AUSTRALIAN INVESTMENT COUNCIL

27 January 2022

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

Uploaded to consultation website

Pre-Budget Submission

Dear Sir/Madam,

As the industry association for private capital in Australia, the Australian Investment Council is pleased to present its submission to the Treasury for the 2022-23 Federal Budget.

Private capital investment has played a central role in the innovation, growth and expansion of thousands of 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) corporate venture capital (CVC) and private credit (PC) funds, alongside institutional investors such as superannuation funds, sovereign wealth funds and family offices as well as leading financial, legal and operational advisers. Our members include both Australian domestic and offshore-based firms, who in turn invest capital on behalf of millions of Australian families and attract capital from passive overseas investors.

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 $37 billion in 2020 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 is a significant and growing contributor to, and driver of, Australia's economic recovery and the development of Australia's industries of the future.

Given the impact of the COVID pandemic and the uncertain times that lay ahead, and as a net importer of capital, Australia's economy relies on a dependable and steady flow of foreign capital to drive economic growth and job creation. At this critical juncture, it is vitally important for our economic future, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors.

To regain economic momentum and evolve our domestic economy, the Australian Investment Council has identified a number of key policy priorities which are 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 policy areas where Government action can assist the industry to continue to support investment into high-growth potential Australian businesses. These areas, explored in detail in this submission, focus on:

1) Addressing skills shortages;
2) Supporting innovation; and
3) Maintaining a steady flow of investment capital.

The industry is conscious of the fiscal demands arising from the COVID-19 pandemic and to this extent, many of the initiatives proposed in this submission are budget neutral.

---

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

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 our policy team at policy@aic.co.

Yours sincerely

Yasser El-Ansary
Chief Executive

PRE-BUDGET SUBMISSI

AUSTRALIAN INVESTMENT COUNCIL

The voice of private capital

Contents

1. Overview

The Australian Investment Council has put forward recommendations in this 2022-23 Pre-Budget submission which are focused on regenerating growth across every sector of the Australian economy through creating jobs, driving innovation, increasing productivity and maintaining a flow of foreign and domestic investment capital. These recommendations will ultimately drive transformational changes that will re-calibrate Australia onto a path of higher wages, living standards and investment opportunities that are competitive with similar jurisdictions on a global scale.

As external market, geopolitical and pandemic forces are continuing to unfold, Australia's economic performance in the short to medium-term remains to be seen as the fiscal budget position and pressure beyond fiscal stimulus will continue in less direct ways. Examples of where this may occur are structural shifts in healthcare including the ongoing management of the Covid virus; the uptake of vaccine boosters; border closures and the impact of self-directed lockdowns; a decrease in international student numbers in universities and increasing pressure for research commercialisation.

1.1. Summary of Recommendations

The Council's recommendations are outlined below:

Keeping borders open

- Maintain a flow of non-citizen skilled migrants, tourists and students to assist Australia's economic recovery and take steps to restore Australia's border controls to pre-pandemic settings as soon as possible given that most of Australia is now regularly exposed to COVID-19 and that the health settings are being moved to "living with the virus" and COVID-Smart settings.

Addressing skill shortages

- Introduce incentives for investment into non-capital city regions and areas most in need based on similar model to the United States' economic 'Opportunity Zones'.
- Boost offshore marketing of the 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.
- Extend 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.
- 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'.
- Develop a national education program to fast-track STEM skills development in secondary schools.
- Map skills that can be translated from a tertiary education level to fast-track technology skills development in Australia.
- Look to expand the capability of the Digital Technologies Academy planned for Adelaide to include the secondary education sector.

Retaining a stable macro-economic environment

Ensure that housing pricing growth is sustainable and in line with real wages growth through:

  - Assuring superannuation balances are not accessed for first home deposits.
  - Assisting first home owners bridge the funding gap on their first home deposits through funding or assistance with lenders' mortgage insurance.
  - Working in consort with State Governments to identify impediments to new housing creation.
  - Working with States to achieve very targeted programmes for first home owners which don't place additional pressure on existing housing prices.

Growing digital capability

- Consider the introduction of a simpler direct additional tax credit to enable Australian companies to retool by investing in software and other digital capabilities.
- Invest in further NBN upgrading of premises from FTTC and HFC to FTTP as more people work from home.

