KPMG

cutting through complexity

R&D Incentives – Adding value across ASPAC

2015 Edition

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KPMG Asia Pacific Tax Centre

The emerging economic strength of the Asia Pacific region means that more companies are making it a priority to do business in the area and, in many cases, are creating regional hubs. However, the diversity and complexity of the region poses many challenges for international businesses, especially the operation of the region's various tax and regulatory systems.

How can the KPMG Asia Pacific Tax Centre help you?

The KPMG Asia Pacific Tax Centre's network of tax professionals brings together a wealth of local and regional experience relevant to you and your business.

The Centre will help you cut through the tax complexity of operating and growing in this dynamic and diverse region, while identifying the opportunities for your tax function to add significant business value.

In addition to the work of our regional tax leaders, the Centre also supports clients in the region by:

- Providing central coordination and support for multi-national clients in the region
- The provision of regular updates on tax trends and developments through our regular newsletter, webinar series and publications
- Bringing together the best teams, skills and services to our clients across Asia Pacific
- Organizing KPMG's widely recognized *Asia Pacific Tax Summit.*

Contents

ASPAC R&D incentives – Overview

This fifth edition of the KPMG Asia Pacific (ASPAC) R&D incentives guide sees a number of revisions since the fourth edition was published in 2012.

In a globally mobile business world, R&D investment is considered to be a key factor to enhance skills, jobs and economic growth. Governments increasingly recognize the attraction of tax benefits to encourage companies to invest in high-value, knowledge intensive industries and technologies.

In this edition we can see the following new developments:

- Japan has extended its R&D tax credit system for an additional 3 years
- New Zealand has introduced a new R&D grants and funding scheme
- Singapore has introduced additional benefits for small and medium enterprises (SMEs). SMEs are now eligible for a tax deduction of 400 percent on the first SGD 600,000, which is an increase of SGD 200,000
- South Korea has expanded benefits for medium sized companies

The pace of change is expected to continue, as R&D incentives develop and mature.

The schemes are broadly similar but unique to each country's tax system.

Jurisdiction	Enhanced Tax Benefit	
	Typical SME benefits	Typical large company benefits
Australia	Corporate tax rate: 30%[1] Incentive: 45% refundable offset	Corporate tax rate: 30% Incentive: 40% non-refundable offset
China	Corporate tax rate: 25% Incentive: 150% deduction	Corporate tax rate: 25% Incentive: 150% deduction
Hong Kong	Corporate tax rate: 16.5% 100% deduction*	Corporate tax rate: 16.5% 100% deduction*
India	Corporate tax rate: 32.445% - 33.99% Incentive: 200% deduction	Corporate tax rate: 32.445% - 33.99% Incentive: 200% deduction
Japan	Corporate tax rate: 21.43% - 23.16% Incentive: 12% credit	Corporate tax rate: 35.64% Incentive: 8% credit
Malaysia	Corporate tax rate: 25%[2] Incentive: 200% deduction	Corporate tax rate: 25% Incentive: 200% deduction
New Zealand	Corporate tax rate: 28% Various grants available	Corporate tax rate: 28% Various grants available
Pakistan	Corporate tax rate: 34%[3] 100% deduction*	Corporate tax rate: 34% 100% deduction*
Papua New Guinea	Corporate tax rate: 30% 100% deduction*	Corporate tax rate: 30% 100% deduction*
Philippines	Corporate tax rate: 30% 100% deduction*	Corporate tax rate: 30% 100% deduction*
Singapore	Corporate tax rate: 17% Incentive: 400% deduction on first SGD 600,000 then 150% deduction on remainder	Corporate tax rate: 17% Incentive: 400% deduction on first SGD 400,000 then 150% deduction on remainder
South Korea	Corporate tax rate: 24.2% Incentive: credit of 25% of expense incurred or 50% of incremental expense, whichever is greater	Corporate tax rate: 24.2% Incentive: credit of 3% - 4% of expense incurred or 40% of incremental expense, whichever is greater
Sri Lanka	Corporate tax rate: 28% Incentive: 200% deduction for in-house R&D and 300% deduction if carried out via any institution	Corporate tax rate: 28% Incentive : 200% deduction for in-house R&D and 300% deduction if carried out via any institution
Taiwan	Corporate tax rate: 17% Incentive: 10% - 15% credit up to 30% of tax due	Corporate tax rate: 17% Incentive: 15% credit up to 30% of tax due
Thailand	Corporate tax rate: 0% - 20% Incentive: 200% deduction	Corporate tax rate: 20% Incentive: 200% deduction
Vietnam	Corporate tax rate: 20% Various incentives and tax exemptions	Corporate tax rate: 22% Various incentives and tax exemptions

[1] For the 2015 tax year, the corporate tax rate is 28.5%

[2] 20% on chargeable income up to RM500,000 (Subject to conditions)

[3] For 2015 tax year, the corporate tax rate is 33%

*No uplift for R&D

Related considerations

The practical details of the R&D incentives programs are covered in the following pages, but there are several related matters that decision-makers should consider when determining the best location for their R&D activities within the ASPAC region.

The net cost of R&D

The relative costs of performing R&D in one country versus another, net of respective available R&D incentives, are important in evaluating where and under what circumstances R&D activities should take place.

Intellectual Property (IP)

Similarly, in planning how IP will be created, it is important to consider the tax consequences, the arrangements under which it is created, where it will be used, how it will be paid for and where it will be owned. Entities undertaking R&D in the region should be aware that tax authorities in ASPAC countries are focusing on the transfer pricing issues arising from the development, ownership and compensation for usage of IP.

Transfer pricing

Transfer pricing provisions in ASPAC countries are complex. They apply to the economic, legal and tax aspects of transfers of technology, and products or services based on technology, to related entities. These provisions may encourage companies to locate some of their R&D activities in one country rather than another.

India, Australia, China, and Japan have all recently seen an increase in transfer pricing audits, and China and Singapore's tax authorities have recently signaled that they intend to step up their transfer pricing compliance and field audit work.

Country specific tax benefits

Many countries provide tax credits for taxes paid by a resident business to other countries and offer other tax incentives to attract investment and encourage exports. The net cost of R&D performed in the country and the impact of R&D costs on other tax benefits have to be considered in determining the value of these benefits.

Short-term economic stimulus measures

Short term measures implemented by governments as economic stimulus packages in response to the global financial crisis, such as accelerated deduction programs for investment in tangible depreciable assets, are worth taking into account, as these may top up existing benefits delivered through R&D incentive schemes.

The equation to be solved

The tax treatment of R&D costs, technology transfers, transfer pricing and other related local tax issues, is a vital consideration. It is therefore critical to evaluate all the R&D incentives available and the impact of all R&D costs on other tax benefits in countries around the ASPAC region, before coming to a decision on where to locate your R&D programs.

We hope this publication will deliver long-lasting value for your organization by assisting you in identifying current and future opportunities to obtain R&D incentives throughout the ASPAC region.

