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Early Stage Innovation Company

Early Stage Innovation Company great for an innovative company whilst offering immediate returns to investors.

When a company raises capital as an Early Stage Innovation Company the company receives the investors funds whilst the investors benefit by receiving a tax offset in the following year and potentially avoid Capital Gains Tax on the shares that were issued as part of the Early Stage Innovation Company “test time calculation”.



Being able to raise capital as an Early Stage Innovation Company is a sought after status for companies which have to qualify through a number of steps and it will assist if the company has been involved in one or more of the following activities:

- ✚ Research and Development
 - ✚ Accelerating Commercialisation Grant application and approval
 - ✚ Undertaking or have completed an approved “Accelerator Program”
 - ✚ Has raised at least \$50,000 from arm’s length Investors
- ✚ The company has Registered Patents or Plant Breeders Rights
 - ✚ The company has registered an Innovation Patent or a Registered Design
 - ✚ The company is genuinely focused on developing for commercialisation one or more new, or significantly improved products, processes, services, marketing or organisational methods and the company can demonstrate that:
 - there is high growth potential
 - there is potential to be able to successfully scale that business
 - there is potential to be able to address a broader than local market, including global markets through that business
 - there is potential to be able to have competitive advantages for that business

If this sounds like your company the following will be of interest to you.

The company’s date of incorporation is very important.

The date of incorporation has to be either:

- ✚ Three (3) years before the company is raising capital; or
- ✚ Six (6) years before the company is raising capital

If the company is aged under three years when the company is raising capital the other initial requirements for prequalification are:

- ✚ The company and its 100% subsidiaries (if any) incurred total expenses of \$1m or less in the income year before the current year and
- ✚ The company and its 100% subsidiaries (if any) have a total assessable income of \$200,000 or less (excluding any grant funds from the Accelerating Commercialisation Grant) in the income year before the current year.
- ✚ The company must be able to substantiate both the expenditure and assessable income from the company’s income tax return for the applicable year.
- ✚ The company must be able to declare that none of the company’s equity interests were listed for quotation in the official list of any stock exchange in Australia or a foreign country.

If this is the case the company has passed the “test time determination” – part 1 of a potential three-part application process.

If the company is under six (6) years when the company is raising capital the other initial requirements for prequalification are:

- ✚ Across the last three (3) years of those income years the company and its 100% subsidiaries (if any) incurred total expenses of \$1,000,000 or less and this is able to be substantiated by the company's income tax returns for each of those 3 years.
- ✚ The company and its 100% subsidiaries (if any) have a total assessable income of less than \$200,000, excluding any grant funds from the Accelerating Commercialisation Grant in the income year before the current year.
- ✚ The company must be able to substantiate the assessable income from the company's income tax return for the applicable year.
- ✚ The company must be able to declare that none of the company's equity interest were listed for quotation in the official list of any stock exchange in Australia or a foreign country.

If this is the case the company has passed the "test time determination" – part 1 of a potential three-part application process. This article will be continued in the April edition of Business Plus.

Research and Development Registration

Companies undertaking research and development expenditure that are wishing to claim the Research and Development Rebate for must register their research and development activities with AusIndustry in the ten (10) month period following the end of the financial year.

Normally this registration date is **30 April** but this year that date falls on a Saturday and on the next business day Monday, 2 May 2022 is a public holiday in Queensland and the government has decided that registrations will close on **Tuesday, 3 May 2022**.

If you require any assistance from us in preparing the research and development registration forms please do not hesitate to contact the accountant in our firm that you normally deal with.

Research and Development is for the Determination of New Knowledge

If you are undertaking research projects and your reasoning is that you are trying to develop new knowledge then if you are undertaking this research within a company you are potentially able to claim a special income tax rebate known as the Research and Development Rebate.

For companies with annual turnover of under \$20,000,000 the rebate is calculated at the income tax rate for a company with a turnover under \$20,000,000, plus 18.5%. For the year ended 30 June 2022 this will be a rebate of 43.5% of the eligible research and development expenditure.

Please note that not all of the expenditure that is incurred as part of a "total research activity" may qualify as "eligible research and development expenditure". (We will discuss some of these issues in a later edition of this series of articles on research and development).



Research and development normally starts with an "idea" – there may be a discussion at morning tea or at smoko and the manager gets to hear about it and might decide to assemble a small team (normally two or three people) to undertake some preliminary investigations and to report back.