Supporting innovation

- Provide increased support for Corporate Venture Capital and Innovation Labs through the introduction of new programs to attract greater public-private investment into high growth Australian companies and increased incentives for Australian companies to take risks with new and emerging technologies.
- Utilise the R&D Tax Incentive Roundtable to ensure the guidance material is reviewed with the view of developing single and well-understood repository of information for the Research & Development Tax Incentive.
- Introduce matching grants for R&D to boost innovation and growth.
- Implement a 'gold standard' Patent Box to support the innovation economy.
- Continue to work with industry and government to develop closer collaboration between industry and universities to accelerate research commercialisation.
- Fast-track the commitment outlined in the *Statement of Principles for Australian Innovation Precincts Report* recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.
- Establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

Maintaining a steady flow of investment capital

- Fast-track the implementation of the new Limited Partnership Collective Investment Vehicle (LP CIV) as the main outstanding component of a globally competitive fund vehicle regime. The Council recommends steps be taken to fast-track the introduction of a new LP CIV that aligns with international best practice with a target start date of 1 July 2022.
- Consider recommendations for the improving the operation of the Foreign Investment Review Board approval regime to improve decision turn-around times.
- Improve existing VCLP and ESVCLP vehicles - The Council recommends the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes be adopted and implemented as a priority.
- Work with industry to reduce the uncertainties in the tax treatment of private capital investment into Australian businesses.

Removing tax inefficiencies

- Consider further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract talent to Australia.
- Work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

Building better retirement outcomes

- Direct ASIC to undertake a post-implementation review of the regime to enable any market-facing issues to be identified and resolved.

Working towards net-zero

- Reduce red tape for businesses investing in new technologies to support the transition to clean energy.
- Support clean energy initiatives for businesses and households.

Securing supply chains

- Continue to invest into national infrastructure to reduce bottlenecks and ensure goods can flow through our ports, rail and road networks safely, quickly and efficiently.
- Fast-track digital transformation to gain more visibility over supply chain data.
- Invest in Australian manufacturing and component sourcing capability in essential products which may be susceptible to global supply chain disruption.

Protecting the economy

- Consider providing a tax credit or instant asset write-off for expenditure on enhancing cyber-security capability.

Preparing for future pandemics and disruption

- Build further dedicated quarantine facilities similar to the one in Howard Springs in the NT and the facility being constructed in Mickleham, Victoria, close to all major international airports and health facilities to deal with any future variants of COVID19 or any other infectious diseases that may emerge in the future.

- Create a new Commonwealth agency to specifically deal with future human biohazards, similar to the US Centre for Diseases Control and Prevention, in order to provide uniformity in approach across the country, and to provide national tracking and tracing capability for infections.

THE MACRO-ECONOMIC ENVIRONMENT, CHALLENGES AND OPPORTUNITIES

2. The macro-economic environment, challenges and opportunities

2.1. Keeping borders open

The Council believes that a return to pre-2020 border settings will be key to Australia's economic recovery, both in terms of financial and human capital flows, and is of vital importance to industry to have both skilled and unskilled migrants start to return to Australian shores.

Recommendation

The Council notes the flow of non-citizen skilled migrants, tourists and students is critical to Australia's economic recovery and steps should be taken to restore Australia's border controls to pre-pandemic settings as soon as possible given that most of Australia is now regularly exposed to COVID-19 and that the health settings are being moved to "living with the virus" and COVID-Smart settings.

