Senate Standing Committee on Environment and Communications
Legislation Committee
Answers to questions on notice
Environment portfolio

Question No: 191

Hearing: Supplementary Budget Estimates

Outcome: Agency

Programme: Clean Energy Finance Corporation (CEFC)

Topic: Carnegie Wave Energy Program

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Question Date: 13 November 2015

Question Type: Spoken

Senator Back asked:

Senator BACK: I do not want to take time away from Senator Waters, but I have two other quick questions. Carnegie Wave Energy: you are contributors to Carnegie's programs. I think there are still new and emerging—
Mr Yates: Yes, we are a lender to Carnegie, and that is a good example of financial innovation. In that transaction, we lent to Carnegie, secured against their future receivables under the R&D credit arrangement. As you know, the R&D credit arrangement is a receivable from the federal government. We structured a new financing arrangement where we would lend against a federal government receivable. We think that is a very sensible financing arrangement, because we think it is low—
Senator BACK: It is a very secure one—that's for sure.
Mr Yates: Yes. I am very glad to say that I think you are going to find many other commercial banks now adopting that as a funding tool, which makes absolute economic sense. If we want people to raise the money to undertake R&D then it makes sense that if they can borrow the money upfront, apply that money and then receive it back from the government, having done that, as they are entitled to under the R&D concession, we will be able to motivate people to activate their projects faster.
Senator BACK: And guarantee your risk.
CHAIR: Just on that: can you provide on notice some more information about that funding model?
Mr Yates: Sure. Delighted.

Answer:

The CEFC created a loan facility that allows funding based on future government receivables (R&D tax incentive credits). The $20 million CEFC facility to Carnegie Wave Energy (CWE) allowed CWE to invest in eligible R&D expenditure that would create the R&D tax incentive credits, which then formed the security for the CEFC's loan.

Additional details in relation to the CEFC's facility are included in the attached Fact Sheet which is also available on the CEFC's website at (http://www.cleanenergyfinancecorp.com.au/media/76247/cefc-factsheet-carnegie_wave_lr.pdf).

The R&D tax incentive provides either a tax rebate or offset for eligible R&D activities, and targets R&D benefiting Australia. The incentive, which came into effect in 2011 and replaces the R&D tax concession, encourages companies to engage in R&D. It has two core components:

- a refundable tax offset for certain eligible entities whose aggregated turnover is less than $20 million
- a non-refundable tax offset for all other eligible entities.

The rate of the R&D tax offset is reduced to the company tax rate (currently 30 per cent) for that portion of an entity's notional R&D deductions that exceed $100 million for an income year. This applies to assessments for income years starting on or after 1 July 2014 and before 1 July 2024. More information about the R&D tax incentive scheme is available on the ATO’s website at https://www.ato.gov.au/Business/Research-and-development-tax-incentive/

Because the CEFC’s funding to CWE was based on projected refundable R&D tax credits, calculated on an ongoing basis by reference to eligible expenditure, CWE was able to free up working capital to be used for additional research and development.

The CEFC’s facility also provided CWE with continuity of funding over 3 years, to cover the development of the wave project that the CEFC supported.

The CEFC’s product is distinct from finance offerings by others in this area, which often require the borrower to have submitted its claim for the R&D tax credits before lending against those receivables.

This latter approach provides the borrowers with only a limited period of finance which must be renewed annually and effectively ties up an amount equivalent to the borrower’s R&D tax credits for the period between expenditure of funds and successful claiming of tax credits at the end of the tax year.

We understand that a similar model is now being used by the Commonwealth Bank, who refinanced the CEFC’s facility with CWE, clearly demonstrating that the CEFC has paved the way for the commercial sector.