



# ESS AccountantsMinute

Welcome to Accountants Minute. I'm Peter Towers, Managing Director of ESS BIZTOOLS.

## **The ESIC Brings Great Opportunities to Accountants and Advisors**

The Early Stage Innovation Company (ESIC) legislation commences in Australia from 1<sup>st</sup> July 2016. Unfortunately, the legislation for Crowd Funding Equity Raising was still in the Senate when the Senate adjourned for the double dissolution election.

ESICs have benefits for companies that have some new innovative products, services or processes, to assist in raising capital. There are significant benefits for investors via a tax rebate, based on an investor's investment in a qualifying ESIC and a potential CGT exemption on that investment.

To be an eligible ESIC, a company has to have been incorporated from the last 3 years although, in some cases, that can extend to 6 years. The company must have incurred total expenses of less than \$1M in the income year before the current income year. The company must have earned total assessable income of less than \$200,000, excluding any grant income from an Accelerating Commercialisation grant in the income year before the current income year. The company must not be listed on a stock exchange anywhere in the world.

These are the preliminary tests.

The company then must pass one of two additional tests:

### ***The Gateway Test***

The company must earn over 100 points from a series of questions relating to:

- Research and Development expenditure.
- Whether the company has received an Accelerating Commercialisation grant.
- Whether the company has participated in an approved Accelerator Program.
- Whether the company has already received in excess of \$50,000 investment from arms-length investors.
- Whether the company has already registered some Intellectual Property such as patent or plant patents.
- Whether the company has agreements with certain organisations to develop and commercialise the company's products.

### ***The Principles Based Test***

The company must be able to positively answer 5 questions relating to the potential to commercialise a new product, process, service, marketing or organisational method.

The Gateway Test and the Principles Based Test are self-assessment tests. Companies would be wise to obtain independent verification of eligibility as an ESIC to satisfy investor due diligence requirements. Most investors will require some independent verification that the company is going to be accepted by the ATO as being an ESIC because of the importance for most investors for the tax offset and the CGT avoidance.

Companies will need to develop an outstanding investment ready presentation for investors, which would include details of:

- Market Research
- Marketing Plan
- Management Team

- Board of Directors
- Business Plans
- Budgets/Cashflow Forecasts
- Share Pricing Report
- Information Memorandum
- Investment Pitch Presentation

Investors can obtain a tax offset calculated at 20% on their investment, up to a maximum of \$200,000 per annum for sophisticated investors and \$10,000 per annum for retail investors. Note that retail investors are limited to a maximum investment of \$50,000 per company, per annum.

An investor can also obtain a CGT exemption if shares are held for more than one year but less than 10 years.

ESS BIZTOOLS has developed the ESIC Product Package for accountants and business advisors. This package incorporates detailed procedures for companies to self-assess their ESIC status and for the company to adequately prepare for investment readiness.

You can obtain an annual subscription of this package for \$299 including GST. [Click here](#) to sign up.

Alternatively, you can sign up for the ESS BIZTOOLS' Gold Package, which incorporates everything that ESS BIZTOOLS has to offer, including the new ESIC Product Package. [Click here](#) to sign up for a Gold package.

We are presenting a special webinar, featuring **"Early Stage Innovation Companies"**, on Tuesday 28<sup>th</sup> June 2016 at 12pm AEST. [Click here](#) to register to attend, free of charge

We also have a special article **"Early Stage Innovation Companies"**, which is attached with this transcript.

"Accounting Market Pulse", produced by the Commonwealth Bank, has predicted that 2016/17 will be the year of business advisory services. Why not launch the new financial year with a great business advisory services product for your clients with the ESIC Product Package?

If you have any questions relative to the services that are supplied by ESS BIZTOOLS to help accountants/advisors to deliver a constructive range of business advisory services, please don't hesitate to contact us.

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