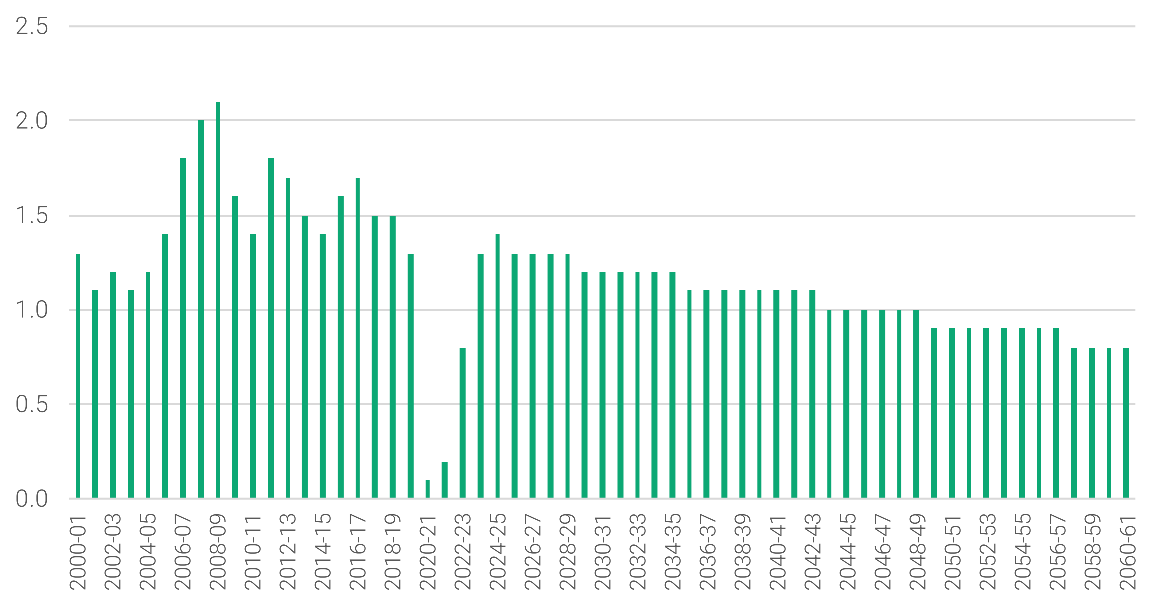
2.2. Investment capital and immigration – important economic levers

As a desirable destination for migration and investment, Australia has long been a net importer of both people and capital. However, during the past few years these important economic drivers have seen a reversal with net overseas migration in the year to June 2021 negative for the fifth consecutive quarter a net loss of 88,000 people, as well a net $74 billion of capital exported from Australia in September.

While the pandemic and border closures can be partly attributed for the impact on these two critical economic levers, policies that shift the dial on this continued decline will be critical for Australia to effectively compete with other jurisdictions for people – as Australia's population growth continues to decline (Figure 1) – and investment capital into the future.

Australia's economy relies on a dependable and steady flow of foreign human capital and skilled migration to drive economic growth and job creation. It is therefore vitally important for the economy and Australian jobs, that businesses are able to quickly and efficiently access human capital and skills from domestic as well as offshore sources.

Figure 1 Australia's population growth 2000-2061



[2]

Source: 2021 Intergenerational Report, The Treasury, Australian Government June 2021

While the ongoing capacity to continue to attract foreign capital will be essential for funding new investments that will in turn create new high-value Australian jobs, this cannot be assumed. For example, much of the capital outflow, has been directed to the United States while investment from the US has declined over the past three years. In fact, Australia has fallen behind peers in attracting US investment and border closures have made due commercial, legal and financial diligence on cross-border acquisitions more difficult.

Challenges to increasing investment into the domestic economy have been further exacerbated by excess savings during the pandemic which is reflected in the account surplus since the June quarter 2019 averaging 2.6 per cent of GDP. While this account surplus is expected to reduce as the economy emerges from the pandemic, policies that focus on increased investment, rather than savings, will be required to boost economic growth. Increasing migration would help raise investment demand and fill skills and talent gaps in local businesses.

2.3. Addressing skill shortages

Australia is competing with other jurisdictions for skilled migration and needs to have policies that make it attractive for people to move here.

2.3.1. Revamping the immigration opportunities for skills and talent to fill the gap

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.

2.3.2. Leveraging capabilities of foreign students

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.

Foreign students who graduate from Australian universities in disciplines where there are skills shortages provide a rich talent resource which could be tapped into to assist Australia build a pipeline of skills for a new, knowledge-based economy.

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 programs. While it is still early days in the lifecycle of these policies, the Council believes that they represent a positive step 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.

2.3.3. Filling skills and talent gaps and building a pipeline of skills that will support Australia's future growth industries.

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. The Council's own research shows at 30 June 2021 there were 3952 job vacancies in 233 portfolio companies of Australia's most active VC funds.

2.3.4. Building the next generation of local talent

As outlined in the Australia *2030 Prosperity Through Innovation* report 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 with relevant STEM skills from within Australia will be critical for future employment and economic growth. In the longer-term, establishing a pipeline of future employees with STEM skills from the Australian school system would help to increase the job prospects for generations to come.