KPMG's global R&D incentives services

Global R&D assistance

KPMG has an established global network of experienced R&D specialists coordinated across all regions around the world, including the ASPAC region. Addressing local issues, with a global mindset, our mission is to assist our clients to capitalize on R&D benefits on a global scale to help create long-term competitive advantage.

Our global network of specialists assist our clients to help realize significant tax savings related to R&D investment in many countries. This includes coordinated multi-jurisdictional R&D incentive reviews and analysis. Our specialists think beyond tax and aim to provide clients with insightful business strategies.

Decisions on where to conduct R&D activities involve many factors, including the availability of the necessary talent and the relative costs of labor, materials and facilities. In addition, available R&D incentives and the impact of R&D costs on other available tax benefits may play a significant role when evaluating the after tax cost of performing R&D in one country versus another.

Accordingly, teams across our global R&D incentives network work with our network of international tax specialists to assist clients manage tax issues arising from:

- cross-border R&D arrangements
- transfer pricing
- intellectual property status and transfer
- withholding tax
- foreign tax credits
- duties and tariffs

Country specific R&D assistance

We can help you understand how the local country R&D Tax Incentive applies to your business, and help answer the following key questions:

- Which activities are eligible R&D?
- How do you calculate eligible R&D expenditure?
- What is the claim process and how long does it take?
- What will happen if your claim is audited and how can the audit be defended to enhance outcomes?
- What records are needed to substantiate a claim?

R&D Incentives

ADDING VALUE ACROSS ASPAC

Australia 

China 

Hong Kong 

India 

Japan 

Malaysia 

New Zealand 

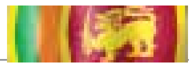
Pakistan 

Papua New Guinea 

Philippines 

Singapore 

South Korea 

Sri Lanka 

Taiwan 

Thailand 

Vietnam 

Australia

Introduction

In response to concerns over funding 'business as usual' activities, the Australian R&D tax incentive scheme commenced on 1 July 2011 replacing the long-standing R&D tax concession scheme. The R&D tax incentive: includes a modified definition of eligible activities; narrows the scope of 'supporting' activities; but raises the benefits for small companies in particular. A range of grants targeting advanced manufacturing, innovation, regional development and job creation are also available.

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Key messages

- Significant cash refunds for small companies in tax losses
- Strong emphasis on experimentation
- Strict requirements on documentation to include core and supporting activities
- Restrictions on production related activities
- Proposed reduction in tax offset for activities within the 2015 financial year

Overview of R&D incentives

Refundable Tax Offset

Target audience
Small companies

Eligibility criteria

Australian incorporated companies, or foreign owned entities that carry on business through a permanent Australian establishment, with individual or grouped turnover under AUD 20 million.

Benefits

A tax offset of forty-five percent (equivalent to a 150 percent deduction for comparison purposes). This equates to 15 percent net benefit per eligible dollar, and 45 percent cash refund if the company is in tax losses (13.5 percent net benefit and 43.5 percent cash refund after 1 July 2015).

Non-refundable Tax Offset

Target audience
Large Companies in all sectors

Eligibility criteria

Australian incorporated companies, or foreign owned entities that carry on business through a permanent Australian establishment, with individual or grouped turnover above AUD 20 million. Currently, no upper turnover threshold is in place but there may be in the future.

Benefits

A tax offset of forty percent (equivalent to a 133 percent deduction for comparison purposes). This equates to 10 percent net benefit per eligible dollar (8.5 percent after 1 July 2015).

Indefinite carry forward of the offset if it exceeds tax payable (no cash refund), subject to tax loss carry forward rules.

Definition of R&D

Core R&D activities are experimental activities where:

- the outcome is unknown
- a systematic scientific principle of investigation is followed
- the purpose is to acquire new knowledge or create new or improved materials, products, devices, processes or services.

Supporting R&D activities are activities that:

- directly enable core R&D activities
- meet a dominant purpose criteria if they are part of defined excluded activities.

Eligibility requirements

In addition to registering (see below), a company must meet the following conditions:

- annual R&D expenditure exceeds AUD 20,000
- the R&D activities or generated IP must benefit the R&D Entity
- if the activities of the project are for the development of computer software, the resultant software must not be intended for internal administration
- in addition to the above conditions, for R&D expenditure on behalf of a foreign company to be eligible, the foreign company must be incorporated in a country with which Australia has a double tax agreement and the R&D activities must be undertaken directly or indirectly under an agreement with that foreign company

Registration

R&D is administered jointly by Innovation Australia (IA) and the Australian Taxation Office (ATO). Annual registration of R&D activities with IA is a prerequisite for claiming the tax concession.

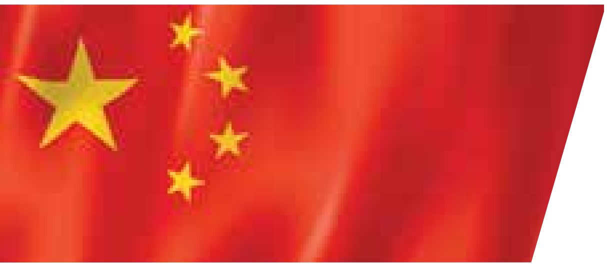
Registration is available to any eligible company incorporated in Australia. Applications must be lodged annually within 10 months of the end of the company's year of income.

Advanced Findings can be requested, which allows specific activities to be agreed eligible up to 3 years in advance.

Claiming the Incentive

Companies complete an R&D Tax Incentive Schedule attached to their annual income tax return. Companies must be satisfied of the following:

- they are registered by IA for that year of income
- the R&D has been undertaken on their own behalf



China

Introduction

The Chinese R&D tax super deduction has been in place for over 10 years. Encouraging R&D and innovation activities has become a national policy and is high on the agenda of the Chinese government.

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Key messages

- Reduced Corporate Income Tax (CIT) rate of 15 percent for High-New-Technology Enterprises (HNTE)
- 150 percent super deduction for eligible R&D expenses
- Tax concession for Advanced Technology Service Enterprises (ATSE)
- Customs Duty (CD) and Value Added Tax (VAT) exemption/refund for R&D equipment purchasing
- Tax Concession on technology transfer

Overview of R&D incentives

HNTE status

Target audience

Specific High-New-Technology (HNT) industries

Eligibility criteria

Locally resident companies working in one of the following eight specified areas can be eligible for HNTE status:

- Electronic information technology
- Biological and new pharmaceutical technology
- Aviation and aerospace technology
- New material technology
- High technology service industry
- New energy and energy conservation technology
- Resources and environmental technologies
- HNT for traditional industries innovation.

To qualify, IP technology must be registered in the People's Republic of China and the company must meet minimum personnel, R&D expense, and revenue requirements (for R&D efforts as a proportion of company business).

