URGENT REQUEST FOR ASSISTANCE

The innovation ecosystem calls for the support of Government.

The growth engine of the **new** economy,
brought to its knees by COVID-19.

30 March, 2020

SUBMISSION DETAILS

SUBMISSION

Australian Innovation Collective

25 March 2020

This submission is being made by the following representatives of the Australian Innovation Collective:

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We thank Johanna Pitman, Senior Adviser and Head of Insights at Advance.org for her contribution to the preparation of this submission.

We recognise and thank the leaders across the ecosystem who participated in the meetings to build this submission and contributed policy ideas. See **Appendix A**.

1. ACCELERATING AUSTRALIA'S ECONOMIC RECOVERY FROM COVID-19

The economy has coped with drought, bushfire and floods.

Now we are faced with a global pandemic which will test even the most resilient economy.

Irrespective of the challenges we face, strong employment growth comes from companies driving higher complexity to achieve better supply chains.

Australia needs companies that produce both employment growth and well paying jobs. We also need Australians with the skills to do these jobs.

The Australian innovation ecosystem delivers growth and jobs and is the engine room of the new economy.

2. KEY RECOMMENDATIONS

2.1. We seek **urgent government assistance** for a suite of comparatively low risk stimuli for the Innovation ecosystem that includes:

2.1.1. **Indirect stimulus measures** (IS) - no direct cost to government

2.1.2. **Deferred revenue measures** (DR)

2.1.3. **Direct stimulus** (DS) - cash-equivalent support from government

2.1.4. **Regulatory support** (RS) - mandated action by other organisations.

Our **key recommendations for temporary and immediate stimulus** are:

2.1.5. Turbo-charging the R&D incentives

2.1.6. Unlocking private sector investment

2.1.7. Retaining vital infrastructure

2.1.8. Supporting high growth businesses that are at risk

2.1.9. Retaining, upskilling and applying our talent

We have also provided recommendations for Structure change in item 11.

In identifying these **key recommendations for temporary and immediate stimulus the** emphasis is placed on:

- ESIC companies who have Product-Market fit, proven sales, and full time staff on payroll in addition to the founding team.
- the cohort of bootstrapped companies that would ordinarily be attractive to VC, but will miss out on capital injection due to the funding crunch and/or disruption to their customer revenue due to COVID-19.
- the companies that will create new jobs the quickest post lock down if they are able to hibernate and weather the storm.

2.2. Turbo-charging R&D Activity

See item 10.1 for rationale

Turbo-charging R&D Activity

Revise the RDTI criteria, as outlined in **Attachment F.** (IS)

Turbo-charging R&D Activity

Assist startups and scaleups focused specifically on software and deep tech hardware through streamlined criteria, and enhanced Research Development Tax Incentive (RDTI) program funding of $500m. (DS)

Turbo-charging R&D Activity

Make software development costs eligible for the refundable RDTI component (DR)

Turbo-charging R&D Activity

Temporarily (two years) guarantee that claims for software development of any kind will not be rejected to remove all uncertainty around use (IS)

Turbo-charging R&D Activity

Introduce a bring forward payment of the RDTI for startups with revenue <$20 million in the current Australian financial year. The amount should be the same as FY19. Adjustment of any over/under claim once FY20 annual returns are lodged. The amounts are known already, the category is defined, the mechanism is well tested, the ATO is geared to do it quickly and easily. (DS/DR)

Turbo-charging R&D Activity

Switch to quarterly rather than annual RDTI payments. (IS)

2.3. Unlocking private sector investment

The rationale is provided in item 10.2

Unlocking private sector investment

Make it easier for companies to qualify for early stage investment incentives by simplifying the criteria and application process for ESIC, as outlined in **Attachment F**. (IS)

Unlocking private sector investment

Adjust the incentive levels and limits imposed on participating retail investors (increase from $50K to $200K, remove the invalidation clause) and sophisticated investors (introduce $1M investment cap with gradual tax offset). Detailed in **Attachment F.** (IS)

Unlocking private sector investment

Replace the existing ESIC eligibility criteria for companies and investors, as outlined in **Attachment F**. (IS)

2.4. Retaining vital infrastructure

The rationale is provided in item 10.3

Incubator lifeline - $10,000 per current member (up to $1.5 million per location) to all recognised dedicated startup incubators and regional hubs in Australia. Where programs are between cohorts but actively recruiting, or hubs have already experienced rental cancellations, use a six month historic average as "current". These hubs can deliver essential entrepreneurial and resilience training in their communities. Where applicable, helps assure

previous government grants into incubators has a more sustained impact. (DS)

Grant funding of up to $500,000 per regional hub to deliver online programs to strengthen local communities - e.g. "Diversity and Resilience", "Startup Bootcamps" and training programs to transition local workers to the new economy. (DS)

2.5. Supporting high growth businesses that are at risk

The rationale is provided in item 10.4

Provide certainty around the stand down laws under the Fairwork Act. It's unclear what constitutes circumstances for standing down and scaleups can't afford the legal advice to know whether or not you can afford to leverage them. Criteria could be a plausible case that they are experiencing a material decline (>20%) in any existing or expected revenues directly or indirectly as a result of the COVID-19, changes in customer behaviour arising from it or as a result of any general economic downturn over the next 6-18 months. (RS)

Up to $150,000 tax rebate on Software as a Service (SaaS), internet, contractors, marketing, sales, hosting spend (this is the equivalent of the Tradies' ute). Multiple benefits will be achieved if the rebate is provided on intangibles that are secure by design. (DR/DS)

Immediate $50,000 grant to startups qualified under ESIC. It is important

to clarify and under new criteria as defined in **Appendix F**. (DS)

Wage subsidies offering $20,000 per employee and government funded flex leave guaranteeing jobs back in six months time and paying 20 percent of salary if they stay flexible, recognising the disproportionately high cost of losing and reinstating talent as well as lag times in recruitment processes. (DS/DR)

Shorter payment terms on government contracts - rapidly work towards a achieve all Government invoices being paid to Australian businesses within seven days. (IS)

Unsecured and limited recourse loans - Government sponsored Bank of Australia to underwrite flexible lines of credit to existing businesses encouraging – or requiring – banks to suspend loan repayments and interest payments. These must be unsecured and limited recourse in order to have th desired impact. (RS)

3. COVID-19 HAS EXACERBATED AN EXISTING PROBLEM

3.1. There are three critical forces that are concurrently acting on the Australian economy which will create significant social and economic instability:

3.1.1. **Industry consolidation** - Globally, industries are continuing to mesh together with traditional boundaries disappearing. This results in the formation of new clusters that cause large established firms to further consolidate both globally and domestically.

3.1.2. **Automation** - Automation and job displacement will cause unprecedented social and economic upheaval in Australia and across the world.

3.1.3. **COVID-19** - The onset of the COVID-19 pandemic and the significant domestic and global disruption it has already caused to businesses, jobs and investment.

4. INTRODUCING THE AUSTRALIAN INNOVATION COLLECTIVE

The Australian Innovation Collective has been formed to **enable Australia to create the new technology-based companies that create the high skill and high paying jobs** before automation replaces jobs in Australia's established large and medium sized firms.

4.1. **The Australian Innovation Collective (AIC)** has been formed to allow the innovation ecosystem to speak with one voice to the government. This is critical during the COVID-19 pandemic.

