Submission to the Senate Economics Legislation Committee

Inquiry into the Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and Income Tax Rates Amendment (Tax Reform No. 1) Bill 2026

Submitted by Cheryl Mack, Founder and CEO, Aussie Angels

Submission made in a personal capacity

5 June 2026

Executive summary

Australia has spent a decade trying to build a robust startup ecosystem, and angel investors are the people who write the very first cheque, before any fund will. This Bill, together with measures already legislated in the 2026-27 Budget, will unintentionally make direct early-stage investing the most heavily-taxed way to back an Australian startup. This is at the very moment the United States has moved to make it one of the most rewarded. The investors hit first and hardest are the newest and smallest ones, including the growing number of women building their first investment portfolio. None of this appears to be intended, and all of it is fixable with targeted, low-cost changes the Government has already accepted in principle elsewhere in this same Budget.

I am not arguing that capital gains should not be taxed, or that angels should pay no more than they do today. I am arguing that the proposed design, an asset-by-asset indexation model with asymmetric treatment of gains and losses, produces outcomes for direct early-stage investors that bear no relationship to their real economic position, and that the Budget as a whole is quietly tilting capital away from direct capital investments and into pooled funds. That is the opposite of what a country trying to grow its innovation base should want.

Specifically, we ask the Committee to:

1. **Ensure that any startup-equity relief arising from the Government's flagged consultation reaches direct early-stage investors**, not only founders, employees and venture capital funds, with eligibility deemed at the time the investment is made so investors have certainty at the point of decision.
2. **At a minimum, allow inflation-adjusted losses to fully offset inflation-adjusted gains, and resolve the low or zero cost-base problem** the Assistant Treasurer has already publicly acknowledged as a "very special case" worth consulting on.
3. **Modernise the Early Stage Innovation Company (ESIC) incentive**, which the Government has left frozen since 2017 even as this same Budget moved to index the equivalent venture capital fund thresholds for inflation. This is needed regardless of what happens with the CGT reforms, and it costs the Budget very little.

About this submission

Aussie Angels is one of Australia's leading angel syndicate platforms. We exist to bring more people into early-stage investing and to do it well, with a particular focus on women, who remain significantly under-represented among Australia's investors and asset-owners. That gives us a direct line of sight into how individual Australians actually invest in startups: not as institutions, and not as fund managers, but as people putting their own capital behind founders at the riskiest, earliest moment.

This submission speaks for that cohort, the direct angel investor, who sits in a genuine blind spot in the current debate. Much of the excellent analysis already before the Committee speaks for retail share investors or for venture capital funds. The direct angel is neither, and is treated worse than both under the proposed design.

Summary of our key points

In the order they appear below, with the fix attached to each:

- **Indexation punishes the diversified angel portfolio.** Taxing real gains while recognising only nominal losses means a portfolio's entire tax bill can be driven by its single winner, as if every failure never happened. **Fix:** allow inflation-adjusted losses to fully offset inflation-adjusted gains.
- **Angels cannot manage this the way share investors can.** Startup equity is illiquid and locked in until an exit on the company's timeline, so the standard tools for managing capital gains tax simply do not exist for angels. **Fix:** the system needs to recognise the real economic outcome across a portfolio, which points to the structural relief below.
- **The reform, and this Budget, push capital out of direct company investments and into funds.** Funds net their winners and losers internally and are largely insulated; meanwhile this Budget expanded the fund regimes and closed a direct-investor pathway on Budget night. **Fix:** a startup-equity measure in the CGT design that actually reaches direct investors.
- **ESIC, the one tool built for angels, has been left to rust.** Its thresholds were set in 2016-17 and never reviewed, and the eligibility test misfires on the instruments most early-stage rounds now use. **Fix:** increase the thresholds and fix the timing of the test.

1. Indexation punishes the diversified angel portfolio

The proposed model indexes the cost base of each asset for inflation and taxes the real gain, but it continues to recognise losses only in nominal terms. Applied asset by asset, that asymmetry strikes directly at how angel portfolios create value.

Early-stage returns follow an extreme power law. Most investments lose money or barely keep pace with inflation, and a small handful of outliers carry the entire portfolio. That is not a flaw in angel investing; it is the model. A diversified angel does this deliberately, accepting many failures to catch the rare success.

The indexation model breaks down precisely on that shape. Consider a simple, realistic portfolio: four companies, $10,000 invested in each, held for around a decade, with inflation averaging 3.5% so each cost base indexes up to roughly $14,100.

Investment	Final value	Current 50% discount	Proposed indexation
Company 1 (10x winner)	$100,000	$90,000 nominal gain, discounted	$85,900 taxable real gain
Company 2 (modest)	$14,800	$4,800 nominal gain, discounted	$700 taxable real gain
Company 3 (modest)	$12,200	$2,200 nominal gain, discounted	No usable offset (real loss)
Company 4 (failed)	$0	$10,000 capital loss recognised	Only the nominal $10,000 loss recognised

Under the current system, gains and losses broadly net off in nominal terms and the investor is taxed on the portfolio's real outcome. Under the proposed model, Companies 2 and 3 lost purchasing power but produce little or no usable offset, and Company 4's real loss is understated. The entire tax position ends up driven by Company 1, as if the other three barely existed.

