AUSSIE ANGELS

Submission to Treasury

Capital gains tax reforms: arrangements for innovative start-ups

Consultation on the proposed Innovative Business CGT Concession (IBCC)

Submitted by Aussie Angels

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About Aussie Angels

We represent a community of over 3,300 wholesale investors and more than 50 syndicates and small venture capital funds.

Aussie Angels supports angel syndicates and small venture capital funds to operate. We provide a platform that manages the admin and compliance involved with running a syndicate or VC fund.

For investors, we make it possible to find and join syndicates, get access to exclusive startup funding rounds, and invest deal-by-deal in early-stage technology companies, with cheques as small as $2,500. For syndicate and fund leaders, we provide a low-cost way to pool capital from their networks and run a syndicate or fund without carrying the full weight of licensing, structuring and compliance themselves.

To date we have helped our community deploy over $70 million in capital into more than 300 early-stage Australian companies. Those companies today represent over 3,500 jobs.

We are giving more Australians the opportunity to participate in the venture economy, and giving startups the resources they need to build the next world-changing company. That mission is why this consultation matters so much to us. The investors we represent are, overwhelmingly, the direct early-stage backers this concession is meant to reach: individuals writing their own cheques into young, risky, innovative companies and holding for the long term. How the Innovative Business CGT Concession is designed will shape whether they keep doing so.

Introduction

We welcome the Government's recognition, through this consultation, that innovative startups need distinct treatment under the CGT reforms. The decision to preserve a 50% discount for early investment in innovative companies, through the proposed Innovative Business CGT Concession (IBCC), is a meaningful and constructive step, and we thank Treasury for the opportunity to contribute to its design.

Our position is straightforward. The IBCC is the right vehicle. It is the appropriate way to make sure the CGT reforms do not inadvertently withdraw support from the earliest, riskiest and most nationally valuable form of private investment. But as currently drafted, several of its parameters do not fit how early-stage investment actually works, and in their current form they would leave much of the intended benefit out of reach of the very investors it is designed for. The changes we recommend are targeted and, in most cases, low-cost. Several of them simply ask the Government to be consistent with positions it has already taken elsewhere in the same Budget, or with well-established international precedent.

We have focused this submission on the seven consultation questions, and on the aspects most relevant to our community: the direct angel investors, syndicates and small funds who back Australian startups at the earliest stages. We also note our strong alignment with the submission of the Tech Council of Australia, and we support its recommendations on the core parameters of the concession.

In developing our recommendations, we have been guided by the same values we brought to our previous submissions, which we believe align with the Government's own stated goals:

- **International competitiveness.** Australia competes globally for founders, capital and talent. Our settings for early-stage investment need to be at least as attractive as those in the jurisdictions we compete with, particularly the United States, whose Qualified Small Business Stock rules we refer to throughout this submission.

- **Administrability and certainty.** A concession is only as good as an investor's ability to rely on it at the moment they commit capital. Several of our recommendations are directed at making the IBCC workable in practice, not just on paper, and at avoiding compliance burdens that would fall on companies, investors and the administering agencies alike.
- **Non-discriminatory impact.** Consistent with the Government's commitment to gender-responsive budgeting and its stated intention to assess how policies affect women and men differently, we have considered how the design of the IBCC would affect under-represented founders and investors. As we set out below, some features of the current design would have a disproportionate impact on women, and some of our recommendations would reduce that impact.
- **Supporting productivity and growth.** These reforms have been framed around productivity. We have tested the IBCC's design against that goal, and where a feature would divert effort into unproductive compliance activity rather than into building companies, we have proposed an alternative.

We set out our recommendations in summary below, followed by detailed responses to each of the seven consultation questions.

Summary of key recommendations

The following table summarises our recommendations. Detailed explanations for each are provided in the sections that follow. Where we have a clear first preference but recognise the Government may retain its proposed approach, we have set out both our primary recommendation and a fallback.

#	Consultation question	Our recommendation
Q1	Is the IBCC an appropriate arrangement?	Support the IBCC in principle. Its effectiveness depends on the parameter changes below, and on resolving a cross-cutting problem of administrability and certainty (see Q4). Investments already committed should retain the tax treatment that applied when they were made (see Q7).
Q2	Do the 10-year age limit and $50m turnover threshold appropriately target small innovative startups?	Index the turnover threshold to approximately $75 million, reflecting CPI growth since the $50m figure was set in 2015. Lift the age limit to 15 years as a baseline. Consistent with the Government's decision to index the ESVCLP and VCLP thresholds in the same Budget, and with the Tech Council of Australia.
Q3	What criteria for a longer 15-year age limit would suit biotech, medtech and deep tech?	Support a longer age limit for genuinely long-gestation sectors and defer to sector-expert submissions on the specific criteria. Whatever criteria are adopted, define eligibility by objective, already-administered markers such as R&DTI history rather than sector labels alone.
Q4	Are the proposed innovation principles appropriate and workable?	First preference: replace the principles-based test with an objective test, a company qualifies if it has received the R&D Tax Incentive or issued qualifying ESS interests at any point before exit. If the principles are retained: add the objective test as an alternative safe-harbour pathway. If retained as the sole test: confirm self-assessment; keep any certainty mechanism genuinely optional; assess eligibility once when the investment is made, not annually; confirm the ESIC entry thresholds do not apply; and provide a statutory safe harbour.

#	Consultation question	Our recommendation
Q5	Is the five-year minimum holding period appropriate?	Reduce the minimum holding period to three years, with a QSBS-style taper providing partial benefit from year three, and a shorter period for employee equity. Consistent with the Tech Council of Australia and international practice.
Q6	Does a $10 million lifetime cap appropriately balance support with proportionality?	Replace the $10 million lifetime cap with a per-company structure modelled on US QSBS: the greater of a dollar floor or 10 times capital invested, per company per holder. Rewards capital genuinely at risk and avoids penalising serial founders and active angels.
Q7	Are the transition arrangements for shares issued before 30 June 2027 appropriate?	Grandfather all previously committed startup investments, preserving the tax treatment in place when the investment was made. The proposed conditional transition should not require previously made investments to re-qualify under the new tests.
Other	Maintaining ESIC	Index and update the ESIC early-stage thresholds in parallel with the introduction of the IBCC. ESIC has stood alongside the 50% discount for a decade and remains a distinct and essential pillar of early-stage support. Recommended figures at Appendix D.