4.2. **The AIC will provide data and recommend policies to help the Federal Government deliver a targeted and deliberate series** of policies as part of its third phase of measures aimed at protecting and accelerating Australia's COVID-19 recovery and subsequent economic transformation.

4.3. **Automation is displacing Australian workers and technology is augmenting the work of Australia's workforce** as the Faethm.ai report prepared for the Australian Computer Society and the Government's own research has made clear.

4.4. The Faethm.ai report stresses that **education and re-skilling the workforce is crucial to prevent long-term structural unemployment and rising inequality.** The economic impacts of the COVID-19 pandemic are now concentrating Australia's experience of these effects, moving from a potential scenario to the lived experience.

4.5. The report[2], predicts that in 14 years, automation will displace 2.7 million Australian workers which represents 21 per cent of the workforce and that technology will augment 4.5 million Australian workers leading to a 15 per cent capacity uplift to Australian businesses. See diagram 1.

4.6. **Approximately, 350,000 workers in financial services** alone have been predicted to be impacted. Of this number Faethm is already predicting that 108,000 jobs are at risk of complete automation over the next 15 years, 58 per cent of which are currently held by females.

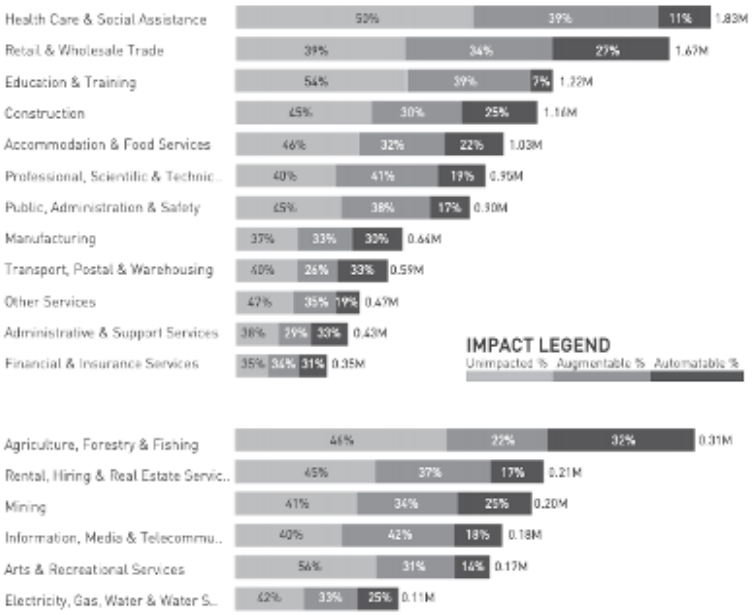


Diagram 1 Source: Technology impacts on the Australian Workforce, Faethm (2020)

4.7. **The Australian Innovation Collective, includes** representatives of Australia's research, innovation, startup and scaleup sector from around Australia.

4.8. **They see that established organisations will be forced to accelerate business process automation** as a result of COVID-19 and the competitive pressure of global players.

4.9. **The anticipated extent of adoption and the rate of acceleration** of implementing robotic process automation will have significant long term consequences on the Australian economy.

4.10. **If the automation is sourced from large international technology companies** instead of Australia's now vulnerable national innovation ecosystem, our workforce will be adversely impacted. Australian jobs will be lost and Australian businesses will become insolvent impacting our economy.

5. URGENT AND SPECIFIC STIMULUS IS NOW REQUIRED BY GOVERNMENT

5.1. **The Federal Government's first and second economic stimulus** have both been fast and appropriate. The money promised needs to flow immediately into the accounts of businesses and workers, the stimulus packages can lessen the economic pain.

5.2. **We need to emulate the experience of developing countries** in Asia, including China, which used the GFC recovery as an opportunity to demonstrate their strengths in innovation and post GFC who used the recovery funds to double down on research, training and specialisation in areas of high growth which propelled them towards economic transformation. Their actions sit in sharp contrast to the USA, Japan and European countries who failed to reallocate investment towards innovation, which then slowed industry transformation, and highlighted structural weaknesses in national innovation systems.

5.3. Technology-based startups and scaleups are key to generating high skilled jobs, attracting domestic and foreign investment and raising significant revenue through income tax, exits and listings as has been demonstrated by the transformation of the economies of Ireland, Estonia, Israel, the UK, US and other advanced economies. McKinsey research found:

5.3.1. **Economic recoveries are increasingly becoming "jobless" due** to firm restructuring, skill and geographic mismatches between workers and jobs, and sharp decline in new start-ups.

5.3.2. **Technology is changing the nature of work and today's workers do not have the skills for the jobs available**: Jobs are being disaggregated into tasks, work is becoming virtual, and firms are relying on flexible labor.

5.3.3. **Two essential dimensions to revive the job-creation machine involve**: supporting emerging industries, ensuring more of them scale up, and reviving new business start-ups; and speed up regulatory decision-making that blocks business expansion and new investment.

5.3.4. **High-technology industry generated $19 billion in 2009**, which made up 17.3% of Israel's business sector GDP. Ten years later in 2019, 35% to 40% of Israel's GDP comes from the country's tech sector: through exports, and also, income from taxes from big IPOs and successful exits as found by *Israel's Ministry of Foreign Affairs*

5.3.5. **10% of the working population are employed in the technology arena**. Hi-tech **exports quadrupled from $3bn in 1991 to $12.3bn in 2000. This rose to $29bn in 2006** (plus another $5.9bn of hi-tech services exported). The barriers to entry are relatively low, there is a relatively low level of upfront capital investment and resources are in plentiful supply.

6. THIS SECTOR WILL ACCELERATE AUSTRALIA'S RECOVERY FROM COVID-19

6.1. **The innovation ecosystem is a vital bridge to move the economy and communities beyond the COVID19 crisis**. Companies across sectors largely work digitally and house in-demand skills that will help SMB and corporates respond to a short term need to pivot to digital infrastructure and virtual delivery of commerce. The founders and their

teams stand ready to collaborate and help vulnerable organisations transform to digitally driven business models quickly.

6.2. **Globally competitive innovators structurally transform Australia's economy** from one being reliant on *digging things up to one that is also capable of thinking things up* - designing service and product innovations that have wide application across multiple markets.

6.3. **Startups and scale ups are Australia's engines of job growth**. The StartupAus Crossroads Report 2019 references multiple researchers that have found that for each new technology-based job, five additional jobs are created in other sectors. This multiplier effect is three times larger in the technology sectors than in extractive industries (such as mining) or traditional manufacturing. According to PwC, Australian tech startups (companies with <$5m in annual revenue) have the potential to contribute $109 billion (four per cent of GDP) to the Australian economy and generate 540,000 jobs by 2033.

6.4. **Stimulus measures to support Australia's innovation ecosystem have a far-reaching impact**. Beyond startups, these measures will support emerging healthcare, agriculture, energy, defence and manufacturing businesses **that will help the economy snap back faster with improved resilience**.

6.5. The Australian Innovation ecosystem is a bridge to the new economy because all companies are now technology enabled companies and it is strategically critical the related productivity gains deliver sustained structural adjustment and enhanced global competitiveness.

6.6. **The Federal Government has the opportunity to accelerate Australia's economic recovery** by adopting these recommendations as a matter of national importance.

6.7. **Australia has produced some notable examples of globally successful high-growth technology company's** and the speed with which we do so is now increasing.

