



# Finding our innovation mojo

KPMG Australia views on the National Innovation and Science Agenda

December 2015

[kpmg.com.au](http://kpmg.com.au)







# Foreword



**Peter Nash**  
National Chairman



**Ken Reid**  
National Managing Partner  
– Brand and Innovation

In his first speech as Leader of the Liberal Party, and thus Prime Minister-elect, Malcolm Turnbull referred to disruption. He said, “the Australia of the future has to be a nation that is agile, that is innovative, that is creative. We cannot be defensive, we cannot future-proof ourselves. We have to recognise that the disruption that we see driven by technology, the volatility in change is our friend if we are agile and smart enough to take advantage of it.”

That brief vision – disruption as our friend – might be seen as a turning point, a heightened truth and a cause for optimism about what we face in the future and what we have to gain. Disruption will be our enemy if we do not embrace it, if we fall behind our peers and don’t find our innovation mojo.

It is with this in mind we welcome the *National Science and Innovation Agenda* (Innovation Statement) released today by the Prime Minister, the Hon Malcolm Turnbull MP, and the Minister for Industry, Innovation and Science, the Hon Christopher Pyne MP.

This is an exciting and wide-ranging announcement.

As the government has recognised, innovation is not just about start-ups. It is about new thinking and transformation in existing businesses. Critically, it is about businesses staying in Australia and engaging with disruptors. Collaboration is key to meeting these challenges.

Collaboration has not been our natural strength and we need to lift our game. If we don’t meet these challenges, business will move elsewhere, intellectual property will be licensed rather than owned by Australians and our long-term growth as a nation will be impacted, with severe consequences.

We welcome this new focus, the realignment of what we do now, and the critical adjustment to our policy settings on incentives and taxation.

In creating this publication we do not claim to have all the answers. However, we strongly believe we have something to add to the conversation and the journey we are embarking on.



# Recommendations

<b>Culture and capital</b>	<b>1</b> \$106m Tax incentives for angel investors being a 20% tax offset for investment capped at \$200,000 and a CGT exemption for start-ups	<b>2</b> New arrangements for Early Stage Venture Capital Limited Partnerships	<b>3</b> Predominantly similar losses test to replace same business test for company losses
	<b>4</b> \$80m Intangible assets can be depreciated based on effective life	<b>5</b> \$15m CSIRO Innovation Fund to support start-ups	<b>6</b> \$10m Biomedical Translation Fund funded by reductions in Medical Research Future Fund
<b>8</b> Bankruptcy default period from 3 years to 1 year and safe harbours for insolvent trading	<b>9</b> Limit public disclosure of employee share scheme documents	<b>Collaboration</b>	<b>10</b> \$459m Improve research infrastructure with \$2.3 billion over 10 years
<b>11</b> \$127m Change focus of university research grants driving greater collaboration	<b>12</b> \$26m Five landing pads & international clusters to support Australian entrepreneurs abroad		<b>13</b> \$22m Establish a new Cyber Security Growth Centre to promote Australia as a global leader
<b>15</b> \$15m Support quantum computing centre at UNSW	<b>16</b> \$9m Measuring impact and engagement in \$3.5 billion funded university research	<b>17</b> Australian Research Council applications open to continuous applications which can be fast-tracked	<b>Talent and skills</b>
<b>18</b> \$84m Encourage STEM through prizes; help school students embrace digital age and support women in STEM career choice	<b>19</b> \$1m New Entrepreneur Visa and pathway to permanent residence for post-graduate STEM & ICT	<b>Government as an exemplar</b>	
<b>21</b> \$19m Pilot procurement program to assist SMEs to provide innovative solutions	<b>22</b> \$15m Digital marketplace for SMEs to do business with Government		<b>23</b> \$8m New Innovation and Science Australia to provide strategic whole of government advice

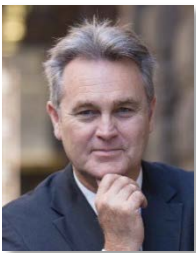
### Main cultural initiatives...

