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AccountantsMinute

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

The ESIC Legislation is a Great New Income Stream for Accountants and Advisors

Do you remember the Deloitte report, "Digital disruption – short fuse, big bang?" a few years ago? In that report, Deloitte stated that they believed that accountants/advisors would need to create new income streams, to assist with the challenges from digital disruption.

The Australian government has helped create a new income stream, with the birth of Early Stage Innovation Company (ESIC) legislation from 1st July 2016.

Let's look at a case study...

Two inventors came to you a couple of years' ago and said they wanted to start a company because they had an invention in mind and they're going to work on it. They were going to subscribe \$100,000 for shares. Recently, they've come back into your office because they want the tax return prepared for 30th June 2016. They indicated that they have spent \$90,000 on R&D and \$5,000 on patent attorney fees for registering a patent in Australia (and subsequently overseas). You calculated their tax return position and advised them that their refund would be around \$40,500, based on their R&D expenditure and that they should have that money within about 30 days from the ATO.

They indicated, "That's OK, that will help us with some of the ongoing expenses but we're really excited about our product. Our patent attorney thinks that it could be a very good product and will succeed very well in the market. But to commercialise the product properly, have all the agreements in place and the distribution channels determined, it's going to cost us about \$2.5M. We don't know where to get that money from."

You can then explain to them that the government has introduced this new type of company called an Early Stage Innovation Company (ESIC) and that the requirements of Section 708 in the Corporations Code, which restricted a private company to only being able to raise a maximum of \$2M, from a maximum of 20 investors every 12 months, has been superseded, if the company is able to be assessed as an ESIC. There are some tests that the company has to satisfy to meet that category.

If your firm has subscribed to the ESS BIZTOOLS' ESIC product package, you can immediately indicate to this client that you have the ESS ESIC Calculator and that you're able to process the information pertaining to their company, to see whether they're going to satisfy the Provisional Test, the Gateway Test or the Principles Based Test within the ESS ESIC Calculator.

If they do and they have all the supporting evidence in an appropriate file that's able to be produced to investors (because they will be very keen to ensure that the company has undertaken the due diligence process in an appropriate, professional manner). Investors want to be able to lock in that they're going to receive a 20% tax offset on their investment (up to \$200,000 for sophisticated investors and \$10,000 for retail investors) and also receive a CGT exemption from the end of year one until the end of year 10. Out of this whole process, there's also a great benefit for investors.

Your firm could then assist the client to get investment ready. Going through the due diligence phase to self-assess that the company is an ESIC is only the beginning. They then have to work through the investment readiness, which is covering items such as:

- Business Plan
- Budgets
- Cashflow Forecasts
- Information Memorandum

Then the company CEO or Chair will probably require some mentoring and coaching on being able to make an investment presentation. These types of companies will have to be making investment presentations to Business Angel groups, Founders Forum groups and other groups of potential investors.

When you look back at the challenge posed by Deloitte, to create new income streams, what is now becoming obvious to you?

This client was probably worth \$1,000 or \$2,000 a year as an Income Tax Return/annual accounts preparation client. Now, with this work, the fee should be in the vicinity of \$20,000 to \$40,000. This is possibly only in one year, however they might repeat capital raisings in future years and have to do a similar process.

Imagine the ongoing work that you might be able to secure with this client because you know them very well by this stage. These companies are going to need virtual CFOs, who are able to offer support to them without being a full time CFO because they won't be able to afford that type of person and they probably won't have enough work for a full time CFO.

There could also be an auditor role, if you don't want to proceed down the CFO role. All these companies are going to require auditors because they're going to have 20/30/100s of new shareholders. There could also be finance director type role that they are looking to fill on their Board of Directors.

The government's legislation on ESICs is offering some significant advantages to accountants/advisors, who are prepared to grasp the opportunity and go after the clients in a proactive manner.

If you subscribe to the ESS BIZTOOLS' Early Stage Innovation Company product package, you will receive a pre-prepared, ready-to-use seminar/webinar that you can use to communicate with your clients and prospects so that they understand that you're happily looking for opportunities to work with clients who are going to try to raise capital as an ESIC. The package also contains:

- A full set of material which guides you through the process.
- Marketing letters to send to your clients and prospects.
- Information that we suggest that you can place on your website to indicate that you're very proactive in supporting businesses who are wanting to be assessed as being an ESIC.

This is a great opportunity for accounting/advisory firms to create a whole new income stream for their businesses.

We're presenting a special webinar, free of charge, where we're going to work through the process of the completion of the ESS ESIC Calculator. This webinar will be held on **Wednesday 3rd August 2016 at 12pm AEST**. [Click here](#) to register to attend.

If you have any questions on how the ESS BIZTOOLS' Business Advisory Services products can assist you in providing advice to your clients, please don't hesitate to contact us.

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