6.8. **Australia must invest in creating and scaling the companies** that produce the jobs for the millions of Australians that will need to transition their careers, enter and exit the workforce.

6.9. **Unemployment will rise significantly** and remain stubbornly high if the technology companies that underwrite the new economy companies fail as a result of COVID-19.

6.10. **It is critical to fortify the innovation ecosystem t**o secure the future of Australia's economy and its society.

7. CRITICAL CAPABILITIES ARE ALREADY BEING LOST

7.1. **Access to the right capital for companies is challenging, especially for younger companies at the seed and Series A stage of investment**. The first-order and second-order impacts of COVID-19 are already resulting in a significant cash flow shortfall from banks, investors, corporates and universities. This is exacerbated by the timing with the impact being felt on the back of the drought, the Christmas slowdown, floods, bushfire crisis experienced in most jurisdictions and declining lending and sophisticated investment in startups.

7.2. **Every organisation is now impacted by COVID-19**. Companies are facing productivity losses, supply challenges, high short term costs around labour release/ onboarding, mental health fragility, and heightened risk aversion. It is felt acutely in businesses in the innovation ecosystem who are taking the risk of bringing new technology to market, of which there is a robust supply against known customer problem sets.

7.3. **Disproportionately impacted are**:

7.3.1. Sovereign deep tech companies founded in science and engineering based innovations with extensive and heavily invested IP (this includes quantum, medtech, agtech and many cyber security capability sets)

7.3.2. Hardware and advanced manufacturing startups, with acute challenges in defence industry, space and mining technology areas

7.3.3. Fintech startups - highly capital intensive business models; significant additional costs due to regulatory burden; high proportion of B2B companies whom major clients view as a discretionary spend due to their own legacy systems; and disproportionately onerous capital requirements in the case of deposit-takers. The neobanks in particular will be wiped out within weeks if we don't act.

7.3.4. Not-for-profits, professional bodies, companies and associations supporting the innovation ecosystem

7.3.5. Healthcare and biotech startups, outside of those directly related to COVID-19

7.3.6. Regionally and remotely located startups

7.3.7. Ideation/ research incubators, Accelerator programs, startup coworking spaces

7.3.8. Organisations that rely on events and education providers, outside of online learning.

7.4. **The innovation ecosystem cannot solve this problem alone - government intervention and investment is essential**. Due to the immaturity of underpinning knowledge infrastructure and inconsistency of regulatory treatment across the operating contexts of startups and scale ups, **Government as a partner with industry assures the structural transition to the new economy**.

7.5. **There are soft power gains in the Indo Pacific available**. The productivity gains deliver an advantage to the reach of our nation's soft power within the Indo Pacific and beyond, where highly innovative micro and small businesses partner to improve livelihoods and tackle common societal problems.

7.6. **Leaders across Australia's innovation ecosystem are committed to ensuring the survival of the sector now, and its growth when we emerge from this crisis** (**Appendix A**). Right now, ecosystem leaders are also supporting national efforts, such as sharing best practices and platforms for remote working; and transforming their laboratory facilities to make critical health supplies.

They are supporting each other, through generous sharing of expertise, mentoring, information about methodologies to adjust to sharp change, available technical staff, and establishment of online platforms to

maintain community wellbeing.

8. WHAT IS AT STAKE?

Like other key elements of the economy, the confluence of downside economic conditions compounded by the Covid-19 pandemic has however introduced challenges that will **destroy the ecosystem if not addressed.**

The structural aspects of the stimulus packages released by Australian governments to date **do not adequately address the need for capital injection into startups and scale ups, nor their higher than usual fixed costs.**

We must be able to rely on entrepreneurial spirit and agility to lead the recovery.

Markets are global, capital is global and talent is global - we must increasingly look to globally ambitious businesses that are digitally enabled and trusted to move us beyond this crisis into the new economy.

8.1. If the innovation ecosystem collapses:

8.1.1. **There are fewer choices for capital to invest** in Australian enterprise and even more of the country's superannuation funds will be exported

8.1.2. **The infrastructure supporting the ecosystem will collapse** including the VCs and jobs will disappear and talent, which is mobile will go to where the best projects and the best work can be found.

8.1.3. **Australia is set back at least 5-10 years** in its ability to transform its economy, exacerbating the wider impact associated with job creation and the Federal budget remains in deficit for the foreseeable future.

8.2. **Startups are the most vulnerable** in this sector given they have lower cash reserves and in many cases are pre-revenue.

8.3. **The innovation ecosystem is still nascent.** Unlike established and well organised large employer groups in most traditional sectors, it has some, but not all, of the knowledge infrastructure and resources required to weather the bushfire crisis, COVID-19 pandemic and the resulting economic and social shocks. It is therefore not as effective at ensuring key challenges and opportunities reach the radar of most policymakers.

8.4. **Australia is starting from a lower base than most western economies**. It requires an even greater response than that of similar nations. Australia's innovation score of 50.34 placed it 22nd in WIPO's newly released Global Innovation Index 2019 report – a drop of two positions from last year's ranking – after being edged out by Austria and Iceland.

8.5. **Australia has produced many globally successful tech and deep tech companies** that are among the leaders in their field, employing highly skilled workers - against the odds. Examples are provided in **Appendix B**. This demonstrates underpinning intellectual strengths and entrepreneurial prowess.

8.6. **The innovation ecosystem has many interconnected and vital moving parts**. It is called an *ecosystem* because each of those parts

are completely reliant on the other. If one is missing, the whole doesn't function at scale nor deliver the productivity dividends for lasting economic value and impact. These parts are outlined in **Appendix C.**

8.7. **Australia's innovation ecosystem will:**

8.7.1. **collapse** if we do not address the immediate and upcoming challenges. This will set us back a generation as we lose the infrastructure, talent and IP assets - and the money invested by the Australian people and business over a decade.

8.7.2. **accelerate** and have a multiplier effect across all sectors if we embrace the opportunities presented by the timing of the pandemic and lay down the policies for recovery, early.

8.8. To be effective, traditional stimulus options for these activities across the economy **must be customised and we must look to best practice**.

9. GUARANTEEING THE RECOVERY FOR AUSTRALIA

9.1. The Australian Innovation Collective has worked hard to design a series of targeted temporary and structural measures that will make the greatest impact, with acceptable levels of complexity.

9.2. We seek **urgent government assistance** for a suite of comparatively low risk stimuli for the Innovation ecosystem that includes:

9.2.1. **Indirect stimulus measures** (IS) - no direct cost to government

9.2.2. **Deferred revenue measures** (DR)

9.2.3. **Direct stimulus** (DS) - cash-equivalent support from government

9.2.4. **Regulatory support** (RS) - mandated action by other organisations.

9.3. **A significant number of Australia's companies in the innovation ecosystem will collapse without precise and deliberate**

government intervention, leaving not only the founders and investors worse off - but rather leaving the Australians needing these jobs worse off.

9.4. **Areas for immediate temporary stimulus include:**

9.4.1. Turbo-charging the R&D incentives

9.4.2. Unlocking private sector investment

9.4.3. Retaining vital infrastructure

9.4.4. Supporting high growth businesses that are at risk

9.4.5. Retaining, upskilling and applying our talent

9.5. **Opportunities for structural change include:**

9.5.1. Innovation-enabling procurement

9.5.2. Re-starting high growth industries

9.5.3. Re-shaping the talent pipeline

9.5.4. Connecting our industries globally

10. TEMPORARY AND IMMEDIATE STIMULUS MEASURES

10.1. Turbo-charging R&D activity

Rationale:

10.1.1. In line with the government's intent to have financial stimulus circulate throughout the economy, whilst temporary, this recommended expansion of RDTI funds highly productive high-value business and research activity which is in fact largely labour-intensive.