Benefits

Resident companies that are qualified as HNTE are eligible for a reduced CIT rate of 15 percent (down from 25 percent) for 3 consecutive years.

R&D Super Deduction

Target audience

All industry sectors including HNTE certified companies

Eligibility criteria

Eligible R&D activities include:

- design of new products
- formulation of new technical procedures
- development of new skills

Qualified R&D expenses refer to:

- new products design fees, new techniques programming fees and direct expenses for technical materials and translation
- direct costs of materials, fuels and power
- direct salary, bonus, allowance, basic pension insurance premiums, basic medical insurance premiums, unemployment insurance premiums, work injury insurance premiums, maternity insurance premiums and housing funds contributed by an enterprise for full-time employees exclusively engaged in R&D activities in accordance with the scope and standards stipulated by the state council or the provincial government
- direct depreciation or rental of equipment, expenses incurred for maintenance, tuning, inspection and repair of instruments and equipment used exclusively for R&D activities
- direct amortization of intangible assets including software, patent and non-patent technologies
- development and manufacturing costs of moulds and technical instruments used for interim test or trial production, expenses incurred for purchase of samples, prototypes and general testing items which do not constitute fixed assets
- on-site test expenses of mineral exploration technology
- clinical trial expenses for development of new medicine
- demonstration, appraisal and recognition expenses of R&D outcome, expenses for evaluation of R&D results

Benefits

- 150 percent tax deduction on qualified R&D expenses (R&D Super Deduction) incurred during the year, if such R&D expenses do not give rise to the formation of intangible assets
- where qualified R&D expenses are capitalized as intangible assets, 150 percent of the capitalized R&D expenses constitute the costs of intangible assets subject to amortization

China

*continued

Advanced Technology Service Enterprise (ATSE)

Target audience

Specific service industries

Eligibility criteria

Locally resident companies satisfy all of the below criteria:

- working in at least one of the specified Advanced Technology Service (ATS) industries, i.e. Information Technology Outsourcing, Business Process Outsourcing and Knowledge Process Outsourcing with advanced technology or strong R&D capacity
- register and operate in one of the model cities, i.e. Beijing, Tianjin, Shanghai, Chongqing, Dalian, Shenzhen, Guangzhou, Wuhan, Harbin, Chengdu, Nanjing, Xi'an, Jinan, Hangzhou, Hefei, Nanchang, Changsha, Daqing, Suzhou, Wuxi and Xiamen
- not violate any administration regulations for the previous 2 years in the areas of import and export, finance, tax, foreign exchange and customs
- employees with diploma or above must account for more than 50 percent of all employees
- revenue derived from ATS must account for more than 50 percent of total revenue of the year
- revenue derived from off-shore outsourcing services must account for more than 50 percent of total revenue of the year. The percentage is reduced to 35 percent for Suzhou Industrial Park.

Benefits

ATSE eligible companies can enjoy the following incentives from 1 July 2010 to 31 December 2018:

- resident companies that are qualified as ATSE are eligible for a reduced CIT rate of 15 percent (down from 25 percent)
- education fee not exceeding 8 percent of the total salaries of the ATSE can be deducted for CIT purposes, while the non-deducted part can be carried forward
- revenue derived from off-shore outsourcing services may be exempted from VAT/BT

R&D equipment purchasing

Target audience

Qualified R&D companies

Eligibility criteria

- qualified foreign invested R&D companies and domestic R&D companies
- specified R&D equipment

Benefits

- specified R&D equipment imported by qualified R&D institutes are exempted from Customs Duty, VAT and Consumer Tax by 31 December 2015
- VAT of domestically-manufactured equipment purchased by qualified R&D companies is refundable by 31 December 2015.

Hong Kong

Introduction

The Hong Kong Inland Revenue Ordinance contains specific provisions that allow immediate tax deductions for R&D expenditure in certain circumstances.

Deductions were previously available in relation to ‘scientific research’ only. However, the provisions were amended with effect from the 2004 - 05 year of assessment to refer to ‘research and development’.

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Key messages

- Immediate tax deduction for revenue and capital expenditure
- No enhanced tax incentives

Overview of R&D incentives

Immediate tax deduction

Target audience

Persons carrying on a trade, profession or business in Hong Kong

Eligibility criteria

The expenditure must:

- be incurred on R&D
- be related to the person’s trade, profession or business
- not be expenditure on the acquisition of land or buildings, or on alterations, additions or extensions to buildings.

Benefits

Immediate tax deduction for R&D expenditure whether revenue or capital in nature.

Tax deduction for payments to approved research institutes

Target audience

Persons carrying on a trade, profession or business in Hong Kong

Eligibility criteria

Deductions can be claimed for payments to an approved research institute for R&D which is specific to the requirements of the person’s trade, profession or business, or which is relevant within the class of the person’s trade, profession or business.

Benefits

A person can claim a deduction for these payments irrespective of whether the funds are used by the approved research institute for capital or revenue purposes.

Definition of R&D

The term 'research & development' means:

- any activities in the field of natural or applied science for the extension of knowledge
- any systematic, investigative or experimental activities carried on for the purposes of any feasibility study or in relation to any market, business or management research
- any original and planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding
- the application of any research findings or other knowledge to a plan or design for the production or introduction of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of their commercial production or use.

Expenditure on R&D excludes expenditure on the acquisition of rights in, or arising out of R&D, i.e. a deduction is only available for original research.

Where the expenditure is made or incurred outside Hong Kong, and the trade, profession or business is carried on partly in Hong Kong and partly outside Hong Kong, it will be necessary to apportion the expenditure on a reasonable basis.

If a person receives a grant, subsidy or other reimbursement for the expenditure from the Hong Kong Government, a local authority or any person, only the net expenditure may qualify for a deduction.

Related to a trade, profession or business

A reference to R&D 'related to a trade, profession or business' includes circumstances where R&D:

- may lead to or facilitate an extension, or improvement in the technical efficiency, of that trade, profession or business (e.g. all textile manufacturers would benefit from research carried out by an approved research institute on the processing of multifibres)
- is of a medical nature which is of special benefit to the welfare of workers employed in that trade, profession or business (e.g. research into an occupational disease peculiar to an industry).

Definition of approved research institute

An 'approved research institute' means any university, college, institute, association or organization, approved in writing by the Commissioner of Inland Revenue as an institute, association or organization for undertaking R&D which is or may prove to be of value to Hong Kong.

Definition of person

A 'person' includes a corporation, partnership, trustee, whether incorporated or unincorporated, or body of persons.

Claw back of R&D deductions

There may be a claw back of deductions claimed for R&D expenditure in certain circumstances, e.g. where such expenditure was incurred on plant and equipment which is subsequently sold or destroyed. The sale proceeds, or any insurance or other compensation, may be assessable to the extent that they are not otherwise chargeable to tax and do not exceed the amount of R&D deductions claimed.