What that actually looks like on a tax return:

Outcome	Current 50% CGT Discount	Proposed Indexation Model
Real economic gain after inflation	$70,600	$70,600
Taxable gains	$43,500	$75,200
Tax payable	$20,445	$35,344
Effective tax rate on real gain	29%	50%

On this portfolio, the effective tax rate on the investor's real economic gain rises from around 29% under the current rules to roughly 50% under the proposed model. That is higher than the top marginal rate, on a portfolio that performed well by angel standards.

It is worth noting that Treasury's own framing concedes the mechanism. The Government's material argues the current system "over compensates high-growth investments and under compensates low-growth investments." That is exactly the asymmetry that destroys an angel portfolio's economics, because an angel portfolio is, by design, a small number of very-high-growth outcomes sitting on top of many low- or negative-growth ones. Treasury's modelling appears representative of a diversified index portfolio, where winners and losers are continuously blended. It is not representative of direct early-stage investing, where the dispersion between best and worst is on a completely different scale.

The fix. Allow inflation-adjusted losses to fully offset inflation-adjusted gains. This single, symmetric change removes the diversification penalty and ensures investors are taxed on their real economic outcome rather than on a distorted subset of it. It is also the cleanest possible drafting outcome: it treats losses the same way the Bill already treats gains.

2. Angels cannot manage this the way share investors can

A listed-share investor has tools to manage the problem in point 1. They can sell a losing position before 30 June to crystallise a loss against a gain. They can time disposals across financial years. They have liquidity and control.

An angel has none of that. Startup equity is illiquid until there is an exit event, and that event happens on the company's timeline, not the investor's. You generally cannot sell part of a stake in a private company, you cannot choose to hold an extra year because the tax timing suits you, and you cannot harvest a loss to order. When a startup is acquired or lists, the gain crystallises, full stop.

This matters because it means angels cannot self-rescue from the diversification penalty. The mitigation strategies that make the indexation model tolerable for an active share investor are simply unavailable to someone holding illiquid private equity for a decade. Illiquidity is the trade-off an angel accepts when backing a company early. A tax system that ignores their real losses while fully taxing their winners adds a second penalty on top of the one they already signed up for.

The fix. Because angels cannot manage their position transaction by transaction, the system has to do for them what a fund does internally: look at the real economic outcome across the whole portfolio. That points directly to the structural relief in point 3.

3. The reform, and this Budget, push capital out of direct company investments and into funds

Here is the part of the picture that deserves the most attention.

Investors in venture capital funds and other pooled vehicles are largely insulated from the problems above. Those structures net gains and losses across the whole portfolio internally;

the manager controls timing and distributions, and the investor's tax position reflects the fund's overall return rather than each underlying deal in isolation. A fund structure effectively does what the tax system should do for a direct investor: it looks at the real economic outcome across a portfolio.

So the proposed model, on its own, already creates a strong incentive to stop investing directly and to route capital through a fund instead. But this Budget goes further than that in two concrete ways:

- It **expanded the fund-side regimes**. The Early Stage Venture Capital Limited Partnership (ESVCLP) and Venture Capital Limited Partnership (VCLP) thresholds were lifted substantially, with the stated rationale of bringing them into line with inflation since they were last set. The Government has therefore explicitly accepted that stale, un-indexed thresholds for early-stage investment vehicles are a problem worth fixing.
- It **closed a direct pathway**. The Eligible Venture Capital Investor (EVCI) program was closed to new applications from Budget night. That was one of the tax-efficient routes individual angels and family offices used to write early cheques.

Read together, in a single Budget the Government widened the pooled-fund pathways and narrowed a direct one. Whatever the intention, the combined effect is to tilt the field toward investing through funds and away from investing directly. That is the precise dynamic this submission is most worried about, and it is no longer a prediction; it is the Budget's own policy record.

This is not an argument against funds, which play an essential role. It is an argument that direct angels do something funds do not fully replace. They are the first cheque, the hands-on operator support, and the network connection that gets a company to the point where institutional capital is even interested. A pipeline that thins out at the angel stage is a pipeline that delivers fewer companies to the VC funds the Budget is trying to encourage.

It also lands hardest on the people just starting out. Building a diversified direct portfolio is how a new investor learns and earns their place in this ecosystem, and it is exactly that activity the diversification penalty makes uneconomic first. For the cohort Aussie Angels works hardest to bring in, including women building a first portfolio, the message the reform sends is that direct investing is for people who can already absorb a punitive tax outcome, and everyone else should hand their capital to a fund. That is not a neutral outcome for who gets to own and back the next generation of Australian companies.