Detailed responses to consultation questions

Q1. Does the IBCC provide an appropriate arrangement to support innovative startups?

Yes. We support the IBCC as the appropriate mechanism to ensure the CGT reforms do not inadvertently withdraw support from early-stage investment in innovative Australian companies. Preserving a 50% discount for this narrow and economically important category of investment is the right decision, and a workable concession is far preferable to either removing the discount entirely or attempting to address startups through the general indexation model, which does not suit the way early-stage returns are realised.

Our support is qualified in two respects, which shape all of our detailed responses below.

First, the value of the concession depends entirely on its parameters. A concession can exist on paper but be out of reach in practice: if its thresholds are set too low, its holding period too long, its cap too blunt, or its eligibility test too uncertain, it will not achieve the Government's objective. Our recommendations at Q2 to Q6 are directed at making sure the concession actually reaches the investors and companies it is intended for.

Second, and cutting across the whole design, is the question of administrability and certainty. An investor decides whether to commit capital at a single point in time, at the moment of investment. If eligibility for the concession cannot be determined with confidence at that moment, and instead depends on assessments, rulings or judgments that may be made or revisited later, then the concession does not do its job, because it does not change the investment decision it is meant to encourage. We return to this at Q4, which we regard as the most important of our recommendations.

Underpinning both points is a principle of certainty for investments already made. Investors commit capital to startups on the basis of the tax treatment in place at the time. Many of the investments made by our community in recent years will not be realised until well after the reforms commence. It is essential, for confidence in the entire early-stage asset class, that investments already committed retain the tax treatment that applied when they were made. We address this in detail at Q7, but note it here because it is fundamental: retrospective change to the treatment of decisions already taken would do lasting damage to investor confidence, well beyond the specific investments affected.

Q2. Do the proposed 10-year age limit and $50 million turnover threshold appropriately target small, innovative startups?

Not as currently set. Both thresholds are reasonable in structure but are calibrated too low, and in the case of the turnover threshold, the figure has been left to erode.

The $50 million turnover threshold should be indexed to approximately $75 million. The $50 million figure is not new. It is drawn from the employee share scheme start-up concession settings established in 2015. Left unindexed for a decade, it has lost a substantial part of its real value, and a growing number of genuinely early-stage, high-growth companies now reach $50 million in turnover while still being exactly the kind of company the concession is meant to support. Adjusting for CPI growth since 2015 brings the threshold to approximately $75 million. We recommend the threshold be set at that level and indexed thereafter.

This recommendation is one of consistency, not special pleading. In the same Budget that proposed these reforms, the Government moved to lift the thresholds for the ESVCLP and VCLP regimes, expressly to account for the erosion of their real value over time. The same logic applies here. It would be inconsistent to index the fund-side thresholds while leaving the equivalent company-side threshold frozen. This is also consistent with the recommendation of the Tech Council of Australia.

The figure is not arbitrary. The United States, in its July 2025 reforms, moved the equivalent small-business threshold in its Qualified Small Business Stock regime from US$50 million to US$75 million, indexed for inflation. The benchmark regime we most often compete with for founders and capital has independently landed on the same number we recommend here.

We note that the same indexation logic applies to the ESIC eligibility thresholds, which have been frozen since 2016. We address this at "Other comments and recommendations" below.

The 10-year age limit should be lifted to 15 years as a baseline. A hard 10-year limit arbitrarily excludes companies that take longer to reach scale, or that formed early and pivoted, or that spent years in research before commercialising. This penalises exactly the patient, ambitious companies the reform should reward. A 15-year baseline better reflects the timeframes over which real innovative companies mature, and aligns with ESVCLP settings. We address the case for a longer limit for specific sectors at Q3.

Summary of recommendations for Q2:

- *Set the aggregated turnover threshold at approximately $75 million, indexed to CPI from the 2015 base, and index it going forward.*
- *Lift the baseline age limit from 10 to 15 years.*

Q3. What eligibility criteria would be appropriate for a longer 15-year age limit (biotech, medtech, deep tech)?

We defer to others on the sector-specific detail of this question. The appropriate scientific and commercial criteria for identifying genuinely long-gestation biotech, medtech and deep tech companies fall outside our area of expertise, and organisations closer to those sectors are better placed to advise on them. We support the adoption of a longer age limit for these sectors in principle, and encourage Treasury to give weight to submissions from bodies with direct expertise in them.

We make one observation from our own area, which is administrability. However the longer limit is scoped, we encourage Treasury to define eligibility for it by reference to objective, already-administered markers rather than sector labels alone. Sector definitions create boundary problems and disputes about which companies fall inside them. An objective marker, such as a history of receiving the R&D Tax Incentive, identifies companies engaged in genuine, sustained research and development regardless of how their sector is labelled, and does so using information the company and the ATO already hold. This is consistent with our primary recommendation at Q4.

Summary of recommendations for Q3:

- *We support a longer age limit for genuinely long-gestation sectors and defer to sector-expert submissions on the specific criteria.*
- *Whatever criteria are adopted, define eligibility by reference to objective, already-administered markers such as R&DTI history rather than sector labels alone.*

Q4. Are the proposed innovation principles appropriate and workable?

The innovation principles are not, in our view, workable as the basis for accessing the concession, and we recommend they be replaced with an objective test. We set out our reasoning, then our primary recommendation, then two fallback positions in case the Government retains the principles in whole or in part.