India

Introduction

To encourage investments in R&D in India, the Government of India has provided various incentives that are available to Indian or foreign-owned entities across sectors including biotechnology, automobiles, computer hardware and software, pharmaceuticals, telecommunications, electronic equipment and chemicals.

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Key messages

- Enhanced tax deduction for revenue and capital expenditure
- Accelerated tax deductions available
- Income tax holiday for several years on income from certain operations
- Indirect tax concessions

Overview of R&D incentives

Tax deduction on capital/ revenue expenditure incurred on in-house R&D facility

Target audience

Available to companies that are engaged in the business of bio-technology or in the business of production or manufacture of any article or thing other than a few restricted articles such as alcoholic beverages and tobacco.

Eligibility criteria

- Any expenditure incurred on scientific research (not being expenditure in the nature of cost of any land or building) on in-house R&D facility as approved by the Department of Scientific and Industrial Research (DSIR)
- The company shall be required to enter into an agreement with the DSIR for co-operation in such R&D facility and for audit of the accounts maintained for such facility

Benefits

- A tax deduction of 200 percent of the expenditure incurred
- A tax deduction of 100 percent is allowed for expenditure incurred towards cost of building

Tax deduction on expenditure on outsourcing of R&D

Target audience

Available to persons/ entities who outsource R&D to an eligible Indian company

Eligibility criteria

- Any sum paid to an eligible approved scientific research company, registered in India, to be used for scientific research
- The company's main objective should be scientific R&D and it should be approved by the prescribed authority
- However, the company rendering such R&D services will not be eligible to claim weighted deduction of 200 percent as mentioned above

Benefits

- A tax deduction of 125 percent of the amount paid to the Indian company
- Tax deduction on capital/revenue expenditure

Tax deduction on capital/ revenue expenditure

Target audience

Available to persons/entities that perform scientific research related to the business

Eligibility criteria

For revenue expenditure:

- any revenue expenditure incurred during the year on scientific research related to the business
- any revenue expenditure on scientific research related to the business incurred within 3 years immediately preceding the commencement of the business on payment of any salary (excluding perquisites) to an employee engaged in such scientific research or on the purchase of materials used in such scientific research. Deduction is limited to the extent it is certified by the Director General (Income-tax Exemptions) in concurrence with DSIR

For capital expenditure:

- any capital expenditure (except expenditure incurred on the acquisition of land) incurred during the year, on scientific research related to the business
- any capital expenditure (except expenditure incurred on the acquisition of land) on scientific research related to the business incurred within 3 years immediately preceding the commencement of the business

Benefits

- Tax deduction for the whole of the capital/revenue expenditure allowed in the same year when incurred
- The whole of the capital/revenue expenditure incurred within 3 years immediately preceding the commencement of business — allowed as a deduction in the first year of commencement of business

India

*continued

Tax deduction for sums paid to a scientific research association, university, college, national laboratory, Indian Institute of Technology (IIT) and notified institutions.

Target audience

All companies/entities carrying out business in India

Eligibility criteria

- Sums paid to scientific research association, university, college or other institutions to be used for scientific research. Such institutions should be approved and notified as such in official gazette, by the Central Government
- Sums paid to a national laboratory or a university or an IIT or a specified person with a specific direction to use the same for scientific research program approved by the head of the national laboratory or university or IIT, as the case may be
- Sum paid to a research association or to a university or college or other institutions to be used for research in social science or statistical research

Benefits

- A tax deduction of 175 percent of the sum paid (in case of the first criteria mentioned above)
- A tax deduction of 200 percent of the sum paid (in case of the second criteria mentioned above)
- A tax deduction of 125 percent of the sum paid (in case of the third criteria mentioned above)

Tax benefits on R&D activities carried out in Special Economic Zones ('SEZ')

Target audience

Available to activities undertaken in a Special Economic Zone

Eligibility criteria

- Letter of approval from the Development Commissioner to set up a 'Unit' in a SEZ
- The Unit begins to provide R&D services on or after April 1, 2005 in the SEZ
- The Unit has not been formed by splitting up or reconstruction of an existing business or by transfer of used plant and machinery
- The R&D services should be exported from India

Benefits

Income tax benefit as under:

- first 5 years of operations – 100 percent tax benefit on eligible profits
- next 5 years of operations – 50 percent tax benefit on eligible profits
- next 5 years of operations – 50 percent tax benefits on eligible profits (as credited to specified reserve).

Certain indirect tax concessions on capital equipment used for setup of the operations and for raw materials used in the operations.

Definition of R&D

Scientific research means activities for extending knowledge in the field of natural or applied science including agriculture, animal husbandry or fisheries.

Expenditure incurred on scientific research includes expenditure incurred for prosecution, or the provision of facilities for the prosecution, of scientific research, but does not include expenditure incurred in the acquisition of rights in, or arising out of, scientific research.

Scientific research related to a business or class of business includes:

- any scientific research which may lead to or facilitate an extension of that business or all businesses of that class
- any scientific research of a medical nature which has a special relation to the welfare of workers employed in that business or all businesses of that class

R&D includes development of new technologies, design and engineering, process/product/design improvements, developing new methods of analysis and testing; research for increased efficiency in use of resources such as capital equipment, materials and energy; pollution control, effluent treatment and recycling of waste products; or any other areas of research. However, market research, work and methods study, operations and management research, testing and analysis of routine nature for operation, process control, quality control and maintenance of day to day production, maintenance of plant are not considered as R&D activities.

Direct Taxes Code

- The Government of India is proposing to replace the current income tax law with a new Direct Taxes Code ('DTC')
- The existing draft of the DTC provides for similar tax incentives as discussed above

Japan

Introduction

The applicable period for the additional R&D tax credit systems (i.e. the tax credit systems on incremental R&D expenditure and on excess R&D expenditures over 10 percent of average sales proceeds), which are a temporary incentive regime was extended for 3 years to 31 March 2017. In addition, the tax credit system on incremental R&D expenditure was reformed to a system that allows for a further tax credit in response to an increment ratio of R&D expenditure.

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Key messages

- Tax credits available on R&D expenditure
- Enhanced credits available

Overview of R&D incentives

R&D tax credits on total R&D expenditure

Target audience

A company filing a blue-form tax return

Eligibility criteria

Blue-form tax return status is obtained by submitting an application form to the relevant tax office. Record-keeping substantiation requirements are enforced under the Enforcement Regulations of the Corporation Tax Law.

Benefits

A credit of 8 to 10 percent of the total amount of R&D expenditure for a fiscal year is allowed against the corporate income tax liability of the fiscal year.

The cap of credit is as follows:

- for fiscal years starting 1 April 2013 to 31 March 2015, credit is capped at 30 percent of Tax payable
- otherwise credit is capped at 20 percent of Tax payable

R&D tax credits on total R&D expenditure

Target audience

A small and medium-sized company filing blue-form tax return

Eligibility criteria

A company with a capital of JPY 100 million or less that is not a subsidiary of a large-scale company.

