Review into elements of the taxation of employee share scheme arrangements

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Small startup companies look for every possible way to preserve cash. Deferred income is available to individuals who start up an enterprise but as soon as the individuals formalise their activities in a corporate structure and shares are sold for any amount to get equity into the company then individuals can no longer be paid in equity because payment in equity brings on a tax event. This would not be too bad if the tax paid could be recovered and counted as a "tax loss" if the shares subsequently became worthless.

A solution to this problem is for payment in equity not to be treated as income until the shares become of value through either the company being sold or the shares in the company being sold or shares in the company being listed. At this time the equity payments could be treated as income and any capital gain could be treated as capital gain. Another solution is to value the shares according to the tangible asset value of the company rather than the price of the last equity raising.

This would treat labour equity similarly to capital. More importantly for the companies it would enable them to preserve their cash capital by allowing individuals to be paid in equity. This is not an option available to individuals in small loss making companies where there is no true market for their shares.