

Protecting Private Capital Formation in Australia's National Priority Areas

Assuming extensions to ESIC and ESVCLP provisions, a critical capital gap will remain at TRL 5–8. This submission argues that proposed CGT changes pose a significant risk to “crowding out” essential private capital for new manufacturing jobs.

Executive Summary

01

The Start-Up Problem - Under Discussion

Proposed CGT changes adversely impact early stage start-ups. The community broadly supports extending the ESIC regime to founders and broadening the ESVCLP framework - necessary and welcome reforms.

02

The Scale-Up Gap – Could Worsen

Even with start-up reforms in place, a structural capital gap will widen at TRL 5–8. This is deep tech's Valley of Death: beyond seed VC, but before institutional capital, superannuation, or public markets.

03

The Policy Gap – Tax changes could disincentivize private capital partnering with public on our National Priority Areas

The NRF was designed to anchor sovereign capability investment, and has unique benefits for companies at Technology Readiness Levels 5–8. New CGT rules must not disincentivise the private co-investment that the NRF depends upon to function and scale.

About Powerhouse Venture Partners

POWERHOUSE VENTURE PARTNERS

ASX: PVL

- ASX-listed investment house and fund manager focused on new economy technologies and the bridge between private capital and public markets.
- Establishing a Critical Infrastructure Opportunities Fund (CIOF) — growth-stage fund investing at TRL 6+ in AUKUS significant technology companies.
- ~20 portfolio companies in Space, Quantum, Cyber, Dual Use, AI, Additive Manufacturing, Bio-Tech, Resources.



James Kruger

Executive Chairman, Powerhouse Ventures Limited

- Respected strategic advisor in Australia's critical minerals, space, dual use technologies.
- Since returning to Australia in 2021 has advised close to 20 different scale-up companies in many of the National Priority Areas and has made several personal investments in companies ahead of NRF or State-based sovereign funds.
- Distinguished career at Macquarie - Former Global General Counsel in Securities & Commodities; Technology and Critical Minerals corporate finance; \$30b of transactional experience.
- Seed Investor and Chairman of Australia's NRF-backed diamond chip company; 10 year investor in the world's largest quantum company (NASDAQ listing now announced)

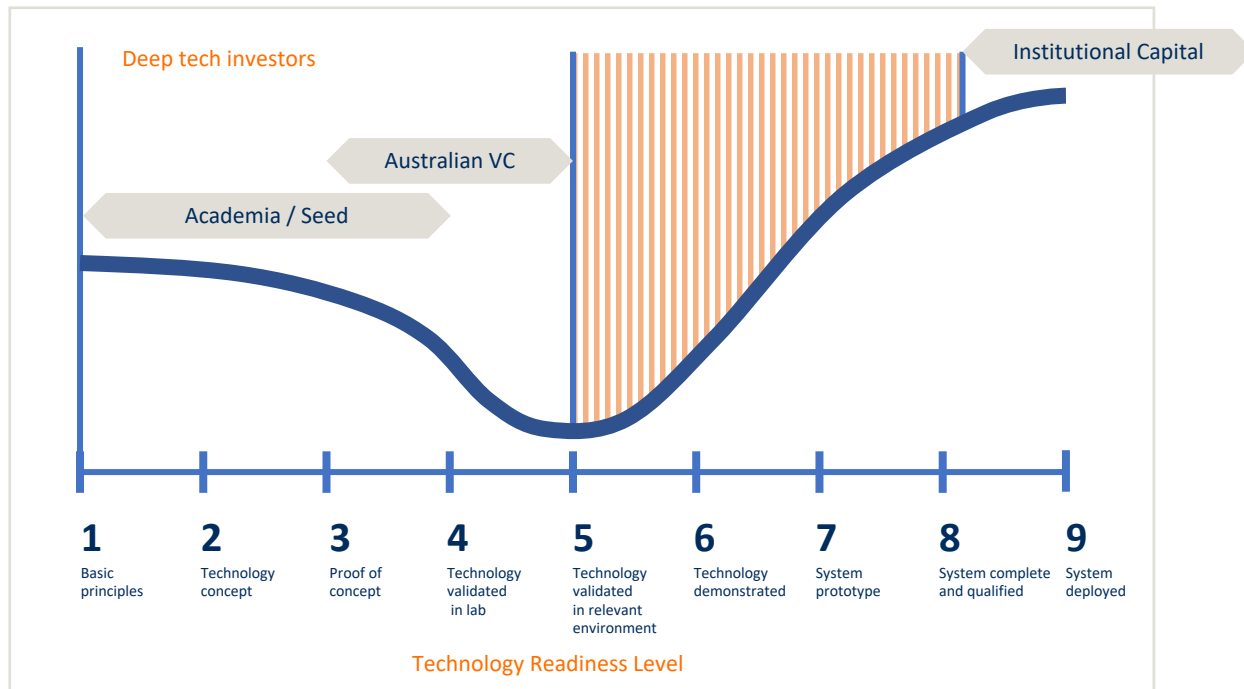
"Mind the Gap": TRL 5-8 and the Valley of Death

Where Private Capital is already thin

TRL 1–4 is served by universities, grants, ESIC and ESVCLP structures. TRL 9 by superannuation, institutions and public markets. But TRL 5–8 - where technology moves from lab-validated to new manufacturing jobs - sits in a private capital gap.