To compete against the world's best, Australia needs to attract and retain the world's best talent. This is particularly true for our nation 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.

Recommendations

- Introduce incentives for investment into non-capital city regions and areas most in need based on similar model to the United States' economic 'Opportunity Zones'.
- Boost the offshore marketing of the 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.
- Extend 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.
- 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'.
- Develop a national education program to fast-track STEM skills development in secondary schools.
- Map skills that can be translated from a tertiary education level to fast-track technology skills development in Australia.
- Look to expand the capability of the Digital Technologies Academy planned for Adelaide to include the secondary education sector.

2.4. Housing affordability

In an environment of sustained low interest rates until now, house prices in the main urban centres have continued to climb at a rapid and unsustainable rate (Figure 2) decreasing housing affordability and accessibility and increasing concerns from government and financial institutions on the ability of Australians to continue to service their mortgages in the longer term, prompting APRA to write to banks and Authorised Deposit Taking Institutions in October 2021 with a request to increase their interest rate buffer for mortgage lending to at least 3.0 percentage points above the loan rate.[3] The Reserve Bank also signalled to the market that it intended to discontinue the target for the yield on the April 2024 bond. Major banks have started to lift fixed interest rates as a result of international interest rate pressures and likely post-pandemic wage demands in post-COVID recovery phase.

Many Australians with more established mortgages have accumulated their wealth position taking advantage of the low interest environment to reduce their mortgages and to increase their savings. In fact, household saving reached a record high of 22 per cent in June 2021 which RBA Governor, Phillip Lowe attributed to the boost in incomes from government support, limited opportunities to spend and households feeling uncertain about the future.[4]

There is evidence that business confidence is low with overall business investment falling significantly over the past six years as a share of nominal GDP. (Figure 3)

These are concerning trends, which combined with low national productivity and higher inflation on the horizon, will place Australia in a challenging situation as international borders open and businesses, workers and regions adjust to the current economic environment.

Given the impact of reduced housing affordability on future consumer spending, the Government should consider coordinated steps with the States and Territories to alleviate housing pressures and to ensure that housing pricing growth is sustainable and in line with real wages growth. These pressures on home owners, particularly first home owners, may be otherwise result in them being locked out of the market.

[3] APRA increases banks' loan serviceability expectations to counter rising risks in home lending, Media Release, 6 October 2021

[4] From Recovery to Expansion, Keynote address to the Australian Farm Institute Conference, Phillip Lowe, RBA Governor, 17 June 2021

Figure 2

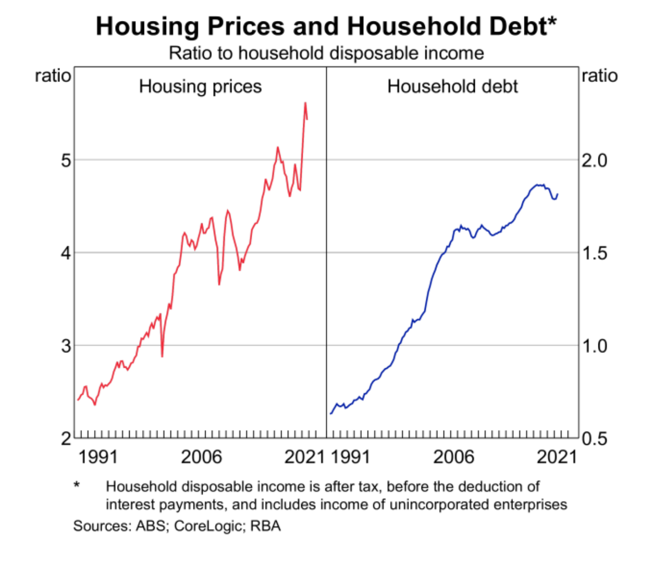


Figure 3

Recommendations

Measures may include:

- Ensuring superannuation balances are <u>not</u> accessed for first home deposits;
- Assisting first home owners bridge the funding gap on their first home deposits through funding or assistance with lenders' mortgage insurance
- Working in consort with State Governments to identify impediments to new housing creation through planning restrictions and zoning;
- Working with States and territories to achieve very targeted programs for first home ownership which don't place additional pressure on existing housing prices.

