**Submission to A Better Tax System**

**From: Richard Baker, Co-Founder Blackbird Ventures**

**Introduction:**

Blackbird Ventures is a venture capital firm. We have raised a $30m ESVCLP fund. Our focus is to invest into very early stage technology businesses which are forming in Australia, but are attacking a global market day one using scalable digital marketing techniques. Most of our investors are successful Australian tech founders, who as well as investing their money, form an advisory and mentorship network around the companies. We have invested in 38 startup companies to date and are now raising our second fund to continue the work. Prior to founding Blackbird Ventures, I ran venture capital investing at MLC, and prior to that founded two software companies.

**R&D Tax Credit System**

I would like to point out the importance of the R&D tax credit system to the still nascent, but fast growing Australian tech startup sector. In my opinion, of all the government programs to help startups, this is the most important and effective, for the following reasons.

1. It makes building engineering teams in Australia globally competitive. Engineers (particularly software engineers) cost a little less in Australia than the US, and more than in many other countries. But the R&D tax credit makes building engineering teams here competitive on a world stage. This means that it is attractive for startups to build engineering teams in Australia, rather than in Silicon Valley (where it is more expensive) or developing countries (where it is cheaper without the R&D tax credit).
2. The R&D tax credit stops Australian founders leaving to start their companies overseas. A number of our most successful and fastest growing tech startups (the ones which can create jobs and wealth in Australia) have had US venture capitalists ask them to move to Silicon Valley, but have used the R&D tax credit as a reason to stay in Australia. This is important if we want to encourage innovation here rather than lose the best of our founders and startups to the US and other countries.
3. When companies do need to grow into other countries, they tend to leave their engineering and product teams in Australia. The R&D tax credit makes it competitive to do this. At some stage global businesses being built in Australia need to move operations closer to their biggest markets. It is encouraging to see a trend in the past few years that many leave their engineering and product teams in Australia. This means that we have the most innovative parts of the company in Australia. It means we keep our engineering feedstock, that Australians have an opportunity to be trained in world class Australian led companies, that they tend to go on to start their own new companies here in Australia, rather than in the US or elsewhere. That we keep our engineering teams here is an important piece of the puzzle for Australia to take part in global innovation and the R&D tax credit makes this possible for our most successful companies, some of whom are now employers of hundreds of people in engineering teams in Australia.
4. At the very early stages especially, the R&D tax credit provides startups companies with added runway. The R&D tax credit keeps many companies going through tough times and gives them all a better chance of success by increasing the time they have to get that important contract, release their product, grow their revenues to break even or raise more capital. I can’t emphasise enough the positive effect this has on hundreds of very early stage companies (in their first one or two years) being started in Australia each year.

The fact that the R&D tax credit is relatively certain (i.e. is not a competitive process) is very important as the companies can plan for it to realise these benefits.

In considering the R&D tax credit for startups, please remember that the vast majority of costs for startups are wages, and that the R&D tax credit will be spent almost entirely on wages which will in turn produce tax revenue.

For these reasons in my view the R&D tax credit is the simgle most important thing that the government does to help innovation in startups in Australia. If it is important to reduce this credit, please consider segmenting the market so it remains available for startups.

**ESVCLP Program**

Blackbird Ventures is an ESVCLP. At a time when it is very hard to raise venture capital funding, the tax fee nature of the ESVCLP is a good incentive for investors to take a risk on a new fund. We certainly found it has helped our discussions. It is not the reason people invest, but something that might tip them over the line.

It is still very hard to raise more than $10m for a new venture capital fund in Australia. I would propose that $5m be a better threshold for an ESVCLP fund size. This would enable new venture capitalists to emerge and build the skill set here, rather than relying on offshore investment firms to support our startup ecosystem. Although the foreign (especially US) investors come searching for companies to invest in the boom times such as now, that capital quickly shrinks back to its home regions when times change. If we do not have a well funded and experiences investor skill base in Australia, our startups ecosystem is susceptible to exaggerated busts when capital becomes more scarce.

I understand that the threshold and requirement for no investor to hold over 30% is intended to stop wealth people creating ESVCLPs for themselves. I agree with this principle, but a better test may be that an ESVCLP is set up and managed by a person/team which is not affiliated with the majority of the capital. The core characteristic of a new VC is usually that they are convincing people to give them capital to invest. This is now we will create new pools of widely held capital.