

Monday 2 September 2013

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Dear Michelle and Justin

Re: August 2013 Discussion Paper - Share Schemes and Start-up
Companies: Administrative and Taxation Arrangements.

The Employee Ownership Australia (EOA) expert's panel notes Treasury's extension for submissions to the above discussion paper and given the impending Federal Government election, decided not to submit our detailed response to the paper at this stage, however, by way of update there are some guiding principles that the endorsers of this letter would recommend for any review and further consultation process:

- **A recognition that start-ups are imperative for Australian economic growth** specifically for our country's innovation and productivity. Start ups are likely to contribute \$109 billion and 540,000 jobs to the Australian economy by 2033¹;
- Any review should be comprehensive and place Australia in a competitive position globally. So that Australia is on a level playing field with the US and the UK. This means that any tax provisions should be on par with the philosophy globally 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 in the start-up phase. There is low down side risk to employees and the potential for upside that such plans deliver 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 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 is too limited in terms of employee numbers;
- Any regulatory reform on tax should happen in conjunction with other reforms around the Corporations Act, e.g prospectus filing requirements.

In our respectful opinions the current proposed changes would not 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.

¹ PwC report, " The start-up economy, How to support tech start-ups and accelerate Australian innovation, April 2013

This group would respectfully ask if it can be included in any further consultations that take place and would welcome the ability to help with any regime that is introduced.

Kind regards

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