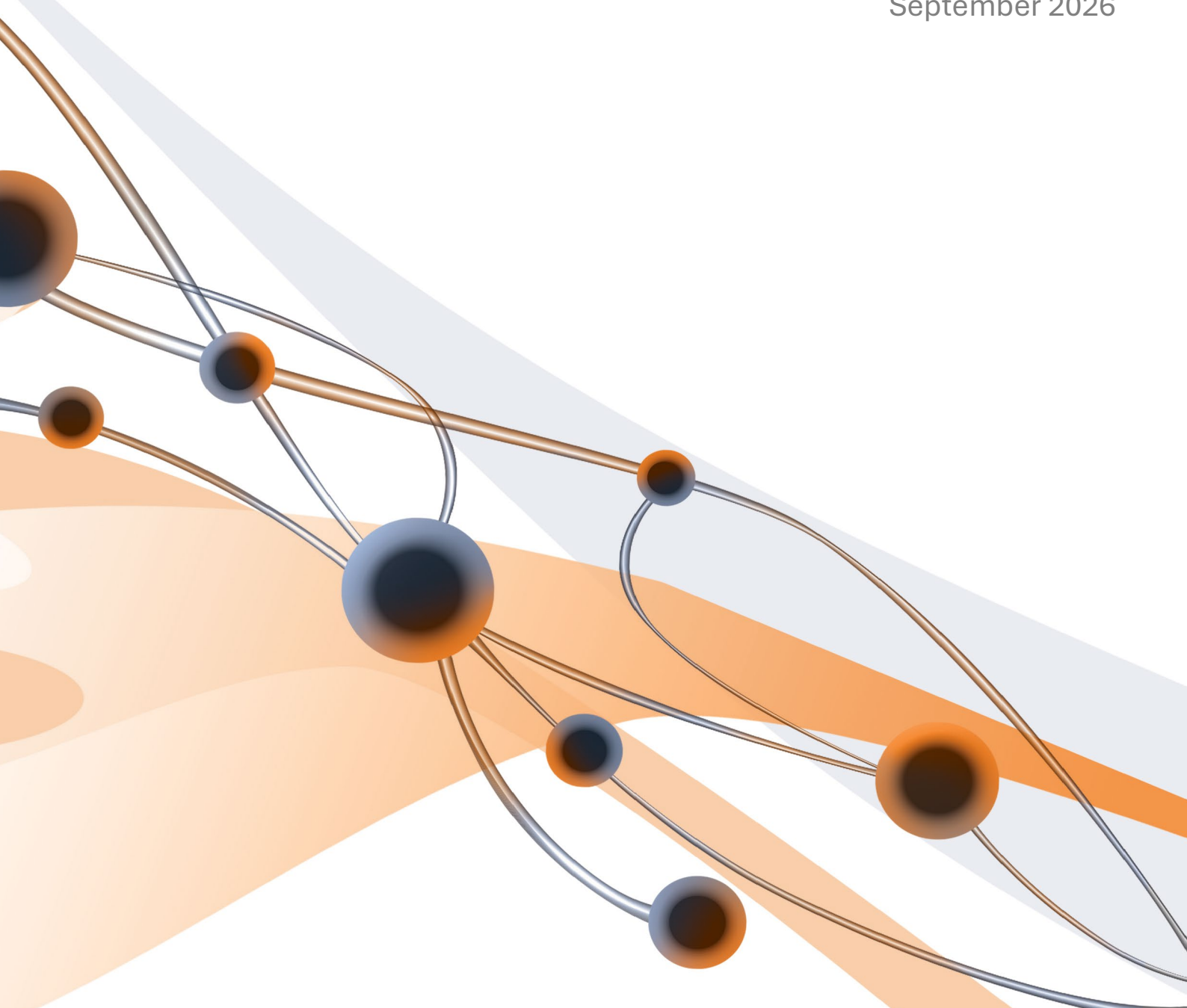


Response to the Innovative Business CGT Concession – exposure draft legislation

Research Australia Submission
September 2026



**RESEARCH
AUSTRALIA**

*Championing
Australian health
& medical research
& innovation*

About Research Australia

Research Australia is the national peak body for health and medical research and innovation (HMR), representing organisations across the full research and innovation ecosystem. We provide national leadership to shape the policy agenda, mobilise the sector around shared priorities, drive evidence-based solutions to system-wide challenges, and build public and political recognition of the value and impact of HMR. Our work is focused through four advocacy platforms: Smarter Investment and Value Realisation, Health Innovation, A Supported and Diverse Research-Active Workforce and Equity.

