices, endowments) may receive capital account treatment but legislation would clarify any uncertainty.	Investors (Limited Partners) in VCLPs, like investors in MITs, should all receive CGT treatment under legislation. The Australian Investment Council strongly recommends that for all investors in VCLPs any gains or losses made on the disposal of an eligible VC investment held for 12 months which flow through to limited partners be deemed to be on capital account for **all** limited partners. We note that (non-superannuation fund) domestic investors accounted for 27% of the capital raised by PE and VC funds that used the VCLP structure over the FY2012-2016 period. Accordingly, this proposed reform would significantly reduce investment structures and help attract new investors into this high growth sector of the economy.
4.	A	**Calculation of concession for offshore investments in section 118-425(12A)**	An exception to the "in Australia" rule for "eligible venture capital investments" applies if at the time of making the investment, the total of the value of the investment and all other investments in entities that do not meet those requirements does not exceed 20% of the fund's committed capital.	The 20% test should be determined by reference to "cost" expressed as a percentage of the fund's committed capital as opposed to the fluid value of the investments in the fund's accounts.

Issue No	Priority	Issue	Description	Proposed solution
			The value of these investments is calculated by reference to the value in the fund's audited accounts. If an investment in an entity that does not meet those requirements is valued in excess of cost, the uplifted value would be counted towards determining the 20% threshold. Therefore, an increase in value of any such investment may restrict or prohibit the fund from making a new investment in another entity that does not meet those requirements or even from making a follow-on investment in the existing entity. As a practical matter, it is difficult to manage the international exposure in the portfolio with a fixed denominator (being committed capital) but a moving numerator (the value of overseas investments.	
5.	A	**Application of concept of "pre-owned" shares where a new holding company acquires shares or units.**	Shares issued in a new holding company (in which an ESVCLP proposes to invest) acquiring shares in another existing company are not "pre-owned" where a new holding company issues shares to the ESVCLP as part of an acquisition.	Confirmation by Treasury as to whether the issuance of shares in the holding company is intended to be excluded from the definition of "pre-owned" share.
6.	A	**Requirement for an investor in an AFOF to be an "eligible venture capital investor" in order for**	The drafting of section 118-410 contemplates that the tax exemption emanating from an ESVCLP is only able to flow-through to investors in the AFOF where they are an eligible venture capital investor. This means that the exemption does not flow through where the investor is an Australian resident and the	All ESVCLP gains should flow through the AFOF as if the investor had invested directly in the fund and the relevant exemption or partial exemption should be preserved.

Issue No	Priority	Issue	Description	Proposed solution
		ESVCLP tax exemption to flow-through	gain is on revenue account and not a capital gain (and therefore the "fractional interest" approach does not apply.)	
7.	A	**Inability for VCLPs to invest in shares in a company once it lists**	Unlike ESVCLPs, VCLPs are unable to make further investments in shares in companies which are listed, even though it may have held shares prior to listing. This manifests itself in an inability to support investee companies: 1) as part of a listing process by needing to take equity prior to listing (which can give rise to commercial and legal complexities) and; 2) the inability to participate in rounds of capital raising after the investee company has listed. This restriction can make capital rising by the investee company difficult as other investors expect initial investors to continue to participate in the capital of the entity, as a sign of their ongoing commitment to the company.	The provisions should mirror the provisions in section 118-428(1)(a) applicable to ESVCLPs which permit the ESVCLP to continue to be able to participate in a future capital raising where it held shares prior to listing.
8.	B	**Application of bolt-on rule where target entity is joining consolidated group**	It is unclear whether the eligible venture capital investment requirements specific to 'investments in other entities' in subsection 118-425(4) and subsection 118-425(5) are required to be satisfied with respect of the act of making an investment where the existence of the entity itself later is disregarded under s 118-427(12). At the moment, the rule could be construed that the entity needs to be satisfied independently with respect to each and	The legislation needs to make it clear that test can be satisfied by applying the consolidation rule as opposed to testing each new acquisition on a stand-alone basis prior to it joining the consolidated group.

