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Tax Insights

Proposed innovative business CGT concession: Targeted relief for innovative start-ups

On 18 June 2026, the Australian government released a consultation paper proposing a targeted capital gains tax (CGT) discount for investors in innovative start-ups. The announcement arrives amid debate over the CGT reforms announced in the 2026–27 Federal Budget, with the first tranche of legislation having received royal assent on 26 June 2026, acting to replace the 50% CGT discount with cost base indexation and a 30% minimum tax on capital gains.

The proposed innovative business CGT concession (IBCC) is a targeted measure aimed at preserving concessional CGT treatment for certain early-stage investments in qualifying companies.

The proposed change is significant for founders, employees, and early-stage investors because it recognises that value drivers for high-growth start-up equity may not be well suited to a uniform indexation-based CGT framework.

What are the changes being proposed?

The proposed concession would apply to certain gains on shares and options in innovative start-ups, providing a 50% discount on nominal capital gains. Eligible taxpayers will have a choice between the IBCC and the alternative indexation and minimum tax model. The concession is intended to apply to founders, qualifying participants in employee share schemes (ESS) and employee share option plans (ESOP), early-stage investors, and general venture capital partners. Companies, foreign resident taxpayers, and superannuation funds would be ineligible.

Broadly, the concession would apply where the relevant shares are new equity issued:

- After 30 June 2027;
- By an unlisted and independent company;
- While the company has turnover below $50 million and is under 10 years old, with a potential extension to 15 years for certain industries; and
- By an active and innovative start-up, with criteria broadly modelled on the existing early-stage innovation company (ESIC) framework.

The shares would need to be held for at least five years, and the concession would also be subject to a lifetime cap of $10 million of gains per individual. The cap would effectively limit the total tax benefit available under the concession, indicating a maximum benefit of around $2.4 million per individual.

Transitional rules would apply for certain existing shares issued before 1 July 2027.

Why this matters

The proposed IBCC would effectively preserve access to the currently available CGT discounts for qualifying start-up equity, where the broader CGT reforms would have otherwise implemented cost base indexation and 30% minimum tax from 1 July 2027. This will be particularly important for founders, employees participating in equity arrangements, and early-stage investors whose returns may arise from rapid growth in businesses with low initial cost bases.

The policy rationale

From a policy perspective, the proposed IBCC is a recognition that broad structural reforms have inconsistent implications across asset classes and that equity in innovative start-ups may require more tailored tax settings than conventional assets.

Under an indexation-based system, investments with low or negligible cost bases can face higher effective tax burdens than asset classes where increases in value are more closely tied to inflation. This is because indexation provides less relief where the cost base is low, while the gain from innovative start-ups reflects rapid business growth, potentially over a short period, rather than long-term inflation.

Preserving a 50% discount therefore better reflects the commercial reality of start-ups, where value may be created rapidly once a product reaches scale, and early investors may realise gains that are large relative to their initial capital outlay reflective of the level of risk that is carried. In this context, a uniform indexation approach may reduce the tax benefit for the types of investments that policy has traditionally sought to encourage.

Potential design complexity

The main design challenge with this policy is balancing targeted support with practicality and integrity. The true value of the concession will depend heavily on whether eligibility can be confirmed with enough certainty before investment decisions are made.

Eligibility criteria and compliance complexity

The existing Australian tax law provides a suite of innovation-based incentive measures. The proposed eligibility criteria leverage multiple existing tests and exclusions from these various measures, including the ESIC framework, the research and development tax incentive (RDTI) exclusions for gambling and tobacco activities, and venture capital and early-stage venture capital limited partnerships exclusions. The proposed eligibility requirements also include the existing 80% active asset test, designed to ensure the concession is limited to companies whose assets are predominantly used in carrying on an active business.

This alignment with existing regimes may have been intended to promote uniformity, but in practice it is likely to create compliance complexity. For example, a company may be eligible for the ESIC regime or the RDTI but still fail to qualify for the IBCC because of a different exclusion or activity test.

Because the IBCC draws on existing regimes, it may also inherit some of their practical challenges, including the reliance on qualitative innovation tests. Concepts such as “high growth potential,” “scalability,” and “competitive advantage” are inherently subjective, and their application in a tax context has historically given rise to ambiguity. For companies and investors alike, this creates uncertainty as eligibility needs to be assessed before investment decisions are made and shares are issued.

Record keeping is another practical issue. As eligibility depends on the company’s eligibility at the time the shares were issued, companies will need to keep evidence from that point in time. Examples cited in the paper include business plans, commercialisation strategies and market analysis.

Timing, administration and certainty

The proposal raises timing and administration issues as eligibility is expected to be assessed at the time the shares are issued, broadly consistent with the ESIC regime. In practice, this is often a challenging point in the investment process, as companies seeking to raise capital often require certainty quickly and may not have the capacity to absorb administrative delays.

While a private binding ruling or registration process could provide certainty, a lengthy approval process may delay investment and create the risk of capital shortfalls at a critical stage in the commercialisation pathway.

Key issues to watch

From Deloitte Australia’s perspective, three issues will be particularly important for founders, employees and early-stage investors to keep front of mind as the consultation process progresses.

Can eligibility be determined with sufficient certainty at the time of investment?

The value of the IBCC will depend heavily on whether companies and investors can confirm eligibility before shares are issued. If eligibility depends on qualitative innovation tests or retrospective assessments, the concession may be difficult to rely on when investment decisions are being made.

How will the IBCC interact with common start-up funding and incentive arrangements?

The interaction with existing start-up concessions will need to be clear. Many investors and companies may already be considering ESIC, the ESS start-up concession or venture capital rules. If the IBCC uses similar but not identical tests, taxpayers will need clear guidance on how the regimes interact and where the eligibility requirements differ. Founders and significant investors would also need to consider how the IBCC interacts with the small business CGT concessions.

A further area requiring clarity is the treatment of hybrid instruments, including convertible notes. These instruments are commonly used in early-stage funding rounds because they can provide start-ups with capital at low or no ongoing cash cost, while preserving downside protection for investors before conversion into equity. The consultation paper is focused on shares and options and does not clearly address instruments that convert into equity at a later time or upon specified milestones being met. Without clear rules, investors may need to consider whether convertible notes remain an attractive funding instrument where the potential availability of the IBCC is uncertain.

Will the concession be administratively workable in practice?

The concession is intended to support risk-taking and long-term capital deployment, but its practical value will depend on the ability to obtain certainty without delaying funding rounds. A ruling or registration process may assist, but only if it can operate within the timeframes typically required by start-ups and investors.

The consultation paper also proposes transitional arrangements for certain existing shares issued before 1 July 2027. These may be difficult to apply in practice. Existing shareholders may need to establish whether the company met the relevant innovation and activity requirements at an earlier point in time.

The five-year holding period may also require consideration. While it supports patient capital, some start-up exits may occur earlier than expected. This could limit access to the concession in successful but earlier-than-planned exit scenarios.

Next steps

The proposal is broadly aligned with the policy objective of encouraging risk-taking, long-term capital deployment and innovation commercialisation. Although the concession is a positive signal for the start-up ecosystem, its effectiveness will ultimately depend on administrative workability and certainty.

With submissions on the consultation paper open until 10 July 2026, stakeholders now have an opportunity to provide feedback on how the proposed IBCC can support genuine early-stage investment without creating unnecessary complexity.

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