AVCAL welcomes the Government's Innovation Statement

AVCAL has worked closely with the Government over the last four years on the Innovation Investment Fund (IIF) review, the VCLP Review and the Venture Capital review. The culmination of those consultations came yesterday in the announcement of the Innovation Statement. AVCAL welcomes the Innovation Statement and its focus on developing the jobs of the future for Australia. We are particularly pleased to see the recognition of the importance of the Venture Capital industry to enable Australia's innovations turn into products, processes and services that add to the economy and provide jobs in the future.

From AVCAL's perspective there are two key elements of the Innovation Statement which impact our members: the new IIF round and reforms to the Early Stage and Venture Capital Limited Partnership (ES/VCLP) structures.

The new round of the IIF with $350 million committed will be a great boost to venture investing in Australia, especially taking into account the equal amount of private capital that will be invested alongside. The commitment that any money returned to the Government will be recycled through the program is also very welcome. The first tranche of the new round will have a call for applications later this year. The tranche size is as yet unknown. In its statement, the Government recognised that the IIF has been a very successful approach to growing the VC industry in Australia with the commensurate increase in investing in early stage companies. This suggests that they will only be making minor adjustments to the current rules of the program.

Improvements to the ESVCLP and VCLP structures will improve clarity for investors. We particularly welcome clarification that gains from investments through an ESVCLP or VCLP will be on the capital account for all qualified domestic investors. In summary the changes are:

- The minimum investment capital requirement for ESVCLPs will be reduced from $10 million to $5 million.
- The tax treatment of investment gains for private investors in VCLPs will be changed to make the concession more attractive to investors. With the change, any gains or losses made by a VLCP on the disposal of an eligible venture capital investment (held for 12 months) will be deemed to be on the capital account for eligible domestic partners.
- Eligible investors will be defined in a way that is consistent with the definition of eligible foreign partners – individual investors should hold less than 10 per cent interest in the committed capital of a VCLP, or be tax exempt, or be a widely held superannuation fund, or be an Australian managed investment trust (MIT). These changes will encourage further participation of domestic investors in VCLPs by eliminating previous uncertainty caused by the distinction between capital and revenue.

AVCAL is the voice of venture capital (VC) and private equity (PE) in Australia. Our membership includes 54 domestic and international VC and PE managers active in Australia as well as pension/super funds, service providers and other stakeholders. AVCAL is active in communicating, researching and advocating the significant contribution that VC and PE makes to the broader Australian economy. Australian VC and PE firms manage over $29bn in funds under management. They provide capital and expertise to companies in a range of business life-cycles: start-ups, SMEs and large organisations. AVCAL VC and PE members focus on enhancing innovation, productivity, entrepreneurial activity and sustainability in the companies they invest in. Australian VC and PE firms back more than 500 companies which employ over 100,000 full-time equivalent jobs. Since records began in the late 1990s, the industry has distributed around A$16 billion to its limited partner investors which include pension/super funds, institutions and governments.

- The restriction that foreign venture capital Fund of Funds be no more than 30 per cent of the committed capital of a VCLP will be removed, as long as the Fund of Funds are widely held.
- Innovation Australia will have discretion to allow ESVCLPs to exceed the 20 per cent foreign investment cap, provided the investment has a material national benefit associated with the commercialisation of Australian research and development
- Innovation Australia will be given the power to give binding advice in relation to eligible investments.

Finally, the review into Employee Share Schemes, which is currently underway, is also an important component of the overall program. Currently innovators can be saddled with an income tax liability before their shares have realised any income and, given the inherent risks of early stage companies, may never be worth anything. We need an employee share scheme that encourages, not punishes, our innovators. AVCAL is consulting closely with the Government and other key stakeholders on the necessary changes to this program, and will continue to keep our members informed of developments on this front.

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