



ESS AccountantsMinute

Early Stage Innovation Company Process

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

Accountants, you are needed in the ESIC process. The Early Stage Innovation Company amendments to the Income Tax Act have instigated the first lot of publicity about a company which was actually going through the verification process.

The company, a Perth company called Epic Delivery, had difficulty in satisfying the Australian Taxation Office that it qualified under the Principles Based Test. In an article written in the Financial Review last week, the company's co-founder was quoted as saying that the company had been unable to accumulate the required 100 points under the Gateway Test, and then had to rely on the Principles Based Test. The company had difficulty in satisfying the Australian Taxation Office initially that they had "sufficient competitive advantage". According to the company's co-founder, they then had about 10 separate communications with the Australian Taxation Office so they could satisfy the ATO that they did have a "sufficient competitive advantage" for their business.

What this is highlighting is the need for adequate preparation before seeking a ruling from the Australian Taxation Office and, indeed, before approaching an investor to see whether the investor will invest in a company. It's not necessary to apply to the Australian Taxation Office first; a company can prepare itself for a conversation with an investor, but investors will be just as tough as what the Australian Taxation Office obviously proved to be in Epic Delivery's case.

The key components of the Principles Based Test that Epic Delivery, and all other companies, will have to satisfy include:

- is the company focused on the development for commercialisation a new or improved product, process, service, organisation or marketing methodology. The key word in this section is "commercialisation".
- Does the company have a "high growth potential"?
- Is the product "scalable to wider markets"?
- Do the company's products give the company the ability to address a "broader market than just the local market"?
- The test that Epic Delivery had difficulties with apparently - does the company have a "sustainable competitive advantage"?

There is no doubt that the Principles Based Test is significantly more difficult for most companies than what the Gateway Test will be, but for many new companies, the Principles Based Test will be the only way to gain admission as an Early Stage Innovation Company.

So what does all of this mean for accountants? I think it presents some exciting opportunities for you to develop a "new income stream" for your firm to become one of what will not be thousands, maybe a few hundred accountancy businesses in Australia, which are "experts" in the ESIC process. This ESIC legislation hopefully is just the beginning of a whole new era of legislation in Australia which will encourage investors to invest in local start-up businesses. Hopefully next year we're going to have the Crowd Funding Equity Raising legislation passed by the Parliament so that it's able to be used also.

For an accountancy business, there is a great opportunity because these companies will require a lot more assistance, not just in undertaking this ESIC accreditation process; it opens the opportunity for advice in:

- research and development
- mentoring them for an Accelerating Commercialisation Grant application (if they wish)
- investment readiness phase
- budgets
- cashflow forecasts
- business plans
- information memorandum
- investment pitch mentoring

It's a very significant "new income stream". Please have a good look at it and decide whether your firm is prepared to invest, not thousands of hours, not even hundreds of hours, but obviously some time in understanding all of the processes.

In that regard we can assist you. ESS BIZTOOLS has developed a full product package on all aspects of the Early Stage Innovation Company legislation to assist accountants and business advisers to be the key professional service providers to these companies.

A complimentary copy of our article "**Early Stage Innovation Company**", which is part of the Business Advisory Services Products, is available, free of charge. This complimentary article is attached with this transcript.

Why not join ESS BIZTOOLS' subscription to the ESIC process and start using the special seminar/webinar that we have prepared for you to promote your interest in this whole new area for your clients and prospects.

If you have any questions on any aspects of how you can create an ESIC experience for your clients and prospects, please don't hesitate to contact us.

Have a great day!

Peter Towers

MANAGING DIRECTOR – ESS BIZTOOLS PTY LTD

+61 7 4724 1118 | 1800 232 088

peter@essbiztools.com.au

www.essbiztools.com.au | www.essbasip.com.au | www.essbizgrants.com.au | www.esssmallbusiness.com.au