2.5. Growing digital capability

Building a digital future will require further investment in technological infrastructure to ensure businesses and individual s have access to facilities that are world class. Upgrading the NBN to a gold and future-proof standard FTTN and building 5G and future 6G capabilities will be integral to this process.

The transition to a digital economy can be further fast-tracked through providing businesses with incentives to improve their digital capabilities and to increase digital skills through education and training programs. Research and development activity should be tailored to focus on investment into industries aligned with the future digital economy.

Recommendations

- Consider the introduction of a simpler direct additional tax credit to enable Australian companies to retool by investing in software and other digital capabilities to transform their businesses and digitise their core.
- Invest in further NBN upgrades of premises from FTTC and HFC to FTTP as more people work from home and where flexible working arrangements will become the norm.

2.6. Supporting Innovation

2.6.1. Focussing on technology as an enabler for building employment and growth across the economy

Innovation investment in Australia is driven largely by the willingness of investors, such as private capital firms (and their investors), to take risks and invest in businesses that are creating new and innovative products and services, and in doing so, establishing markets that often do not even currently exist. These investments are often at the earliest stages of a new venture's life, or at key points in the life cycle of family business succession, both of which are considered to carry high risk for different reasons. Along with the provision of capital, this funding is accompanied by highly valuable strategic and operational advice and guidance to the founders and management teams of private, early-stage and fast-growth businesses. This model of working in partnership is often the 'x-factor' that can help these innovative businesses to realise their ambitions in domestic and global markets. The expansion and growth of such businesses leads directly to more revenue and sales, greater levels of investment into innovative market-leading research and development, and ultimately, is the key driver behind the creation of new high-value jobs within the economy and higher contributions to income tax and other government revenue streams, including GST.

2.6.2. University Research Commercialisation and closer collaboration between industry and universities to accelerate research commercialisation.

The Council is supportive of innovation districts that connect universities with industries to create a culture of collaboration, innovation and public engagement for the development of new businesses and industries. Innovation districts are central for knowledge-based and novel economic activities with distinct benefits stemming from the co-location of researchers and industry.

Establishing innovation precincts with a specific industry focus – such as the Melbourne Biomedical Precinct11 – would build significant opportunities for research commercialisation. The Melbourne precinct is amongst the top three biomedical research clusters in the world. It includes the University of Melbourne, Monash University, CSIRO, CSL Limited, Royal Melbourne Hospital, the Bio21 Institute, the Walter and Eliza Hall Institute and Biomedical Research Victoria. CSL's research and development headquarters is also located within the precinct.

The Council recommends government fast-tracks the commitment outlined in the *Statement of Principles for Australian Innovation Precincts Report* to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.

2.6.3. Building a globally competitive Patent Box Regime

The Council is supportive of measures to implement a 'gold standard' Patent Box to support the innovation economy.

Australia has the capacity to be a world leader in the development of new medical technologies. To achieve this, the sector will need to be supported by a Patent Box regime that is competitive on a global scale and has the potential to attract investment, to accelerate our commercialisation pipeline, and to retain the IP within Australia.

In the Council's view, the Patent Box design principles should extend beyond the scope of the medical and biotechnology and clean energy sectors to include industries where Australia has a comparative advantage in areas such as food technology, agtech, space and quantum computing and critical minerals processing.

While we recognise there would be a cost to the budget and that this policy design principle would require government support, the medium and long-term benefits to the national economy through employment and economic growth would outweigh the initial budgetary outlay.

Recommendations

- Provide increased support for Corporate Venture Capital and Innovation labs through the introduction of new programs to attract greater public-private investment into high growth Australian companies and increased incentives for Australian companies to take risks with new and emerging technologies.
- Utilise the R&D Tax Incentive Roundtable to ensure the guidance material is reviewed with the view of developing single and well-understood repository of information for the R&D Tax Incentive.
- Introduce matching grants for R&D to boost innovation and growth.
- Implement a 'gold standard' patent box to support the innovation economy;
- Continue to work with industry and government to develop closer collaboration between industry and universities to accelerate research commercialisation.
- Fast-track the commitment outlined in the Statement of Principles for Australian Innovation Precincts, Report recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.
- Establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

2.7. Maintaining a steady flow of investment capital

As a net importer of capital, Australia's economy relies on a dependable and steady flow of foreign capital to drive economic growth and job creation. At this critical juncture in our national response to the health crisis, it is vitally important for our economic recovery, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors to support the growth and expansion of existing businesses as well as the development of the new businesses and industries that underpin Australia's innovation ecosystem.