The problem: a subjective test cannot deliver certainty at the moment of investment

An investor decides whether to invest at a single moment. For the concession to influence that decision, the investor must be able to know, at that moment, that the investment will qualify. The proposed innovation principles, carried over from the ESIC regime, are a subjective, judgment-based test. Whether a company satisfies them is a matter of interpretation, and reasonable people, including experienced fund managers and advisers, can and do read them differently. A test of this kind cannot, on its own, give an investor the certainty they need at the point of investment.

The certainty mechanism: mandatory or optional, the effect is the same

The consultation paper is not fully clear on whether establishing innovation status requires a determination from the Department of Industry, Science and Resources (DISR), or whether such a determination is optional. The paper describes companies keeping records to demonstrate how they meet the principles, and separately notes that consideration could be given to allowing companies to seek a binding finding from DISR for certainty. We would welcome clarification of the Government's intent, and we make our recommendation robust to either answer:

If a determination is intended to be mandatory in order to access the concession, it introduces a recurring assessment requirement across a large and growing share of the startup population, which we address below.

Even if a determination is intended to be optional, the experience of the ESIC regime tells us what will happen in practice. Under ESIC, eligibility is self-assessed. Yet because the test is subjective, investors routinely seek the comfort of a private ruling before committing, and founders feel compelled to obtain one to close their round. An “optional” certainty mechanism, attached to a subjective test, becomes mandatory in practice through investor demand. The optionality is on paper only.

Either way, the concession comes to depend on a recurring, case-by-case assessment.

The scale of the recurring assessment

To understand the scale of what an annual assessment requirement would create, we have modelled the volume of assessments it would generate. On conservative assumptions, building up from the 390 announced funding deals in 2025, grossing up for the substantial share of angel, pre-seed and bridge rounds that are never publicly announced, and filtering to companies that would be IBCC-eligible, we estimate on the order of two thousand innovation assessments would be required each year, recurring annually for as long as a company continues to raise within the eligibility window. The true figure is likely higher, because announced deals materially undercount actual early-stage raising activity. Industry experts estimate the number of tech startups active in Australia currently sits around 10,000. The full model and its assumptions are at Appendix B; the two assumptions doing the most work are the extent to which unannounced rounds are included and the share of companies that would seek a formal determination.

The burden this represents does not fall primarily on the administering agency. It falls on the companies. Every eligible company that raises capital would need to prepare, document and maintain an innovation assessment, and in practice obtain advice on it, every year it raises, in order to give its investors the certainty they require. This is a new, recurring compliance exercise imposed on the youngest and least-resourced companies in the economy, in return for a CGT outcome that will not crystallise for many years, if at all. For a reform justified on the basis of lifting productivity, this is effort directed away from building companies and toward maintaining eligibility paperwork.

The cottage industry

A subjective test does not only create compliance work; it creates a market. The ESIC regime demonstrates this directly. A cottage industry of advisers already exists whose business is preparing ESIC self-assessments and securing private rulings, precisely because the principles are subjective and the stakes of getting them wrong are high. Reputable firms actively market these services, recommending that companies obtain a binding ruling given the subjective nature of the test. This is work that, by the regime's own design, companies are supposed to be able to do themselves. The IBCC, by importing the same subjective principles and attaching a far larger prize (concessional CGT treatment at exit) to them, would deepen this market, not avoid it. Every dollar a founder pays an adviser to secure innovation status is a dollar not spent on product, hiring or customers.

An objective test is not only simpler, it is harder to game

We anticipate a concern that an objective test would be easier to exploit than a principles-based one. The opposite is true. A principles-based narrative can be written persuasively for almost any company by a competent adviser; that is what a paid advisory market does. An objective test anchored in facts, whether a company has received the R&D Tax Incentive, or has issued employee share scheme interests under the existing start-up concession, is far harder to fabricate, because each is a real, externally administered event with its own integrity rules and its own consequences. Objective but real is harder to game than subjective but argued.

Our primary recommendation: replace the principles with an objective test

We recommend that a company be treated as innovative for the purposes of the IBCC if, at any time before the disposal of the relevant shares, it has either:

- received the R&D Tax Incentive; or
- issued employee share scheme interests qualifying under the existing start-up concession in Division 83A of the Income Tax Assessment Act 1997.

This test should be assessed on a lifetime-lookback basis at exit. Assessing it at exit, rather than at the moment each parcel of shares is issued, matters: it means an investor who backs a company at its earliest stage, before it has yet claimed the R&DTI or established its employee share scheme, is not excluded, provided the company goes on to do one of those things before the shares are sold. This protects the very earliest investors, who take the most risk, without weakening the test.

This approach is objective and self-evidencing, requires no ruling and no annual reassessment, and draws its integrity from two regimes the Government already administers. On gaming specifically:

- Passive and property-holding businesses are already excluded by the general disqualifying characteristics and the active-asset test the paper proposes to retain. The objective test operates in addition to those requirements, not instead of them.
- The ESS route relies on the Division 83A start-up concession, whose existing conditions already prevent token issuance: the scheme must be offered to genuine employees on a broad basis, the company must be unlisted, under a turnover ceiling and a company-age limit, must be carrying on a genuine business, and the interests must be issued at genuine market value. These are administered by the ATO today and can be pointed to rather than reinvented.

We note this also makes efficient use of a framework the Government has already chosen to build on: the IBCC already borrows the $50 million turnover and 10-year age settings from the ESS start-up concession. Using eligibility for that same concession as an innovation marker is consistent with the design direction Treasury has already taken.

Fallback 1: if the principles are retained, add the objective test as an alternative pathway. If the Government considers the innovation principles should remain, we recommend the objective test be added as an alternative safe-harbour pathway, so that a company qualifies if it either meets the principles or satisfies the objective test. This takes nothing away from the proposed design. It simply gives companies that can demonstrate an objective marker a certain, low-cost route, and leaves the principles available for the genuinely early company that has not yet triggered either marker. In practice most companies would choose the certain pathway, and the administrative and advisory burden described above would fall away for them.