The NRF assists TRL 5–8. But NRF is an anchor investor and designed to catalyse, not replace, private co-capital. Super funds have limited, "exceptions-only" investment at these pre-production, pre-profit stages.

CGT changes that burden the cost of investing here directly reduce the co-capital the NRF depends upon to fulfil its mandate: we need to "Mind the Gap"



LIQUID INSTRUMENTS

TRL 7–8 | Instrumentation / Deep Tech

ABOUT

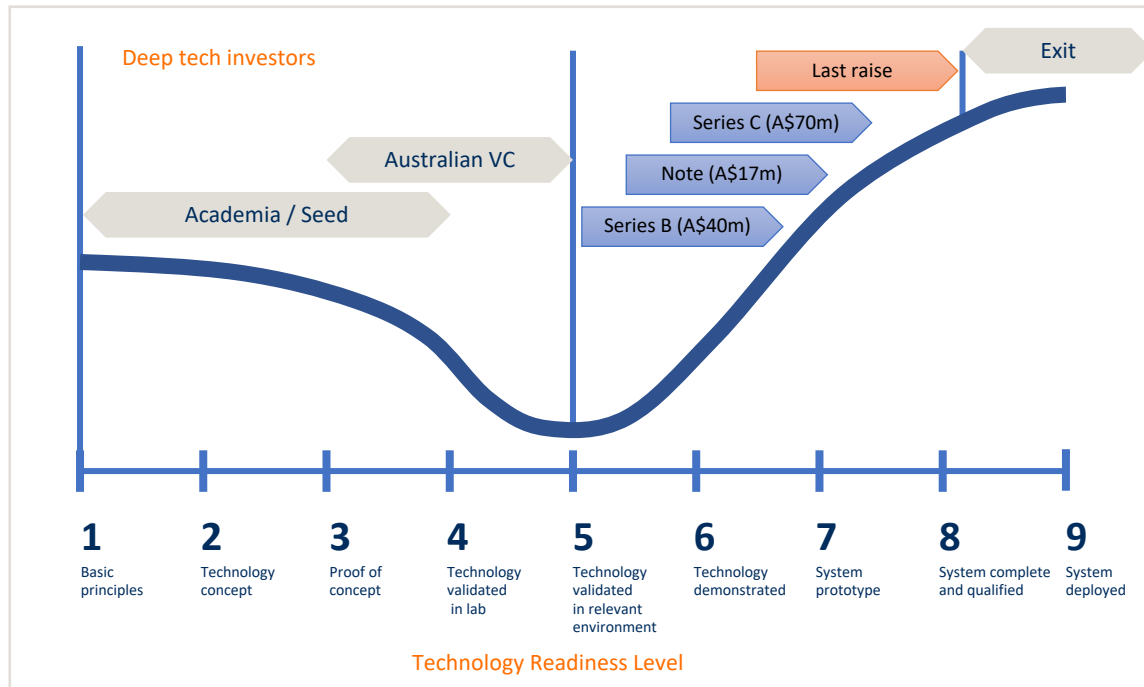
Unique chip and AI technology replaces test and measure hardware with a single reconfigurable device. Deployed in aerospace, defence, quantum research and semiconductor testing globally. Revenue: US\$10m and growing. Backed by: Lockheed Martin, Breakthrough Victoria, NRF, Acorn, Powerhouse

WHY CGT MATTERS FOR THIS COMPANY

At TRL 7–8, system-complete but not yet public-market ready. Investors post Series A face the greatest CGT impact with 5+ years of illiquid growth with a final private round needed to reach liquidity event. CGT disincentives are most acute at exactly this stage. If the Company needed to chase more foreign capital – the requirements to move manufacturing there increases.

PRIVATE CAPITAL REQUIREMENTS

Post Seed is where CGT disincentives are sharpest: investors make active decisions about whether Australian capital formation is worthwhile based precisely on the after-tax return on their long-dated position.



QUANTUM BRILLIANCE

TRL 6–7 | Quantum Chip / Deep Tech

ABOUT

Room-temperature diamond quantum accelerators for edge and GPU co-processing

Former ESIC Company fabricating synthetic diamond-based quantum cipshoperating at room temperature. Backed by: Main Sequence, Breakthrough Victoria, NRF, In-Q-Tel, Intervalley Ventures, Powerhouse/CIOF.