10.1.2. Much of the financial support provided to particularly small R&D entities will fund the ongoing employment of key staff and therefore recirculate money in the form of consumer spending and ongoing income tax receipts for the Federal Treasury.

10.1.3. Expanding RDTI funding on a temporary basis until new legislation is passed will provide the most significant and

impactful form of financial support across the entire sector nationally.

10.1.4. Given the tax status of Australian early stage technology companies, Treasury benefits from the multiplier effect of increased personal income tax receipts in both the immediate and long term and depending on the stage of maturity of the scaleup, long term high growth corporate tax receipts.

10.1.5. Technology companies are exporting technology internationally at a very early stage where arguably large R&D entities continue to be uncompetitive. This increases foreign direct investment further and improves Australia's balance of payments in the long term.

10.1.6. The Australian Innovation Collective strongly urges the consideration and implementation of these measures within the RDTI legislation to ensure Australia is better equipped to address and respond to the social and economic disruption that lay ahead, particularly as the rate of jobs displacement is only going to increase in velocity.

Actions:

10.1.7. Assist startups and scale ups focused specifically on software and deep tech hardware through streamlined criteria, and enhanced Research Development Tax Incentive (RDTI) program funding of $500m.

10.1.8. Make software development costs eligible for the refundable RDTI component

10.1.9. Introduce a bring forward payment of the RDTI for startups with revenue <$20 million in the current Australian financial year. The amount should be the same as FY19. Adjustment of any over/under claim once FY20 annual returns are lodged. The amounts are known already, the category is defined, the mechanism is well tested, the ATO is geared to do it quickly and easily.

10.1.10. Temporarily (two years) guarantee that claims for software development of any kind will not be rejected to remove all uncertainty around use.

10.1.11. Revise the RDTI criteria, as outlined in **Appendix F.**

10.1.12. Switch to quarterly rather than annual Research Development Tax Incentive payments.

10.2. Unlocking private sector investment

Rationale:

10.2.1. Our recommendations centre on the key theme of shifting the risk appetite of Australian investors. A black swan event like COVID-19 will make investors even more risk-averse in the absence of urgent action.

10.2.2. It is vitally important that Australians understand these opportunities are available to them and are encouraged to take them.

10.2.3. Policies that lead to a paradigm shift increase in equity investment in startups and scaleups rather than the current approach which is regarded in the industry as incremental and restrictive.

Actions:

10.2.4. Make it easier for companies to qualify for early stage investment incentives by simplifying the criteria and application process for ESIC. (IS)

10.2.5. Adjust the incentive levels and limits imposed on participating retail and sophisticated investors. (IS)

10.2.6. Replace the existing ESIC eligibility criteria for companies and investors. (IS)

10.2.7. Refer to **Appendix F** for detailed recommendations.

10.3. Retaining vital infrastructure

Rationale:

10.3.1. Hubs, incubators and accelerators are ground zero of the innovation ecosystem. They are the gateway for new entrepreneurs into the community, and nurture new ventures and individuals through launch, scaling and exit of startups.

10.3.2. They rely on office-rental income and face-to-face program delivery, but with support, could retain and expand support of their communities online.

10.3.3. The collapse of the nascent hub infrastructure threatens to wind back years of government investment in building startup communities.

Actions:

10.3.4. **Incubator lifeline -** $10,000 per current member (up to $1.5 million per location) to all recognised dedicated startup incubators and regional hubs in Australia. Where programs are between cohorts but actively recruiting, or hubs have already experienced rental cancellations, use a six month historic average as "current". These hubs can deliver essential entrepreneurial and resilience training in their communities. Where applicable, helps assure previous government grants into incubators has a more sustained impact. (DS)

10.3.5. **Grant funding of up to $500,000 per regional hub** to deliver online programs to strengthen local communities - e.g. "Diversity and Resilience", "Startup Bootcamps" and training programs to transition local workers to the new economy. (DS)

10.4. Supporting high growth businesses that are at risk

Rationale:

10.4.1. By keeping high value and high potential companies in business we can save at least 15,000 jobs directly and 75,000 jobs from their multiplier effect (Moretti research), and retain our home-grown experts in the Australian ecosystem.

10.4.2. Adding up to six to nine months runway to high growth, high value startups will enable plans to scale globally to be paused in

a considered way until the worst of the Covid-19 pandemic passes.

Actions:

10.4.3. **Provide certainty around the stand down laws under the Fairwork Act.** It's unclear what constitutes circumstances for standing down and scaleups can't afford the legal advice to know whether or not you can afford to leverage them. Criteria could be a plausible case that they are experiencing a material decline (>20%) in any existing or expected revenues directly or indirectly as a result of the COVID-19, changes in customer behaviour arising from it or as a result of any general economic downturn over the next 6-18 months. (RS)

10.4.4. **Up to $150,000 tax rebate** on Software as a Service (SaaS), internet, contractors, marketing, sales, hosting spend (this is the equivalent of the Tradies' ute). Multiple benefits will be achieved if the rebate is provided on intangibles that are secure by design. (DR/DS)

10.4.5. **Immediate $50,000 grant to startups** qualified under ESIC. It is important to clarify and under new criteria as defined in **Appendix F**. (DS)

10.4.6. **Wage subsidies offering $20,000 per employee and government funded flex leave** guaranteeing jobs back in six months time and paying 20 percent of salary if they stay flexible, recognising the disproportionately high cost of losing and reinstating talent as well as lag times in recruitment processes. (DS/DR)

10.4.7. **Shorter payment terms on government contracts** - rapidly work towards and achieve all Government invoices being paid to Australian businesses within seven days. (IS)

10.4.8. **Unsecured and limited recourse loans - Government sponsored Bank of Australia** to underwrite flexible lines of credit to existing businesses encouraging – or requiring – banks to suspend loan repayments and interest payments. These must be unsecured and limited recourse in order to have the desired impact. (RS)

10.5. Retain, train and apply our talent

Rationale:

10.5.1. Redundancies in scaleups are problematic for a few reasons:
- The payouts are extremely expensive and can end up exhausting the last of the scaleups cash reserves
- It is hard and expensive again to rehire once the market comes back.
- Employees often can't claim benefits until their notice period is up, which can be between 1-3 months depending on their seniority.

10.5.2. It is important to retain valuable skills and avoid resourcing lags as the economy recovers.

10.5.3. Re-shaping and consolidating the pipeline for and availability of locally grown talent will also ensure a faster recovery.

10.5.4. Unlocking talent across the national workforce that is transitioning from roles that have changed (impacted by COVID-19 and automation and advanced business models) into new high value jobs in global Australian technology companies.