Fallback 2: if the principles are retained as the sole test, they must at least be made workable. If the principles are retained as the only route to eligibility, the following are necessary to reduce (though they would not eliminate) the problems set out above:

- **Confirm that eligibility is self-assessed,** consistent with the rest of the tax system, and that no determination from DISR or any other agency is required to access the concession.
- **Ensure any certainty mechanism is genuinely optional** and is properly resourced and designed so that it does not become mandatory in practice.
- **Assess eligibility once, by reference to the time the investment is made, and fix it for the life of those shares.** Where the investment is made through a SAFE or convertible note, this is the date the instrument is executed and the funds are provided, not the later date of share issuance. Eligibility should not be re-tested annually or on each subsequent raise. This single change removes the recurring nature of the burden.
- **Confirm that the ESIC entry thresholds do not apply.** The ESIC early-stage test thresholds (the prior-year assessable income and expense limits) should not operate as a gate to the IBCC. A company should not be shut out of the concession because it has grown past those thresholds; that would exclude exactly the successful early companies the concession is meant to reward.
- **Provide a statutory safe harbour.** A company and its investors who self-assess eligibility in good faith, on the information available at the time of issue, should be protected from that assessment being overturned years later at exit. Without this, the uncertainty simply moves from the point of investment to the point of sale.

Summary of recommendations for Q4:

- *Replace the innovation principles with an objective test: the company has received the R&DTI, or issued ESS interests under the Division 83A start-up concession, at any time before exit, assessed on a lifetime-lookback basis.*
- *If the principles are retained, add the objective test as an alternative safe-harbour pathway.*
- *If the principles are retained as the sole test, at a minimum: confirm self-assessment; keep any certainty mechanism genuinely optional; assess eligibility once at investment and fix it; confirm the ESIC entry thresholds do not apply; and provide a statutory safe harbour.*

Q5. Is the proposed five-year minimum holding period appropriate?

No. A five-year minimum is too long, and it works against the concession's own purpose. We recommend a three-year minimum, with a tapered benefit that increases with the holding period.

A five-year cliff excludes a large share of genuine early-stage exits. Early-stage investing does not produce returns on a uniform five-year-plus schedule. A well-constructed early-stage portfolio deliberately contains a range of outcomes and timings, including trade sales and acquisitions that occur inside five years. This is only becoming more pronounced: in the current environment, particularly in AI, strong companies are being acquired earlier, through acqui-hires and strategic acquisitions, than the traditional model assumed. An investor who backs a company at seed and sees it acquired by a larger player at year three or four has provided exactly the patient, high-risk capital the concession is meant to encourage. A five-year cliff denies them the concession entirely, on the basis of a timing decision that was never theirs to make; the exit timing is set by the company and its acquirer, not the minority early investor.

A cliff also penalises secondary sales and mobile employees. Partial secondary sales, where an early investor or founder sells a portion of their holding before a full exit, are an increasingly important source of liquidity and capital recycling in the ecosystem. A hard five-year minimum discourages exactly this kind of partial de-risking. It also disadvantages employees who hold equity through an employee share scheme and change jobs, a normal feature of a healthy, mobile labour market, before the five years elapse.

The proposed five years is out of step with international practice, including the benchmark the paper itself cites. The consultation paper acknowledges that comparable regimes overseas commonly sit in the three-to-five year range. The most directly comparable regime, the United States' Qualified Small Business Stock (QSBS) rules under Section 1202, was amended in July 2025 to remove its five-year cliff and replace it with a tiered holding period: a 50% exclusion at three years, 75% at four years, and the full 100% exclusion at five years. Australia is proposing to adopt a five-year minimum at precisely the moment the United States has moved away from one. If our settings are to remain competitive for founders and capital, we should not impose a longer and blunter holding requirement than the jurisdiction we most often compete with.

Recommendation: a three-year minimum with a QSBS-style taper. We recommend the minimum holding period be set at three years, with the benefit tapered so that a longer hold attracts a greater concession, mirroring the QSBS structure. This preserves the incentive to hold for the long term, since the maximum benefit still accrues to the longest holders, while ensuring that genuine early-stage investors who exit somewhat earlier are not denied the concession altogether. We further recommend a shorter period apply to employee equity, recognising that employee share schemes serve a different purpose and that employee mobility should not be penalised. This is consistent with the recommendation of the Tech Council of Australia.

The holding-period clock should start when capital is committed. Where an investment is made through a SAFE or convertible note, the holding period should run from the date the instrument is executed and the funds are provided, not from the later date the shares are issued on conversion. The investor's capital is genuinely at risk from the moment the SAFE is signed, often a year or more before conversion. Not counting that period would arbitrarily disadvantage the many early-stage investments made through these instruments, and would penalise investors for the timing of a share issuance they do not control.

Summary of recommendations for Q5:

- *Reduce the minimum holding period from five years to three years.*
- *Apply a taper so the concession increases with the length of holding, mirroring the post-2025 QSBS structure (partial benefit from year three, full benefit at five years).*

- *Apply a shorter period to employee equity.*
- *Start the holding-period clock at the date funds are provided, not at later share issuance (in the case where the security purchased is a SAFE or convertible note rather than shares)*

Q6. Does the proposed $10 million lifetime cap appropriately balance support with proportionality and integrity?

The $10 million lifetime cap is the wrong structure. It penalises the investors and founders the ecosystem most needs to retain, and it works against capital recycling. We recommend replacing it with a per-company cap modelled on the QSBS structure: the greater of a dollar floor or ten times capital invested, applied per company, per holder.

A lifetime cap penalises exactly the people who go again. The angel investors and founders who matter most to the ecosystem are the ones who succeed and then reinvest: the second- and third-time founder, and the successful angel who recycles gains into the next generation of startups. A lifetime cap falls hardest on precisely these people. Once a successful founder or angel has used their lifetime cap on a first strong outcome, the concession no longer applies to their subsequent investments, at the very point they have both the capital and the experience to be most valuable to the ecosystem. This is the person most able to relocate to a jurisdiction with better treatment, and a lifetime cap gives them a reason to.