Executive Summary

Research Australia welcomes the opportunity to comment on the exposure draft legislation for the Innovative Business CGT Concession (IBCC).

Research Australia supports the objective of encouraging early-stage private investment in innovative Australian businesses. The HMR sector is particularly dependent on patient capital because the pathway from discovery to commercialisation can be long, expensive and uncertain, particularly for biotechnology, medical technology, therapeutics and other regulated health innovations.

We therefore welcome changes made following the initial consultation, particularly the extension of the eligibility period to 15 years for businesses, reduction of the minimum holding period from five to three years, and removal of the lifetime concession cap.

These changes are well aligned with Research Australia's longstanding call to strengthen Australia's venture capital and commercialisation pipeline. Australia has considerable research strength but does not consistently translate this strength into commercial outcomes. Research Australia has previously identified a significant "valley of death"¹ between publicly supported early-stage research and the later-stage private investment required to translate, validate and scale health innovations.

Recommendations:

1. Ensure the innovation eligibility criteria appropriately recognise the distinctive characteristics and long development pathways of HMR businesses.
2. Avoid eligibility rules that inadvertently disadvantage companies undertaking lengthy clinical, regulatory, validation and commercialisation processes.
3. Ensure the IBCC operates coherently with the R&D Tax Incentive, venture capital incentives and other Commonwealth research translation and commercialisation programs.
4. Ensure university and research institute spinouts can benefit from the IBCC.

¹ Research Australia (2025) Response to the Productivity Commission's Five Pillars of Productivity Inquiries Interim Reports, September 2025, p. 16.

1. Research and innovation are significant drivers of productivity and economic growth

The IBCC should be understood as part of a broader national effort to strengthen Australia's research, development and innovation ecosystem.

Health and medical research accounts for around a quarter of Australia's R&D expenditure. Research Australia has consistently argued that HMR should be recognised not simply as a health expenditure but as a driver of productivity, economic diversification, skilled employment and future industries.² Research Australia has previously estimated that every dollar invested in Australian health and medical research returns close to \$4 to the Australian economy. HMR contributes to productivity both through the economic activity generated by research and innovation and through better health, which improves workforce participation and reduces the economic burden of disease.³

However, Australia's research strength does not automatically translate into commercial success. Australia produces approximately 2.1 per cent of global scientific publications despite representing around 0.3 per cent of the world's population and performs strongly internationally in health research outputs. Research Australia's previous analysis nevertheless identified Australia as outside the top 20 globally for commercialisation outcomes.

The IBCC therefore addresses an important part of Australia's innovation system: the availability of private capital required to take promising research-derived innovations through translation, development and commercialisation.

2. The 15-year limit remains too short

The draft's move from 10 to 15 years is welcome, but it does not eliminate the central design problem.⁴ In medtech and biotechnology, the period from incorporation to a significant liquidity event may include prototype development, pre-clinical work, ethics approval, clinical validation, regulatory approval in Australia and overseas, reimbursement assessment, manufacturing scale-up and procurement. These activities often occur sequentially, depend on external approvals and require multiple capital rounds.

A hard age cap withdraws the concession precisely when a long-cycle company may need later-stage capital most. It can also create arbitrary differences between companies pursuing comparable technologies merely because one incorporated earlier, undertook research within a university before spinning out, or encountered a longer clinical or regulatory pathway.

The preferred solution is to remove the age limit. The \$50 million aggregated-turnover threshold, innovation requirements and asset-level rules already target the concession. If the Government considers a limit necessary, the legislation should provide an extension based on objective evidence of continued innovation and commercialisation activity rather than a narrow product category.

² Research Australia (2025) *Response to the Strategic Examination of Research and Development*

³ Research Australia (2025) *Response to the Productivity Commission's Five Pillars of Productivity Inquiries Interim Reports*.