10.5.5. Upskill and reskill those who are unemployed or underemployed Transition upskilling and re-skilling program

10.5.6. Direct startup talent and resources to solve urgent and complex national challenges.

Actions:

10.5.7. **Extend eligibility and promote New Business support** through the Department of Education, Skills and Employment's Self-employment New Enterprise Incentive Scheme (NEIS) to include recently unemployed individuals from tech startups, and existing tech startup founders. (DS)

10.5.8. **Extend visas** for up to 12 months for those startup staff members with expiring visas or caught by the travel bans arising out of the COVID-19 pandemic, to avoid losing valuable skills and introducing avoidable lags as the economy recovers. (IS)

10.5.9. **Provide each worker impacted with vouchers up to $20,000** to equip themselves with the technology, the training and an internship or secondment to a tech company, incubators and accelerators, to either be employed or to establish their own company. While the population is self-isolating, it is an excellent time to equip them with the hardware and training they need to skill-up if their jobs are facing augmentation or to re-skill if their jobs are disappearing. The Faethm.ai platform provides the data outlining those who are most vulnerable to the impact of automation and augmentation. The WithYouWithMe platform is an example of a solution that provides assessment, training and placement opportunities in a number of high tech industries and on-line learning platform Academy Xi that offers training in high demand tech and digital skills, reskilling and redeploying those who are no longer in work, at any age. (IS/DS).

10.5.10. **Challenge-led procurement** - articulate a number of new economy grand challenges (i.e COVID-19 response, drought and fire, ageing population, adapting to AI, Clean Energy, NDIS, the gig economy onset, security vulnerabilities including foreign interference in commercial contexts) against which the innovation ecosystem can deploy their talents and resources. These can then be embedded in policy, with the Government directing the spend and priorities. (IS)

11. RECOMMENDATIONS FOR STRUCTURAL CHANGES

11.1. Innovation-enabling procurement

Rationale:

11.1.1. There is a need for fast-response procurement for high growth companies that removes the barriers to commitment that cost the organisation time and the high growth companies money and in this climate, increases the risk of failure.

Actions:

11.1.2. **Mirror the streamlined procurement pathway** implemented in government across the private sector incorporating engagement stages such as Proof of Concept, and Trial, prior to full commercial deployment. These added stages serve to test and validate the startup proposition as well as helping to de-risk concerns on the part of the organisation.

11.1.3. **Create a special purpose Digital Marketplace** where the dollar value of the opportunities sits within the rules of procurement - with decisions to engage achieved through rapid turnaround.

11.1.4. Allocate a portion of the Government's $1 billion digital transformation budget to purchase good/services from sovereign startups and scale ups, with a stronger mandate to procure from women and First Nation founders. States and Territories play an important role as they can more rapidly deploy higher value general and select tenders for complex problem sets.

11.1.5. Proportionately align approaches in defence and national security procurement to assure Australia-wide outcomes on digital infrastructure resilience.

11.1.6. Recommendations for adopting a Government Framework is available for startup and scale up procurement. (IS)

11.2. Re-start high growth industries

Rationale:

11.2.1. High growth technology based companies are the simplest way to reboot a flagging economy as evidenced by the success of the transformation of the economies in Israel, Ireland and as outlined by McKinsey for US Government.

Actions:

11.2.2. **Investment fund incentive** - government matched investment in new early stage fund managers $2.5-10 million, with incentives to increase women-led funds. Increase of the 20 per cent tax deduction for ESIC investors, accessible upon deployment of capital - to incentivise investment decisions in the next 36 months. 100 per cent tax deduction for new ESIC investments where there is zero return. (DS)

11.2.3. **Introduce a Small Business Assistance program** (similar to the USA), in which the Government guarantees small business loans. (IS)

11.2.4. **Provide $10-25,000 financial credit for recognised organisations that create new startups at scale -** panel reviewed to test for large market and scalable approach, minimum hurdle is incorporation and one employee. There are around 50 accelerator programs in Australia, graduating around 750 startup businesses each year. Investment required therefore is $18 million based on current programs, but should be expanded to at least $100 million/year to allow for growth. (DS)

11.2.5. Promote the ESIC and institute further refinements to ensure it achieves its intended purpose of driving investment in early stage companies. (**Appendix F**).

11.3. Re-shape the talent pipeline

Rationale:

11.3.1. COVID-19 has triggered a surge in unemployment while a skills shortage exists in the high growth technology sector. Urgent re-skilling and upskilling is required to transition and mobilise large numbers of recently unemployed Australians.

Actions:

11.3.2. **Business Apprentice Program** - create an apprenticeship scheme equivalent which provides a subsidy for placing students at all levels into startups (from work experience, to school and university interns, then PhD students, MBA students and business graduates for startups and scaleups). Zhongguancun (Beijing's innovation hub) has been funding

western MBA graduates in a similar apprenticeship style scheme to work with Chinese startup founders. The graduate learns about Chinese business culture and specific Chinese startups, while the startup founder gains valuable international perspective. This could be through extended funding to APR.Intern. (IS)

11.4. Connect our industries globally

Rationale:

11.4.1. Increase the rate of economic recovery and capture and market niches in which Australia has capacity to dominate. This is export driven job growth.

Actions:

11.4.2. **Establish a new body, Enterprise Australia,** which takes 10 percent direct investment and up to $2 million in equity in Australian high growth startups and works to extend the reach of Austrade and Industry Growth Centres in connecting them to key markets and promotes them in-country. Base this on the successful Enterprise Ireland and Enterprise Singapore models. (DS)

11.4.3. **Global R&D Hubs** - make every effort to attract global R&D hubs to Australia. These have underwritten the successful transformation of both the Irish and the Israeli economies when they were on their knees. There are now between 250 and 300 global R&D hubs in Israel alone. (IS)

Our Australian innovation ecosystem has proven time and again how successful it is in growing profitable, globally competitive companies and we know how to train and deploy productive talent.

Australia needs the Innovation ecosystem and the technology it creates as much as the ecosystem needs Australia.

12. EVIDENCE AND ANECDOTES

12.1. **Revised RDTI criteria -** The following is a snapshot of some of the key data points available from the survey conducted by Stone & Chalk which provides further validation for the recommendations contained herein:

12.1.1. 46 per cent of respondents have recently received an adverse ruling regarding their RDTI submissions which are inconsistent with previous rulings they have received

12.1.2. 87 per cent believe that all software development costs should be eligible for the refundable component for companies with an annual turnover up to $50 million.

12.1.3. 90 per cent agree that providing small businesses such as startups and scaleups with a 13.5 percent premium on top of their refundable amount will make a significant difference in their ability to commercially succeed.

12.1.4. 86 percent of respondents believe that they would be more successful in selling enterprise solutions to corporates if corporations are financially incentivised to procure solutions from startups and scaleups.

12.2. Verbatim

"If you want a massive increase in angel investment, you need to start with education. We need education so people don't hurt themselves, not restrictions. Why stop them, if they have received some objective information around investing?" - Richard Dale, Sydney Angels

"The early-stage tax incentives are terrible, there's no incentive for investors to take money out of their savings account and put it into a risky business." - Josh Theeuf, Founder, MoneyLoo

"Finding individuals/organizations who were genuinely prepared to acknowledge and accept the risk involved in investing in startups and early stage companies was the most difficult part." - Terry Buckley, Founder, Lakeshore Data

“Australian investors need to be educated and incentivised, they have very little understanding of seed and angel investment opportunities” - Mark MacLeod, CEO, Roll-it Wealth

“They generally lack specific industry sector knowledge and lack an understanding of what an early stage business should look like. They tend to try to make it look like a big business because that is their comfort zone.” - Barry Westlake, Founder, Brumbee Australia

APPENDIX A

13. About

13.1. The Australian Innovation Collective has been formed to unite the voice of the Australian startups, scale ups and tech companies and the ecosystem that supports them.