Benefits

A credit of 12 percent of the total amount of R&D expenditure for a fiscal year is allowed against the corporate income tax liability of the fiscal year.

The cap of credit is as follows:

- for fiscal years starting 1 April 2013 to 31 March 2015, credit is capped at 30 percent of Tax payable
- otherwise credit is capped at 20 percent of Tax payable

R&D tax credits on incremental R&D expenditure or on excess R&D expenditure over 10 percent of average sales proceeds

An eligible company can choose either of the two tax credits below as a tax benefit, in addition to the R&D tax credits noted above, applied for fiscal years starting 1 April 2008 to 31 March 2017.

R&D tax credits on incremental R&D expenditure

Eligibility criteria

- The net amount of R&D expenditure for the fiscal year less the annual average of R&D expenditure for the prior 3 fiscal years (hereinafter 'Incremental R&D expenditure') for a fiscal year is greater than 5 percent of the annual average of the expenditure for the prior 3 fiscal years; and
- The R&D expenditure for the fiscal year is greater than the highest annual R&D expenditure for the prior 2 fiscal years

Benefits

Thirty percent of the incremental R&D expenditure is available as a tax credit.

However, where the percentage of the incremental R&D expenditure divided by the annual average of the expenditure for the prior 3 fiscal years (hereinafter 'incremental R&D ratio') is less than 30 percent, incremental R&D ratio applies instead of 30 percent.

R&D tax credits on excess of R&D expenditures over 10 percent of average sales proceeds

Eligibility criteria

R&D expenditure for a fiscal year is over 10 percent of average sales proceeds for the past 4 years (including the current year).

Benefits

A tax credit is available for an excess of R&D expenditure over 10 percent of average sales proceeds for the past 4 years (including the current year). The creditable ratio is varied depending on the percentage of R&D expenditure among average sales proceeds.

Definition of R&D

Expenditure mentioned below which is incurred to conduct experiments and research concerning the manufacture of products or the improvement or invention of technologies:

- expenditure for raw materials, labor costs (limited to expenditure concerning personnel with expert knowledge who devote themselves exclusively to the experimentation and research) and other expenditure required to conduct the experiments and research

Japan

*continued

- expenditure incurred by a company conducting experiments and research through consignment, paid to the consignee for the purpose of the experiments and research
- expenditure incurred in accordance with the Research & Development Partnership Law

Eligibility requirements

R&D tax credits are applicable in a fiscal year in which the R&D expenditure is treated as a tax deductible cost. For example, the acquisition cost of machinery used for R&D activities is eligible for R&D tax credits when the acquisition cost is depreciated for tax purposes.

If all or part of the R&D expenditure is recovered by other persons, R&D tax credits are not available for such expenditure.

R&D expenditure is also entitled to R&D tax credits when it is incurred for improvement of existing technology.

Claiming the Concession

R&D tax credits are available only when the amount to be credited is stated in the final corporation tax return and a schedule showing details of the computation of the tax credit is attached to the tax return.

Unused credit may be carried forward 1 year.

Other

When a company incurs special R&D expenditure, the company is entitled to an additional R&D tax credit, which is 2 to 4 percent of the special R&D expenditure. For the purposes of this rule, special R&D expenditure is defined as being incurred for:

- joint experimental and research activities with national governmental institutions or universities
- experimental and research activities outsourced to national governmental institutions or universities
- experimental and research activities for orphan drugs, under various conditions.

Malaysia

Introduction

There are numerous tax incentives in Malaysia to encourage companies and institutions to carry out R&D activities. The main R&D incentives are granted in the form of Pioneer Status (PS), Investment Tax Allowance (ITA), Double Deduction or Tax Exemption. In addition to these tax benefits, there are also some forms of R&D grants which are available to eligible companies.

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Key messages

- Enhanced tax deductions
- Tax exemption and allowances for qualifying companies
- Import duty, sales tax and excise duty exemption

Overview of R&D incentives

Double deduction or Investment Tax Allowance (ITA)

Target audience

In-house R&D (manufacturing and agricultural industries)

Eligibility criteria

Revenue expenditure by an entity for R&D which is directly undertaken for its own business must be approved by the authorities. The R&D activities must also be carried out in Malaysia for the benefit of the Malaysian operations.

Benefits

Companies may deduct up to 200 percent of the eligible R&D expenditure in respect of approved research projects against their business income. Applications are to be made to the Inland Revenue Board.

Alternatively, the eligible companies may opt for an ITA of 50 percent on qualifying capital expenditure incurred within 10 years. This benefit can be off-set against 70 percent of statutory income. Applications are to be made to the Malaysian Investment Development Authority. Companies may be eligible for a second round of the ITA incentive subject to approval from the Malaysian Investment Development Authority.

Tax exemption - Pioneer Status (PS) or Investment Tax Allowance (ITA)

Target audience

Contract R&D companies and R&D companies (manufacturing and agricultural industries)

Eligibility criteria

A 'Contract R&D company' provides R&D services in Malaysia only to unrelated companies. An 'R&D company' provides R&D services in Malaysia to its related company or to any other company. At least 70 percent of the company's income must be derived from R&D activities and at least 50 percent (for the manufacturing sector) or 5 percent (for the agriculture sector) of its workforce to be qualified personnel performing R&D and technical functions.

Benefits

Full tax exemption on statutory income for 5 years (contract R&D companies only) or ITA at 100 percent on qualifying capital expenditure incurred within 10 years to be off-set against 70 percent of statutory income. For R&D companies, if the company opts not to avail itself of the ITA incentive, the related companies can enjoy a double deduction for payments made for the R&D services. Applications are to be made to the Malaysian Investment Development Authority. Companies may be eligible for a second round of the above incentives subject to approvals from the Malaysian Investment Development Authority.

Indirect tax exemption on importation of machinery and materials used for R&D activities

Target audience

In-house R&D or other qualifying R&D activities

Eligibility criteria

Applicable to approved research institutes/companies which purchase specific machinery/materials from overseas/locally to carry out R&D activities.

Benefits

Exemption from import duty, sales tax and excise duty.

Double deduction

Target audience

Companies that make cash contributions, donations or payments for the use of services of approved research institutes/ companies, contract R&D companies or R&D companies

Eligibility criteria

The research institutes/companies, contract R&D companies or R&D companies must be granted approved status by the relevant authorities.

Benefits

Companies may deduct up to 200 percent of the eligible R&D expenditure against their business income.

Full tax exemption for 10 years

Target audience

Approved Operational Headquarter (OHQ) status for R&D work carried out in Malaysia on behalf of its offices or related companies within or outside Malaysia

Eligibility criteria

The OHQ must have a minimum paid-up capital of Malaysia Ringgits (MYR) 500,000. There is also a minimum business spending requirement of MYR 1.5 million per year. Finally, the company must carry out at least 3 qualifying services (one of which may be R&D) to a minimum of three related companies outside Malaysia.

