



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

Early Stage Innovation Company Investor Opportunities

In recent weeks, we've talked to you about the significant benefits that are available for new companies that have developed new products, services, marketing or organisational methodology to becoming an Early Stage Innovation Company.

Today what I want to talk to you about is the benefits for investors because the government has made it very attractive for investors to invest in companies that are able to successfully classify themselves as "Early Stage Innovation Companies".

What's involved?. First of all the company has to be an ESIC and the company has to have gone through three tests and must be able to assess itself under two of those tests.

The first one, we've called the "provisional test" which looks at the age of the company which generally needs to be under 3 years old, but it can, in some circumstances be under 6 years old.

The income of the company has to be under \$200,000, not including any income received from an Accelerating Commercialisation Grant. The expenditure of the company has to be under \$1M. On both of those items, expenditure and income, relate to the previous income year and the company must not be listed on a Stock Exchange. So it's a new type of company.

Within the Gateway Test, the company must be able to accumulate at least 100 points from 7 separate subject headings. If it cannot achieve the 100 points, it then moves on to the Principles Based Test. The Gateway Test covers items such:

- research and development - over 15% of expenditure
- whether the company has been involved in the Accelerating Commercialisation Grant Programme
- whether the company has been in an Accelerating Programme, run by an independent organisation
- whether the company has already achieved investment of, at least, \$50,000 from "arms-length" investors
- whether the company has registered a patent, plant patent
- whether the company has registered an innovation patent or a registered design
- whether the company has a Commercialisation Agreement with an organisation that is listed within the Higher Education for Research & Development Organisation Legislation of the Australian government.

Now if the accumulated points are 100 or more, then the company has successfully self-assessed.

If not, you then move into the Principles Based Test. This is generally based on commercialisation intent of the organisation. Does it really intend to commercialise a new product, process, service, organisational or marketing methodology? Does the company have high growth potential? Is there an ability to scale the business? Will the product or service etc., be acceptable to a broader market than just the local market? Does the company have competitive advantages?

This legislation is different to most of other Australian legislation because the company is able to self-assess. It should be fairly straight forward with your assistance for a company to self-assess under the "Provisional Test" and also the "Gateway Test", because the Gateway Test really requires evidence to be produced - the company has either been in a research development programme and the expenditure is able to be verified against the tax return and the AusIndustry registration for research and development or not.

In the Principles Based Test though a more subjective opinion needs to be reached and, I believe, that in the vast majority of cases a Board of Directors will require an "arms-length", independent group to prepare a report for them as to whether the company successfully can answer in a positive manner the five questions relative to the Principles Based Test.

The final adjudicator in all of this is going to be the Australian Taxation Office and AusIndustry, but in the early stages, I suspect this approval process is going to take quite an amount of time. The companies are going to be keen to get on with it, to raise some capital and therefore you will have some of your investor clients saying can we invest now? This is the process that I'd suggest you'd be taking them through to make sure that they have appropriately self-assessed and, better still, that you'll advise them on that process by using the ESS ESIC Calculator and the product package.

The benefits for investors are fairly unique at present in Australia. An investor can obtain a 20% tax offset based on their investment. Sophisticated investors can obtain an offset of up to \$200,000, which means that based on a \$1M investment in one year whilst a retail investor can obtain a tax offset of \$10,000, based on a maximum investment for a retail investor of \$50,000.

Both groups of investors can obtain a Capital Gains Tax Exemption from the end of the first 12 months until the 10th anniversary of that investment. That exemption only applies to the original investor in the company.

If you'd like to obtain a paper that you can distribute to your clients who, you believe, might be interested in investing in an Early Stage Innovation Company, we have produced a paper - **"Tax Incentives for Investors"**. A complimentary copy of this article is attached to this transcript.

We are conducting a special webinar on the **ESIC Investor Opportunities** on Wednesday 14th September at 1pm AEST. If you wish to attend this free webinar, we would urge you to do so. All you need to do is [click here](#) to register.

Over the last few weeks, we have taken you through the ESIC story. We've looked at what an ESIC company is, we have portrayed a story to you as to how an ESIC journey might start with a small company undertaking a research and development project and then finding that the cost of commercialisation is going to exceed their cash resources and they come to you looking for assistance in raising capital.

In this series we're now looking at what's in it for an investor. There is a fair bit in it for an investor and our paper and webinar will explain more.

We are conducting a webinar, entitled **"Early Stage Innovation - Investor Opportunities"** targeted at investors and small business operators looking at it from an investor's point of view and that webinar is also on Wednesday 14th September 2016 at 5.00pm. Any of your clients, yourself and your team are most welcome to participate in that webinar. Please [click here](#) to register.

Good luck with advising your clients on the benefits of becoming an ESIC company and also to your clients who are interested in making investments to see some real growth, I hope, in companies in which they select to invest.

Have a great day.

Peter Towers

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