13.2. Startups and scale ups share some of the challenges of a traditional Australian small to medium enterprise. They are **not** however SMEs[1].

13.3. Governments at all levels in Australia continue to frame policy and frameworks that are ideal for SMEs across sectors, and are wholly unsuitable for startups and scale ups or, more broadly, technology providers.

13.4. The Collective includes leaders representing stakeholders from across the entire ecosystem. Those who have contributed their ideas and time are noted in **item 4** below.

14. Survey

14.1. Participants across the ecosystem were invited to submit policy suggestions for consideration.

14.2. 45 responses were received

14.3. These have been reflected in this submission.

15. Community

15.1. A new Australian Innovation Community information and knowledge sharing forum has been created to provide information and connection to leaders supporting innovation and entrepreneurship across Australia, with over 70 registered members.

[1] A startup intends to create a scalable business model that can grow into a market-making company, with the ability to disrupt incumbents or sway the current market trends and even create new markets. An SME on the other hand, utilises traditional methods of businesses by securing a sustainable place in the market that is motivated by profits. In turn, this creation of a market offers a reliable source of revenue. While all businesses have some risks involved, startups are more likely to encounter challenging situations that test the mantle of the business itself. Some of these obstacles include funding.

16. **Participants**

Maria MacN**amara, Advance.org (Host)**

Johanna Pitman, **Advance.org**

Ben Wong - **Academy Xi**

Leanne Kemp - **Everledger**- **QLD Chief Entrepreneur /Advance Queensland**

Craig O'Kane MBE - **Advance Queensland**

Michael Sharpe - **AMGC**

Kelly Godeau - **AMGC**

Michelle Price **- AustCyber**

Georgie Skipper - **Atlassian**

Luther Poier - **BlueChilli**

David McKeague - **CuriousThing.io**

Andrea Myles - **CAMP**

Petr Adamek **- Canberra Innovation Network**

Joy Taylor - **Canvas Coworking & Startup Toowoomba**

David Masefield - **Canvas Coworking / Startup Toowoomba**

Adir Shiffman - **Catapult Sports**

Sue Griffin - **DigitalMaas**

Andrew Thorn - **DigitalMaas**

Gavin Heaton - **Disruptors.co**

Chris Clark - **Founder Institute**

Joanne Jacobs - **Disruptors.co**

Colette Grgic - **Heads over Heels**

Renee Coman - **Innovation Centre Sunshine Coast**

Robert Potter - **Internet 2.0**

Kate Cornick **- LaunchVic**

Martin Duursma - **Main Sequence Ventures**

Mike Nicholls - **Main Sequence Ventures**

Adrian Turner, **Minderoo Wildfire and Disaster Resilience Program**

Murray Galbraith - **Myriad**

Monica Bradley **- Purposeful Capital**

Aaron Birkby - **QUT Entrepreneurship / Tribe Global**

Sarah Pearson - **QLD Dept of Innovation and Industry Development**

Deborah Young - **RegTech Association**

Liz Jakubowski - Ribi.net

Alan Jones - **Remarkable**

Peter Laurie - **River City Labs / Brisbane ecosystem**

Maxine Sherrin - **Spark Festival**

Alex Scandurra - **Stone & Chalk**

Marie-Anne Lampotang - **Stone & Chalk**

Omar Najjar - **Sydney Hardware Incubator**

Eitan Bienstock - **TechBench Capital**

Murray Hurps - **UTS**

APPENDIX B

These companies were launched by Australian entrepreneurs solving globally relevant problems.

They were nurtured by an ecosystem of supporters and suppliers, and as the ecosystem matured the speed of growth (time to $1 billion valuation) and globalisation for these companies increased.

It is vital that we retain the ecosystem from which these companies were created, as there are many more like them that we can launch.

They all have the business model and offering that is in demand by a global marketplace, their challenge is finding sufficient talent to meet demand.

- **Cochlear** (1981) - a medical device company that designs, manufactures and supplies bionic ears, with a $10B market cap employing over 4,000 people and exporting to 180 countries.
- **Resmed** (1989) - a global digital company that manufactures in Australia, now valued at $35.9bn employing 5940 people.
- **Appen** (1996) a global data company for the development of machine learning and artificial intelligence products, valued at $2.41bn with over 350 full-time employees and over 1m approved flexible workers performing tasks in more than 180 languages and 130 countries.
- **Atlassian** (2002) - an enterprise software multinational that develops products for software developers, project managers and content developers. Now valued at $30B employing 4,000 people.
- **Mesoblast** (2004) - an Australian-based regenerative medicine company valued at $609M. As a global leader in cell therapy and research, it seeks to provide treatments for inflammatory ailments, cardiovascular disease and back pain using stem-cell based solutions.
- **CultureAmp** (2009) - a $1B HR software company with 2,500 customers in 47 countries, offices in Australia, US and UK, employing 400 people and doubling revenue annually.
- **Canva** (2012) - the dominant platform for all design and production globally, employing over 1,000 people with a market value of $3.2B and a global monthly user base of more than 15 million.

- **Everledger** (2015) - develop technology to create a secure and permanent digital record of an asset's origin, characteristics and ownership with 63 employees focused on establishing itself in a global blockchain technology market that is estimated to reach $57.6 million by 2025.
- **Afterpay** (2015) - a financial technology company valued at $3.3B providing a neo-credit facility to 4.6M users in the US, UK, Australia and NZ.
- **Airwallex** (2015) - a cross-border payments startup with a market cap of $23B has grown to eight international offices servicing 130 countries.
- **Judo Bank** (2016) - a SME challenger bank for Australian business lending for SME businesses now has 140 staff and is valued at $2bn.

APPENDIX C

17. The innovation ecosystem has many interconnected and vital moving parts

17.1. **People** - we have the talent, the capability both home grown and imported that are the employers, employees, the first-time and repeat entrepreneurs.

17.2. **Places** - we have physical hubs that provide the physical space where innovators create companies, technology and new markets.

17.3. **Programs** - we have created the incubators and accelerators sponsored by corporates, universities and government to nurture, launch and scale enterprises in to global markets

17.4. **Professionals** - we have built the specialist skills required to advise, educate and train the innovators, employees, founders, investors, students and their customers. We also have professional bodies and associations like Spark, Advance.org, Regtech Australia, Fintech Australia.

17.5. **Peer connections** - to give the specialist groups within the ecosystem the infrastructure they need to compete against global players. We have also produced the events and conferences that bring the ecosystem together to educate, market and celebrate success.

