18 February 2020

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra, ACT, 2600

Dear Committee

**Re: Draft legislation to reduce R&D benefits for companies with turnover less than $20m**

Clean TeQ Holdings Pty Limited (Clean TeQ) is developing and commercialising its innovative proprietary ion exchange technology for use in the production of electric vehicle battery materials and water purification. These industries are critically important in the context of reducing global carbon emissions, and air pollution more generally, and in managing the impact of drought and water scarcity. Clean TeQ is listed on the Australian Stock Exchange and Toronto Stock Exchange with a market capitalisation of $200 million and has over 70 employees across Australia.

If enacted, the *Treasury Laws Amendment (R&D Tax Incentive) Bill 2019* will reduce the R&D benefit for all but a handful of companies. For Clean TeQ, it will reduce our current R&D tax offset rate by 2.5 percentage points to 41.0% for the financial year ended 30 June 2020. We oppose both the reduction and its retrospectivity (the changes will commence from 1 July 2019).

Investment in innovation is an important part of our corporate strategy. Over the past five years alone, Clean TeQ has invested approximately $50 million in qualifying research and development. Our research and experimentation activities have been focused on the development of novel techniques for extraction and purification of battery grade nickel sulfate and cobalt sulfate – critical components of the Nickel-Cobalt-Manganese and Nickel-Cobalt-Aluminium batteries used in electric vehicles. We have also invested extensively in experimentation with water purification technologies for applications in a range of fields, including for water re-use in drought affected regional Australian communities.

The R&D Tax Incentive has supported our R&D effort, allowing us to pursue innovation projects that we may not have otherwise pursued due to the inherent technical and commercial risks. With capital investment and overhead expenditures that currently significantly exceed our revenues, the R&D Tax Incentive alleviates, to some extent, constraints around access to funding and enables continued R&D activity. Undertaking these R&D initiatives has allowed us to develop novel solutions to some of the world's most pressing challenges. Further, the relative certainty of the program allows us to plan ahead whereas grant programs, which are transient and competitive in nature, cannot be depended upon.

The current Bill is almost identical to the R&D tax measures contained in the *Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018* first introduced in September 2018. This Bill was universally criticised and rejected by all areas of industry, and the tertiary and research sectors. It was also recommended for deferral by the Senate Economics Legislation Committee until further examination and analysis

CLEAN TEQ
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of 'unintended consequences' was undertaken. We note that the Committee's key recommendations have not been considered in the current Bill.

Herewith some key insights as to how the proposed changes will adversely impact our business:

- **Reduced benefit:** The R&D Tax Incentive originally offered us a 45% refundable tax offset. In 2016 that was reduced to 43.5%. Under the proposed Bill that will reduce to 41% (and to 38.5% when the small business tax rate drops to 25% from 1 July 2021). These constant cuts to the program are impacting our ability to plan our investment in innovation and are contrary to the 'additionality' objective of the program.

- **Reduced benefits will reduce our ability to employ technical staff and maintain or grow our R&D spend**: The proposed reductions will have the opposite impact of that intended by the R&D Tax Incentive – we will have less ability to invest in R&D and employ talented staff in Australia. We will need to reconsider the quantum of R&D employment and spend in Australia.

- **Retrospectivity and impact on current R&D projects:** We have four projects currently underway that involve R&D activities and for which we have budgeted in the R&D Tax Incentive. If enacted, the Bill will take effect for income years commencing on or after 1 July 2019. This is retrospective and will have an immediate impact on our current projects – any proposed changes to the R&D Tax Incentive should be widely consulted on and have a commencement date at least a year or more into the future to allow us to plan for it.

- **Cap:** The Bill introduces an annual cap of $4m on the cash refund. This may constrain our access to funding for the purpose of continuing our projects. The proposed cap won't apply to human clinical trials, but will apply to us, despite the fact our R&D contributes to critical infrastructure such as power and water.

In the current economic climate, business needs Government leadership and support, especially where it will help drive commercial innovation aimed at reducing global carbon emissions and drought. We believe the Government should increase its support for R&D via the R&D Tax Incentive, not reduce it. We therefore strongly oppose the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019* in its current form.

We would welcome the opportunity to discuss our company and the value the R&D Tax Incentive provides to us and look forward to your response to our concerns.

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Benjamin Stockdale
Chief Financial Officer
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