⁴ Treasury Laws Amendment (Tax Reform No. 5) Bill 2026: Innovative Business CGT Concession, exposure draft; Exposure Draft Explanatory Materials, September 2026.

3. The innovation test must accommodate HMR business models

Research Australia supports the objective of ensuring the concession is targeted towards genuinely innovative businesses. However, the legislative and administrative tests used to identify eligible innovative businesses must reflect the diversity of pathways through which innovation occurs.

Research Australia's definition of health and medical innovation encompasses the translation of novel ideas and discoveries into practical solutions, including new treatments, medical devices, technologies, diagnostics and models of care. Discovery research provides the scientific foundation from which these innovations emerge.⁵

Consequently, innovation should not be assessed too narrowly by reference to immediate revenue growth, conventional commercial metrics or a particular form of technological development.

In HMR, substantial value may be created before significant revenue is generated. Intellectual property, clinical evidence, regulatory progress, validated technology, datasets, manufacturing capability and research partnerships may all represent important stages of development.

Research Australia acknowledges the Government has already made concessions to the IBCC, however we recommend that the IBCC's innovation requirements and associated legislative instruments:

- recognise research-intensive and IP-intensive businesses
- accommodate lengthy pre-revenue development periods
- recognise clinical, regulatory and validation milestones as legitimate evidence of progress towards commercialisation
- accommodate innovation emerging from universities, medical research institutes and health services
- remain sufficiently technology-neutral to accommodate emerging fields including digital health, AI-enabled health technologies and convergence between biotechnology, medtech and data-driven innovation

This is particularly important because Australia's innovation pipeline should operate as a connected system from foundational research through translation and commercialisation, rather than as a collection of isolated programs. Research Australia has previously argued that only a coordinated system can sustain a seamless pipeline from discovery science to health innovation and commercialisation at scale.⁶

4. Ensure university and research institute spinouts can benefit

The IBCC presents an important opportunity to improve the investment environment for Australian research spinouts, but it is not yet clear how the draft applies to them. Research

⁵ Research Australia, *Making Research Routine: Embedding Research into Australia's Health System*, Policy Discussion Paper, unpublished

⁶ Research Australia, *Making Research Routine: Embedding Research into Australia's Health System*, Policy Discussion Paper, unpublished

Australia has previously called for stronger pathways for researchers to develop entrepreneurial capabilities and collaborate with industry, alongside reform of university intellectual property arrangements that can slow translation and commercialisation.⁷

University and medical research institute spinouts differ structurally from other start-ups. Their underlying intellectual property may have been developed over many years before incorporation; the university, hospital or institute often retains a substantial equity interest; commercialisation typically involves licensing arrangements; and companies may require several rounds of investment before products reach market. Many of the institutions involved are large and long established, and some hold their interests through older companies or commercialisation vehicles.

Research Australia asks Treasury to clarify, in the legislation or explanatory materials, how the IBCC eligibility requirements apply in these circumstances, including:

- whether the turnover of a university, hospital or institute is added to the spinout's turnover when testing the \$50 million threshold;
- whether a spinout is treated as controlled by, or connected to, an older institution or its commercialisation company, and how this is judged when the institution holds a large share but does not control the company;
- whether shares still qualify when founders, researchers or investors receive them through an institution or its commercialisation company, rather than directly from the spinout, and how the rules apply to researchers who are employed by the institution rather than the spinout; and
- how research done, and IP developed, before the company was formed (and any licensing arrangements) are treated when applying the age, innovation and main activity tests.

For a genuine spinout, these tests should be applied by reference to the spinout itself, consistent with our recommendation on the R&D Tax Incentive. Treasury should publish worked examples based on realistic university and MRI spinout structures before commencement.

This is also an area in which better data is needed. Research Australia has previously recommended establishing an Australian Spinouts Register, drawing on the UK model, to provide better information on the development, scaling and outcomes of Australian spinouts. Such a register could improve understanding of growth patterns, investment needs and barriers, and support evaluation of whether measures such as the IBCC are successfully increasing capital available to research-derived businesses.⁸

5. The IBCC should help address the commercialisation “valley of death”

A central objective of the concession is to mobilise private capital into stages of the innovation pipeline where financing continues to be challenging for innovative start-ups and SMEs.