Benefits

Full tax exemption for 10 years on income from qualifying services. Expatriates in the OHQ company pay individual income tax based on the number of days that they are in Malaysia.

Malaysia

*continued

Tax deduction on cost of investment or Pioneer Status

Target audience

Investment in companies conducting commercialization of resource-based and non-resource based R&D findings (or its subsidiaries)

Eligibility criteria

At least 70 percent of the investing company (investor) must be owned by Malaysians and the investor should own at least 70 percent of the company commercializing the R&D findings (investee). The R&D findings must be resource-based and non-resource based. The commercialization must be implemented within one year from the date of approval of the incentive issued by the Malaysian Investment Development Authority.

Benefits

The investor may be able to obtain a tax deduction equivalent to its investment cost in the investee. In addition, the investee may be eligible for Pioneer Status with 100 percent tax exemption on its statutory income for 10 years. However, eligibility for the tax deduction by the investor shall cease in the year of assessment in which the tax relief period for the investee commences. Applications are to be made to the Malaysian Investment Development Authority.

Definition of R&D

R&D is defined as any systematic or intensive study undertaken in the field of science or technology with the object of using the results of the study for the production or improvement of materials, devices, products, produce or processes, but does not include:

- quality control of products or routine testing of materials, devices, products or produce
- research in the social sciences or humanities
- routine data collection
- efficiency surveys or management studies
- market research or sales promotion

Design and prototyping activities are also eligible for R&D incentives.

Approving authority

Applications are to be made to the Malaysian Investment Development Authority or the Inland Revenue Board depending on the nature of the concession being claimed.

New Zealand

Introduction

R&D tax credits have been abolished by the New Zealand Government – they were in place only for the 2008 - 09 income year. Callaghan Innovation (Callaghan), a government body, offers R&D grants or funding

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Key messages

Tax credits are no longer available for R&D expenditure, however there are R&D grants and funding available, and tax concessions.

Overview of R&D grant incentives

Callaghan offers benefits in the form of cash grants. The two most beneficial regimes are i) Project Grants and ii) Growth Grants. Other grants are available to fund research undertaken by external experts.

Definition of R&D

- There is no specific definition of R&D but it generally follows the accounting definition, particularly IAS 38

Eligibility requirements:

- Need at least one director who is resident in NZ
- Claimant must be incorporated in NZ, have a centre of management in NZ or have a head office in NZ
- Public bodies are generally not eligible for grants

Project Grants

To be eligible for project grants claimants must also meet conditions including the following:

- potential commercial returns and ability to commercialize
- the impact that the grant funding will have on the success of the project
- how New Zealand firms or society will benefit from the project

Growth Grant

To be eligible for a Growth Grant claimants must meet the following requirements in addition to the requirements for all grants:

- they must have an average annual R&D intensity (eligible R&D expenditure divided by revenue) of at least 1.5 percent over the past 2 years

- they must have average annual operating revenues of at least NZD 300,000 over the past 2 years
- they can provide an R&D plan including an estimate of R&D expenditure over the next 3 years

Amount of R&D tax credit

For Project Grants, Callaghan will generally co-fund with the company at a rate of 30 to 50 percent.

For Growth Grants, Callaghan will provide 20 percent co-funding of R&D expenditure up to a maximum of NZD 5 million a year. Grants are awarded for a 3 year period, but a 2 year extension can be granted after 2 years of funding.

Compliance

- Registration with Callaghan
- Ongoing reporting to confirm that eligibility criteria are being met
- Submission of evidence of expenditure

Other Tax Concessions

'Black-hole' expenditure

Tax concessions have been announced which will reduce the scope of non-deductible 'black-hole' R&D related expenditure. This will increase the scope of R&D expenditure which can either be capitalized as a depreciable asset, or can be fully deductible.

Cash-out losses

There is an ability for start-up companies to 'cash-out' losses arising from R&D costs from 2015. Key features of the regime are:

- a maximum of NZD 500,000 of tax losses can be cashed-out (this has a tax effect of NZD 140,000), which can rise in future years
- at least 20 percent of wage and salary expenditure must be on R&D
- the company cannot be publicly listed
- the refund can be recovered if a company is sold, sells intellectual property, changes its country of tax residency or is liquidated

Pakistan

Introduction

The R&D tax concession is available in the areas of direct and indirect taxes and is the government's primary business incentive for R&D and innovation.

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Key messages

Direct and indirect tax concessions

Overview of R&D incentives

Admissible deduction for income tax

Target audience

All taxpayers

Eligibility criteria

All taxpayers who incur scientific research expenditure in Pakistan for the purpose of deriving income from a business subject to tax..

Benefits

The concession enables taxpayers to claim an immediate tax deduction for expenditure incurred on scientific research activities from assessable income when lodging their tax returns.

Definition of Scientific Research Expenditure

'Scientific Research Expenditure' means any expenditure incurred by a person on scientific research undertaken in Pakistan for the purposes of developing the person's business, including any contribution to a scientific research institution to undertake scientific research for the purposes of the person's business, other than expenditure incurred:

- in the acquisition of any depreciable asset or intangible
- in the acquisition of immovable property, or
- for the purpose of ascertaining the existence, location, extent or quality of a natural deposit

Definition of Scientific Research

Scientific Research' means any activity undertaken in Pakistan in the fields of natural or applied science for the development of human knowledge.

Definition of Scientific Research Institution

'Scientific Research Institution' means any institution certified by the Federal Board of Revenue as conducting scientific research in Pakistan.

Indirect tax concessions

Target audience

Available to technical, training, research institutes, schools, colleges and universities

Eligibility criteria

Various machinery, equipment and other education and research related items.

Benefits

The incentive reduces customs duty on the importation of specified goods to 0 percent in some cases as well as providing exemption from sales tax.

Papua New Guinea

Introduction

The Papua New Guinea Income Tax Act contains specific provisions that allow immediate accelerated tax deductions for R&D expenditure in certain circumstances.

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Key messages

The 2014 Budget includes the proposed change intended to phase out the specific 50 percent increased deduction of expenditure for scientific research starting as of 1 January 2014.

Overview of R&D incentives

Tax deduction for R&D expenditure

Target audience

All companies

Eligibility criteria

The scientific research must be conducted under an approved R&D plan which includes systematic, investigative and experimental activities that involve innovation or high degrees of technical risk and are carried on for the purposes of:

- acquiring new knowledge (whether or not that knowledge will have a specific practical purpose); or
- creating new improved materials, products, devices, processes or services; or
- other activities carried on solely for a purpose directly related to carrying on activities of the kind referred to above

Expenditures that can be claimed as deductible R&D expense include salaries and wages, administration or overhead costs and depreciation on equipment used exclusively for R&D. Some expenditure, such as those related to market research, quality control or management studies may not qualify (even if they are carried out in association with the prescribed R&D activities).

