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The Treasury
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PARKES ACT 2600

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28 September 2026

Dear Sir/Madam,

Expanding tax incentives for venture capital schemes – Exposure Draft

CPA Australia is Australia's leading professional accounting body and one of the largest in the world. We represent the diverse interests of more than 176,000 members in over 100 countries and regions. We make this submission in response to the ED released on 11 September 2026 relating to **Expanding tax incentives for venture capital schemes – Exposure Draft** (ED).

Executive summary

CPA Australia welcomes the opportunity to comment on the exposure draft legislation to expand the tax incentives for Venture Capital Limited Partnerships (VCLPs) and Early Stage Venture Capital Limited Partnerships (ESVCLPs).

We support the policy intent of modernising the venture capital tax rules so they better reflect contemporary start-up valuations, fund sizes and scale-up capital needs. In particular, we support increasing the VCLP investee asset threshold to $480 million, the ESVCLP investee asset threshold to $80 million, the ESVCLP committed capital limit to $270 million and the ESVCLP full tax exemption threshold to $420 million.

However, the final legislation would be improved by addressing several technical and practical issues that may otherwise reduce the effectiveness of the reforms. These include the absence of automatic indexation, transitional uncertainty for follow-on investments, the interaction with approved investment plans, the closure of the Eligible Venture Capital Investor (EVCI) program, and the continued operation of legacy activity restrictions.

Key recommendations

We make the following key recommendations:

1. Introduce automatic indexation for the VCLP and ESVCLP asset and fund thresholds to prevent the new caps eroding in real terms.
2. Clarify that the increased thresholds apply to new investments by both new and existing funds from 1 July 2027, including further investments in existing portfolio companies.
3. Consider targeted transitional relief for follow-on investments that are commercially committed before 1 July 2027 but completed after Royal Assent.
4. Streamline investment plan variation requirements where changes are made only to reflect the new statutory thresholds.
5. Provide clear transitional rules for affected EVCI investors, including grandfathering for existing registrations and investments.
6. Modernise the predominant activity and excluded activity rules so they do not inadvertently disqualify contemporary technology-enabled business models.
7. Review the measurement of the overseas limit for modern start-up group structures.
8. Consider extending appropriate support to venture debt and evergreen fund models where they provide patient capital for innovative Australian businesses.

Please refer to the Appendix for our detailed comments. If you have any queries, contact Jenny Wong, Tax Policy Lead, on jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor, on bill.leung@cpaaustralia.com.au.

Yours sincerely,

Jenny Wong
Tax Policy Lead

Appendix A

This appendix sets out CPA Australia's detailed comments and recommendations on the ED legislation.

Introduction

We support Treasury's objective of expanding the venture capital tax incentives and improving access to capital for innovative Australian businesses. With the refinements outlined below, we believe the final legislation would be more durable, easier to administer and better aligned with contemporary venture capital practice.

1. Automatic indexation should be included

The ED increases the relevant thresholds but does so by replacing existing fixed dollar amounts with new fixed dollar amounts. This approach does not address the structural reason the thresholds have become outdated. Without automatic indexation, the new limits will again decline in real terms and require further legislative intervention.

The final legislation should include an annual indexation mechanism, using an established tax law indexation approach, with rounding rules that maintain simplicity for funds, investors and administrators.

2. Follow-on investment safe harbour

The ED should better accommodate ordinary commercial follow-on funding rounds. A fund that made a compliant initial investment should not be prevented from making a proportional follow-on investment merely because the investee entity has grown beyond the relevant asset threshold.

A targeted safe harbour should permit follow-on investment where the initial investment was eligible when made and the follow-on investment does not increase the fund's proportional equity interest. This would reduce dilution risk for ESVCLPs and better support Australian scale-ups through later funding rounds.

3. Commencement and transitional rules should be refined

The proposed 1 July 2027 commencement date may create a transitional holding pattern for funds and investee companies already close to the current thresholds. Treasury should consider whether targeted transitional relief is needed for follow-on funding rounds that are commercially committed before commencement but cannot be completed until after Royal Assent.

The final legislation should clearly state that the increased thresholds apply to new investments made by both new and existing registered funds from 1 July 2027, including further investments in businesses already held. This clarification is important because existing ESVCLPs must continue to comply with their approved investment plans unless a replacement plan is approved.

The legislation and explanatory materials should also clarify how asset values are to be measured for transitional follow-on investments and whether an investment plan amendment is required where the only substantive change is to reflect the increased statutory thresholds.

4. Investment plan variation processes should be streamlined

Existing ESVCLPs may need to update their investment plans to deploy capital under the expanded thresholds. If each update requires a full approval process, the reforms may create unnecessary administrative backlog and delay capital deployment.

A deemed approval mechanism should apply where a replacement or amended investment plan is submitted solely to align with the new statutory thresholds. For example, approval could be deemed after 30 business days unless the Department of Industry, Science and Resources objects within that period.

5. EVCI closure requires transitional relief

The closure of the EVCI program to new applications from 7.30 pm AEST on 12 May 2026 may affect investors who structured investments in reliance on the existing regime. The final legislation should include clear transitional rules to protect existing registrations and eligible investments and avoid unnecessary restructuring costs or unintended tax consequences.

At a minimum, Treasury should consider grandfathering existing EVCI registrations and providing time-limited relief where investors transition eligible investments into VCLP structures.

6. Predominant activity rules should be modernised

The ED primarily updates thresholds within the existing legislative framework. It does not materially modernise the underlying eligibility architecture. This is a missed opportunity, particularly where the existing predominant activity and excluded activity rules may not align with contemporary technology-enabled business models.

The final legislation, or accompanying guidance, should clarify that software development, data analytics, digital platforms and technology-enabled services are not disqualified merely because they operate in financial services, property, health, infrastructure or other regulated sectors.

7. Overseas limit and fund model settings should be reviewed

Treasury should also consider whether the measurement of the overseas limit remains appropriate for modern start-up structures, including businesses that retain significant Australian operations while using offshore holding or expansion structures for commercial and capital-raising reasons.

In addition, the reforms should consider whether venture debt and evergreen fund models can be accommodated where they provide patient capital and support the same innovation and scale-up objectives as traditional closed-end equity funds.