

BusinessPlus+ Newsletter



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Issue 212 - June 2022

Export Market Development Grant 2022/23 – Applications

The Export Market Development Grant is available for any type of business (not just a company) with a turnover under \$20,000,000 which is exporting or proposing to export goods and services or providing services to visitors to Australia such as accommodation and tourism activities.

A new application process was introduced from 1 July 2021 which requires businesses to apply in advance for the promotional activities that they plan to undertake in the next one – three years.

Austrade, which is the government department responsible for assisting businesses to export products and services to other countries reviews the applications and then enters into a contract with the business specifying the type of activities that the business has contracted to provide which Austrade has agreed that if that expenditure is incurred the business will receive funding from the government equivalent to 50% of the cost schedule which was approved in the contract.



If you are an exporter or you are a business supplying services to international visitors visiting Australia and you are going to be conducting promotional or marketing opportunities in overseas countries or to attract people to come to Australia it could be worth your while to apply for this grant.

We anticipate that the grant application forms for 2022/23 will be available around 1 July 2022. If you are interested can you please tell the accountant that normally handles your affairs so that we can ensure that we talk to you when the grant application forms are available.

Taxable Payments Annual Report

A reminder that if your business operates in an industry that is required to lodge a “Reportable Payment Report” you are required to lodge that report by **28 August 2022**.



The industries that this requirement applies to are:

- ✚ Building and Construction Industries
- ✚ Couriers Services
- ✚ Cleaning Services
- ✚ Information Technology
- ✚ Road Freight
- ✚ Security, Investigation and Surveillance Services

The report needs to include details of payments made to contractors for services.

If less than 10% of your business income relates to any of the industries listed you do not need to lodge a Taxable Payments Annual Report.

If you have any questions relative to this report or need assistance in its preparation please do not hesitate to contact the accountant in our organisation that you normally deal with.

Early Stage Innovation Company Report

If your company has issued Shares to investors who invested on the basis of the company's representations that the company qualified as an Early Stage Innovation Company the directors of the company are required to ensure that an Early Stage Innovation Company Report is lodged with the Australian Taxation Office by **31 July 2022**.

The report includes details of Shares issued during the year that the company believes that when the Shares were issued the company qualified as being an Early Stage Innovation Company.

The Australian Taxation Office requires this information so that they can monitor claims being made by investors relative to the taxation offset that qualifying investors in an Early Stage Innovation Company can be entitled to and to the exemptions from Capital Gains Tax on those shares if the original shareholder retains ownership of those shares for longer than twelve (12) months and less than ten (10) years.

Did You Undertake Research and Development Activities During 2021/22?

To claim the taxation offset for research and development expenditure in 2021/22 the expenditure must have been incurred by a company and detailed records maintained of the individual research projects, the hypothesis/hypotheses identified for each project, results of the experiments, costs of the activities undertaken and other general information required under the legislation.

If you have undertaken research and development in 2021/22 and you have maintained appropriate records and if you have traded at a loss you might be interested in having your financial affairs relating to the research and development finalised as soon as possible so that the research and development registration form can be completed and lodged with AusIndustry as soon as possible. When AusIndustry has reviewed the registration form they will then issue a reference number to be included on your company's Income Tax Return and you can elect that if your company is trading at a loss that the Australian Taxation Office will refund the Research and Development Tax Offset (calculated at 43.5% of the legitimate research and development expenditure) within thirty (30) days of the tax return being lodged, so long as the Research and Development offset is less than the tax loss for the company.



If you would like to avail yourself of the opportunity to finalise the information required for the registration form and then the prompt lodgement of the tax return please contact us as soon as possible so that we can assist you with the registration form required for AusIndustry and when the reference number is received complete the tax return for the company. This should ensure that you receive the taxation refund promptly.

What is Section 708?

Section 708 is contained within the *Corporations Act* and enables a private company to raise capital of up to \$2,000,000 from a maximum of twenty (20) investors who can be "retail investors" and/ or "sophisticated investors" within a twelve (12) month period.



A "retail investor" is a person who is not classified as a "sophisticated investor".

A "sophisticated investor" is someone who has a net worth of \$2.5 million or for the last two income years had a gross income of at least \$250,000 in each of those years.