An immediate concern is gaining an understanding of who can claim research and development expenditure – the claimant has to be a company.

If the project looks promising the manager might then appoint a project coordinator who would start thinking how this research task could be undertaken because the legislation specifies some set processes that need to be implemented including:

- ✚ Undertaking the work as a "systematic progression of work".
- ✚ Researching prior art and literature worldwide to ascertain whether someone else has already undertaken this type of research and obviously published their results because otherwise you will have difficulty ascertaining that someone else may have done something in this area and in that case you can proceed and undertake your research and claim the research and development rebate but you need to be diligent in undertaking the prior art searches and in documenting what you found or didn't find.
- ✚ It is important as part of your company's claim for the Research and Development Rebate that the prior art/literature searches are documented including printouts of Internet reports so that documentation is available if the Australian Taxation Office enquire as to what searches were undertaken.

The research team need to identify any hypothesis or hypotheses that relate to this particular "idea".

The hypothesis needs to be a "positive statement" of a belief that experimentation sets out to prove or disprove.

The hypothesis should adequately describe technical or scientific ideas that can be tested through a systematic progression of work.

That work proceeds from hypothesis to experiment (that is fully documented), observation and evaluation and leads to ultimate conclusion as to whether the hypothesis has been proven or not.

In the planning process it is important to get some idea of what the "core activities" might be for this project. There must be at least one "core activity" for each research and development project.

The core activities are experimental activities whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience but can only be determined by applying a “systematic progression of work” that:

- ✚ is based on principles of established science; and
- ✚ proceeds from hypothesis to experiment, observation and evaluation and leads to logical conclusions; and
- ✚ that are conducted for the purpose of generating new knowledge (including new knowledge in the form of new or improved materials, products, devices, processes or services).

If your company is interested in undertaking research and development activities or if you are not a company but you are thinking about undertaking research and development activities why not have a discussion with the accountant in our firm that you normally deal with so that we can give you some suggestions as to how to undertake a research and development project that will enable your company to claim the Research and Development Rebate?

This series on research and development will be continued in the next edition of Business Plus.

Export Market Development Grant Update

32% increase in Export Market Development Grant applications highlights the need for more government funding.

A combination of the new “apply in advance grant scheme” and their hangover from the COVID-19 challenges has encouraged 32% more SMEs (up from 4,000 to 5,300) to apply for the Australian Government’s Export Market Development Grant in 2021/22.

Even though the government increased the available funds by \$80m in December 2021 recent reports indicate that individual applications for funding are being approved at 70% less than the grant that the business applied for.

The new Export Market Development Grant is targeted at SMEs who are exporting, proposing to export or offering services for international tourists visiting Australia. The turnover limit has been reduced for this new scheme from \$50m to \$20m.

Unfortunately, the cutbacks in funding made available will severely affect some of the businesses which have struggled through two years of COVID-19.

Hopefully, the Australian Government will allocate additional funding to ensure that the grant will be able to supply funding as was originally promoted of up to \$770,000 over an eight (8) year period to assist SMEs who have responded to the challenge of commencing export operations or providing services to overseas visitors to Australia.

If you would like to discuss with us securing an Export Market Development Grant for 2022/23 please do not hesitate to contact the accountant in our firm that you normally communicate with.

What Are The Things To Nail In The Next Three Months?

With the majority of the restrictions introduced because of COVID-19 now withdrawn or significantly relaxed now is a good time to spend some quality time developing strategies for your business.

In the first case you need to get to the “starting point” and from there you will be able to identify strategies to nail the key issues affecting your business.

Some of the questions to consider are:

- ✚ Have you got a Business Plan?
- ✚ If so, is it up-to-date or does it need a rewrite?
- ✚ Would you like us to assist you in the preparation of your Business Plan or the rewrite of the one you currently have?
- ✚ What new developments are occurring in your industry sector?
- ✚ Are there disruptions?
- ✚ If the disruptions are affecting your business what are you planning to do?
- ✚ What makes you valuable to your customers?
- ✚ Are you keeping up-to-date with technology changes that affect your industry?
- ✚ Do you have a plan:
 - to overcome the disruptions in your business/industry?
 - to keep up-to-date with changes in technology that affect your industry.
 - for making yourselves more valuable to your customers.