While all initiatives are geared to changing the Australian culture towards innovation, an important cultural change involves modifying the bankruptcy default period from 3 years to 1 year and providing safe harbours for insolvent trading. There will be a change of focus for university funding to promote greater collaboration. The decision of Government to release greater anonymised and aggregate data will also have a significant cultural impact.

### How we perceive failure

KPMG Australia National Chairman Peter Nash welcomes the overhaul of our bankruptcy laws. He recently said:

"We have to start celebrating our entrepreneurs and innovators and embrace those who have tried and failed and are trying again, so they can wear that as a badge of honour. At the moment, you go through that failure scenario and declare bankruptcy. That is a stain on your brand and on your name; that's how we see that in Australia. Rather than saying 'better luck next time', we say, 'well, there won't be a next time'."



### **Bernard Salt, Partner in Charge, Demographics**

#### **A culture of walking the talk**

We Australians talk the talk about enterprise. Indeed, we have a history of enterprise. Nevertheless, we do not consistently walk the talk of enterprise.

We need more than budgetary allocations and getting the tax settings right. We need more than world-class institutions capable of discovering and of commercialising ideas. We need to cultivate a culture of enterprise.

Back in the 19th century, such enterprise was seen as resourcefulness. Clancy of the Overflow was a resourceful, independent, resilient bushman. Today it's a different story. Today there is an anti-business and anti-entrepreneur sentiment. The Americans admire entrepreneurial success. We Australians are deeply suspicious of entrepreneurial success. In order to truly leverage the skills, the energy and the resourcefulness of the Australian people, we certainly do need the right government support mechanisms in funding, education and tax concessions.

But we have to go further. We need government, business, thought leaders and public commentary advocates to champion the idea of Australian entrepreneurship. We Australians have developed a culture of exporting ideas and of importing jobs, for instance, in manufacturing. In the future, we Australians need to develop, and to develop quickly the 21st century skill of creating a business out of an idea.

We Australians need to regard that skill as every bit as valuable as the ability to bat and bowl. Once we have achieved that, there will be no stopping the entrepreneurship of the Australian people.

Evaluating the ‘innovativeness’ of a culture is not easy. It is grounded in career ambitions, fear of failure, family support, collaboration and networking and a deep sense of national image. There have been several attempts to determine the innovation of a culture. One is the Global Entrepreneurship Monitor with latest results from 2014<sup>1</sup>, and one of its measures being entrepreneurial intentions and beliefs. The following table outlines its 2014 results for five selected countries.

## The entrepreneurial spirit

Country	Perceived opportunities	Perceived capabilities	Fear of failure	Entrepreneurial intentions	Entrepreneurship as a good career choice	High status to successful entrepreneurs
Australia	45.7	46.8	39.2	10.0	53.4	67.1
Qatar	63.4	60.9	25.5	50.4	75.8	87.1
Singapore	16.7	21.4	39.4	9.4	51.7	62.9
UK	41.0	46.4	36.8	6.9	60.3	75.0
US	50.9	53.3	29.7	12.1	64.7	76.9
GEM Avge	42.7	51.0	34.2	20.9	62.5	68.1

Source: Global Enterprise Monitor Australia National Report (2014) (Green above average, red below)

It is clear from the table that entrepreneurship is given much higher status in the United States and the United Kingdom where it is also seen to be a much better career choice. We have a much greater fear of failure than the UK in particular, but also the US.

Qatar is an interesting comparison: innovation becomes a greater focus for a connected country where there are limited other opportunities. Thus the number and range of our competitors in the future is likely to grow substantially, but so are the potential markets.

<sup>1</sup> Global Entrepreneurship Monitor, 2014 at <http://www.gemconsortium.org/country-profile/37>

## Innovation Cities Index

There is an Innovation Cities Index which look at 162 indicators to determine a Global Ranking for innovation. Australia has 11 cities in the top 445 cities contained in the index for 2014.