Issue No	Priority	Issue	Description	Proposed solution
			every acquisition even though the overall group satisfies the test.	
9.	B	**New holding entities established to acquire businesses rather than shares or companies**	Currently, the definition of “eligible venture capital investment” in sections 118-425 and 118-427 of the Income Tax Assessment Act 1997 (Cth) can only be satisfied where an investment is made in a company or trust. We consider that an investment made by a VCLP or an ESVCLP in a new holding entity established to acquire a business through the acquisition of assets, assumption of liabilities and/or assignment or novation of contracts should not be treated differently to the acquisition of the shares or units in an entity that controls business. We recommend the definition of “eligible venture capital investment” be expanded to capture investments into a new holding company, trust or structure, made for the purpose of that holding company, trust or structure acquiring certain business assets.	This could be achieved, for instance, through expanding the current ‘holding company’ definition in subsection 118-425(14A) (and an equivalent expansion made for ‘holding trusts’ in section 118-425) as follows: (14B) A company is taken to meet the requirements of subsection (3) even if it fails to satisfy at least 2 of the requirements in that subsection if: (a) the company's sole purpose is acquiring a business (for instance, through the acquisition of assets, assumption of liabilities and assignment or novation of contracts); and (b) during the 6-month period starting immediately before the first investment made by a * VCLP, * ESVCLP, * AFOF or * eligible venture capital investor, the company has used all of the amounts invested in it: (i) to make acquisitions of a kind referred to in paragraph (a); or (ii) to engage in activities that are ancillary or incidental to making those investments; and (c) as soon as the entity has completed an acquisition of the kind referred to in paragraph

Issue No	Priority	Issue	Description	Proposed solution
				(a), at least 2 of the requirements in subsection (3) are satisfied.
10.	B	**Acquisitions by holding trust of companies**	The acquisition by a holding trust of shares in companies does not qualify under section 118-427(5) as the other entity is not a trust (as contemplated by a notional application of subsection 118-427(4)). The reverse situation where a holding company acquires units in a unit trust is permissible as a company is able to tax consolidate with a unit trust.	Clarification that the term "other entity" in section 118-427(5) also includes a company meeting the definition in section 118-425(4) and alternatively where a company acquires units in a trust satisfying the EVCI requirements. There does not appear to be strong policy rationale for the current apparent exclusion.
11.	B	**20% ESIC tax offset computation where investors invest indirectly**	Section 360-35 provides that the offset is calculated as if the trustee 'had been an individual'. The Australian Investment Council questions whether this is appropriate. Example: Unit trust with three unitholders who each subscribe for $500k of units. The trust then uses those funds to invest in an ESIC. Issue: Should the tax offset be capped at $200k as a whole (i.e. $66k offset each) because the trustee is treated as if it had been an individual and would be capped under s.360-25(2) ***or*** should the tax offset for each investor be $100k each on the basis that if they had invested separately rather than via a collective vehicle they would have been entitled to an offset of $100k each?	The solution should be that the offset for a trust is uncapped (except where the trustee is assessed) but is capped at the beneficiary level to $200k (or $10k in the case of a non-sophisticated investor) *The Treasury Laws Amendment (2018 Measures No. 2) Act 2020 partially dealt with entitlements directly and indirectly and to cap the entitlement for members of trusts and partners at $200,000 on an affiliate inclusive basis. it does not appear if the substantive question has been addressed in the amendments.*

Issue No	Priority	Issue	Description	Proposed solution
12.	C	**Proceeds from an insurance claim potentially ineligible activities**	Under the current law, an entity will not satisfy the predominant income test (paragraph 118-425(3)(c) and 118-427(4)(c)) where more than 75% of the total assessable income, exempt income and non-assessable non-exempt income of the entity (and each of its controlled entities) comes from insurance activities. As currently drafted, the inclusion of 'insurance' in the list of 'ineligible activities' could mean that entities that benefit under an insurance policy may not satisfy the predominant income test (paragraph 118-425(3)(c) and 118-427(4)(c)). This could arise, for instance, where an entity receives compensation under a share purchase warranties and indemnities policy or a public liability policy and that compensation is significant enough to breach the 75% threshold.	We recommend the list of 'ineligible activities' be amended to replace 'insurance' with 'providing insurance services'.
13.	C	**Calculation of asset values for the purposes of section 118-408**	It is not clear if the total value of the assets of the entity is meant to be based on the audited accounts (as per the definition of permitted entity value in section 118-440) or based on the market value of the assets.	An approach consistent with the definition of permitted entity value should be adopted.
14.	C	**30% restriction for single investor in an ESVCLP**	The rules currently state that none of the investors in an ESVCLP can contribute more than 30% of the committed capital unless they are a bank, life insurance entity, widely held super fund or widely-held foreign venture capital fund of funds. The	Allow for, at a minimum, domestic venture capital funds of funds to also be able to contribute more than 30% of committed capital to an ESVCLP.

Issue No	Priority	Issue	Description	Proposed solution
			Innovation Investment Committee can approve an investor with more than 30% committed capital in some circumstances.	