BUSINESS I Issue No. 3 I *Australian Government encouraging employee share ownership*

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Enticing and retaining key staff who buy in to an organisation's culture has long been a tough proposal. For a number of years, employees who were issued share options had to pay tax in the financial year the options were issued, regardless of whether or when such an option was exercised. A recent proposal of the Australian Government seeks to remove this barrier in an attempt to encourage employee share ownership and entrepreneurship.

On 14 October 2014, the Australian Government released the *Industry Innovation and Competitiveness Agenda* setting out a number of key proposals to drive economic growth and further the government's vision of a nimble economy.

Under the broader umbrella of encouraging start-up companies and boosting entrepreneurship, the government proposes to reform the tax treatment of Employee Share Schemes under certain conditions. This will help to encourage both the attraction and retention of high quality staff which is imperative to the success of any organisation.

Firstly, under the proposal, the taxing point for shares options introduced in 2009 will be unwound meaning that employees will be taxed at the point they exercise the option (and therefore receive the benefit) rather than at the time the option agreement is entered into. Under the current scheme, although an employee may not exercise the option for some years, that employee would be required to pay tax in the financial year the option agreement was entered into.

Additionally, Employee Share Scheme options or shares provided at a small discount in eligible start-up companies will not be subject to up-front taxation provided employees hold the shares or options for at least three years. Tax on these options may be deferred until the point of sale while the shares issued at a discount will have a tax exemption for that discount.

These start-up companies will also be given 15 years to defer tax, rather than the seven years currently afforded to them, in an attempt to give them more time to succeed. To be considered an eligible start-up company, the company must not have turnover greater than $50 million, it must be unlisted and incorporated for less than ten years.

Although this is simply a proposal at this stage, the intention is that draft legislation is prepared and approved with an effective date of 1 July 2015.

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