City	Global Rank 2014	Asian Ran 2014
<b>Sydney</b>	17	3
<b>Melbourne</b>	23	5
<b>Brisbane</b>	60	11
<b>Adelaide</b>	160	25
<b>Perth</b>	183	27
<b>Canberra</b>	188	31
<b>Hobart</b>	278	52
<b>Wollongong</b>	306	55
<b>Geelong</b>	308	57
<b>Bendigo</b>	318	60
<b>Newcastle</b>	347	66

Innovation Cities Index 2014

Australia needs cities that are hotspots for innovation. With numerous lifestyle benefits, our cultural diversity and proximity to Asia, we have many natural advantages. But in the latest Innovation Cities Index, Sydney is only ranked 17<sup>th</sup>, Melbourne 23<sup>rd</sup> and Brisbane 60<sup>th</sup> with other Australian cities outside the Top 100. Our target should be that two of our major cities should be in the top 10 for innovative ecosystems generally and we should have another two innovative specialist cities in the top 30.



# Angel investors and venture capital

## Start-up and venture capital initiatives...

The whole plan has a strong focus on start-ups. This includes taxation changes for angel investors, Early Stage Venture Capital Partnerships, an incubator support program and innovation fund monies. The changing manner in which Government undertakes procurement will also provide a significant boost to start-ups.



### Bill Petreski, Innovation, Technology & Strategy

Currently, early-stage venture capital is extremely hard to access in Australia. Australia doesn't have the same mature angel investment infrastructure that exists in the United States, Israel or the United Kingdom. There is a real gap in terms of support for investors and the knowledge they are able to access pales in comparison to the support offered to entrepreneurs. This can be a harsh lesson, especially for young founders who are increasingly interconnected with the opportunities of overseas venture capital (VC) markets.

In Australia, the onus is on entrepreneurs to identify and educate the people who can provide the initial funds they need to start and then grow their business. While there is a growing angel investment community, it still remains a challenging environment for start-ups looking to raise funds.

In the past, this lack of seed capital has meant that far too many start-up businesses meander through their growth stages for some years. As a result, they can fail to develop into a properly structured or corporatised business. They can further fail to adequately 'productise' their services or products to a point where the business is investable or sustainable respectively. This makes growth harder, and far too many good ideas and teams remain trapped in the start-up culture of continuous development – in a loop of piloting products to the point where they lose sight of the real opportunities.

It is these factors and others that mean our start-ups enjoy less commercial success compared to our global peers.

The Australian Innovation System Report 2015<sup>2</sup> supports the challenge faced by early stage businesses seeking to raise capital, be it debt or equity. In summary, some of the findings from this report include:

- Debt and equity finance is more important for innovation active small and medium-sized enterprises (SMEs). Getting access to equity finance is more difficult than debt finance - meaning that a number of potentially innovative high growth businesses are missing out on finance. The equity finance gap is larger than the debt finance gap.
- Total venture capital investment in Australia has declined to 0.017 percent of GDP. This means it ranks much lower than many competitor countries. Unlike in the United States, Israel and many other countries, Australian venture capital investment has not bounced back to pre-global financial crisis (GFC) levels.

<sup>2</sup> Australian Innovation System report, 2015 at <http://www.industry.gov.au/Office-of-the-Chief-Economist>



- The success rate of firms applying for venture capital investment has fallen from three percent in 2005/06 to just over one percent in 2013/14 even though the number of proposals has recovered to pre-GFC levels.
- Australia has the lowest proportion of venture capital invested in high-risk, early stage venture capital (i.e. seed, start-up and other early stage investment) compared with other OECD countries.

