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2 March 2020

Senate Standing Committees on Economics
Parliament of Australia
Via email: economics.sen@aph.gov.au

Dear Committee,

Regarding: the provisions of the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 to the Economics Legislation Committee.

Thank you for the opportunity to make submissions to this Committee in respect of proposed changes to the R&D Tax Incentive (**RDTI**) as contained in the Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 (**the Bill**).

About Solpod

Solpod is an Australian owned renewable energy start-up. We 8 staff and currently undertake our own manufacturing in Dandenong, Victoria. We are the only Australian manufacturer of rooftop solar mounting solutions and we are growing, in large part due to our investment in R&D.

Investment in innovation is an important part of our corporate strategy. We have invested the development of our innovative approach to commercial and industrial solar systems; designing prefabricated, re-deployable technology that does not penetrate the roof. We have a number of patents pending.

Before Solpod, businesses faced three poor choices for adopting rooftop solar:

- Cash purchase which involves prioritising capital for a discretionary, non-core, illiquid asset; or
- Short term lease, which is at a higher cost than the grid making their business less competitive; or
- Long term lease (12 or more years), which is cheaper than the grid but often too long a commitment, particularly for renters or landlord' s planning to redevelop or for building' s needing their roof sheet replaced in the coming decade.

Solpod solves these problems through being efficiently re-deployable, which enables us to deliver savings through short term leases.

Our technology enables:

- Significant improvement in occupational, health and safety at site by reducing the person-hours on rooftops and removing dangerous lifting and reaching actions;
- Shorter construction periods at site, reducing disruption to business;
- Higher quality control through assembly in a controlled factory rather than on a roof;
- Businesses to rent solar panel pods on a short-term basis while making significant savings on their electricity costs.

The barriers we are overcoming are faced around the world and we are about to commence exporting to the USA.

The R&D Tax Incentive

The R&D Tax Incentive has been critical to our business planning and investment in R&D, allowing us to pursue innovative projects that we may not have otherwise have pursued due to the inherent technical and commercial risks. Put simply, this policy was a key consideration by the founders of Solpod to pursue a high innovation business involving novel design, engineering, construction methodology, supply chain and finance. As our technology developed through R&D, we identified the opportunity to invest in further R&D to develop a product that may be manufactured in Australia and exported anywhere in the world through standard shipping containers. We are now commencing production and planning our first export shipment to the USA in June 2020.

Undertaking these R&D initiatives has allowed us to be at the forefront of rooftop solar innovation. Solpod is delivering portfolio roll-outs for major Australian property owners such as GPT, Mirvac and Property NSW. Further, the relative certainty of the program has, until now, allowed us to plan ahead (in contrast with competitive grant opportunities).

As a small but growing company, we have been able to access the 43.5% refundable R&D tax offset which has made a fundamental difference to our ability to innovate and commercialise our ideas. Over the next few years, we anticipate our turnover will exceed \$20 million our R&D benefit will move from the 43.5% refundable R&D tax offset to the 38.5% non-refundable R&D tax offset. Under the current legislation and as a profitable company, that means our net benefit will change from 16 cents in the dollar to 8.5 cents in the dollar (a 55% drop). This drop is due to the current legislation and without taking into consideration the proposed changes.

The Bill

Under the proposed changes, our current benefit will drop from 16 to 13.5 cents in the dollar (15% drop) and our future benefit, under the R&D intensity measure, to just under 6.4 cents per dollar (**an overall drop of 60%**). This will have a direct and detrimental impact on our ability to undertake R&D in Australia.

Not surprisingly, we are extremely concerned by the Bill and its proposed retrospective introduction from 1 July 2019. As a business we budget carefully, including every dollar spent on R&D. To date, we have been fortunate enough to access the RDTI and an ARENA grant

program to help us undertake many of our more ambitious projects. To have the R&D benefit reduced retrospectively, after we have already budgeted on it, is deeply unfair and erodes our confidence in the program and the Government's commitment to helping companies innovate. Certainly it does little to incentivise us to spend more on R&D; especially when we are being asked to rely on a tax incentive that may be retrospectively reduced or removed by government.

The current Bill is almost identical to 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, which was universally criticised and rejected by all areas of industry, and the tertiary and research sectors. That Bill was also recommended for deferral by the Senate Economics Legislation Committee until further examination and analysis of unintended consequences was undertaken. We note that the Committee raised key recommendations, which have not been considered in the current Bill.

Impact on Solpod

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

- **Reduced benefit:** The RDTI originally offered a 45% refundable tax offset. In 2016 that was reduced to 43.5% and under the proposed Bill that will reduce to 41% (and to 39.5% when the small business tax rate drops to 26%). When our turnover exceeds \$20m (expected in FY21), this reduction will be even greater, dropping to a net benefit of less than 6.4%. 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 RDTI – 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 a number of projects underway that involve R&D activities and for which we have budgeted in the RDTI. 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 RDTI should be widely consulted on and have a commencement date at least a year or more into the future to allow companies to plan for it.

- **Integrity measures:** We also note that the Bill includes various integrity measures. While we support measures to improve integrity of the program, we note the recent report of the Australian Small Business and Family Enterprise Ombudsman which found both the ATO and AusIndustry approached reviews prejudicially as a cost saving exercise. We urge both regulators to use additional funding to improve their review processes and restore industry's faith in their administration of the program.

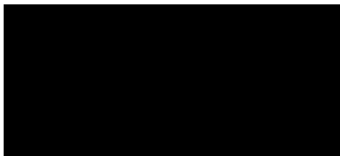
Abrupt legislative changes are examples of sovereign risk, which undermine investment. Abrupt, **retrospective** legislative change as is proposed is a particularly extreme case. The pain of this sovereign risk is felt most acutely by successful start-ups, like Solpod, who are investing heavily in R&D and growing strongly. These are the very companies an R&D Incentive policy should aim to support as a priority, rather than undermine.

This sovereign risk is an unwanted distraction from our focus on, innovation commercialisation and export. In the current economic climate, business needs Government leadership and support, especially where it will help drive commercial innovation. We believe the Government should increase its support for R&D, 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.

Yours sincerely,



James Larratt, CEO
Solpod Pty Ltd