A strong investment regime anchored by policies that are commensurate with other jurisdictions is important for maintaining a stable and transparent investment framework that is attractive for domestic and foreign financial services providers to ensure that investment flows remain open, transparent and stable, thereby enabling our investment industry to continue to support portfolio companies during this time of heightened uncertainty.

However, the industry's ongoing capacity to continue to invest greater amounts of capital into Australian businesses, leading to the creation of new high-value Australian jobs, cannot be assumed – policy must continue to support, enable and encourage capital investment into the domestic market. While the private capital industry currently has more than $13 billion in available capital to support investment into new deals in the period ahead, the sector's ability to continue to grow the pipeline of funding available to high-growth potential Australian business over the coming years will be increasingly dependent on inbound capital from offshore investors.

2.7.1. Foreign Investment Framework

Ensuring that the policy environment around foreign investment remains stable is one of the key ways in which the government can help maintain Australia's reputation as an attractive investment destination.

Uncertainty or perceived instability in policy structure around the foreign investment regime risks additional pressure in the already challenging current environment. The potential impact of this drag on investment and growth should not be downplayed. Nor should the impact on dampening collaboration and cross-pollination within Australia's economy. It is imperative that Treasury carefully balance the current and future needs of Australia businesses against need to maintain confidence in the system from domestic and foreign investors.

We refer to our previous submission to Treasury with further recommendations on how the foreign investment review framework may be improved.

2.7.2. International Competitiveness

Australia has an opportunity to develop an investment framework that attracts inbound investment, and is also conducive to providing reciprocal rights to invest into countries with sufficiently equivalent frameworks. Australia should ensure any Free Trade Agreements include conditions that allow investment into the relevant country without onerous licensing conditions.

2.7.3. Limited Partnership Collective Investment Vehicle

World-class, competitive CIVs are essential for building and expanding the pool of capital that can be attracted into the Australian economy. Accordingly, it is important that a flow-through, internationally best practice LP CIV – the globally accepted private capital vehicle of choice – be introduced as soon as possible, keeping in mind that the original introduction date of 1 July 2018 has not been met. Supporting the broader policy objectives of building Australia as a financial services hub, such a vehicle could transform the flow of capital into high growth Australian businesses, helping to facilitate Australia's transition to a knowledge-driven economy.

For many years the Council has urged the government and Treasury to prioritise the development of the LP CIV regime. Despite a commitment in the May 2016 Federal Budget to the introduction of a new LP CIV from July 2018, the most recent announcements in the 2018-19 and 2021-22 Federal Budgets did not include any specific references to the introduction of the LP CIV regime. It is unclear whether the LP CIV will be introduced and the whether the Government still has a commitment to the measure.

The Council has previously identified the proposed new LP CIV regime as an area of policy focus for private capital. A globally competitive LP CIV would have a significant and profound impact on the capacity of our industry to invest billions of dollars into great Australian businesses spanning all corners of the economy, and at all stages of development – small, medium and large scale – to help them realise their growth and expansion plans, and create new employment for the future.

Unlike the CCIV regime, the LP CIV regime does not require any extensive changes to the Corporations Act 2002 as it is governed by state-based legislation which has already been successfully legislated for this type of structure for nearly 20 years. We acknowledge that State Governments will play a critical role in providing supporting legislation, consistent with what they have done with the Venture Capital Limited Partnership (VCLP), Early-Stage Venture Capital Limited Partnership (ESVCLP) and Australian Fund of Funds (AFOF) regimes. Accordingly, all that is necessary is to enact supporting legislation to switch-off the current deeming of Limited Partnerships as being companies under Division 5A of the Income Tax Assessment Act 1936 and enactment of qualification measures – which we would anticipate may be similar to MIT regime with appropriate modifications.

Recommendations

- Fast-track the implementation of the new Limited Partnership Collective Investment Vehicle (LP CIV) as the main outstanding component of a globally competitive fund vehicle regime. The Council recommends steps be taken to fast-track the introduction of a new LP CIV that aligns with international best practice with a target start date of 1 July 2022.
- Consider recommendations for the improving the operation of the Foreign Investment Review Board approval regime to improve decision turn-around times.
- improve existing VCLP and ESVCLP vehicles - The Council recommends the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes be adopted and implemented as a priority.
- Work with industry to reduce the uncertainties in the tax treatment of private capital investment into Australian businesses.