The findings of the Australian Innovation System Report 2015<sup>3</sup> mirror those of the StartupAus Crossroads Report 2015<sup>4</sup>, in which it is noted:

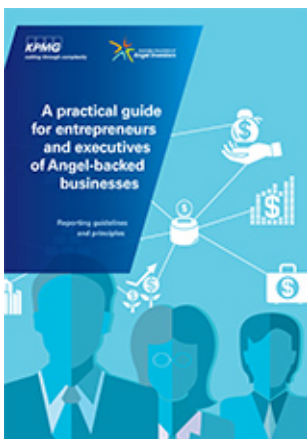
"In Australia, like many other countries, a large proportion of angel investment is done outside of organised angel groups, with such "informal" angel investment typically representing around 10 times the amount of "formal" angel investment in most countries. ...[A]round \$275 million was invested in 2014 by all angel investors in Australia helping to create over 500 new jobs. In contrast, angel investors in the US commit around \$32 billion per annum in 60,000 investments."<sup>5</sup>

The government's focus on capital in the Innovation Statement is most welcome for both potential investors and the high-tech, high-growth, innovation active businesses and proposes to unlock a significant pool of funds for start-ups.

There are a number of initiatives in the statement that will contribute to promoting and ensuring a robust and sustainable investment ecosystem making it easier to access crowd-sourced equity funding, tax incentives for early stage investors (\$106 million), and new arrangements for Venture Capital Limited Partnerships.

The most quantifiable outcomes come in the form of the tax incentives for early stage investors. This is an extremely positive step towards deploying Australia's robust communities of investors, from angel investors to family trusts and family businesses. The incentive proposes a 20 percent non-refundable tax offset on investments capped at \$200,000 per annum which is in the sweet spot for the angel investor community and their ability to support their interest in high-risk investment for early stage business.

The three-pronged approach ensures the pillars are in place for an ongoing and active community of investors that will link in well with the other parts of the Innovation Statement that focuses on collaboration with the wealth of intellectual property and ideas emanating from our researchers and universities.



We have an opportunity to improve the access to risk capital for innovative businesses seeking global growth. In addition to the other key initiatives outlined in this publication, it is important that government and business provide support for a specific accelerator and start-up program.

On the business front, KPMG is leading the way with a [practical guide for entrepreneurs and executives of Angel-backed businesses](#).

<sup>3</sup> Australian Innovation System report, 2015 at <http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/Australian-Innovation-System/Australian-Innovation-System-Report-2015.pdf>

<sup>4</sup> Go to <https://startupaus.org/resources/crossroads-report/>

<sup>5</sup> Ibid.



# Entrepreneurship, landing pads & visas

## Main entrepreneurship initiatives ....

Key here will be the new Entrepreneur Visas, changes on bankruptcy laws, and the new crowd-sourcing rules announced just before the statement. Landing pads in five major cities including Silicon Valley will also assist as well as assistance for international clusters.

## Visas

Drawing talent from overseas will increase our connectedness with other markets and the intensity of our innovation clusters.

There is a clear case for expanding our visa program. In particular we need to focus on science, technology, engineering and mathematics (STEM) skilled researchers and professionals and those with a clear entrepreneurial record.

This will be in addition to our efforts to build our home-grown entrepreneurial skill-base.



### Michael Wall, National Leader, Immigration

It is imperative to recognise that rather than displacing the local workforce, overseas workers make a positive fiscal contribution, add to the talent pool, enable knowledge transfer and through their spending on domestic goods and services, help increase labour demand.

Visa programs can deliver workers to precisely where they are needed in the economy by the businesses who are creating wealth for the country. A sharp slowdown in the number of temporary 457 visas over the last two years has had a clear and adverse effect on the Australia economy.

A streamlining of the visa program to fast-track applicants with additional STEM and entrepreneurial skills would help boost Australia's innovation agenda.

## Connecting Australian innovation with the world

Targeted assistance for Australian originated entrepreneurs seeking to commercialise or progress innovative ideas could be enhanced with the landing pad concept.

New Zealand has had a landing pad project in Silicon Valley since 2011. Australia will now provide landing pads in Silicon Valley, Tel Aviv and three other international cities.



Backed by the global power of Advance and KPMG Australia, [elevate61](#) is a unique program designed to help entrepreneurial Australian companies enter new markets and accelerate their growth overseas. KPMG Australia and Advance created [elevate61](#) to improve the understanding of the challenges critical to success in the enterprise world.

