

Dashboard Impact Analysis (IA) – Innovative Business CGT Concession (IBCC)

The Treasury

Policy problem being addressed and proposed approach

Proposed approach

The Government has proposed an Innovative Business CGT Concession (IBCC) to address the policy problem by allowing for a 50 per cent discount for capital gains on early-stage investment in innovative start-ups that have high growth potential and have the potential to generate significant spillover benefits. A non-regulatory option was not feasible as the tax system is not voluntary and stands to impact all investments, and the IBCC represented a targeted exemption from the general CGT arrangements.

On 18 June 2026, the Government released a consultation paper setting out the initial design of the IBCC. The Government subsequently released exposure draft legislation for consultation from 11 to 28 September 2026. Feedback from these processes has informed the final design and administration arrangements for the IBCC.

For an asset to be eligible for the IBCC it must be a share, option or convertible note held by a taxpayer for at least three years after it was directly issued by a company when it was: less than 15 years old; unlisted; had an aggregate annual turnover of less than \$50 million; was a resident company with a majority of employees and assets based in Australia; and met the innovative company test. For an individual to claim the IBCC discount, at the point of disposal, the company must meet a predominant activity test (which requires it to undertake activities related to its innovative purpose). IBCC companies will be required to register with the Department of Industry Science and Resources (DISR) and report annually on equity it has issued.

Policy problem

The Government's 2026-27 Budget reforms to capital gains tax will replace the existing 50 per cent CGT discount for individuals, trusts and partnerships with cost base indexation and a 30 per cent minimum tax rate on capital gains from 1 July 2027. For many investment types, this represents an effective discount in the range of 35 to 60 per cent.¹ Applying these changes broadly across assets ensures the CGT settings are broadly asset neutral with only targeted exemptions so that investment decisions are made based on economic fundamentals, not tax considerations.

¹ Based on historical rates of inflation and returns over the past 20 years (see [Budget 2026-27 Tax Explainer](#)).

Start-ups and scaling firms will often have products or hold intellectual property that are difficult to value at early stages and find it difficult to access traditional forms of financing. Some of these firms can also have significant growth potential over relatively short time periods and, from a low or zero cost base, produce large capital gains for shareholders (including founders and employees) in these companies. Large capital gains over a short period generally will face higher effective tax rates under an indexation approach than under a flat percentage discount.

The Government recognises the contribution of young, innovative firms to Australia's economy. Within five years of operation, Australia's highest-performing young firms achieve productivity around 45 per cent above industry averages.² Further, analysis of Australian Bureau of Statistics firm-level microdata by the e61 Institute found that firms operating for five years or less have generated around 60 per cent of all new jobs in Australia over the last 20 years.

Accordingly, the Government committed in the 2026-27 Budget to consult with stakeholders on details of the capital gains tax reforms including the treatment of capital gains of small and start-up businesses where indexation is applied to a low or zero cost base.

Summary of impacts and methodology

Option	Benefits	Other costs	Net impact	Regulatory burden
Proposed: Introduce the IBCC	Supports investment in innovative start-ups. Spillover benefits for employment and productivity.	Companies, investors and advisers will incur upfront costs in understanding the IBCC. IBCC companies will be required to register and report annually.	Maintains incentives to invest in young, innovative companies that have high growth potential.	Indicative annual regulatory cost of \$17.2m on average over 10 years.
Status Quo: No targeted concession for innovative start-ups	As there is no separate IBCC regime, no compliance costs to understand the regime	Reduced after tax returns from innovative start-ups could reduce investment in Australian companies and the attraction and retention of skills.	Reduces incentives to invest in innovative start-ups.	No associated regulatory cost.

² Lee, R., Rankin, E., Vass, L., e61, *The Young and the Restless: The Contribution of Young Firms to the Economy*, e61, 2025.

Economic impacts

Status quo – No targeted tax concession for innovative start-ups	Proposed option – Introduce an IBCC
<p>Reduced investment in innovative start-ups (Businesses)</p> <p>Reduced incentives to invest</p> <p>Start-ups and scaling firms will often have products or hold intellectual property that are difficult to value at early stages. Where such firms grow over relatively short periods, from a low or no cost base, it can result in a higher effective tax rate compared with a flat percentage discount. This can dampen incentives to invest in innovative start-ups. Reduced investment in innovative start-ups is likely to have negative impacts on employment and productivity within the economy.</p> <p>Capital flight (Other)</p> <p>The start-up ecosystem is an interconnected network of founders, employees, investors, venture capitalists, incubators, accelerators and mentors, many of which are globally mobile and responsive to policy settings. If investments in start-ups face higher effective tax rates, there is a risk that key players exit the Australian ecosystem. This could mean that either Australian founders and ideas are not adequately fostered and cultivated, or that Australian founders and ideas leave Australia.</p> <p>Stakeholder views</p> <p>Stakeholders have argued that without the 50% CGT discount, risky innovative start-ups will not attract investment capital. This is because changing the post-tax return on innovative start-ups potentially alters a prospective investor's willingness to invest, as they consider the risk of the investment against the potential payoff.</p> <p>This extends to founders and early employees, who typically rely on equity interests in a business as a form of remuneration.</p>	<p>Supports investment in innovative start-ups (Businesses)</p> <p>The IBCC will support investment in innovative start-ups by increasing the post-tax return of investments in these companies. This makes the prospect of investing in innovative start-ups relatively more attractive compared to the status quo of no IBCC. This will ensure that Australia's start-up continues to grow as broader changes to CGT arrangements begin from 1 July 2027.</p> <p>Fostering employment (People)</p> <p>A significant body of evidence suggests that young innovative firms tend to be positive employing businesses, contributing to headcount growth at a faster rate than older firms, and employing twice the number of workers than average businesses of the same age.³ Ensuring these types of businesses continue to receive private investment will ensure that more Australians are gainfully employed.</p> <p>Supports productive firms (Other)</p> <p>By specifically targeting innovative start-ups, the IBCC ensures investment continues to be channelled to new businesses that are most likely to have a strong positive contribution to Australian productivity. Evidence suggests that high performing new firms, those that tend to be innovative, begin with productivity 15 per cent above the industry average, rising to 45 per cent by age five.⁴</p> <p>Increased competition (Other)</p> <p>Innovative start-ups are likely to be strong challengers to incumbent firms, increasing competitive pressures within the economy and reducing market concentration. This ultimately drives lower prices for consumers, enhancing wellbeing across the economy. Increased competitive pressures also drive higher wages for workers as firms more actively compete for talent from the pool of available workers.</p> <p>Stakeholder views</p> <p>Stakeholders have generally supported the key changes that have been made since the original design of the IBCC was announced, including removal of the lifetime cap, increase in the age limit, and reduction in the minimum holding period to three years. Stakeholders also support simplification of the innovation requirements (including broader safe harbour conditions and a simpler predominant activity test). Some stakeholders also seek increases in the turnover threshold, the removal of the age limit and a post-implementation review.</p>