WHY CGT MATTERS

QB is the textbook NRF co-investment as it seeks to develop a new technology. The NRF cannot function as intended if private co-investors are disincentivised by CGT changes - the co-capital the NRF is designed to mobilise dries up. This is the precise mechanism the policy reform must avoid.

PRIVATE CAPITAL

Requires ongoing private capital rounds ahead of a listing. CGT treatment shapes whether investors hold through to the liquidity event or exit early - potentially offshoring Australian quantum capability at the moment of peak commercial value.

SYENTA

TRL 5–6 | Advanced Manufacturing / Semiconductors

ABOUT

Next-generation semiconductor metallisation for 3D chip packaging

Former ESIC Company delivering sub-5 micron accuracy semiconductor metallisation - a critical process node in next-generation 3D chip packaging and chip substrates. Essential to Australian sovereign semiconductor capability and reducing global chipmaker reliance on Asian supply chains.

WHY CGT MATTERS

Syenta is being validated but not in full production. Investors bridging this stage hold illiquid positions for a further 3-5 years. CGT changes that increase the effective tax burden on these gains directly reduce the supply of patient capital at this stage.

PRIVATE CAPITAL

Requires capital to scale pilot line to pre-production volumes. Australian Institutional and strategic investors are not yet available at this stage but it is now too expensive for Australian VC. The Company attracted US VC. Absence private Australian capital, a move overseas is more possible

SOUTHERN LAUNCH

National Security | Space Economy / Launch Infrastructure

ABOUT

Australia's sovereign launch and satellite re-entry capability

National Security Business operating Australia's first commercial rocket launch and micro-gravity manufacturing re-entry facility. Completed 7 launches for 4 global customers.

WHY CGT MATTERS

The gap between current operations and infrastructure fund interest requires private growth capital - exactly what CGT reform puts at risk. Leading foreign infrastructure funds have flagged acquisition interest once scale is achieved. As a National Security Business – Australian investors would be preferred.

PRIVATE CAPITAL

Needs growth capital to scale to full commercial operations and develop satellite re-entry services (40–50% margins). CGT treatment shapes whether the private investors needed to reach the institutional acquisition milestone will participate at all.

Proposed Solutions

01

We support ESIC & ESVCLP Extensions

- **Extend ESIC to founders**
- The current ESIC regime excludes founding shareholders from concessional CGT treatment — an anomaly that penalises those taking the most risk at TRL 1–3.
- **Broaden ESVCLP eligibility and fund size thresholds**
- The ESVCLP framework is proven for early-stage deep tech. Extending its reach will materially increase patient capital at TRL 1–4.
- These reforms are necessary and broadly supported across the innovation ecosystem.

02

Grandfather ESIC Status as a CGT discount investment even in later rounds

Apply the existing 50% CGT discount to investors participating in later capital rounds of ESIC-qualifying companies.

- ESIC status signals proven innovation - investors in Series A, B and beyond need incentivised tax treatment as the "job is not done" and we need to close the scale-up capital gap.
- Extending the CGT discount encourages patient capital at TRL 5–8, where the Valley of Death is most acute and private capital is hardest to attract.
- This is a targeted, low-cost mechanism to unlock private co-investment without expanding government expenditure.

03

CGT Discount for Critical Infrastructure

- Apply the 50% CGT discount to companies the NRF invests in, or gazetted as critical infrastructure under the Security of Critical Infrastructure Act.
- The NRF anchors sovereign capability at TRL 5–8 — its success depends on private co-investment that the proposed CGT changes directly threaten.
- SOCI-gazetted sectors - energy, defence supply chains, telecommunications — are exactly the national priority areas government has committed to strengthen.
- A targeted CGT carve-out ensures tax policy does not crowd out capital from sectors the government has declared strategically critical.

A framework for the full innovation lifecycle

1 Support ESIC and ESVCLP reform

Extending the ESIC regime to founders and broadening ESVCLP eligibility are necessary and broadly supported. These address TRL 1–4 adequately.

2 Preserve CGT incentives at TRL 5–8

CGT changes should be designed or amended to avoid penalising long-term private capital formation in pre-production deep tech companies, particularly those co-investing with the NRF.

3 Recognise the NRF co-investment dependency

The NRF's effectiveness at TRL 5–8 depends on private capital co-investment. Tax policy should catalyse, not crowd out, private capital in sovereign capability sectors.

4 Don't offshore what Australia has built

Syenta, Southern Launch, Quantum Brilliance and Liquid Instruments are sovereign assets in formation. The private capital keeping them in Australia is sensitive to CGT treatment.