[elevate61](#) is the culmination of the experience gained from Advance's two previous innovation programs combined with KPMG Australia's experience supporting and working with entrepreneurs and other accelerator programs. Advance's innovation programs assisted Australian start-ups to grow globally from Australia with 30 participating start-ups securing investment in Australia and 22 percent of participants securing strategic partnerships in the United States following the program.



### James Mabbott, Head of KPMG Innovate

In [elevate61](#), start-ups learn from some of Australia's best business minds how to overcome cultural nuances, tackle complex business challenges and transform into a globally sustainable company.

The program provides mentorship, education and access to an established premium network of Australian and US corporations, investors and entrepreneurs.

During 12 weeks of learning and inspiration, [elevate61](#) participants fly to the US for the opportunity to meet with potential customers and investors.

Above all, we need to think big as entrepreneurs and aspire to be global. Our economy is not a closed system and so much of our success is dependent on our ability to participate successfully in the global economy. [elevate61](#) gives participants a unique opportunity to rapidly determine market fit in the world's largest and most competitive economy.

Programs like [elevate61](#) are essential in connecting Australian innovation with international markets. This is why the concept announced today of landing pads is so critical to helping our Australian entrepreneurs take their businesses global.

## Main government initiatives ....

These involve changing procurement procedures from a focus on delivery of a service to solving problems. This focuses on SMEs. Also using data analytics and other approaches to connect disparate data sets, providing dealing with government data to allow business to develop commercial opportunities based on sanitised, aggregated data. The plan also involves the creation of a digital marketplace for businesses to deal with Government.

Our various governments represent more than one third of our GDP and are a major source of potential innovation. They play a fundamental role in setting the agenda to allow innovation to prosper.

Innovation can arise from the way a government manages procurement, how it assembles and manages data and how it interacts with the private sector in relation to the use of that data. This requires a profound change in how governments think about what they do and their preparedness to work in a more collaborative manner.

In terms of procurement, it is pleasing to see that the statement reflects a shift away from governments predetermining what services they require in their tender processes and challenging their suppliers to deliver innovative solutions. Rather than being so prescriptive about the solution, governments need to move toward a co-production mindset.



## Michael Hiller, National Leader, Infrastructure, Government & Healthcare

It is pleasing to see the acknowledgement that not only must Government provide leadership regarding innovation – it must be an exemplar.

Government should be a role model in collaboration, providing the necessary investment in key enablers to create the environment to support innovation, and being innovative in the way it delivers its own services.

The vision created by the National innovation & Science Agenda provides the dialog that is so necessary to bring together the disparate aspects of the innovation agenda into one focus: education, talent, collaboration, commercialisation, infrastructure investment and policy reform.

Will it be enough? The key will be co-operation across all levels of Government in a joined up way; and demonstration of genuine collaboration on the part of Government to work with industry to create the future – building on ideas, revisiting regulation, ensuring procurement approaches are flexible, and having a greater appetite regarding risk. This is what citizens expect.

Underpinning all of this is the Government being prepared to commit to performance targets and regular review of performance. This should logically be overseen by the proposed Innovation & Science Australia Board which the Government has announced. As noted in the National Innovation & Science briefing we need to create a culture that backs good ideas and learns from taking risks and making mistake – we would therefore expect that regular review of performance will result in the vision and policy settings being dynamic enough to appropriately respond.

This change will not only allow small companies to enter the fray, bringing new ideas with them, it will provide those companies with the opportunity to market successful solutions globally.

Governments can also leverage their scale to drive innovation in the wider economy by aggregating activities across the whole of the public sector. Governments need to act as role models, embracing the opportunities offered by the digital economy to rethink the way they deliver services. Governments cannot create entrepreneurs but they can develop the most appropriate policy settings which will encourage them to flourish. This includes a mix of incentives, getting the regulation right and providing the appropriate support to those with new ideas.