A per-company structure rewards capital genuinely at risk. A cap set at the greater of a dollar floor or ten times capital invested, per company, ties the concession to the amount of capital the investor actually put at risk in each company. This is a better-targeted design than a flat lifetime figure: it scales with genuine investment, it does not reward passive holding of a windfall, and it does not arbitrarily cut off support after a single success. It also aligns the treatment of a serial investor across companies with the treatment of a single large investment, removing the distortion whereby the concession's value depends on whether gains happen to be concentrated in one company or spread across several.

This is the international benchmark. The US QSBS regime applies its cap, the greater of US$15 million (indexed) or ten times basis, on a per-issuer (that is, per-company) basis, not as a lifetime limit. The United Kingdom and Canada use lifetime-capped structures, but the most directly comparable and most generous regime, and the one most relevant to where Australian founders and capital may otherwise go, uses a per-company structure. Adopting a per-company cap keeps Australia competitive with the benchmark regime rather than the more restrictive ones.

The cost of a lifetime cap is paid by the wider ecosystem, not just the individual investor. Because successful angels and founders are the primary source of recycled early-stage capital, a cap that reduces their after-tax proceeds reduces the capital available to flow back into new startups. We have modelled this effect. For a serial investor with several strong outcomes, a $10 million lifetime cap pushes a large share of their gains onto the harsher indexation-plus-minimum-tax treatment, materially reducing the amount available to redeploy. Aggregated across the ecosystem, the difference between a lifetime cap and a per-company structure represents a significant reduction in recycled early-stage capital each year. The model and its assumptions are at Appendix C. As with all our modelling, the assumptions are conservative and clearly labelled; the point is not the precise figure but the direction and scale of the effect, which is unambiguous: a lifetime cap quietly shrinks the future funding pool, which is the opposite of the reform's stated growth objective.

Summary of recommendations for Q6:

- *Replace the $10 million lifetime cap with a per-company cap: the greater of a dollar floor or ten times capital invested, per company, per holder.*
- *This mirrors the US QSBS per-issuer structure and rewards capital genuinely at risk, while avoiding the penalty a lifetime cap imposes on serial founders and active angels.*

Q7. Are the proposed transition arrangements for shares issued before 30 June 2027 appropriate and workable?

No. The proposed transition arrangements are not appropriate, because they apply a new, conditional eligibility test to investments that have already been made. We recommend a simpler and fairer principle: investments committed before the reforms take effect should retain the tax treatment that applied when they were committed.

What the paper proposes, as we read it. The broader CGT reforms are prospective, so gains accrued on existing investments up to 30 June 2027 retain the 50% discount. For the post-2027 portion of the gain on existing shares, however, the concessional treatment is not preserved automatically. Under the proposed transition, an existing investment only retains access to the 50% discount on its future gains if the company satisfies, measured at 30 June 2027, substantially the same eligibility gates as a new investment: it must be unlisted, independent, less than 10 years old, have recorded less than $50 million in turnover in 2025-26, be an active and innovative business, and demonstrate that it met the innovation principles with respect to the 2025-26 income year. The five-year minimum holding period also applies. If we have misread this, we would welcome clarification; but on our reading, existing investments must re-qualify under the new framework to keep their treatment.

Why this is not appropriate. Investors in early-stage companies make an irreversible decision at the time they invest. They commit capital to a risky, illiquid asset that cannot be sold at will, on the understanding of the tax treatment then in place. That treatment is part of the basis on which the risk was accepted. Asking an already-committed investment to satisfy a new eligibility test, one that did not exist when the investment was made, in order to keep the treatment it was made under, is a retrospective change to a settled decision. The investor cannot now act differently; the capital is already at risk.

The conditional nature of the proposed transition makes this worse in three specific ways:

- **It imports the innovation-principles problem retrospectively.** The transition requires the company to demonstrate it met the subjective innovation principles in the 2025-26 income year. Every concern we raised at Q4 about the uncertainty and unworkability of that test now applies to investments already made, and applies to a single, backward-looking year that must be assessed well after the fact.
- **It imports the five-year holding period retrospectively.** The concerns we raised at Q5 apply here too. An investor who committed capital before the reforms, on the basis of the current rules, is now exposed to a five-year cliff on that existing investment.
- **It can fail for reasons unrelated to the original investment.** An existing investment can lose its treatment because the company happened to cross the $50 million turnover line in 2025-26, or is over 10 years old on 30 June 2027, or had a year that is hard to characterise against the principles. None of these bear on whether the investment was a genuine early-stage investment in an innovative company when it was made.

Our recommendation: grandfather existing investments. We recommend that shares issued, and investments committed, before the commencement of the reforms retain in full the CGT treatment that applied at the time they were made. This is the ordinary principle that settled decisions should not be disturbed by retrospective change, and it is the single most important thing the Government can do to preserve confidence in the early-stage asset class through this transition.

We want to be clear about why this matters beyond the investments directly affected. Early-stage investing depends on investors trusting that the rules they invest under will be honoured. If the Government demonstrates, through this reform, that the tax treatment of an early-stage investment can be changed after the capital is committed and put at risk, the damage is not limited to the specific gains reassessed. It raises the risk premium on every future early-stage investment, because investors must now price in the possibility that the treatment they invest under today may be withdrawn tomorrow. A clean grandfathering rule removes that risk and costs the Government little, since these are investments already made under the existing regime, whose treatment the reforms were never intended to target.

If the Government is not willing to grandfather existing investments in full, then at a minimum the transition should not require existing investments to satisfy the innovation-principles test or the five-year holding period, and should not deny treatment to an investment merely because the company has since grown past the turnover or age thresholds. But our clear recommendation is the simpler and fairer one: honour the treatment that applied when the investment was made.