Proposed amendment on the benefits of an approved R&D plan (scientific)

Starting 1 January 2014, taxpayers will no longer enjoy the additional 50 percent deduction incurred under an approved R&D plan based on the proposed amendments in the 2014 Budget. We note however that the current provisions continue to apply to qualifying expenditure on scientific research incurred prior to 1 January 2014. Moreover, taxpayers can still deduct depreciation expense set at 33 percent straight line on eligible plant (scientific) and equipment.

Application for an Approved R&D plan

The application for the approved R&D plan must be made before the start of the fiscal year in which it is proposed to commence carrying out the research.

The plan must be approved by the R&D Committee of the Internal Revenue Commission and should consist of:

- a summary of the overall plan, including how the R&D project supports the strategic business objectives of the company
- a detailed plan for the project including description of desired outcomes, how the R&D will be commercialized, relevant financial information and the proportion of work to be carried out in Papua New Guinea

Philippines

Introduction

The Philippine R&D incentive regime has been in place for 15 years.

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Key messages

- Tax deduction for R&D expenditure
- Reduction of corporate income tax rate

Overview of R&D incentives

Tax deduction for R&D expenditure

Target audience

Individuals and companies

Eligibility criteria

Individuals must derive business income.

Individuals and corporations must be subject to the regular income tax rate (32 or 30 percent, respectively) based on taxable income.

Benefits

The taxpayer may elect to claim R&D expenditures as ordinary and necessary expenses or as deferred expenses.

Reduction of tax rate to 10 percent

Target audience

Regional operating headquarters

Eligibility criteria

The regional operating headquarters must provide qualifying services (which include R&D services and product development) to affiliates, subsidiaries or branches in the Philippines, the Asia Pacific region and other foreign markets.

Benefits

The corporate tax rate is reduced from 30 to 10 percent

Managerial and Technical employees are subject to the 15 percent preferential tax rate.

Investments Priorities Plan (IPP)

Target audience

R&D service providers

Eligibility criteria

Registered enterprises principally engaged in commercial R&D as an R&D service provider.

Benefits

Qualifying entities are entitled to an income tax holiday for an initial period of 4 years (non-pioneer project) to 6 years (pioneer project).

Definition of R&D

The National Internal Revenue Code does not provide any definition of R&D expenditure/activities.

The IPP defines eligible activities as development of new and improved products, processes or technology.

Registration requirements for Regional Operating Headquarters

The Regional Operating Headquarters must be registered with the Securities and Exchange Commission by a multinational company upon favorable recommendation of the Board of Investments.

Registration requirements for IPP

Enterprises conducting R&D and innovation activities must be endorsed by the Department of Science and Technology (DOST) or a similar Competent National Authority, and then registered with the Board of Investments (BOI) or the Philippine Economic Zone Authority.

Singapore

Introduction

Singapore is positioning itself as a R&D and intellectual property (IP) hub. Among its strategies to achieve this aim is to raise public and private sector R&D spending. To encourage more private spending on R&D, the Singapore Government has introduced a range of generous incentives, including financial grants and tax incentives, covering various activities along the productivity and innovation value chain.

Focusing on the innovation value chain, the key tax incentives in Singapore fall within the Productivity and Innovation Credit (PIC) scheme, and are as follows:

- 150 percent to 400 percent tax deduction for expenditure on qualifying R&D activities
- 400 percent tax deduction for qualifying expenditure pertaining to the registration of IP rights
- 400 percent tax allowance for qualifying costs of acquiring and in-licensing of IP rights.

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Key messages

- Immediate and enhanced tax deductions/allowances available for activities all along the innovation value chain, from R&D to IP activities
- Improved benefits for SMEs

Overview of R&D incentives

Enhanced tax deduction for R&D expenditure

Target audience

All business

All industry sectors

Greater benefits for SMEs (new)

Eligibility criteria

All businesses in all industry sectors in Singapore are eligible to make the claim whether the R&D is undertaken in-house or outsourced, subject to the following:

- the claimant is the beneficiary of the R&D activities; and
- the nature of the activities satisfies the definition of R&D as per the Singapore Income Tax Act

For outsourced R&D payments and R&D cost sharing arrangement expenditure, 60 percent of the costs are deemed as qualifying expenditure unless otherwise justified. Eligible costs are staff costs, consumables, outsourced R&D payments and relevant expenditure incurred under a R&D cost sharing arrangement.

Where the R&D is performed overseas, the R&D must relate to the company's existing trade or business.

Benefits

A tax deduction of 400 percent of qualifying expenditure on the first Singapore Dollars (SGD) 400,000 in each YA, effective for the Years of Assessment (YA) 2011 to 2018, for R&D carried out in Singapore or overseas.

A tax deduction of 150 percent of qualifying expenditure on the remainder, effective for the YA 2009 to 2025, for R&D carried out in Singapore only.

Additional Benefits to SMEs

As an added tool to support SMEs in Singapore, a tax deduction of 400 percent of qualifying expenditure on the first SGD 600,000 instead of SGD 400,000 (i.e. additional SGD 200,000) in each YA, is available to SMEs for R&D carried out locally or overseas.

Unutilized deductions may be carried forward indefinitely subject to the satisfaction of the shareholder continuity test or transferred to other related entities under the Group Relief system.

Further tax deduction for R&D expenditure

Target audience

All industry sectors

Eligibility criteria

The R&D project must be related to the company's trade and carried out in Singapore, subject to application and approval by the Singapore Economic Development Board. This scheme expires on 31 March 2020.

Benefits

Companies receive 200 percent tax deduction on expenditure incurred for approved R&D projects undertaken in Singapore.

Singapore

*continued

Enhanced tax deduction for registration of IP rights (IPRs)

Target audience

All industry sectors

Greater benefits for SMEs (new)

Eligibility criteria

Companies which incur patenting costs or other qualifying IP registration costs must own the legal and economic rights of the IPR for at least one year from the date of filing of IPR to the date of disposal of IPR, failing which, claw-back provisions apply.

Benefits

Enhanced tax deduction of 400 percent may be claimed on the first SGD 400,000 of the expenditure incurred in each YA in the period between YA 2011 to 2018.

SMEs may enjoy an enhanced tax deduction of 400 percent on the first SGD 600,000 of expenditure between YA 2015 to 2018.

Tax deduction of 100 percent applies for any expenditure incurred beyond the above expenditure allowances (i.e., first SGD 400,000 or SGD 600,000).

Unutilized deductions may be carried forward indefinitely subject to the satisfaction of the shareholder continuity test, or transferred to other related entities under the Group Relief system.

Enhanced writing-down allowance for acquisition of IPRs

Target audience

All industry sectors

Greater benefits for SMEs (new)

Eligibility criteria

IPRs must be acquired for use in the company's business. The company must be the legal and economic owner of the IPR to claim the enhanced benefits.

