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Four ideas to fix Australian venture capital and help startups grow

Australia could be hit by a flood of venture capital. **iStock**

by **Phillip Kingston**

We've spent 20 years solving the wrong problem in Australian venture capital. There is not a lack of capital here, nor is there a poor track record of investor returns.

Most ventures that are world-class, coherent and have a great team can raise money, both domestically and overseas. Companies like Bigcommerce, Atlassian, Google Maps and Campaign Monitor are proving the point.

An effective ecosystem is not one where everyone who wants to be a successful entrepreneur can do so. An effective entrepreneurial ecosystem involves limited barriers for great entrepreneurs to get on with building great companies.

The good thing about raising domestically at the moment is that many venture funds are not fully deployed, and there is less competition for money from global rivals than in places such as California.

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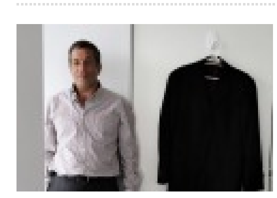

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Trimantium Capital founder and Henley Club president Phillip Kingston. **Ben Pedrochi**

The lack of venture capital is an easy excuse for avoiding the hard truth that at this point in time, our ecosystem does not offer a comparative advantage in software based technology, compared with other nations.

But the real problems are not insurmountable. We just need to re-think government intervention in the entrepreneurial ecosystem, and fast.

RETHINK GOVERNMENT INTERVENTION AND MAKE SUPERANNUATION FUND INVESTMENT CHEAPER

Governments should not be providing capital for startup incubators and office space. It's not the government's role or expertise to pick winners in any form.

The Federal Labor Party's announcement on HECS-style loans for entrepreneurial university graduates is no doubt well-intentioned, and a relatively small burden on the Budget, but it distracts government from the role it should be playing and introduces an artificial mechanism to prop up startups that will eventually be unsuccessful.

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In the long term, government should be focused on strengthening and expanding STEM education in schools and universities.

In the short term, we would welcome useful government intervention such as a 1 per cent management fee subsidy for superannuation funds who invest in venture capital. This would unlock the large amounts of capital tied up in superannuation funds, stimulating the innovation ecosystem, creating jobs and economic growth.

Such a subsidy would bridge the "fee gap" that exists between venture capital management and less time-intensive asset management within superannuation, dramatically reducing the real barriers to scaling venture capital and creating $100 of venture capital for every $1 of taxpayer's money spent.

INCENTIVISE HIGH PRIESTS OF TECH TO MOVE HERE WITH TAX EXEMPTIONS

Despite no doubt being unpopular, the Australian Federal Government would have the highest return on investment by giving a life-long capital gains tax exemption to the top 20 tech investors in the world to move to Australia, domicile their companies here and keep the balance of their staff and IP in the country.

Couple this with coherent immigration policy, and the ecosystem will develop at unprecedented speed and quality with no net cost to the taxpayer.

The Australian venture capital industry is often criticised for having inexperienced fund managers. We can lift the intellectual capital behind decision making and venture support by attracting experienced venture capital fund managers to Australia.

One just has to look at the "PayPal Mafia" made up of most of the pillars of the San Francisco-Silicon Valley tech ecosystem and see almost none of whom were born in the USA: Elon Musk in South Africa, Max Levchin in Ukraine and Peter Thiel in Germany. Yet they have created a disproportionate amount of value for American investors and consumers.

We also just need more hard working people with tech skills in the economy, a lot of them and quickly.

OPT-OUT SUPER AND MINIMISE PUNITIVE TAXES AND FORCED COSTS ON EMERGING COMPANIES

The plethora of forced costs before a company's maturity such as payroll tax and superannuation make it a very expensive place to do business. The tax impact of payroll tax on the state is limited but debilitating for an emerging company.

Allowing employees of startups to opt-out of compulsory superannuation guarantee payments for up to 12 months would alleviate the wage burden by 9.5 per cent per year.

The Coalition Government theoretically improved the Employee Share Scheme rules, reversing the changes from 2009 but still included debilitating limitations such as a maximum share ownership level eligible for tax deferral of only 10 per cent.

Unsophisticated legislative frameworks and overly complex employee share scheme laws make it very challenging to do business here.

By the time you understand whether or not you have triggered a phantom capital gains tax event, the business opportunity has evaporated. Real ESS reform should be an immediate national priority to stimulate a systemic improvement in the entrepreneurial ecosystem.

INFORM GOVERNMENT AND INDUSTRY BODY DECISION MAKING WITH ACCURATE DATA

Much of the serious investing in Australia does not happen through formal venture capital structures and so it evades the statistics.

While some investors do have exposure in structures like Square Peg Capital and Blackbird Ventures, the vast majority of significant early-stage investing happens directly from individuals, family offices, corporates or conglomerate structures.

As a result, the data that is used as the basis of discussion, media reporting, asset allocation within superannuation funds and policy decision making is incomplete. This is not easy to solve, as these investors are usually very private but the limitations of the data need to be understood.

Phillip Kingston is the founder of venture capital and investment firm Trimantium Capital, and a serial technology entrepreneur and investor.

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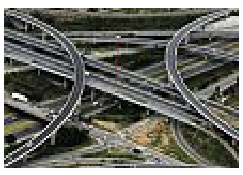

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