
FOR ACCOUNTANTS - AUGUST 2016**ESIC Products "Story"****Will you have an ESIC Story?**

Three years ago, Deloitte released a report "Digital disruption - short fuse, big bang". Remember it?

In that report Deloitte stated that they believed that accountants/advisers needed to create "new income streams" to assist with the challenges confronting accountants/advisers from digital disruption.

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

Let's look at the story of what might unfold in your office.....

Two inventors came to your office last year and said they wanted to start a company because they had an invention in mind. They indicated that they were going to subscribe \$100,000 for shares.

Last week they came back into your office because they wanted their tax return prepared for the year ended 30th June 2016 as soon as possible because they've spent \$90,000 on research and development and traded at a loss and they have heard that they can receive a rebate on their research and development expenditure. The only other expenditure they had was \$5,000 paid to a patent attorney for the registration of a patent on their invention in Australia.

You calculated their tax position and indicated to them that they will receive a refund of \$40,500 based on their research and development expenditure and that this money should be paid to them by the Australian Taxation Office 30 days after their income tax return is lodged.

The clients then said to you, *"Well that's great, it will help us with some of our ongoing expenses, but we want to talk to you about our product because we and our patent attorney are very excited about it, but our problem is we haven't got enough money and to commercialise this invention properly and get the distribution channels in place and all of the agreements and the production centre operational is going to cost about \$2.5M". "We don't know where to get that money".*

You could then explain to them that the government has introduced a new type of company called "Early Stage Innovation Company" (ESIC) and that the requirements of Section 708 of the Corporation 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a private company to only being able to raise a maximum of \$2M from a maximum of 20 investors every 12 months has been superseded, if the company is able to be assessed as an ESIC. Obviously there are some tests that a company has to satisfy to be deemed to be an ESIC.

An accountant/adviser using the ESS ESIC Calculator could then be able to process the information relating to the client's company to see whether they're going to satisfy the Provisional Test, the Gateway Test or the Principles Based Test so that they could be deemed to be an ESIC.

If they do and they have all of the supporting evidence in an appropriate file that is able to be produced to investors (because investors will be very keen to ensure that the company has undertaken appropriate due diligence processes in a professional manner because this is crucial to the investor obtaining the benefits that are available to them from investing in an ESIC).

Investors are able to receive a 20% tax offset on their investment (Up to \$200,000 for sophisticated investors and \$10,000 for retail investors) and also to receive a Capital Gains Tax exemption on that investment held for longer than 12 months and less than 10 years. These benefits mean that investors will be taking a critical interest in ensuring that the company has conducted the self-assessment process diligently.

Once the self-assessment process has been concluded and all of the supporting documentation is filed into appropriate files for investors to review, you could then advise the company's directors on the "investment ready" process, because going through the ESIC self-assessment is only the beginning. The company still has to present a very good picture of its prospects to investors to be able to obtain investment funds from them.

The investment readiness process would involve your firm being actively involved in the development of the company's business plan, budgets, cashflow forecasts and information memorandum.

Once this phase is completed, the next phase is the "investment pitch" phase. The CEO will probably need some assistance in preparing himself/herself to make an investment presentation to potential investors.

When you look back at the challenge that Deloitte made a few years ago about creating new income streams, what is now becoming obvious to you? The client was probably worth \$1,000 to \$2,000 as a client that you prepared an annual set of accounts and an income tax return for. Now with the work involved in assisting the company to professionally undertake this self-assessment process and then assisting in the investment readiness phase and the investment presentation phase, your firm's fees will probably be in the vicinity of \$20,000 to \$40,000. Whilst this is probably only going to occur in one year, there are possibilities that capital raising will be repeated in future years and the process will have to be repeated. However, this is where it gets exciting; there is the opportunity to be offering a broader range of services to the client than what you were offering to them previously including:

- chief financial officer's (CFO) (EFICs will need CFO services - but probably not full time) services;
- finance director role (to assist the Board of Directors);
- auditor (if you don't want to undertake a CFO type role); and
- possibly in the future assisting with an Initial Public Offer (IPO).

The ESS Product Package" is now available for subscribers. The package includes a prepared seminar/webinar together with marketing material which you could send to clients and prospects to advise them that you're presenting a seminar/webinar on the opportunities available for companies if they're classified as an Early Stage Innovation Company. You might be surprised at who attends such a seminar/webinar because there are many people undertaking innovative developments who don't publicise what they're doing and might not even be clients of accountancy firms at this stage.

That's the ESIC story - it's a wonderful opportunity to create new income streams. The Prime Minister expects thousands of companies to avail themselves of the opportunity to use the Early Stage Innovation Company classification to enable companies to raise capital from investors who will be able to obtain tax offsets and a capital gains tax exemption. This type of work clearly is a new income stream.

If you agree..... we'd love to hear from you. Please visit www.essbasip.com.au for full details on the ESIC Product Package which you can subscribe to for only \$299 (incl GST).

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