



Employee Ownership Australia and New Zealand calls for guiding principles in connection with the government review on Employee Share Schemes (ESS) in start-ups

Sydney, 3 September, 2013; The Employee Ownership Australia and New Zealand has called for recognition from the federal government of the vital role that start-ups play in the growth of the Australian economy, with \$109 billion and 540,000 jobs predicted to be contributed by 2033.

The association is requesting the government to accept some guiding principles around any review into ESS in start-ups.

The review should include the following key aspects:

- Any review should be comprehensive and place Australia in a competitive position globally, and ensure a level playing field with both the US and the UK. This means that any tax provisions should be on par with the global philosophy that **employees of start-ups are largely rewarded through employee share scheme arrangements which are taxed on capital account and only when a realisation event occurs;**
- Start-ups globally predominantly use options rather than shares because of their simplicity for companies and employees. They are an important low-cost retention mechanism for key personnel who are vital to future growth of companies in the start-up phase. There is low downside risk to employees and significant potential for upside benefits where a company is eventually successful. **Any regime should prioritise option plans;**
- Any changes should ensure that they do not impose greater complexity and burden on companies that do not have the cash flow to pay for advice around complex legislation or tax arrangements. **The philosophy underpinning the changes should be simplicity and ease of use;**
- **The valuation is an ongoing issue that adds costs.** The changes in 2010 have eased this issue but **this could be further simplified by minimising the points at which a valuation is needed for tax purposes and aligning the value of options with the market value of the shares less exercise costs,** rather than a more complex Black Scholes/binominal method currently in the tax tables;
- **Any definition of start-ups should be simple and indicative of the actual market.** A good example of this is the R&D definition that is easily understood and clear. The current definition in the discussion paper is too limited in terms of employee numbers;
- Any regulatory tax reform should happen in conjunction with other reforms around the Corporations Act, e.g. prospectus filing requirements.

The association said it didn't believe the current proposed changes would have a significant impact on the current issues that start-ups face around attraction and retention of staff, or the cost and complexity currently involved in setting up employee equity plans.

More information

Media Release



Employee Ownership
Australia & New Zealand
Making it your business

Adrian O'Shannessy
Expert Panel Member

T. [+61 3 9288 1723](tel:+61392881723) | M. [+61 419 560 368](tel:+61419560368) | E. adrian.oshannessy@gf.com.au |
www.employeeownership.com.au