Research Australia's previous submissions have identified a significant “valley of death” between early-stage publicly supported research and late-stage private investment. This gap can prevent

⁷ Research Australia, *Making Research Routine: Embedding Research into Australia’s Health System*, Policy Discussion Paper, unpublished

⁸ Research Australia (2025) *Response to the Productivity Commission's Five Pillars of Productivity Inquiries Interim Reports*

promising Australian discoveries progressing through pilot trials, scale-up, validation and commercialisation.⁹

Research Australia has therefore consistently supported policies that encourage private investment through venture capital, angel investment and other financing pathways. However, incentives are most effective when they form part of a coordinated investment system. Fragmented policy and funding arrangements create duplication and gaps and can themselves discourage external investment.¹⁰

The IBCC should therefore complement – not substitute for – other elements of Australia's research and innovation financing architecture, including the R&D Tax Incentive, venture capital arrangements, MRFF and NHMRC investment, translational and commercialisation funding, government procurement and private and philanthropic capital. This is particularly important because tax concessions alone cannot resolve every financing gap. Research Australia has separately called for targeted health innovation and commercialisation funds and an Australian equivalent to the US Biomedical Advanced Research and Development Authority (BARDA), using government procurement to help de-risk later-stage development and create a clearer pathway from Australian research to Australian manufacturing and adoption.¹¹

6. Attracting patient private capital

Research Australia supports using the tax system to improve incentives for private investors to provide risk capital to innovative Australian companies.

Our previous work has specifically supported pooled investment vehicles, co-investment schemes and increased tax incentives for health-tech and medtech investors, alongside efforts to position Australia internationally as a destination for R&D investment. The changes in the exposure draft are consistent with this objective. In addition to the 15-year eligibility period, the reduction of the minimum holding period to three years and removal of the lifetime cap should simplify the concession and broaden the incentive for successful investors to reinvest in innovative businesses.¹²

Research Australia supports these changes, while emphasising that implementation should encourage patient investment rather than inadvertently favouring short-term investment strategies. For many HMR companies, the development period will remain considerably longer than three years. The concession should therefore operate in conjunction with settings that encourage investors to continue supporting companies through successive stages of translation and scale-up.

⁹ Research Australia (2025) *Response to the Strategic Examination of Research and Development*

¹⁰ Research Australia (2025) *Response to the Productivity Commission's Five Pillars of Productivity Inquiries Interim Reports*

¹¹ Research Australia (2025) *Response to the Strategic Examination of Research and Development*

¹² Research Australia (2025) *Advancing health and medical research and innovation across Regional, Rural, Remote and Very Remote Communities in Australia*

Conclusion

Research Australia supports the policy objective of the Innovative Business CGT Concession and welcomes the significant improvements reflected in the exposure draft.

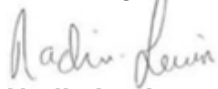
In particular, the eligibility period remains too short. Raising the age limit to 15 years helps but doesn't address core issues. Removing age limits and allowing extensions based on innovation progress would better support long-cycle medtech and biotech companies. The IBCC should form part of a broader, coordinated approach to increasing private investment across Australia's innovation pipeline. Australia already has world-class research capability. The policy challenge is to ensure that promising discoveries can attract sufficient patient capital to progress through translation, validation, commercialisation and scale-up in Australia.

Implemented effectively, the IBCC can contribute to closing Australia's commercialisation gap, strengthening the venture capital pipeline and increasing the likelihood that Australian research generates Australian companies, highly skilled jobs, sovereign capability and economic and health benefits.

Thank you for the opportunity to provide a submission this consultation. Research Australia is committed to collaborating with governments, healthcare providers, researchers, industry partners, and communities to translate our recommendations into equitable outcomes that can be clearly measured and beneficial to all Australians.

For further information regarding this submission please contact Dr Talia Avrahamzon, Head of Policy, Projects and Advocacy at talia.avrahamzon@researchaustralia.org or policy@researchaustralia.org

Warm regards,



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