



Tax incentives for early stage investors - Policy Discussion Paper

Please find below statements addressing some of the questions raised in the Policy Discussion Paper.

5.1 Are there any specific requirements that should be included within the sophisticated investor test to ensure that innovation companies are benefiting from both financial and technical/commercial support?

A company may not need technical or commercial support from a sophisticated investor. Indeed, mandating that the “sophisticated investor” provide technical and/or commercial support could be detrimental if the sophisticated investor does not have the requisite skills and knowledge. If they do have the skills and knowledge, it would be unusual for the innovative company not to draw on those skills and knowledge as a matter of course.

5.2 Other than the sophisticated investor test contained in the *Corporations Act 2001*, are there alternative tests that can achieve these same objectives?

The Commonwealth should also ensure the test includes people who may be classed as Angel Investors, who may not otherwise fit the definition of Sophisticated Investor.

The Commonwealth may also want to consider if they include a definition of “substantial investor” or “seed investor” where a person, not deemed to be a Sophisticated Investor, invests a significant amount in a start-up venture. This could be a minimum investment of, for example \$50,000. The rationale for this is that many early stage companies may attract interest from a small pool of people with a specific interest in the technology under development, prior to a point where a Sophisticated Investor. It is often this early or “seed investment” that is the most difficult to achieve for early stage companies. Thus the tax incentive should work to help early stage companies, as well as those that are more advanced.

6.2 Should the incentive be limited to sophisticated investors in the case of investments through a qualifying innovation fund?

If the purpose is to expand the pool of capital available to innovative companies in Australia, why would the Commonwealth want to restrict this option to only so called sophisticated investors?

4.1 Are there any additional principles that should be included in defining an innovation company?

The Commonwealth may wish to include a requirement that the innovation company demonstrate ownership or control of demonstrable intellectual property, not limited to patents, where such IP is designed to facilitate the introduction of a new or innovative products to market.

The Commonwealth could consider if evidence of eligibility to register for the R&D Tax Incentive could form part of the inclusion criteria.

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