



# Budget 2017

## Backing innovation and FinTech

# Australia as the innovation and FinTech nation

Innovation will drive productivity growth in Australia. That is why the Government's \$1.1 billion National Innovation and Science Agenda (NISA) is designed to enable Australia to take full advantage of new economic opportunities.

The Government is committed to establishing Australia as a leading global financial technology (FinTech) hub and is announcing a new package that aims to position our local FinTech industry as a world leader.

## The Government's NISA and FinTech plan

The Government has made significant progress in implementing its NISA and FinTech measures to encourage individuals and businesses to innovate through greater collaboration, building talent and skills, supporting entrepreneurship and improving access to capital. The 2017-18 Budget builds on our progress to date through investing in critical infrastructure in optical astronomy to boost our research capabilities and by ensuring we have the policy settings in place to foster innovation.

## Positioning Australia to be a world-leader in innovation and FinTech

### Reducing barriers for new banks

The Government and Australian Prudential Regulation Authority (APRA) are reducing barriers for innovative new entrants into the banking sector by addressing significant obstacles that currently exist: the limitation on closely-held ownership in the Financial Sector (Shareholdings) Act 1998 (FSSA); the prohibition on the use of the word 'bank' by certain authorised deposit-taking institutions (ADIs); and burdensome bank licensing processes.

The Government will look to relax the legislative 15 per cent ownership cap for innovative new entrants, whether through the existing ministerial discretion or legislative change. We will also lift the

prohibition on the use of the term 'bank' by ADIs with less than \$50 million in capital. This will allow smaller ADIs to benefit from the reputational advantages of being called a 'bank'. Over time, these changes are expected to improve competition by encouraging new entrants.

The Government is supportive of a phased approach to licensing banks and welcomes APRA's review of prudential licensing arrangements and consideration of such approaches. This too will make it easier for new innovative banks to get started and help foster competition in the market.

More competition means more choice, lower prices and better service for Australian customers.

### Removing the double taxation of digital currency

The Government will make it easier for new innovative digital currency businesses to operate in Australia. From 1 July 2017, purchases of digital currency will no longer be subject to the GST, allowing digital currencies to be treated just like money for GST purposes. Currently, consumers who use digital currencies can effectively bear GST twice: once on the purchase of the digital currency and once again on its use in exchange for other goods and services subject to the GST.

### Extending crowd-sourced equity funding

The Government is making it easier for start-ups and innovative small businesses to raise capital.

The Government released draft legislation to extend crowd-sourced equity funding (CSEF) to proprietary companies with the 2017-18 Budget. This will open up CSEF for a wider range of businesses and provide additional sources of capital.

Proprietary companies using CSEF will be able to have an unlimited number of CSEF shareholders.

Shareholders will be protected by the higher governance and reporting obligations that CSEF proprietary companies must meet. These obligations include: a minimum of two directors; financial reporting in accordance with accounting standards; audit requirements; restrictions on related party transactions; and minimum shareholder rights to participate in exit events.

### An enhanced regulatory sandbox

The Government is introducing a world-leading legislative financial services regulatory sandbox to enable new and innovative FinTech products and services to be tested in Australia.

This will further boost Australia's position as a global FinTech hub.

The Government will legislate an enhanced regulatory sandbox that allows more businesses to test a wider range of new financial products and services without a licence, including providing more holistic financial advice, issuing consumer credit, offering short-term deposit or payment products, and operating a CSEF intermediary.

This will reduce regulatory hurdles which have traditionally suffocated new businesses trying to develop innovative financial products or services, and caused Australian talent to go offshore.

The 24-month testing timeframe improves businesses' ability to evaluate the commercial viability of new concepts, promoting greater competition and delivering more choice for consumers.

Robust consumer protections and disclosure requirements will be in place to protect customers including responsible lending obligations, best interest duty, and the need for adequate compensation and dispute resolution arrangements.

### Investment in optical astronomy

The Government's investment of \$26 million over four years (\$120 million over 11 years) in optical astronomy will allow Australia to become a strategic partner of the European Southern Observatory. This will provide Australian researchers new opportunities for international collaboration and greater access to world-leading astronomy infrastructure.

### 2030 Strategic Plan

To ensure our economy is prepared to embrace innovative opportunities, the Government has commissioned Innovation and Science Australia to develop a 2030 Strategic Plan for Australia's Innovation, Science and Research (ISR) System.

The 2030 Strategic Plan will outline what our ISR system should look like into the future. To ensure that Australia is positioned as a world leader in innovation, we need to identify priorities now in order to build capabilities and maximise our innovative potential.

### Research Infrastructure Investment Plan

The Government will develop a Research Infrastructure Investment Plan to inform future investment in research infrastructure facilities and projects. This will support greater collaboration between industry and researchers and ensure that Australia's research capabilities continue to meet the needs of our growing economy.

The Research Infrastructure Investment Plan will be developed in consultation with Innovation Science Australia, the Commonwealth Science Council and the broader community.

## Cameo: Removing the double taxation of digital currency



Tristan wants to purchase a computer game worth \$100 Australian dollars using digital currency.