17.6. **Partners** - we have created the customers, collaborators and regulators for the ecosystem in the form of corporates, universities and government agencies

17.7. **Investors** - we have connected capital with the innovators and the entrepreneurs in the form of angels, venture capitalists and superannuation funds

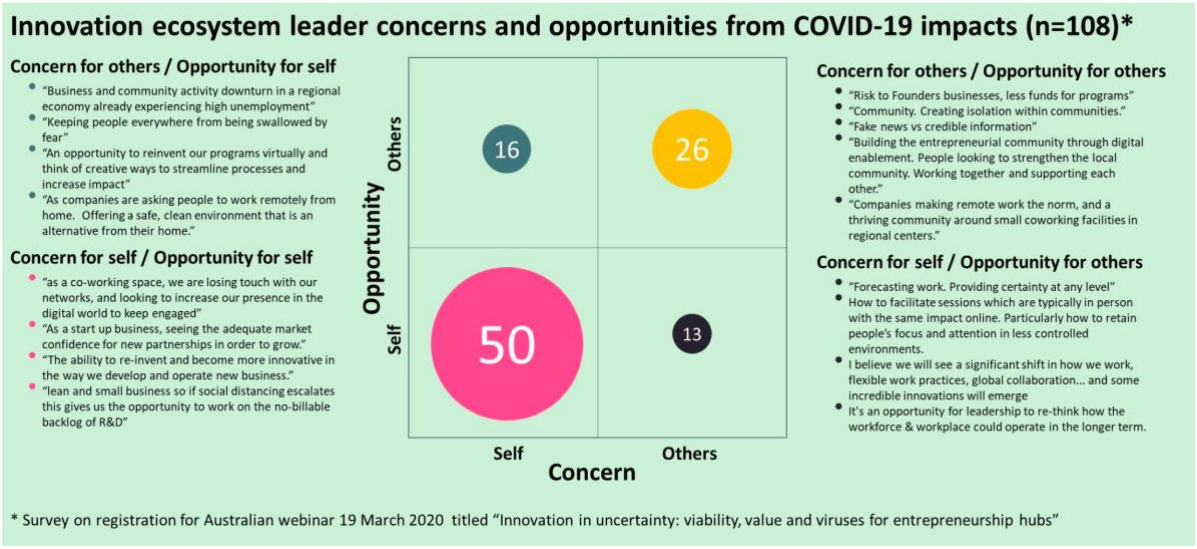
17.8. **Trust** - we are recognised by our peers globally as having a business culture that balances commercial gain with sustained ecosystem growth and maturity, leveraging our geography and capability strengths

APPENDIX D

AREAS OF CONCERN AND OPPORTUNITY FOR THE INNOVATION ECOSYSTEM

Following is a summary of input received from the ecosystem.

https://docs.google.com/document/d/17PBVaKnhh7w7GfCBxnXGGwEa_EKRqlBDNMUje8dFaSY/edit



APPENDIX E - OTHER POLICY ACTIONS FOR CONSIDERATION

18. FOR SHORT-TERM ACTION

18.1. **Business Recovery** - provide incentive for people to use their own savings earned through employment, through tax credits or matching grants of up to $25,000 in the current financial year. Credits can be used for eligible spending, such as hard business setup expenses, accelerator programs, for short term education or rapid re-skilling. Provide grants to founders who successfully complete an ESIC accredited accelerator program of $25,000.

18.2. **$100 entrepreneurial access voucher per child**, similar to the NSW Active Kids voucher program, administered through schools (or appropriate other existing mechanisms) and available for use with relevant providers of service to enable remote learning of technology and entrepreneurial skill. Platforms like Kebloom.com, www.youngchangeagents.com and juststartit.edu.au/ serve as a step-by-step digital platform for students to learn entrepreneurial skills and launch ideas so that they can make their own future.

18.3. **Tax deductions for paid pilots/ contracts with startups and customer support** - Government to purchase from startups. Match corporate contracts if undertaken with startups. Modify procurement requirements, terms, timeframes. Ramp up social procurement programs. Incentivise payment in advance by corporates.

18.4. **Mortgage drawdowns** - if the RBA allowed banks to not penalize mortgage drawdowns beyond 80 per cent LVRs; ideally if not tied to houses then people could draw down as capital injections and the banks could easily provide mortgage repayment holidays .

19. FOR MEDIUM-TERM ACTION

19.1. **Entrepreneurial Education** - invest in entrepreneurial inspiration and enablement in high schools (suggestion for $450 million edutech program; provide parents a $100 voucher per child). There is an opportunity with the upcoming review of the national Digital Technologies curriculum to consider this as an integrated element of any curriculum enhancement and link this to work experience through other recommended programs in this submission.

19.2. **Innovation Impact and Data Program** - create a data advisory panel and platform to capture, track and report on the impact of the programs resulting from the recommendations in this submission over the long term - to demonstrate outcomes but also apply lessons learned back into the economy for ongoing maturity uplift.

19.3. **Increase access to sovereign operated prototyping facilities** - prototyping across the country to rebuild focused manufacturing with credits for startups and SMEs to use prototyping facilities of up to $1,000 per month.

19.4. **Provide incentives for critical technologies** (i.e defence industry, space, health/ medical supplies, clean energy) to be invented and manufactured in Australia, and then ensure these are acquired through the procurement approaches recommended in this submission.

19.5. **Triple the budget for special purpose rounds of the CRC-P programme** - this would have the immediate effect of money in the hands of existing startups while enabling national challenges to be considered and solved at the applied level through rapid commercialisation and innovation.

19.6. **Incentivise collaboration -** Enhance the incentive to encourage innovative and commercial collaboration between startups and scaleups. The Government's Australia 2030 ("3F Report") introduced a collaboration premium of up to 20 per cent for the non-refundable tax offset to provide additional support for the collaborative element of R&D expenditures undertaken with publicly funded research organisations. This principle and mechanism should be adopted and the eligibility criteria extended to include collaboration between large companies and Australian startups and scaleups.

19.7. **Improve awareness and skills in procurement from non-traditional suppliers** - Experience tells us that one of the reasons why large organisations don't interact with startups is due to a level of inexperience across management and senior staff as to the existence and characteristics of various startup ecosystems. Education and information courses (such as those developed by Stone & Chalk Academy) are available to corporate partners on an ongoing basis. As a result, many more corporate partners now have a higher level of awareness and are more actively tracking and interacting with the startup ecosystem. Similar training could also be rolled out to government departments.

19.8. **Introduce multi-stage engagement -** a key point of difference that has arisen between the way that startups interact with the corporate sector versus how they interact with government, is that many corporates provide a defined pathway of engagement for startups to follow, typically incorporating engagement stages such as Proof of Concept, and Trial, prior to full commercial deployment. These added stages serve to test and validate the startup proposition as well as helping to de-risk concerns on the part of the corporate entity. An example is the work from City Innovate in the USA (City of San Francisco). They propose a challenge-based approach to govtech procurement. Through the STIR platform they offer a framework for governments to solve challenges in collaboration with startups. According to the founding team: *"If we want a more effective government, we need a more inclusive govtech system. And if we want a more inclusive system, we need to get to the root of what's keeping innovators of all stripes out of government."*

19.9. Introduce a 'Buy Local' Policy

Startups often cite that they are at a disadvantage when dealing with the government as they lack the profile and level of sales capacity compared to many of the large, global technology companies that often dominate ITC projects and associated spend.

It is felt that if a policy to 'buy local' can be implemented, which would support a greater degree of focus and opportunity for local ITC solutions, this would partly help to address this imbalance. Case study

number three from China below demonstrates one of the ways this was implemented to incentivise and increase local SME's participation in public procurement.

According to the Government's Department of Finance, 95.7 per cent by volume and 91.6 per cent by value of the contracts awarded in 2018-19 were awarded to businesses with an Australian address. However, we would argue that the purpose and value of buying local requires more definition than businesses with an Australian address. Several multinational corporations have an Australian business address for example.

Also, 84 per cent of Government suppliers are SMEs who obtained 26 per cent of all procurement contracts value – according to the same site.

A policy of positive discrimination should be implemented particularly in areas relating to technology software and hardware procurement where the intellectual property is developed by Australian technology-based startups and scaleups.