To be classified as a "sophisticated investor" the investor must arrange for a qualified accountant to issue a report which states:

"I certify that the person whose details are set out above:

- *Has net assets of at least \$2.5 million; or*
- *Has a gross income for each of the last two (2) financial years of at least \$250,000."*

Certificates are eligible documents for a two (2) year period.

There is no special documentation requirement specified in the *Corporations Act* for raising capital in this manner. It is the most "simple way" for a private company to raise capital.

It is normally accepted that the Company Directors would arrange for an updated Business Plan, Predictive Accounting Reports comprising Budgets, Cash Flow Forecasts and Projected Balance Sheets and Information pertaining to the current operations of the company and the Vision for the future which could all be consolidated into a "Information Memorandum" to be supplied to a prospective investor in the company. This is a decision for the Company Directors who can give as much or as little information as they like – but, they should bear in mind that if enough information is not given to satisfy questions from potential investors they probably will not raise capital from that investor.

However, there can be no advertising or marketing for potential shareholders in the company.

Company Directors also need to be monitoring the total number of shareholders that the company has because a private company has an absolute limit of fifty (50) shareholders unless the company is also a Crowd Sourced Funding Equity Raising Company whereby there are a possibility of three (3) share registers:

- ✚ The original shareholders and anyone else who has subscribed under section 708 of the *Corporations Act*;
- ✚ Employee shareholders who have been issued shares because of their status as an employee;
- ✚ If the company has raised capital as a Crowd Sourced Funding Equity Raising Company the company is required to maintain a separate shareholders register for the Crowd Sourced Funding Equity Raising Shareholders.

What can the capital raised be used for?

The Company Directors have the power to decide what the funds raised from the capital raising will be utilised for. There is no requirement to seek approval from any external government agency as to how those funds may be utilised by the company.

If you are interested in examining the possibility of your company raising capital utilising section 708 of the *Corporations Act* please discuss this with the accountant in our organisation who liaises with you.

What Type of Information is Included in an Information Memorandum for a Section 708 Capital Raising?

- ✚ An Executive Summary which consolidates the vision reflected throughout the Information Memorandum.
- ✚ An indication that a Business Plan has been prepared and that this document is available for a potential investor to read if they wish.
- ✚ Capability Statements are very important because this statement offers a succinct overview of the type of work that the company is undertaking and a summary of past projects, and details of the key people within the leadership team. The Capability Statement is a major promotional document for the company to have so that it can be forwarded to potential customers.
The Capability Statement is also an important document that can be utilised at job interviews to clearly identify the company's vision to a potential team member.
- ✚ It is a good idea to include some information on the key historical record of the company so that the potential investor has a pathway that they can analyse to understand where the company has come from and what it is hoping to achieve in the future.
- ✚ The document should include details of the number of shares currently issued and the names of the Director(s), Company Secretary and Leadership Team Members.
- ✚ It is a good idea to indicate the number of team members employed with a general description as to the type of work that they perform on behalf of the company.
- ✚ Supplying details of the location of the company's premises can be beneficial especially for a capital raising project.
- ✚ It is a good idea to identify who the company's key advisors are – accountants – lawyers and other key professionals who the Directors or the Leadership Team Members are receiving advice from. This type of information might be very important for a potential investor to gain an understanding of the depth of input that the Directors and Leadership Team Members are receiving.
- ✚ Board of Advice is a sound concept for companies who are starting the “scaling up process” because it enables the company to utilise a group of experienced business people as a “sounding board” for strategies that the Directors and Leadership Team Members are considering. It is important to note that the Board of Advice is only there to give “advice” to the Directors and is not responsible for making any decisions on behalf of any issue affecting the company.
- ✚ Business conditions – it is appropriate to discuss what the company's view is on the current business conditions and the type of business conditions that the Directors anticipate will confront the company in the next few years. This can be very important information for potential investors to gain an understanding of the company's preparedness for future problems so that the potential investor can gauge whether they wish to invest in a company that has a “gung ho” attitude, a conservative attitude, or a “middle of the road” attitude.
- ✚ Customers are probably the most important group that any business has. It is not necessary to list the names of the customers in the Information Memorandum but it is appropriate to summarise who the customers are, where they are located, what sort of relationship the Leadership Team has with the customers – for example does the company have a Customer Advisory Committee? If so, how often does the Customer Advisory Committee meet and what does the Leadership Team and Directors do with the information that is submitted to them via the Customer Advisory Committee or any other communication structure that has been established with customers.
- ✚ Suppliers – the problems for businesses in Australia in securing supplies over the last two years has highlighted the necessity for companies to have a clear understanding on their supply lines and to give detailed consideration to the establishment of alternative supply lines in case it is impossible to gain supplies from a traditional marketplace. Potential investors will be very keen to have a clear understanding as to who the key suppliers are and who are the alternative suppliers if something goes wrong with those supply lines.
- ✚ Marketing is a very important aspect of business operations in 2022. Companies have to understand digital marketing, social media, communications with customers and prospects and ensuring that there is a strong working relationship between the marketing and sales team. It is good practice to include an overview of the marketing strategies for the company within the Information Memorandum.
- ✚ Competitors – obviously Directors And Leadership Team Members need to be very careful about the information that is published in an official document but the key thing the potential investor could be interested in is - does the company's Leadership Team and Directors have a policy of monitoring what competitors are doing and do they review their strategies relating to competition with competitors on a regular basis?
- ✚ Differentiators – what makes this business different? What points of difference would customers, potential customers or potential team members utilise. Potential investors will be very interested in this because in most cases they are not looking to invest in a “me too” they are looking for a company with a different vision a different approach to the marketplace and perhaps ownership of some “key intellectual property” which should be summarised within the document.