³ See Lee, R., Rankin, E., Vass, L., e61, *The Young and the Restless: The Contribution of Young Firms to the Economy*, e61, 2025., and Bakhtiari, S., *Entrepreneurship Dynamics in Australia: Lessons from the Micro-data*, Department of Industry, Innovation and Science, Australian Government, 2017.

⁴ Lee, R., Rankin, E., Vass, L., e61, *The Young and the Restless: The Contribution of Young Firms to the Economy*, e61, 2025.

Regulatory burden

Status quo – No targeted concession for innovative start-ups	Proposed option – Introduce an IBCC
There are no regulatory costs associated with maintaining the status quo (the baseline).	<p>Businesses</p> <p>Businesses will be required to register as IBCC companies by applying to the Secretary of the Department of Industry Sciences and Resources. The application form will require firms to: demonstrate that they meet the eligibility requirements to be an IBCC company; and provide details of equity interests issued by the business.</p> <p>Businesses will be able to self-assess whether they meet the IBCC innovation requirements, either through satisfying the innovation principles in the primary law or the safe harbour conditions in the legislative instrument. Businesses will also have the option to obtain a ruling from the Industry Secretary as to whether they meet the IBCC innovation requirements.</p> <p>Once registered as an IBCC company, businesses will be required to lodge annual reports to provide information on the ongoing activities of the company and any new equity interests issued.</p> <p>As the IBCC is a targeted exemption to support innovative businesses, only a small portion of the business population is expected to apply for IBCC registration.</p> <p>Advisory businesses will incur upfront costs to understand the new IBCC regime.</p> <p>People</p> <p>There will be one-off costs for investors to understand the IBCC concession.</p>

Other considerations and implementation

The Government consulted extensively on the final design of the IBCC. In announcing the 2026-27 Budget reforms, the Government committed to consulting on the treatment of capital gains of small and start-up businesses where indexation is applied to a low or zero cost base.

On 18 June 2026, the Government released a consultation paper on the initial design of the IBCC. The Government received 197 submissions, which informed the exposure draft legislation. The exposure draft legislation reflected several changes to address stakeholder feedback, including removing the lifetime cap on capital gains eligible for the concession, reducing the minimum holding period from five to three years and extending the age limit for companies that could be IBCC eligible from 10 to 15 years. It also formalised arrangements for administration and reporting that help to meet stakeholder requests for certainty about IBCC eligibility at the time of investment.

The Government consulted on the exposure draft legislation and explanatory memorandum from 11 to 28 September 2026. This consultation also included a draft legislative instrument that set out safe harbour conditions intended to make it easier for companies to self-assess whether they meet

the innovation requirement for the IBCC. Several changes were made as a result of the exposure draft consultation, including to improve the practical operation of the predominant activity test.

The Treasury also conducted face-to-face consultations with members of the start-up sector and broader business community through to the introduction of the legislation to Parliament.

The Government will continue to consult on certain design features of the IBCC, including the final design of the legislative instrument and the content of any approved forms. The Government will continue to engage with stakeholders on technical issues raised during consultation processes to ensure the IBCC operates as intended.

What success looks like

The IBCC has been designed to ensure that Australia's investment ecosystem remains resilient and vibrant. The successful implementation of the IBCC will ensure that Australian capital continues to be appropriately deployed to innovative Australian businesses, and that Australia's high-growth business and venture capital ecosystem continues to expand and grow.

Implementation approach

The IBCC will be jointly administered by the Department of Industry, Science and Resources (DISR) and the Australian Taxation Office (ATO). DISR will focus on evaluating and verifying innovative activities of companies, as well as handling the registration and reporting requirements placed on companies, while the ATO will administer the concession as it is claimed by taxpayers.

Planned evaluation

Treasury, DISR and the ATO will monitor the policy design and administrative rollout of the IBCC. The administrative design of the IBCC lends itself to robust data collection and the development of an appropriate compliance framework.

As set out in the supplementary analysis in the impact assessment of the Government's capital gains tax and negative gearing changes, several channels will be employed to evaluate the impact of the broader tax changes, including the Intergenerational Report and annual Tax Expenditures and Insights Statement. The IBCC will also be considered in these publications.

Treasury routinely monitors the trends and insights available from these publications to inform its advice to Government and ensure its advice is robust, timely and well informed on matters of tax policy. Treasury will continue to monitor these sources with a particular focus on resolving any issues associated with the implementation of the IBCC.