SUBMISSION

Employee Share Scheme Consultation
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Executive Summary

Ai-Media was founded in 2003 as a for profit social enterprise dedicated to ending the experience of exclusion that people with disability face.

We have offices in Sydney, Melbourne, Brisbane, Adelaide and London, UK.

We provide accurate speech-to-text services for clients in the broadcast, education, corporate and government sectors.

Our clients include Foxtel, Nine Network Australia, and the NSW Department of Education and Communities.

Incentivising and rewarding long term performance by Ai-Media employees is a key strategic priority.

Ai-Media's ESS is the key mechanism for driving this.

Responses

a. **the 2009 changes and their effects on businesses**
   - **If you were a startup prior to 2009-10, did you change your ESS arrangements following the 2009-10 Budget changes? If so, how?**
   - **What were the compliance impacts on your business of the new withholding and reporting requirements introduced in 2009-10?**
   - **Are there other impacts on your business from the changes in 2009-10?**

We did not begin to implement our ESS until after the changes were legislated.

The new laws made it incredibly complex, costly and time-consuming to design a system with the aim and objective of incentivising and rewarding long term performance and teamwork.

The process of rolling out our ESS took 33 months for Senior Managers, and is expected to take a further 12 months for the remainder of the organisation.

b. **what are the barriers to offering an employee share scheme?**
   - **If you are a startup, do you offer shares or options through an ESS to your employees? What other benefits do you offer your employees? Are these sufficient to retain or attract the necessary employees? If you do not offer an ESS, what are the major reasons why not?**

The major barrier to offering an ESS was to ensure that employees were not taxed until the time at which they could sell the shares. No employees were interested in participating in a scheme that required the payment of tax up front.

We now offer our employees rights to shares through our ESS, facilitated through an Employee Share Trust.

We provide a number of other benefits including meal allowances, travel allowances, shift allowances, short term bonuses, time in lieu, and non-monetary rewards and benefits such as gift cards, and training and development opportunities.

While the non-ESS benefits are valued, the ESS has been critical in attracting and retaining key senior management talent, and incentivising them as business owners.

c. what steps should be implemented to overcome these barriers?

The key rule change required is that tax should only paid once an employee realises value for their shares (and they can afford to pay their tax bill).

To further increase incentives for startups to create value, concessional tax arrangements could be considered. The UK Enterprise Management Incentive Scheme is a good model (see box below).

> **What are Enterprise Management Incentives?**
>
> EMIs are tax advantaged share options. They are designed to help small, higher risk companies recruit and retain employees who have the skills to help them grow and succeed. They are also a way of rewarding employees for taking a risk by investing their time and skills to help small companies achieve their potential.
>
> http://www.hmrc.gov.uk/shareschemes/emi-new-guidance.htm

d. what would be the broader economic benefits in implementing these steps?

Changing the ESS rules will allow startup companies to attract and retain talented employees who are prepared to share the risk and return of the business founder.

With limited access to venture capital in Australia, effective tax treatment of ESS is one key way that Australia can compete with other countries to grow businesses and industries.

Ai-Media now has 148 employees, and is growing at 35% per annum. This growth was only enabled by the ESS for senior managers.

e. what is a startup?

- **What are the key characteristics of the type of startup that is most likely to make use of an ESS?**

A “startup” is hard to define.

It could be a business that has just incorporated, or it could be an established business starting up a new and promising business line.

Ai-Media supports a broad definition to best support diverse innovation in the economy.

The UK provides some parameters around number of employees, turnover, assets and trading activities which may be instructive (**http://www.hmrc.gov.uk/shareschemes/emi-new-guidance.htm#3**).

f. **any other costs or issues associated with the implementation of an employee share scheme**
   - **What difficulties and costs do startups face in valuing shares or options for an ESS?**
   - **If you are a startup, do you use an independent valuation? Why?**
   - **As a startup, how often do you carry out valuations for ESS purposes?**
   - **Do you require a valuation of your startup for other purposes? What type/s do you use?**
   - **What difficulties do startups face with respect to corporate regulation of ESS?**
   - **Are there other regulatory requirements that impose costs or difficulties for startups wanting to offer an ESS?**

To set up an effective ESS under existing legislation cost Ai-Media over $120,000 with ongoing administration costs of around $20,000 - $30,000 per annum.

Legislation and regulation should be simplified and relaxed to lower this compliance burden.

Tony Abrahams
Co-founder and CEO
24 January 2014