- ✚ Financial arrangements – Information Memorandum are “commercial in confidence” but bearing in mind that the purpose of the Information Memorandum is to convey an overall picture of the company there does need to be some information on the financial arrangements the company has been able to negotiate with financiers and others so that a potential investor has a clear understanding of the sources of funding available.
- ✚ Government grants – it is a good idea to summarise the types of government grants (if any) that the company has been able to secure from the Federal, State or Territory government. If it is a generally accepted practice within the industry that the company operates within to obtain government grants, and this company is not obtaining government grants, it is probably appropriate to comment as to why government grants are not being sought.
- ✚ ISO Certification – if the company has ISO Certification for any parts of its business processes, this information would normally be disclosed in this document because this illustrates to a potential investor that the company’s Directors and Leadership Team are aware of the benefits of quality management systems being implemented and then monitored on an ongoing basis.
- ✚ Succession planning – this is an important subject for the Directors and Leadership Team and for that matter every person in the organisation. Is the company committed to ongoing staff training and development at all levels and has the company implemented appropriate security to ensure that company secrets and agreements are appropriately documented and are available to more than one person within the organisation. The Directors should be prepared to answer direct questions from potential investors phrased something like “what would happen if the CEO was run over by a bus”?
- ✚ Research and development – if the company is undertaking research and development projects, are claims been lodged with the Australian Taxation Office and AusIndustry for support under the Research and Development Tax Offset Program? What is the end game relative to research and development projects? Is the company committed to exploring commercial opportunities for research activities that have been undertaken? Again this is very important information for potential investors because most investors are interested to know whether the company is going to be able to develop new intellectual property that is owned by the company and normally the source of that is from research and development projects.
- ✚ “Scaling up” – the fact that the company is trying to raise capital direct from the public would normally imply to a potential investor that the Directors and Leadership Team wish to “scale up” the company’s operations. Potential investors will probably want to understand what that vision is and this should have been included within the company’s Business Plan.
- ✚ Company valuation – a document like this normally includes an indication as to the Director’s opinion on the value of the company as it currently stands and the Directors would normally give an indication as to what they believe the value of the company will be at a future date if they are able to successfully implement the vision outlined within the Business Plan and the Information Memorandum.
- ✚ Personal invitation – the utilisation of section 708 of the *Corporations Act* to raise capital should be done on a “personal invitation basis”. The document should not be placed on the Internet it is best practice to either hand deliver the document or to have it sent by secure mail to a potential investor.

If you are interested in discussing with us the implementation of strategies for your company to raise capital utilising section 708 the *Corporations Act* please do not hesitate to contact the accountant in our organisation that you liaise with.

Micro, Small and Medium Enterprises Day (MSME Day)

The Australian Small Business and Family Enterprise Ombudsman has asked us to contribute to the celebration of the vital contribution made by Small and Family Businesses to our economy, society and local communities on the MSME Day on **Monday, 27 June 2022**.



On the Ombudsman’s website there will business statistics, videos and promotion of a variety of other ways to help mark this special celebration of the contribution made by micro, small and medium enterprises in Australia

You can access all of the information at www.asbfeo.gov.au

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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