



"Accountants - Don't Forget Early Stage Innovation Companies!"

The Early-Stage Innovation Company legislation has been available since July 2016 but unfortunately there has been little publicity about the significant benefits this legislation offers small/medium enterprises and investors.

An accountant rang me last week and asked me whether a *"two-year old company that had undertaken a significant amount of research and development to develop a new product was suitable for Crowd Sourced Funding?"*

I said no!

I suspect the accountant was a little bit surprised at my answer!

I said I thought the company would be a very suitable candidate for Early Stage Innovation Company status. Why?

The Early Stage Innovation Company legislation is the "running mate" to Crowd-Sourced Funding but services a different set of client characteristics.

The object of Early Stage Innovation Companies legislation is to encourage new investment in small Australian innovation companies:

- with high growth potential
- by providing qualifying investors with a tax offset and a modified capital gains tax treatment

The benefit for companies which qualify as an Early Stage Innovation Company is that they will have an advantage over other companies seeking to raise capital because once investors become aware of the significant taxation benefits I expect that, in the first instance investors will be seeking out the Early Stage Innovation Companies that are seeking investment.

To be an Early Stage Innovation Company a company must qualify under two out of three tests:

- Early Stage Test (which all companies must comply with if they wish to be an Early-Stage Innovation Company).
- Gateway Test (if a company does not qualify under this test they can then move onto the next test).
- The Principles Test.

Early Stage Test

- Companies must be under three years old, but in some instances they can be aged between three and six years old.
- Total expenditure under \$1 million in the previous financial year.
- Total income under \$200,000 in the previous financial year excluding any Accelerating Commercialisation Grant income.
- Not listed on a stock exchange anywhere in the world.

Gateway Test

Companies can earn points on seven separate questions. To qualify under this test companies must accumulate 100 points. These tests relate to:

- research and development expenditure as a percentage of the company's expenditure
- accelerating commercialisation grant program participation
- participation in a "accelerator program"

- patents/plant breeders rights registered anywhere in the world
- innovation patents/registered designs registered anywhere in the world
- the company has received investment funds of over \$50,000 from “arms-length investors”
- the company has entered into commercialisation agreements as envisaged under the Research and Development Act
- if the company does not qualify under the Gateway Test the company can then move onto the Principles Test.

The Principles Test

The company has to have developed new or improved:

- products;
- processes;
- procedures;
- marketing; or
- organisational methodologies.

The company must generally be focused on the development of new commercial products, processes or services with:

- high growth potential
- ability to be able to “scale the business”
- appeal to a “broader than local market”
- “competitive advantage”

The Principles Test is very subjective therefore if possible the company should try to qualify under the Gateway Test.

Investors

Qualifying investors in an Early Stage Innovation Company receive a tax offset of 20% of their investment subject to investment limits of:

- Sophisticated investor \$200,000
- Retail investors \$10,000

Investors also receive a capital gains tax exemption subject to them being the original investor in a particular shareholding and having held those shares beyond one year and less than 10 years.

There is an investor limit for retail investors of \$50,000 every 12 months, however there is no investor limit for a sophisticated investor.

To be able to raise capital as an Early-Stage Innovation Company, companies will need assistance from accountants and other professional advisers relative to:

- Proof of qualification as an Early Stage Innovation Company
- Market Research
- Marketing Plan
- Business Plan
- Budget
- Cashflow Forecast
- Company Valuation
- Share Price Determination
- Information Memorandum

There are also significant work opportunities available for accountancy businesses which are offering Business Advisory Services and wish to develop a “new income stream” including:

- Virtual Chief financial Officer services
- Company Secretary Services
- Directors
- Auditors

I conducted a seminar for an accountancy business last week that was titled “The Journey, Research and Development to Capital Raising – Research and Development, Early-Stage Innovation Company, Crowd Sourced Funding, Section 708 Capital Raising.

Thirteen separate businesses attended and four of those businesses have indicated a significant interest in becoming an Early Stage Innovation Company or a Crowd Sourced Funding Company.

The potential fee to be earned by the accountancy business from these four clients and potential clients is \$80,000 to \$160,000. The accountant is very happy with this potential "income source" from a 90-minute seminar.

You are invited to participate in a special webinar "Early Stage Innovation Company Opportunities for Young Companies with Ideas and Tax Breaks for Investors" on **Wednesday, 14 June 2017** at 12.30pm (AEST).

Please click here to register to participate in this webinar.

If you would like to receive a copy of the PowerPoint slides that we used for the webinar for the accountancy business "The Journey Research and Development to Capital Raising" please [click here](#).

ESS BIZTOOLS and ESS BASIP have products available to assist accountants introduce services for small/medium enterprises relating to Early Stage Innovation Companies and Crowd-Sourced funding Companies.

You can subscribe to the ESS BIZTOOLS' Gold package and receive a wide range of products and services including Early Stage Innovation Companies and Crowd-Sourced Funding. Please go to www.essbiztools.com.au.

You can subscribe to the individual product packages for Early Stage Innovation Companies and Crowd-Sourced Funding Companies by going to www.essbasip.com.au.

If you have any question about any aspect of the services provided by ESS BIZTOOLS, ESS BASIP and ESS BIZGRANTS, please do not hesitate to contact us

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Have a wonderful day.

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