## **Cath Ingram, Lead Partner, Federal Government**

### **Data an asset to launch innovation**

Australia, like all OECD countries, collects significant statistics for public release. This is achieved mostly through the Australian Bureau of Statistics whose mission is “to assist and encourage informed decision making, research and discussion within governments and the community...” This is undertaken largely in a spirit of open government is good for democracy.

But there is another good which is generally not appreciated. This is how data itself can be a source of innovation and new creative industries. Detailed analysis of medical data from Medicare, for instance, can be the source of new ways of thinking about medical problems and linking new services to patients. Similarly, analysis of traffic data can lead to better infrastructure decisions. Effective use of this data helps to drive evidence based decision making and also facilitates innovation from outside the public services.

Australia lags other developed economies in releasing Government data and this has a significant impact on our ability to compete in the digital economy. It is therefore pleasing to see the effective use of Government data called out as a key initiative. Commissioning a number of demonstration projects would be a very effective way to translate the potential into reality and thus show the significant value there is in the effective use of Government data.



# Education and scientific research

## Main education initiatives...

There has been a refocus on collaboration between the business sector and the university sector. At the community level there is an effort to enhance STEM interest through prizes and Olympiads. For schools there is a focus on the digital age and to encourage women into STEM-based careers.

Science, technology, engineering and maths are critical components of innovation. Yet it is clear that there is a shortage of high quality STEM skilled specialists in Australia. Recent research suggests that there is a continuing decline of enrolments in science and mathematics in our schools.<sup>6</sup>

Of course, arts and humanities also play an important role in innovation. Commercial opportunities arise when we think creatively; leaving behind conventional wisdom. Often this is grounded in a culture of dissent. Moreover, creative industries such as film, music, design and publishing, with a focus on the customer experience, can be an essential part of commercialisation, as can cognitive psychologists, sociologists, and linguists.

Education, like health, is a good in its own right and not simply useful for what it contributes to economic life. But contribute it does and we need to be mindful of our STEM skill 'blockages'. While there are gaps in our STEM pipeline, there are, rather oddly, problems at the other end as well. As the Australia's Chief Scientist has said in his submission to the Senate Inquiry into the Innovation System: "...very few businesses offer positions to research trained staff. Less than one in three (30 percent) Australian researchers work in industry; half the OECD average (60 percent) and substantially less than the US, where four out of every five researchers are in the business sector. The restricted pathways for workers with higher skills, particularly at early career stage create a significant risk of brain drain."<sup>7</sup>



## Elise Wherry, National Leader, Education

### Science, Technology, Engineering, Mathematics

Highly developed STEM skills will be required not only to deliver the research and technology that Australia will need to compete in the future global economy, but also to tackle the challenges that we face around natural resource management, the changing urban environment and sustainable growth.

These skills need to be developed right through an individual's education, from pre-school foundations through to high-impact university level teaching and research.

How do we go about lifting the interest in STEM?

The advent of new and exciting technologies like 3-D printing and accessible robotics provide new in-roads to tap into the intrinsic motivation of young people to experiment and explore. This inspirational subject matter needs to be delivered through inspirational teaching methods.

Think about the best customer experiences. Likewise our education sector has plenty of opportunities to explore how we can put the student and their needs at the centre to create a more engaging environment.

<sup>6</sup> Kennedy, Lyons & Quinn, The continuing decline of science and mathematics in Australian high schools, at [http://eprints.qut.edu.au/73153/1/Continuing\\_decline\\_of\\_science\\_proof.pdf](http://eprints.qut.edu.au/73153/1/Continuing_decline_of_science_proof.pdf)

<sup>7</sup> <http://www.chiefscientist.gov.au/2014/07/senate-inquiry-submission-australias-innovation-system/>

## Main collaboration initiatives announced in the Innovation Statement

There are a large number of new direct and indirect collaboration and commercialisation initiatives. These include a new early stage innovation fund, a Biomedical Translation fund, an Incubator Support Program and a new research block grant funding which gives equal emphasis to success in industry and research quality. There is also a new innovation connections program to encourage collaboration between academia and industry and a program to access project funding faster via a fast-track process.

