



## TECHNICAL UPDATE

# BDO'S RESPONSE TO THE INNOVATION STATEMENT

The Turnbull Government's National Innovation and Science Agenda Report (*the Innovation Statement*), was released on Monday, 7 December 2015. It includes a wide ranging and multi-faceted agenda, which aims to provide a package of initiatives in order to drive innovation and entrepreneurship.

There is a major emphasis on changing culture to embrace change and innovation, with a view to facilitating confidence to embrace risk and pursue ideas; reducing some of the risks involved and certain compliance obligations; and enable investors to support such ideas at the early stage of their development. Facilitating funding also features as part of the initiatives, encompassing both Government and private funding, as well as fostering collaboration between private and public sectors.

The Innovation Statement contains approximately 29 initiatives spread over a number of portfolios and costing \$1.1 billion over four years.

The various initiatives are couched in broad policy terms, with further details to emerge with originating legislation and/or Government proposal papers.

### Stakeholder briefings

In order to ensure Australians take advantage of the comprehensive suite of initiatives in the Innovation Statement, a roadshow, providing opportunities for information sharing will commence in December 2015. A roadshow schedule has been released and available on the relevant government website.

The roadshow is for:

- Industry and business representative groups
- Higher education organisations
- Peak science groups
- State/Territory governments
- Local councils.

There will be a second stakeholder roadshow commencing in early-mid 2016, which will visit additional regional centres and re-visit some of the capital cities.

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### Innovation Statement: Selected Initiatives

A snapshot of some of the main opportunities, and the impacts that they'll have on BDO clients include the following:

#### Business/Individual tax – Tax incentive for early stage investors

**What:** The government has proposed to provide investors with a 20 per cent non-refundable tax offset for investments up to \$200,000 per investor, meaning maximum investment capped at \$1 million. The offset available for investment into non-listed companies undertaking an eligible business that were incorporated during the last three income years, with prior year expenditure less than \$1 million and income less than \$200,000. It is unclear what is encompassed by the term 'investor'. However, as the tax incentive is in the form of a non-refundable tax offset, those who do not pay tax will not be eligible. The scope of 'eligible business' is to be determined in consultation with industry.

**When:** Changes to apply from date of Royal Assent and expected to commence from 1 July 2016.

#### Business tax – Intangible asset depreciation

**What:** The government has proposed to provide businesses with a new option to self-assess the tax effective life of an acquired intangible asset or continue to use the existing statutory effective life. This will benefit businesses by accelerating the depreciation of these items and potentially decrease the cost of investment on these assets.

**When:** Changes to apply to assets acquired from 1 July 2016.

#### Corporate tax – Increasing access to company losses

**What:** The government has proposed to relax the 'Same Business Test' to allow access to prior year losses when a company has entered into new transactions or business activities. It is also proposed to introduce a 'Predominantly Similar Business Test' to allow companies to access prior year losses when a company makes changes to its business operations but uses similar assets and generates income from similar sources.

**When:** Legislation is expected to be introduced in the first half of 2016. The 'predominantly similar business test' will apply to losses made in the current and future income years.

#### Corporate finance – New arrangements for Venture Capital Limited Partnerships

**What:** A number of changes for Venture Capital Limited Partnership (VCLP) and Early Stage Venture Capital Limited Partnership (ESVCLP).

- Partners in a new ESVCLP will receive a ten per cent non-refundable tax offset on capital invested start-up companies
- The maximum fund size for new ESVCLPs will be increased from \$100 million to \$200 million
- ESVCLPs will no longer need to divest from a company when its value exceeds \$250 million
- Both VCLP & ESVCLPs: Relax eligibility and investment requirements to allow managers to undertake a broader range of investment activities and greater diversity of investors.

**When:** Changes to apply from date of Royal Assent and expected to commence from 1 July 2016.

#### Corporate tax – Reforms to employee share schemes

**What:** The new reform will limit the requirement for disclosure documents given to employees under an ESS to be made available to the public, protecting non-disclosing companies from potentially revealing sensitive information. There will also be Government and industry consultation on options to amend the disclosure requirements to make ESS more user-friendly for businesses.

**When:** Legislation is expected to be introduced in the first half of 2016.

### Insolvency – Insolvency Laws Reform

**What:** Limited insolvency reforms to ameliorate the director liability framework in the context of entrepreneurs including:

- Reducing the current default bankruptcy period from three years to one year
- Introducing a 'safe harbour' to protect directors from personal liability for insolvent trading if they appoint a restructuring advisor to develop a turnaround plan for the company
- Making 'ipso facto' clauses, which allow contracts to be terminated solely due to an insolvency event and often lead to a company's liquidation, unenforceable if a company is undertaking a restructure.

**When:** Proposal paper due in the first half 2016, with legislation expected in mid 2017.

### Grants - Transforming procurement - Business Research and Innovation Initiative

**What:** A new grant program which aims to make Government procurement more accessible to smaller enterprises, namely start-ups and small and medium enterprises (SMEs). Businesses will be encouraged to develop more innovative solutions to important government policy and service delivery problems. There will be a pilot series of 'challenges' called the Business Research and Innovation Initiative. Entrepreneurs will receive funding to create new products and innovations with export potential, while retaining their intellectual property and right to commercialise the ideas. The Initiative will operate in three stages:

- The Government in conjunction with Innovation and Science Australia will nominate five national policy and service delivery challenges
- Innovative businesses will be invited to submit proposals to address those challenges. Winners will receive grants of up to \$100,000 to test their ideas over three to six months of development
- The most successful ideas may be eligible for a further grant of up to \$1 million to develop a prototype/proof of concept over the following 18 months.

**When:** The Business Research and Innovation Initiative will launch on 1 July 2016.

### General - Innovation Connections

**What:** \$18 million investment in the Entrepreneurs' Programme for a new Innovation Connections Initiative, to expand and refocus the existing Research Connections programme to drive new industry-led collaborations between researchers and SMEs. The programme will:

- Add more facilitators so more businesses can access Australia's innovation infrastructure, particularly in regional areas
- Matched grants to support graduate and postgraduate researchers placements in businesses
- Matched grants to support business researchers placements in publicly funded research organisations
- Identify opportunities to access Research and Development (R&D) and testing facilities and develop specialised training by closer participation with the vocational education and training sector.

**When:** The Entrepreneurs' Programme is currently running and will progressively offer these expanded services from 1 January 2016.

#### National expertise

*The BDO Tax team is one of the largest and most dynamic tax practices in Australia, with 30 partners and more than 150 specialists located in each major city across the country.*

#### MORE INFORMATION

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