

September 16, 2009

The Board of Taxation  
c/- the Treasury  
Langton Crescent  
PARKES ACT 2600

By Email: [taxboard@treasury.gov.au](mailto:taxboard@treasury.gov.au)

Dear Sir/Madam;

**Re: - Review of Employee Share Schemes**

I am writing to urge the Board of Taxation to carve out a set of special regulations for employee share scheme benefits for start-up, research and development and other small innovative companies. An effective Employee Share and Options regime is of vital importance to small innovative companies as a tool for attracting and retaining key talent.

Australia can not seriously expect to compete globally in terms of technology commercialization unless it can secure world class management. To attract individuals of this calibre, the opportunity to be rewarded in a manner consistent with the professional risk undertaken must exist.

The proposed changes to the taxation treatment of Employee Share schemes is warranted and needed to curtail some of the excess that has occurred in large publicly listed companies. However, it is very clear to those close to the subject that a "one size fits all" approach cannot be taken with this issue. There are gross differences in the structure, implementation, motivation and resulting outcomes of an employee share scheme for a top 50 ASX listed company and a start-up company that is cash flow-negative and has limited small number of employees that are typically paid below market.

We would propose the following attributes be applied to Employee Share Schemes for small to medium businesses that meet the test for the new 45% R&D tax credit scheme;

1. Valuation;

The current process for valuing unlisted securities defined by Section 139F of the Income Tax Assessment Act 1936 should be maintained.

2. Capital Gains;

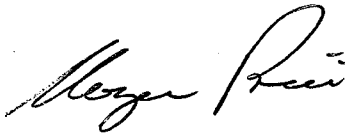
The Board should recognize that in an early stage technology company, employee stock options are of negligible value at the time of grant. Meaningful value only accrues after extended periods of time, after many business hurdles are overcome and after dramatic growth of the enterprise. The value created, if any, is clearly of capital nature and should be treated so for the purposes of taxation.

3. Taxable Event;

As with the companies themselves, the risk associated with value creation from an early stage company employee stock or option scheme is extremely high. For this reason tax should only be assessable upon crystallisation of a cash benefit.

I strongly implore the board to implement such an approach to ensure that Australian's innovation sector remains viable and can continue to compete on the world stage.

Yours sincerely,  
Innovation Capital Associates Pty Ltd

A handwritten signature in black ink, appearing to read "Roger Price". The signature is written in a cursive, flowing style with a large initial 'R'.

Roger Price  
Director