When you have completed the quality thinking to get this far you should be in a position of having reached the “starting point” to identify the 1, 2, 3 things that have to be nailed so that your business can improve its performance and add value.

Our suggestion is, you prioritise these key things that you need to nail so that over the next three (3) months you tackle these issues so that you can then remove them from your “must nail list”.



If you would like to have a discussion relative to analysing your business, developing strategies and then nailing key items that need fixing please do not hesitate to contact the accountant in our firm that you normally deal with who will be able to assist you or introduce you to our Business Advisory Services Expert.

Purchasing a Business – There is a Lot of Information That You Need

When you are buying a business you need to assemble various documents and information so that you have a working paper file on the business that you are targeting to purchase so that these documents and information can be made available to your key advisors – accountant, solicitor, banker including:

- ✚ Copies of Financial Accounts for the last five (5) years (if available) comprising Profit and Loss Account, Balance Sheet and Depreciation Schedule.
- ✚ Copies of the business' income tax return for the same years that the Financial Accounts were supplied.
- ✚ Copies of the Debtors' Aged Analysis.
- ✚ Access to all Financial Records pertaining to the business whether handwritten, or computer-generated.
- ✚ Ascertain whether the vendor is operating similar businesses elsewhere.
- ✚ Examine the stock system – ordering – receipt of stock – stock records – frequency of stock takes – is there any old or out of date stock – if so you should not be buying this stock.
- ✚ Who are the suppliers to the business – where are they located? – If they are located in a foreign country are the supply chains reliable?
- ✚ What are the terms and conditions that the suppliers are making available to the current owner? If you want to be able to access similar terms and conditions you will need to have discussions with the suppliers to get them to confirm the terms of trade.
- ✚ Who are the team members? How long have they worked for the business? Do they wish to remain with the business? What is their skill level? With the current owner no longer available will the other team members be able to conduct the business or will you need the same skills and knowledge that the current owner has?
- ✚ What is the potential liability for long service leave for the team members? This is a cost adjustment that should be made in the determination of the final payment to be made to the vendor.
- ✚ Who are the competitors? Have you prepared a competitor strengths, weaknesses, opportunities and threats analysis on each of the competitors? Are you confident that you can compete with these other businesses?
- ✚ What are the terms of trade that are offered to the customers at present? Are these terms of trade acceptable to you because the current customers will probably have an expectation that they will be able to obtain similar terms and conditions?
- ✚ Who owns the building(s) where the business is conducted? What are the terms and conditions of the rental? You should obtain a copy of the current lease. Will the building owner be prepared to lease the premises to you at a similar rent to what is currently being charged?
- ✚ What are the lease conditions for the building? Is there a restitution clause relative to a requirement to reinstate the building to its original condition at the end of the lease? Have you obtained a cost estimate for this restitution? Are you happy to ultimately bear that cost?
- ✚ If the vendor owns the building are you proposing to acquire the building or are you proposing to lease the building from the vendor? Have you negotiated terms for that lease?
- ✚ If you are proposing to acquire the building you should obtain details of the buildings written down value (if it is eligible for the tax deductible depreciation write of) so that you can continue to claim building depreciation in your income tax return.
- ✚ If you are proposing to purchase the building it is a good idea to have a thorough review undertaken by an experienced person to give you the satisfaction that the building has no "hidden problems".
- ✚ If it is proposed that you are purchasing plant and equipment have you had the plant and equipment examined by an experienced person to ascertain the current condition of each item of plant and equipment?
 - Who owns the plant and equipment that is currently being used in the business? You can check the Personal Property Securities Register to ascertain whether there are any charges registered against that plant and equipment because if you are acquiring that plant and equipment you need to ensure that the vendor has paid out those charges so that there is no longer a Personal Property Securities Register registration for any of the plant and equipment that you are obtaining.
- ✚ Check the zoning for the building's location. Does the current use of the premises comply with the zoning for the building? It is unwise to assume that the local council will automatically allow a new owner to continue with a business operation following a change of ownership if the Council zoning no longer complies with the activities being conducted by the business.
- ✚ Enquire what the vendor is going to do once they have sold the business. Do they have family members conducting a similar business in the general location of this business?

If you are contemplating purchasing a business please have a discussion with us before signing any contract so that we have the ability to give you the best possible advice relative to the possible purchase of a business.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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