Summary of recommendations for Q7:

- *Grandfather all company investments committed before the reforms commence, preserving in full the CGT treatment that applied when the investment was made.*
- *Do not require already-committed investments to re-qualify under the new eligibility framework (innovation principles, holding period, or thresholds measured at 30 June 2027).*
- *Recognise that retrospective change to settled investment decisions raises the risk premium on all future early-stage investment, well beyond the gains directly affected.*

Other comments and recommendations

Beyond the seven consultation questions, we raise three connected matters that bear directly on whether the reforms achieve their objective.

Maintain and index the ESIC concession alongside the IBCC

The Early Stage Innovation Company (ESIC) concession has stood alongside the 50% CGT discount for a decade, and has been one of the most important pillars of early-stage investment support in that time. It does a different job from the IBCC: ESIC operates at the point of investment, through an upfront tax offset and a capital gains exemption that de-risk the initial decision to back a young company, while the IBCC operates at exit, through the CGT treatment of the eventual gain. These are complementary, not substitutes.

Our concern is that ESIC will be left to erode precisely as the IBCC is introduced, so that what is presented as an expansion of support becomes, in practice, a net contraction. Two things are wrong with ESIC as it stands, and they interact. First, its eligibility thresholds have not been adjusted since the regime commenced in 2016; left unindexed, they capture a steadily shrinking share of genuine early-stage companies each year. Second, and less obvious, eligibility is tested at the time shares are issued rather than when the investment is made, which breaks for the SAFEs and convertible notes used in a large share of early-stage rounds (81%, according to Cake Equity data).

These two problems compound each other. Because eligibility is judged at share issuance, which for a convertible instrument can be a year or more after the money went in, a company that was comfortably within the thresholds when the investor committed capital may have grown past them by the time the shares are issued. Part of what makes the thresholds feel too restrictive, in other words, is that they are tested at the wrong moment. Fixing the timing would itself relieve some of the pressure on the thresholds. We therefore recommend both: correct the timing, and update the thresholds.

On the thresholds, we make a two-part recommendation. At a minimum, they should be indexed for CPI, and on an ongoing basis thereafter, as a matter of simple consistency. Applying CPI growth since the regime commenced (approximately 32% between the June 2016 and September 2025 quarters, on the ABS all-groups series), the $200,000 prior-year assessable income limit would rise to approximately $275,000, the $1 million prior-year expenses limit to approximately $1.3 million, and the $50,000 annual cap for non-sophisticated investors to approximately $65,000. It would be inconsistent for the Government to index the ESVCLP and VCLP thresholds in this Budget, and the IBCC's own turnover threshold as we recommend at Q2, while leaving these frozen.

We recommend going further, however, because the early-stage thresholds were set too low from the outset. Indexation corrects for inflation, but not for the fact that the original 2016 limits were calibrated conservatively and have always excluded companies at the point they begin to gain commercial traction, which is precisely when many are raising and most need investment. A company can earn modest early revenue and still be an unprofitable, high-growth, early-stage startup, yet the $200,000 income limit disqualifies it the moment it does. We recommend the prior-year assessable income limit be raised to $1 million and the prior-year expenses limit to $2 million. These levels better reflect the financial profile of a genuine early-stage company today. The substantive increase is our primary ask; CPI indexation is the floor below which the thresholds should not, on any view, be allowed to fall. Figures on both bases are at Appendix D.

On timing, eligibility should be assessed when the investment is made, the date a SAFE or convertible note is executed and the funds are provided, rather than at the later date of share issuance, so that an investor committing capital through a convertible instrument has certainty of treatment at the moment they commit. This aligns ESIC with the treatment we recommend for the IBCC.

Summary of recommendations for ESIC:

- *Raise the prior-year assessable income limit to $1 million, and at a minimum index it (to ~$275,000) so it cannot fall below its real 2016 value.*
- *Raise the prior-year expenses limit to $2 million, and at a minimum index it (to ~$1.3 million).*
- *Index the non-sophisticated investor cap to approximately $65,000.*
- *Amend the eligibility test to apply when the investment is made (the date a SAFE or convertible note is executed and funds provided), not at later share issuance.*

Clarify how accrued gains will be measured at 30 June 2027

The transition treats gains accrued up to 30 June 2027 as retaining the 50% discount, with gains accruing after that date subject to the new treatment. For listed securities with an observable market price, apportioning the gain across that date is straightforward. For shares in unlisted early-stage companies, which have no market price and are typically valued only at the point of a new funding round or an exit, it is not. We ask that Treasury clarify the practical basis on which the accrued gain on unlisted startup shares is to be measured at 30 June 2027, and that any such rule avoid imposing costly valuation exercises on companies and investors. This concern would be resolved entirely by the grandfathering recommendation at Q7.

Disparate impact on women founders and investors

The design of the IBCC would have a disproportionate impact on women founders and investors. We raise this not only as a matter of equity, but because it goes directly to the capital efficiency and productivity objectives the reforms are intended to serve. The Government has committed to assessing how its policies affect women and men differently, and the analysis below is offered in that spirit.

The compliance burden of a subjective test falls hardest on the smallest raises, which are disproportionately companies led by women. As we set out at Q4, a subjective innovation test generates recurring compliance and advisory costs for companies seeking to give their investors certainty. These are, in large part, fixed costs: the cost of preparing an assessment or obtaining a ruling does not scale down in proportion to the size of the round. A fixed cost is a trivial fraction of a large raise and a punishing fraction of a small one. The data show that women founders raise materially smaller rounds. According to the State of Australian Startup Funding 2025 report, the median deal size in 2025 was $3.5 million for all-male founding teams, $2.2 million for mixed teams, and just $500,000 for all-female teams. A fixed compliance cost that is negligible against a $3.5 million round is a real deterrent against a $500,000 one. A subjective test therefore does not fall neutrally; it falls hardest on the founders already raising the least.