There are several new measures to make it easier for SMEs to do business with government, modified KPIs for academics and research institutions to align further the importance of commercialising R&D.

Finally the creation of ISA will co-ordinate and give overall strategic direction to Government on all innovation matters and ensure that the measures introduced to encourage collaboration and commercialisation strategies continue to evolve.

There is an evident failure to collaborate on innovation in Australia, as detailed in the table below. Why this is the case is difficult to postulate. Possibly our 'publish or perish' culture in academia has led to a focus away from the private sector.

Solutions to the problem include adjusting the KPIs of academics and institutions such as the CSIRO and grants provided by bodies such as the Australian Research Council to include collaborative and possibly commercialisation elements in relevant circumstances. It is possible to link R&D incentives to collaboration with institutions. The Danish have an interesting voucher system which allows certain SMEs to spend up to approximately \$100,000 on collaborative projects at universities.



### Dr Helen Sant, Research & Development

The most striking feature of the Australian innovation landscape is the lack of collaboration between the university sector and business. There is a missing link here. More needs to be done to bridge the business and academic cultures.

In the UK, Europe and the US, there is greater awareness of what business and academia are each doing. This is immensely beneficial for research, commercialisation and career paths for those involved in science in particular.

The table below shows how poorly Australia rates on collaboration. This is particularly stark when considering the level of collaboration between Australian companies and universities.

### Going it alone

	Australia	OECD+* Average	Australian rank
Innovation-active SMEs with collaboration	24%	32%	24th of 29
Innovation-active large co. with collaboration	33%	56%	29th of 31
Innovation-active businesses international collaboration	6%	18%	24th of 27
Innovation-active SMEs collaborating with universities	2%	14%	26th of 26
Innovation-active large co. collaborating with universities	3%	37%	26 <sup>th</sup> of 26

Source: Australian Innovation System Report 2015 p. 115 Data from 2010 \*China, Taiwan, Singapore

Such collaboration is not without its inherent dangers however. Some argue that the involvement of business too early in a research project can stifle progress by cutting off potential paths of development. This could only ever be evaluated on a case-by-case basis and one should remain mindful of the risks.





# Funding, taxation and R&D

## Main income taxation initiatives ....

The main income tax initiatives include increasing access to company losses; changes to acquired intangible asset depreciation; and relief on disclosure requirements on employee share schemes.

Company loss rules are relaxed such that the 'same business test' is modified to allow access to past year losses even when new transactions or business activities are undertaken. A new 'predominantly similar business test' will be introduced, such that the companies will be able to access losses where their business, while not the same, uses similar assets and generates income from similar sources.

A new option will be provided for businesses to self-assess the tax effective lives of certain acquired intangibles assets (such as patents) to align with the economic lives, in addition to the existing statutory effective life option. The new option will apply to assets acquired from 1 July 2016.

Getting the funding and taxation policy settings right can make a significant difference to the innovation environment.

The most common approach internationally, and one adopted in Australia, is the R&D tax incentive. Government has sought to limit the R&D incentive in recent times by placing a \$100 million cap on the R&D that can be subject to the concession.

It is pleasing that the Government has not sought to erode or constrict the R&D tax incentive further. Maintaining the existing incentives encourages industry to invest in innovation within a stable environment. The creation of an independent body (Innovation and Science Australia) to provide strategic advice to the Government for the better planning and use of Australia's investment in research and development demonstrates an ongoing commitment to driving industry "additionality" and collaboration.

Leaving aside R&D, by international standards, there have been a number of tax impediments to the growth of innovative businesses. Our employee share plan rules, though changed in recent times, are not as generous as many comparable OECD countries.