The fix (the structural ask). We support the call, made by Blackbird and others, for a startup-equity measure within the CGT design, modelled on the carve-out the Bill already contains for new residential dwellings under the Ministerial direction power. The principle is simple and uses existing definitions: securities issued by a company that qualifies as a startup at the time of issuance, covering founders, employees and investors alike, retain concessional treatment. The critical feature is that eligibility is assessed at the moment the security is acquired, so the investor has certainty at the point they decide to invest. Our one addition to that proposal is to make explicit that, to work, it must reach the direct investor and not stop at founders, employees and funds.

4. ESIC, the one tool built for angels, has been left to rust

Australia already has a mechanism designed specifically for direct early-stage investment: the Early Stage Innovation Company (ESIC) incentive, which gives investors a 20% non-refundable tax offset and a capital gains exemption on qualifying investments. It is the direct-investment equivalent of the fund (ESVCLP/VCLP) regimes the Budget just expanded, and it is the natural place to deliver targeted relief for angels.

The problem is that it has not been touched since it was introduced in 2016-17, and it now misfires in two ways.

First, the thresholds are badly out of date and in places actively punish the companies we most want to back:

- The maximum annual revenue of $200,000 is trivial; a fast-growing startup can clear it in its first few months, which perversely disqualifies the strongest companies. We suggest raising it to $1 million.
- The maximum annual expenses of $1 million is too low for capital-intensive deeptech, biotech and medtech. We suggest raising it to $3 million.
- The maximum investment that a retail investor can make and still qualify, $50,000, is not enough to build a meaningful diversified portfolio. We suggest raising it to $100,000.
- The maximum investment eligible for the 20% offset for a sophisticated investor, $1 million, we suggest raising to $2 million.
- The maximum company age of three to six years is too short for the long development horizons in deep technology. We suggest raising it to ten years.

Second, and just as important, the eligibility test is applied at the time shares are issued, not at the time the investment is actually made. That breaks for SAFEs and convertible notes, the instruments used in roughly 81% of early-stage rounds, because the shares can be issued much later, by which point the company may no longer qualify. The fix is to assess eligibility at the date the SAFE or convertible note is executed and the funds are provided, and to treat the resulting shares as acquired at that earlier time. This gives investors certainty of the tax treatment at the moment they commit capital, which is the only moment that matters to the decision.

Why this is consistent with the Government's own logic. The Budget justified indexing the ESVCLP and VCLP thresholds on the basis that they had not kept pace with inflation. ESIC is the earlier-stage, direct-investment counterpart to those regimes, and its thresholds are older and have never been reviewed. More fundamentally, the entire CGT reform is premised on adjusting for inflation. Leaving ESIC's nominal thresholds frozen, while moving the whole CGT system to an inflation basis and indexing the fund thresholds, is internally inconsistent by the Government's own stated principles. Updating ESIC simply applies that same principle to the one tool built for angels.

The fix. Increase the ESIC thresholds as set out above, and amend the eligibility test so it is assessed at the time of investment rather than the time of share issuance. This is needed regardless of whether the CGT reforms proceed and regardless of any carve-out, and it carries a very modest fiscal cost.

Recommendations

We ask the Committee to recommend the following, in descending order of ambition and ascending order of how easily the Government can say yes.

Recommendation 1. As part of the consultation the Government has already committed to on early-stage and startup businesses, design startup-equity relief within the CGT framework that reaches direct early-stage investors, not only founders, employees and funds. Eligibility should be deemed at the time the security is acquired, drawing on existing definitions (ESIC eligibility, ESVCLP and VCLP investment, an active employee share scheme, or receipt of the R&D Tax Incentive), so that investors have certainty at the point of decision.

Recommendation 2. If a dedicated carve-out is considered too broad, then at a minimum amend the Bill to allow inflation-adjusted losses to fully offset inflation-adjusted gains, and address the low or zero cost-base issue for early-stage equity that the Assistant Treasurer has already identified as warranting consultation. This is the most direct and least distortionary way to remove the diversification penalty.

Recommendation 3. Independently of the CGT reforms, modernise the ESIC incentive by indexing its thresholds (revenue, expenses, retail and sophisticated investment caps, and company age) and by amending the eligibility test to apply at the time of investment rather than at share issuance, so that SAFEs and convertible notes are properly covered. This is consistent with the Government's own decision to index the venture capital fund thresholds in this Budget.

Conclusion

Australia's prosperity has never been built on home ownership alone. It has been built on people willing to back new ideas, take risks and own productive assets. Angel investors are at the very start of that chain, and direct angels in particular do something no fund fully replaces.

While one of the world's most active startup ecosystems has just moved to make early-stage investing more attractive, through the expansion of Qualified Small Business Stock relief in the United States, the design before this Committee moves Australia in the opposite direction, and the wider Budget compounds it by favouring pooled structures over direct ones. We do not believe that is what the Government intended. The good news is that the remedies are targeted, inexpensive, and in two of the three cases consistent with positions the Government has already taken in this same Budget.

The central question is not whether capital gains should be taxed. It is whether Australia's tax system should treat the person who writes a startup's first cheque worse than everyone who comes after them. We would welcome the opportunity to discuss any of the above with the Committee or with Treasury.

Cheryl Mack

CEO and co-founder, Aussie Angels