A lifetime cap and low thresholds compound the same effect; a per-company structure helps correct it. Our recommendation at Q6 to replace the lifetime cap with a per-company structure scaled to capital invested is relevant here. A structure that scales the concession to the capital actually put at risk is fairer to smaller rounds and smaller cheques than a flat lifetime ceiling, which is most valuable to the largest outcomes. Because women founders and investors are, on the current data, systematically associated with smaller rounds and smaller cheques, a design that scales with genuine investment rather than rewarding the largest windfalls narrows the disparity rather than widening it.

The current funding distribution shows why this matters. The same report found that teams with at least one female founder attracted 24% of capital in 2025 but only 20% of deals, and that all-female teams accounted for 8% of deals but just 2% of capital. Even the relatively favourable 24% figure is concentrated in a very small number of companies: the five largest female-founded startups captured 79% of all capital raised by female-founded teams, leaving the remaining companies to share a small fraction. Women's participation is strongest at the earliest stages and falls away at later, larger stages. This is the point in the funding journey, the earliest stage, at which the IBCC and its compliance requirements bite most directly, and at which added friction does the most damage.

An objective test is more accessible than a subjective one. A subjective, judgment-based test rewards those with the best access to advisers and the deepest familiarity with government processes. The evidence that women founders have, on average, less access to established investor and adviser networks is well documented. An eligibility test based on objective, documented facts, whether a company has received the R&D Tax Incentive or issued qualifying employee share scheme interests, is equally accessible to every founder regardless of their networks. Our primary recommendation at Q4 therefore reduces this disparity as a direct consequence of making the test objective.

We do not suggest any of these features were intended to disadvantage women. The point is that, as designed, they would, and that several of the changes we recommend on other grounds, an objective eligibility test and a per-company cap, would also reduce that disparate impact. We would encourage Treasury to consider this dimension explicitly in finalising the design.

Summary of recommendations:

- *Recognise that a subjective eligibility test imposes fixed compliance costs that fall hardest on the smallest raises, which are disproportionately those of women founders.*
- *Adopt the objective eligibility test (Q4) and the per-company cap (Q6), both of which reduce the disparate impact on women founders and investors.*

Closing

We thank Treasury for the opportunity to contribute to the design of the Innovative Business CGT Concession, and we welcome the constructive step this consultation represents. We have made our recommendations in the spirit in which we understand the reform to be intended: to ensure that Australia continues to support the earliest and riskiest form of private investment in the innovative companies that drive productivity, employment and growth.

Our recommendations are, in most cases, low-cost, and several ask only that the Government apply consistently the logic it has already adopted elsewhere in this Budget or that is already settled in comparable jurisdictions. Taken together, they would make the difference between a concession that reaches the direct early-stage investor in practice and one that reaches them only on paper.

We would welcome the opportunity to discuss any aspect of this submission, to walk Treasury through the supporting models, or to provide further data from our community of investors, syndicates and funds. Members of our community who support this submission are listed at Appendix A, and a number of them may also lodge submissions of their own.

Yours sincerely,

Cheryl Mack
CEO and Co-founder, Aussie Angels

Appendices

Appendix A. Supporters and endorsements

The following members of the Aussie Angels community, and organisations active in the Australian startup ecosystem, support the recommendations set out in this submission.

We recognise and support the submissions of:

- *Tech Council of Australia*
- *CAIIF*
- *Blackbird*
- *TEN13*

Organisations supporting this submission

- *Advance VC*
- *Startmate*
- *Black Nova Venture Capital*

Individuals supporting this submission

Name	Role	Syndicate / fund / company	Statement (optional)
Ben Simai	Head of Investments	Startmate	
Zach Rose	CEO	TalentStack	
Dren Xerxa	Director	LX Health	
Rob Nathan	Syndicate Lead & Angel investor	Curtin Angel Syndicate	This is critical for us.
Nick Tonkin	Investment Manager	Black Nova VC	
Simon Mckendry	Director	Cut Through Venture	
Matt Allen	Partner	Tractor Ventures	Genuinely strong work. The objective R&DTI/ESS test is the standout, and the grandfathering argument is the one that actually matters.
Matt Joass	Investor	Maven Funds Management	If I were King for a day the only thing I'd be pushing further on is an even higher revenue limit on ESIC, even $1m is still early.
Harry Clark	Angel Investor	Cynthio	Harry Clark supports Aussie Angels' submission and its QSBS-informed recommendations to make the IBCC more certain, internationally competitive, and workable for the early-stage investors Australia needs to keep backing innovative startups
Tracie Clark	Syndicate Lead & Angel Investor	NXT VNTR	Additional complexity and uncertainty around tax treatment and ESIC eligibility

Name	Role	Syndicate / fund / company	Statement (optional)
			will add friction to attracting investors in an already high-risk space, and will only deter the flow of funds to a sector that's essential to productivity and growth.
Max Kausman	Partner	Advance VC	
Daniel Gavel	Partner	Black Sheep Capital	
Mick Liubinskas	CEO	Climate Salad	
Mat Voller	Syndicate Lead	Pinery Capital	Very well argued.
Harry Hoang	CEO	Tailored Accounts	
Dom Pym	Founder & Investor	Euphemia/Up Bank	I am very supportive of Aussie Angels' broader position that the proposed IBCC should better reflect how startup investment, angel investment, founder equity, employee ownership, and capital recycling actually work in practice, especially because it provides a broader industry lens and specific metrics Treasury can use to benchmark the initial IBCC design and implementation.
JJ Wang	Director	Volta Ventures	
Adrian Bunter	Angel investor	Modus Partners	As an additional structure/incentive, I believe there should be a general roll-over gain deferral such that any gain should be able to be deferred and rolled-over if it is reinvested within say 2-3 years (similar to the existing small business rollover exemption which provides 2 years to re-invest in a new business).
Toto Boutdara	Investor	Young Investors Circle	
Alan Jones	Angel Investor & Syndicate Lead	M8 Ventures	
Zach Burridge	Angel Investor	Private Capital	
Andrew Sanders	Investment Manager	Hyper Ventures	
Joshua James	Angel Investor		
James Zhong	Angel Investor		
Ryan Legudi	Angel Investor		
Alexander Lewis	Angel Investor		