Under current law, Tristan must pay GST on purchases of digital currency using Australian dollars. Therefore Tristan would need to pay \$10 GST to purchase the equivalent of \$100 of digital currency, costing him \$110 in total. Tristan would then need to pay another \$10 GST when purchasing the computer game.

Consequently, Tristan has paid \$20 GST. If Tristan used Australian dollars, not digital currency, Tristan would only have to pay \$10 GST not \$20 GST.

Under the measure from 1 July 2017, Tristan's initial purchase of digital currency would no longer be subject to GST, removing the double taxation. Tristan would only pay \$10 GST for the purchase of the computer game, providing the same GST outcome as if Tristan used Australian dollars.

## Cameo: An enhanced regulatory sandbox



Olivia has an idea for a new online 'marketplace lending' business which will pool wholesale investor funds to provide loans to individual and small business borrowers.

Olivia would not be eligible to rely on the existing licensing exemptions under the current ASIC regulatory sandbox to test her particular business model. She would therefore need to apply for an Australian financial services (AFS) licence and a credit licence.

The Government is making enhancements that will ease the barriers to entry for entrepreneurs like Olivia.

Under the enhanced regulatory sandbox, Olivia would be eligible to test her idea up to the retail client and overall lending caps for up to two years without a licence from ASIC. To take advantage of the regulatory sandbox, Olivia would only need to notify ASIC and meet minimum consumer protections, including being a member of an external dispute resolution scheme and having adequate compensation arrangements in place. This will ensure that Olivia's retail borrowers are protected by key consumer protection provisions over the testing period.

After successfully testing her business idea for over a year, Olivia decides to apply for her AFS and credit licences. The information and experience she has gained in the regulatory sandbox will assist Olivia in preparing her licence applications to become a managed fund operator and lending business.

## Building on the Government's achievements to-date

The measures in the 2017-18 Budget continue to build on the Government's past achievements to ensure we have the right policy settings in place to support individuals and businesses to innovate and to grow our FinTech industry.

### Framework for crowd-sourced equity funding

Crowd-sourced equity funding (CSEF) is an innovative type of fundraising that allows a large number of individuals to make small financial investments in a company, in exchange for an equity stake in the company.

The Government legislated a CSEF framework for public companies in March 2017. The framework will commence in late September, providing a new funding source for start-ups and innovative small businesses.

### Launch of ASIC's regulatory sandbox

The Australian Investments and Securities Commission (ASIC) introduced a FinTech regulatory sandbox on 15 December 2016.

ASIC's regulatory sandbox allows eligible businesses to test certain financial and credit services for up to 12 months without needing to apply for a licence, but requires firms to meet minimum consumer protections.

### More user-friendly employee share schemes

Building on changes made by the Government to taxation of employee share schemes (ESS) in 2015, the Government implemented reforms limiting the requirement for ESS disclosure documents lodged with ASIC to be made public. This makes ESS more attractive to start-ups by protecting their commercially sensitive information and making it easier for them to attract and retain skilled employees.

These changes came into effect on 4 April 2017. The Government also publicly consulted on other ways to make ESS more user-friendly for all companies.



### Investment in research infrastructure, commercialisation and women in STEM

The Government has made unprecedented commitments to support critical research infrastructure. These investments include a decade of funding for operating the Australian Synchrotron and \$1.5 billion over ten years to support the National Collaborative Research Infrastructure Strategy.

The Government has collaborated with the private sector to establish a \$200 million CSIRO Innovation Fund and a \$500 million Biomedical Translation Fund to support the commercialisation of cutting edge research. The first investments in the Biomedical Translation Fund will be announced shortly.

The Government is also investing \$13 million over five years to encourage more women to choose and stay in science, technology, engineering and mathematics (STEM) research, related careers, start-ups and entrepreneurial firms.

### Increased access to company losses

The Government is relaxing the 'same business test' and introducing a 'similar business test', making it easier for companies to access losses made in previous financial years, by allowing companies to access these past losses where they have entered into new business or transaction types.

### Tax incentives for early stage investors

From 1 July 2016, the Government introduced new tax incentives to support investment in qualifying start-ups and assist these businesses in attracting the capital they need to grow and prosper.

These include a non-refundable carry forward tax offset of 20 per cent of the amount of a qualifying investment in an early stage innovation company (ESIC), capped at \$200,000 per investor, per year; as well as a 10 year exemption from capital gains tax for investments in an ESIC which are held for at least 12 months.

### New arrangements for venture capital investment

From 1 July 2016, the Government amended the venture capital limited partnership (VCLP) and early stage venture capital limited partnership (ESVCLP) rules to encourage investment in the venture capital sector, a sector which provides investment and support for many Australian start ups and businesses.

These changes include a new non-refundable carry forward tax offset of 10 per cent of the amount invested in an ESVCLP during the year; doubling the maximum fund size of ESVCLPs to \$200 million and other changes to improving the attractiveness and operation of the VCLP and ESVCLP programs.

### Intangible asset depreciation

The Government will allow taxpayers to self-assess the tax effective life of acquired intangible assets that are currently set by statute, to better align the tax treatment of the asset with the actual number of years the asset provides an economic benefit.