Programs such as the Indigenous Procurement Policy (IPP) could serve as a baseline example for consideration.

19.10. Introduce appropriate incentive structures and performance tracking measures for revised procurement practices

Changing processes and behaviours will take time and require a concerted effort by many parties on an ongoing basis. To support and expedite the journey, we recommend that a series of incentive structures and performance tracking measures be defined and implemented at an early stage so that it will be easier to track outcomes and make necessary course corrections on a much faster and nimbler basis.

19.11. Establish an Industry Advisory Panel for startup and scaleup procurement

As a way to capture and benefit from the experience of the commercial sectors when engaging with startups, the Government should establish

an Industry Advisory Panel to oversee and help guide the transformation of the procurement process. Panel members should include:

- People with large enterprise experience of procuring from startups
- Startups that have sold into government (not necessarily always successfully)
- Organisations that have helped the commercial sector and/or government to work with startups.

APPENDIX F - DETAILS UNDERPINNING RECOMMENDATIONS[2]

20. UNLOCKING PRIVATE SECTOR INVESTMENT

20.1. Increase the incentive levels for ESIC (Table 1)

20.1.1. Specific for Retail Investors

- Increase the $50,000 investment cap to $200,000 per annum for retail investors.
- Remove the invalidation clause. Any amounts above the cap do not attract the tax offset, but do not invalidate the offset for amounts below the cap.

20.1.2. Specific for Sophisticated Investors:

- Introduce an investment cap to $1,000,000 per annum for sophisticated investors (instead of capping the tax offset amount – see below).
- Income tax offset amount is graduated. Tranche 1 is 50 per cent on the first $200,000 in line with retail investors and 20 per cent for the remainder capped at $1 million per annum.
- In other words, the maximum benefit that a sophisticated investor can receive is $260,000 (200,000 x 50 per cent = 100,000 then 800,000 x 20 per cent = 160,000 so total max benefit is 260,000 (100,000 + 160,000).

2 From Stone & Chalk submission to the Economics Standing Committee reviewing the RDTI legislation.

Table 1: Proposed Tax Incentives Structure for Investors (on ESIC Companies)

	Retail	Sophisticated
Max investment amount benefits can be claimed on	$200,000	$1 million
Tax offset amount	50 per cent	50 per cent on first $200,000 20 per cent on remaining $800,000
Capital Gains Tax Exemption	100 percent (1-10yrs)	100 percent (1-10yrs)
Loss write-off - Income Relief	100 percent (of the remaining amount after the offset amount)	100 percent (of the remaining amount after the offset amount)
Capital Gains Reinvestment Relief	50 per cent	50 per cent

20.2. **Reform ESIC criteria**

20.2.1. Simplify the criteria and application process for ESIC - See the UK SEIS criteria - https://www.seis.co.uk/about-seis/criteria

20.2.2. Replace the existing ESIC eligibility criteria for companies. Replace the current 100-point self-assessment and principles-based test with a simple list of easy to confirm criteria, such as:

- The company must have been incorporated or registered in the Australian Business Register
- Age of company must be less than five years
- The company's equity interests are not listed for quotation in the official list of any stock exchange, either in Australia or a foreign country

- The company (plus any wholly owned subsidiaries of the company) must have total expenses of $2 million or less (inc. $0) in the previous income year
- The company must not have an ordinary income of greater than $1 million in the previous income year.

20.2.3. Replace the existing ESIC eligibility criteria for investors.

- Develop a simple guide that is the trusted resource for steps to become qualified.
- Provide investors with certainty their investments qualify by having a simple application process approved by the ATO within four weeks.

20.3. **Other structural changes to ESIC**

20.3.1. Invest in programs to provide education for potential early-stage investors and create best practices frameworks

20.3.2. Change the measure to be considered a sophisticated investor, from a wealth-based test to an education-based test

20.3.3. Implement a viable and competitive Collective Investment Vehicle (CIV) for investment into a single startup as soon as possible

20.3.4. Communicate the revised ESIC scheme

20.3.5. Remove the ‘affiliate’ component of the test. The fact the cap applies to an investor and their affiliates could create instances where unbeknownst to the investor, their affiliate has also invested in an ESIC – in which case the legislation has no way to deal with how the cap applies between them. If removed and an affiliate does invest in an ESIC, it’s the affiliate that gets the non-refundable tax offset, so not an issue from a tax policy point of view.

20.3.6. Introduce and promote a national register for ESICs which states which years they are an ESIC, whether self-assessed or

ATO ruling. Can be clear that those on the register, where self-assessed, may be found to be ineligible upon an ATO review.

20.3.7. Widen eligible investors to include widely held companies with less than $50 million annual turnover.

20.3.8. Change s.360-40(1)(a) and (b) such that instead of reading “(the latest being the current income year)” to “(the latest being the previous income year)”.

20.3.9. Lift the prior year assessable income cap under s.360-40(1)(c) from $200,000 to $1,000,000.

20.3.10. Use ordinary instead of assessable income. Alternatively, instead of using assessable income as the test, use ordinary income so that sale of assets, grants and other extraordinary income don’t count toward the limit.

21. TURBO-CHARGE R&D ACTIVITY

21.1. Revise Research Development Tax Incentive (RDTI) criteria

21.1.1. Amend RDTI legislation (currently under review) as outlined in Table 2.

Table 2: Modifications to the RDTI criteria legislation

Current law	*Proposed law*	*AIC comments*
The expenditure threshold		
The R&D expenditure threshold applies to eliminate the incentive component of the R&D tax offset in relation to notional deductions in excess of $100 million.	The R&D expenditure threshold is increased to $150 million.	Disagree. **The qualifying expenditure threshold should remain at $100m to ensure longevity of the program**
The R&D expenditure threshold is legislated to cease on 1 July 2024.	The R&D expenditure threshold is a permanent feature of the law.	Agree. **The R&D expenditure threshold should be a permanent feature of the law.**
R&D Tax Offset for small R&D entities		
R&D entities with aggregated turnover of less than $20 million are generally entitled to an R&D tax offset rate of 43.5 per cent.	R&D entities with aggregated turnover of less than $20 million are generally entitled to an R&D tax offset rate equal to their corporate tax rate plus a 13.5 per cent premium.	Partially agree. **R&D entities with aggregated turnover of less than $50 million should be generally entitled to an R&D tax offset rate equal to their corporate tax rate plus a 13.5 per cent premium.**
R&D entities with aggregated turnover of less than $20 million are entitled to a tax refund for any R&D tax offset they receive in excess of their income tax liabilities.	The amount of a refund that an R&D entity can receive is capped at $4 million per annum. Offset amounts that relate to expenditure on clinical trials do not count towards the cap and remain refundable.	Strongly disagree. **There should be no caps placed on those accessing the refundable R&D tax offset.**

The R&D Tax Offset for large R&D entities		
R&D entities with aggregated turnover of $20 million or more are entitled to a non-refundable R&D tax offset at a rate of 38.5 per cent.	R&D entities with aggregated turnover of $20 million or more are entitled to an R&D tax offset equal to their corporate tax rate plus a premium based on the level of their incremental R&D intensity for their R&D expenditure.	Disagree. **Disagree with the proposed intensity premium which is focused on internal R&D efforts only. The Government should retain a flat percentage rate above the corporate tax rate for expenditure on R&D activities and introduce a 20 per cent non-refundable startup and scaleup collaboration premium in its place.**

...