Name	Role	Syndicate / fund / company	Statement (optional)
Sinead Fitsgerald	Angel Investor & Syndicate Lead		
Sasha Ried	Angel investor	Hyper Startup Studio	I support these recommendations as practical changes that will encourage more investment into Australian startups.
Vinko Grgic	Angel Investor		
Thomas Worden	CFO & Angel Investor	Standard Ledger & Aussie Angels	
Alex Knight	Director & Angel Investor	Advanced	
Stew Glynn	Investments	TEN13	
Don Mckenzie	Partner	Tribe Ventures	
Aaron Birkby	Partner	Tribe Ventures	
Trenna Probert	Fund Manager		
Barry Winata	Angel Investor		

Appendix B. Administrative throughput model

This model estimates, very conservatively, the annual volume of innovation-eligibility assessments an annual-status requirement would generate. It builds the eligible, capital-raising population from published deal activity, then applies the recurring annual requirement. Inputs (blue in the source workbook) are shown in italics; all other figures are calculated. Full working file: Aussie_Angels_IBCC_Models.xlsx.

A. Estimating the eligible, capital-raising population	
Announced equity deals, 2025 (Cut Through / Folklore)	390
Uplift for unannounced / unpriced early rounds	3.0×
Estimated total companies raising equity per year	1,170
Share that would be IBCC-eligible	80%
Estimated eligible companies raising per year	**936**
B. Annual assessment volume under an annual-status requirement	
Eligible companies raising per year (from A)	936
Average years a company keeps raising in-window	3.0
Stock of companies needing an annual assessment	2,808
Share seeking a formal determination	70%
Recurring assessments each year	**~1,970**
C. Turnaround required for point-of-investment certainty	
Assessments required per working day (250 days)	7.9
For reference: full-time assessors to clear with no backlog	~3

Sensitivity: recurring assessments per year

uplift \ formal finding	50%	70%	90%
2.0×	936	1,310	1,685
3.0×	1,404	1,966	2,527
4.0×	1,872	2,621	3,370

Headline: even on conservative assumptions, an annual eligibility requirement generates on the order of 2,000 recurring assessments each year, and plausibly more. The burden falls on companies, which must prepare, document and (in practice) obtain advice on an assessment each year they raise, to secure a CGT outcome that may not crystallise for many years. An objective test (R&DTI received or qualifying ESS issued) requires none of these.

Sources and assumptions: announced deal count from the State of Australian Startup Funding 2025 report; the unannounced-round uplift and formal-finding share are stated assumptions (the two most load-bearing inputs, flexed in the sensitivity table above). Figures are indicative orders of magnitude to inform design, not forecasts.

Appendix C. Capital recycling model

This model estimates the early-stage capital withdrawn from the ecosystem when a lifetime cap truncates the gains a successful serial investor can recycle, relative to a per-company (QSBS-style) structure. The scenario is a single experienced investor with three separate strong outcomes. Full working file: Aussie_Angels_IBCC_Models.xlsx.

A. A successful investor's outcomes across their portfolio	
Separate companies producing a capped-scale gain	3
Capital gain per successful company	$8,000,000
Capital invested per successful company	$1,500,000
Total lifetime gain across the winners	**$24,000,000**

B. Gain receiving the concession, and capital recycled, under each cap design

	$10m lifetime cap	Per-company (QSBS)	Uncapped (today)
Gain receiving the 50% discount	$10,000,000	$24,000,000	$24,000,000
Gain pushed to indexation + 30% min tax	$14,000,000	$0	$0
After-tax proceeds	$17,450,000	$18,360,000	$18,360,000
Capital recycled into new start-ups	$13,087,500	$13,770,000	$13,770,000
Extra recycled vs the lifetime cap	–	$682,500	$682,500

Per-company cap = greater of a $10m floor or 10× capital invested, per company per holder. Effective tax rates: 23.5% on the discounted gain (47% on half the gain); 30% minimum on the balance. Recycling: 50% of net gain redeployed, with a 1.5× multiplier for subsequent cycles.

C. Scaled across the ecosystem	
Successful capped investor outcomes per year (assumption)	200
Early-stage capital withheld per year vs per-company design	**~$136.5m**

Headline: for a serial investor, a $10 million lifetime cap pushes $14 million of a $24 million lifetime gain onto the harsher indexation-plus-minimum-tax treatment, whereas a per-company structure lets each genuine outcome qualify. Because experienced investors are the ecosystem's main source of recycled early-stage capital, the lifetime cap quietly shrinks the future funding pool, the opposite of the reform's growth objective.

Sources and assumptions: gain, invested-capital, recycling-rate and outcome-count figures are stated, conservative assumptions, clearly labelled in the workbook. Figures are indicative orders of magnitude to inform design, not forecasts.

Appendix D. Recommended ESIC threshold indexation

Threshold	Current (2016)	CPI floor	Recommended
Prior-year assessable income limit	$200,000	~$275,000	$1,000,000
Prior-year expenses limit	$1,000,000	~$1,300,000	$2,000,000
Non-sophisticated investor annual cap	$50,000	~$65,000	~$65,000

Basis: 'CPI floor' indexes the 2016 threshold by ABS all-groups CPI (weighted average of eight capital cities), June 2016 quarter (108.6) to September 2025 quarter (143.6); indexation factor 1.32. 'Recommended' reflects our primary position that the income and expense limits were set too low at the outset and should be raised materially. The non-sophisticated investor cap ask is indexation only. Full workings in Aussie_Angels_IBCC_Models.xlsx, sheet "D. ESIC Thresholds".