2.8. Removing tax inefficiencies

Streamline Australia's taxation system to remove uncertainties and to improve the nation's competitiveness in attracting investment capital from domestic and offshore sources.

Some of the key priority reforms set out in the AFTS Review, as well as other growth-orientated analyses of Australia's taxation system, revolve around reducing the headline corporate income tax rate for all businesses, a step that would deliver incomes growth for all Australians and also lift Australia's competitive standing in the global market for capital and talent.

A reduction in the corporate income tax rate will form 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. Measure that could be considered are those potentially hindering investment in Australia and support for policies which encourage investments in high-growth businesses in order to help the post-pandemic economy recover.

Alignment of state-based tax regimes needs to be considered in order to avoid the red-tape of businesses dealing with multiple differing and competing regimes.

Recommendations

- Consider further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract talent to Australia.
- Government work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

2.9. Building better retirement outcomes

Create a framework that is conducive for superannuation funds to invest into private capital.

While the objective of RG97 is to provide transparency to consumers on fees and costs, the prescriptive nature of the RG97 framework provides challenges for superannuation funds as pricing can be complex and multi-faceted. There is work to be done to simplify product disclosure statements and for RG97 to provide more flexibility for superannuation funds and investment funds operating under a Managed Investment Trust arrangement.

Recommendation

Government direct ASIC to undertake a post-implementation review of the regime to enable any market-facing issues to be identified and resolved.

2.10. Working towards net-zero

As outlined in the 2021 Intergenerational Report, the likely effects of the transition to a lower carbon emissions economy will mean that some sectors will need to adjust to falling demand for some exports while new opportunities will be created in other sectors. In many respects, these factors will be outside of Australia's sovereign ability to control, and ultimately these costs will be passed on to Australian consumers and other businesses. There are a number of areas where Australia has a comparative advantage such as in solar and wind energy and in regenerative farming transformation and can be a world-leader in the export of clean-tech solutions that will underwrite the global shift towards more sustainable economies.

Businesses will play a pivotal role in driving innovation and in developing new technologies that will reduce carbon emissions and will also lead the way through policies that commit to and ensure actions that reduce carbon emissions and in leading new business practices and investment decisions. Businesses will increasingly find it important that credible green credentials are provided to consumers, their business partners, financiers and investors.

Recommendations

- Reduce red tape for businesses investing in new technologies to support the transition to clean energy.
- Support clean energy initiatives for businesses and households.

2.11. Securing supply chains

Local and global supply chains have come into sharper focus. Continued investment into national infrastructure is critical to reduce bottlenecks and ensure goods can flow through our ports, rail and road networks safely, quickly and efficiently. To this extent, digital transformation will also play an important role in fostering greater visibility over supply chain data.

Investment in Australian manufacturing and component sourcing capability for essential products will be key to reducing global supply chain disruptions.

Recommendations

- Continue investment into national infrastructure to reduce bottlenecks and ensure goods can flow through our ports, rail and road networks safely, quickly and efficiently. Fast-track digital transformation to gain more visibility over supply chain data.
- Invest in Australian manufacturing and component sourcing capability in essential products which may be susceptible to global supply chain disruption.

2.12. Protecting the economy

Cyber-attacks are increasing at an exponential rate and will continue to be an issue into the future highlighting the importance of critical infrastructure, critical technologies and cyber defences at an individual, business and national level.

Recommendation

- Government consider providing a tax credit or instant asset write-off for expenditure on enhancing cyber-security capability.

2.13. Prepare for future pandemics and disruption

A strategy for dealing with current and future pandemics will be an important policy area for keeping the population safe and to continue to ensure borders remain open for business both domestically and internationally.

Recommendations

- Consider building further dedicated quarantine facilities similar to the one in Howard Springs in the NT and the facility being constructed in Mickleham in Victoria, close to all major international airports and health facilities to deal with any future variants of COVID19 or any other infectious diseases that may emerge in the future.
- Create a new Commonwealth agency to specifically deal with future human biohazards, similar to the US Centre for Diseases Control and Prevention in order to provide uniformity in approach across the country (and to provide national tracking and tracing capability for infections.