



ESS
AccountantsMinute

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

ESIC - New Revenue Stream for Proactive Accountants

The Early Stage Innovation Company legislation is a great "replenishing revenue stream" for accountants and business advisors. Deloitte produced a report a few years ago relative to digital disruption and one of the suggestions they made following that report's release was that accountants and advisors should identify replenishing revenue streams.

Well, that is exactly what the Early Stage Innovation Company legislation is for accountants and advisors who want to be proactive and take advantage of this brand new legislation. This legislation didn't exist before the 1st July 2016, so it's no use complaining that everyone else is already doing it. No one is doing it. No one has ever done the work that's going to be involved in this process, so this gives you a tremendous opportunity to be one of the pace-setters to be in there at the very beginning.

ESIC also enables you to be answering SMEs pleas for accountants to be more proactive and commercially orientated to assist them with issues that they are confronting on a day-to-day basis.

Please remember that the vast majority of companies that are going to seek assistance for Early Stage Innovation Companies are going to be very young companies because, in the main, they have to be under 3 years old. They have to develop new products, processes, services, organisational, marketing or other types of methodologies and that they then want to raise some capital so they can appropriately commercialise their inventions to bring them to the market.

In the main they are not well-established companies that are out in the marketplace already. Many of them will never have gone down anything like this process before. Most of them have probably never run a company before. They will have very little experience in dealing with investors. They will have very little experience in having ever developed a business plan which can be used to raise capital.

These are people who, in some instances, might not even have been seeking accountancy services prior to now because they've been in their backyard shed or workshops or farms developing new products. They are probably representative of your normal client base; they are small businesses so accountants who are used to dealing with small businesses should be the group of professional advisers that are handling their requirements to get themselves through this ESIC process.

So what does ESIC offer as a "replenishing revenue stream" for accountants?

First of all there are the requirements to determine whether the company meets the "Preliminary Test". The preliminary test relates to the age of the company, the expenditure of the company, the income of the company and whether the company is listed on a Stock Exchange. The legislation doesn't like that: they shouldn't be listed on a Stock Exchange anywhere in the world.

We've called that test the preliminary test; that's the first test that you can help your client satisfy.

We then move into the "Gateway Test". The Gateway Test has 8 separate areas that the client has either been involved in or hasn't been involved in, but there is a requirement to prepare a file, to keep a record to be able to prove to an investor that the company has actually done these things; that the company has expended more than 50% of its expenditure on research and development and that way the company can earn 75 points. The company only has to earn 100 points, so if the company has been active, the company should be able to qualify under the Gateway Test in most cases.

But if the company doesn't qualify under the Gateway Test (and these will normally be very new companies that are only just starting on this journey) the company then has to go through the "Principles Based Test". The Principles Based Test has 5 questions that need to be answered in the affirmative and the questions require more than just ticking a box. A record needs to be kept of the reasons, the argument for why the company claims that it has the ability to answer positively each of those 5 questions.

That's the original work within ESS BASIP. We have a product called ESS ESIC Calculator which will assist you to very quickly go through and determine whether the client's company is going to be able to professionally assess itself as an ESIC. But that is only the start!

These companies need to do a lot more than just say that they're a self-assessed ESIC to raise capital from investors. When you look at this legislation you'll see it's slanted in favour of sophisticated investors so investors are not going to be easy to convince to invest money into any company. They are experienced investors. Therefore the company's directors are going to need your assistance, not only to ensure that your client's company has qualified as an ESIC, but then the company needs to go through the "investment readiness" process. This involves:

- business plan
- budgets
- cashflow forecast
- information memorandum

There is a significant amount of work relative to the investment readiness process and at the end of that process, there is still another very important step; most of your clients will then require some training and mentoring, some assistance in being able to make an "investment pitch" because they'll have to go to groups like Founders Forum and Business Angel Groups and other investment clubs to be able to make a presentation to members of those organisations to be able to raise capital.

When you look at the ESIC legislation it's a fantastic opportunity for accountants to embark on a "new revenue stream" and at the same time, to be assisting smaller companies to be able to get themselves into an investment readiness status whereby they can raise capital to fulfil their business dreams.

Following that; once the company has raised capital there are also some ongoing opportunities because those companies are going to require a virtual Chief Financial Officer. They're going to need auditors. They're going to be looking for persons with appropriate experience to be on their boards of directors.

We look forward to you joining us on this journey. The "ESS BASIP Early Stage Innovation Company Product Package" is available through ESS BASIP (www.essbasip.com.au) for a subscription of \$299 (incl GST) or you can subscribe to the ESS BIZTOOLS Gold Package ([Click Here](#)) which includes all of the products within ESS, including the Early Stage Innovation Company Product Package for \$2,970 (incl GST) for 12 months 24/7 access for your office.

If you would like to participate in a webinar on "ESIC A new revenue stream for proactive accountants and advisors", I invite you to join us on Tuesday 23rd August 2016 at 12-noon. [Click here](#) to register to attend, free of charge.

If you would like a paper that we've written "Self-Assessment for Early Stage Innovation Company", please contact us at www.essbiztools.com.au for both the paper and to register for the webinar.

Have a wonderful day.

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