Angel investors will receive tax incentives at 20% tax offset on investment capped at \$200,000 per investor per year, as well as a 10 year exemption on capital gains tax if held for three years. New arrangements for Early Stage Venture Capital Limited Partnerships will be introduced where partners will receive a 10% tax offset on capital invested, with expanded fund size to \$200 million and flexibility to keep the business even exceeding \$250 million. A new 'predominantly similar losses test' will be introduced to replace Same Business Test for company losses. Intangible assets acquired can also be depreciated based on economic life by self-assessment.



## **Grant Wardell-Johnson, Australian Tax Centre KPMG**

### **Going beyond the Innovation Statement**

A new Innovation Company could be established which would seek to assist in reducing the movement of innovative businesses offshore and provide much needed cash to pay salaries during the start-up phase. Innovation companies in a start-up phase are generally short of cash and find funding difficult in the \$2 million to \$40 million range. One asset that most innovation companies have is tax losses. This is a mechanism to monetise the tax losses.

Key features are that the innovation company would be able to transfer losses to another company. The transferable loss would be limited to 70 percent of the amount of salary expenditure. Full consideration would be paid for the loss at the 30 percent tax rate.

In order to be able to receive the benefit of a transferred loss an equity investment of the multiple of the loss, (say, five times) must be made for at least two years. If the two-year investment period is not met, the loss transfer is effectively reversed in the year that the two-year rule is broken. A cap on the maximum amount of a transferable loss would be set, say, at \$5 million.

The two main advantages with the above approach is that the concession follows the commercial decision to invest (and government is not picking winners) and that it promotes salary expenditure (which will be assessable at marginal rates).

On crowd-funding, the government has introduced legislation which will allow unlisted public companies with less than \$5 million in assets and less than \$5 million in annual turnover to raise up to \$5 million in funds in any 12-month period.

## **Closing Remarks**

We see the government's statement as a positive step forward and while there will always be more to do, it's important that all stakeholders get on board to deliver on this vision. An area we would like to see more detail on is how we will measure success – what are the KPI's, goals both short term and long term that will measure our progress towards a more innovative country?

We would encourage all stakeholders to seize the initiative and work together to assist everyone from investors, to start-ups to scientists to government to find our innovation mojo.

Contact us

**Peter Nash**  
**Australian Chairman**

+61 3 9288 5613  
pnash@kpmg.com.au

**Gary Wingrove**  
**Chief Executive Officer**

+61 2 9335 8225  
gwingrove@kpmg.com.au

**Ken Reid**  
**National Managing Partner – Brand and Innovation**

+61 2 9455 9006  
kenreid@kpmg.com.au

**Grant Wardell-Johnson**  
**National Leader, Australian Tax Centre**

+61 2 9335 7128  
gwardelljohn@kpmg.com.au

**James Mabbott**  
**Head of Innovation Services**

+61 2 9335 8527  
jmabbott@kpmg.com.au

**David Gelb**  
**National Leader, R&D and Tax Incentives**

+61 3 9288 6160  
dgelb@kpmg.com.au

**Michael Hiller**  
**National Leader, Infrastructure, Government and Healthcare**

+61 7 3233 3299  
mhiller1@kpmg.com.au

**Cath Ingram**  
**Lead Partner, Federal Government**

+61 2 6248 1209  
cjingram@kpmg.com.au

**Bill Petreski**  
**Innovation, Technology & Strategy**

+61 3 8663 8615  
bpetreski@kpmg.com.au

**Bernard Salt**  
**Partner in Charge, Demographics**

+61 3 9288 5047  
bsalt@kpmg.com.au

**Dr Helen Sant**  
**Research and Development**

+61 3 9288 6094  
hsant1@kpmg.com.au

**Michael Wall**  
**National Leader, Immigration**

+61 2 9335 8625  
mwall2@kpmg.com.au

**Elise Wherry**  
**National Leader, Education**

+61 3 9288 5667  
ewherry@kpmg.com.au

[www.kpmg.com.au](http://www.kpmg.com.au)

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2015 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Liability limited by a scheme approved under Professional Standards Legislation.

December 2015