The company must own the IPR for at least 5 years from the date of acquisition of IPR to the date of disposal of IPR, failing which, claw-back provisions apply.

Benefits

Enhanced tax allowance of 400 percent may be claimed on the first SGD 400,000 of the expenditure incurred in acquiring the IPR in each YA in the period between YA 2011 to 2020. Allowance of 100 percent applies for any expenditure incurred beyond the first SGD 400,000. The allowances are given over a 5 year period on a straight-line basis.

SMEs may enjoy an enhanced tax deduction of 400 percent on the first SGD 600,000 of expenditure between YA 2015 to 2018. Tax deduction of 100 percent applies on any expenditure incurred beyond SGD 600,000.

Unutilized deductions may be carried forward indefinitely subject to the satisfaction of the shareholder and business continuity test or transferred to other related entities under the Group Relief system.

Cash Payout Option

Target audience

All business

All industry sectors

Eligibility criteria

Subject to the above eligibility criteria under the R&D and IP activities mentioned above, companies may convert up to SGD 100,000 of total qualifying expenditure under the PIC scheme into a cash payout, subject to the company having:

- incurred qualifying expenditure and being entitled to PIC during the basis period for the qualifying YA
- active business operations in Singapore
- at least 3 local employees within the last 3 months of the financial period to which the cash payout option relates.

Further tax deductions are not claimable on the same expenditure.

Benefits

Companies may convert up to 60 percent of their expenditure (capped at SGD 100,000 per YA) into a cash payout. This cash payout is not subject to tax

Definition of R&D

Any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the object of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include certain activities.

Registration

Unless otherwise stated above, the claims for enhanced deductions or allowances do not require any pre-submission approval or registration as of YA 2014.

Notwithstanding the above, a pre-approval process of larger projects will be piloted from 2014 to provide companies with upfront certainty.

Claiming the concession

The claim for the enhanced tax deduction is made in the annual tax return and the company's tax computation. For R&D expenditure, detailed project descriptions of R&D projects are required to be submitted in a separate R&D Claim Form together with the company's annual tax return. All claims are subject to review by the IRAS as part of the normal tax assessment process.

South Korea

Introduction

The scope of the R&D tax credit does not include the expenses incurred regarding government grants. The R&D tax benefit has been expanded with the objective of improving the capability of for medium sized companies. The tax deduction limit for large sized companies has been reduced. In addition, a new regulation allows SMEs to benefit from IP transfers.

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Key messages

- Incremental or current percentage credits available, but no cash out options
- Significantly better benefits for SMEs
- Expansion of benefits for medium sized companies
- Specific industries and projects supported with higher credit rates
- Cash grants and subsidies

Overview of R&D incentives

Tax credit on R&D spend
Target audience
SMEs

Eligibility criteria

The R&D definition includes knowledge based service sector R&D that is undertaken for scientific or technology development in addition to activities for new services and service delivery system development

Benefits

The R&D tax credit is calculated via a formula either on a current year spending basis or on an incremental spending basis, whichever is higher (the incremental spending basis method cannot be selected if no R&D expenditure was incurred in the previous 4 years; or prior year's R&D expenditure is smaller than average R&D expenditure incurred in the previous 4 years).

The amount of the tax credit for small and medium sized companies is computed as either (i) 50 percent of the eligible expense amount in excess of prior years' R&D expenditure* or (ii) 25 percent of the eligible expense amount, whichever is larger.

**Business starting in 2013: annual average for the past 3 years*
**Business starting in 2014: annual average for the past 2 years*
**For research and development activities conducted in the New Growth Engine Industry or Original Source Technology Programs authorized by the government, the credit is calculated as 30 percent of current R&D spend*

Tax credit on R&D spend

Target audience

Medium sized companies

Eligibility criteria

The R&D definition includes knowledge based service sector R&D that is undertaken for scientific or technology development in addition to activities for new services and service delivery system development.

Benefits

The R&D tax credit is calculated via a formula either on a current year spending basis or on an incremental spending basis, whichever is higher (the incremental spending basis method cannot be selected if no R&D expenditure was incurred in the previous 4 years or prior year's R&D expenditure is smaller than average R&D expenditure incurred in the previous 4 years).

For medium sized companies, the tax credit is computed as either (i) 40 percent of the eligible expense amount in excess of prior years' R&D expenditure* or (ii) 8 percent** of the eligible expense amount, whichever is larger.

*Business starting in 2013: annual average for the past 3 years,

*Business starting in 2014: annual average for the past 2 years

***Within 3 years from the start date of the first taxable year which a company becomes out of the SME scheme; 15 percent, within 5 years; 10 percent*

***For research and development activities conducted in the New Growth Engine Industry or Original Source Technology Programs authorized by the government the credit is calculated as 20 percent of current R&D spend*

Tax credit on R&D spend

Target audience

Large companies

Eligibility criteria

The R&D definition includes knowledge based service sector R&D that is undertaken for scientific or technology development in addition to activities for new services and service delivery system development.

Benefits

The R&D tax credit is calculated via a formula either on a current year spending basis or on an incremental spending basis, whichever is higher (the incremental spending basis method cannot be selected if no R&D expenditure was incurred in the previous 4 years or prior year's R&D expenditure is smaller than the average R&D expenditure incurred in the previous 4 years).

For large sized companies, the tax credit is computed as either (i) 40 percent of the eligible expense amount in excess of prior year's R&D expenditure* or (ii) a maximum 4 percent of the eligible expense amount, whichever is larger.

**Business starting in 2013: annual average for the past 3 years,*

**Business starting in 2014: annual average for the past 2 years*

**For research and development activities conducted in the New Growth Engine Industry or Original Source Technology Programs authorized by the government, the credit is calculated as 20 percent of current R&D spend.*

South Korea

*continued

Tax exemptions

Target audience

R&D Centre

Eligibility criteria

An R&D center in a designated R&D special zone (e.g. Daeduk R&D special zone) performing R&D activity for bio-technology, IT technology, etc.

Benefits

Once registered as an R&D center, corporate tax is fully exempted for the first 3 years and a 50 percent exemption is granted for the subsequent 2 years.

Cash grants

Target audience

Foreign owned R&D center

Eligibility criteria

Foreign investors should have more than five personnel with academic backgrounds of at least a bachelor's degree and R&D work experience of 3 years or more, or have a master's degree in a high-technology service area or industrial support division.

Benefits

Support will be provided in a lump sum payment within 1 year or in less than 10 installments over the subsequent 5 years from the date the cash grant is determined. The size of the cash grant is determined by the relevant authorities.

Subsidy for R&D expenses

Target audience

R&D center

Eligibility criteria

A business involved in R&D can be eligible to receive subsidies for R&D expenses from the relevant authorities, based on a consideration of the technical effects provided, in accordance with the Industry Development Law.

Benefits

The size of the subsidy is determined based on a variety of other considerations including the overall research environment, which will cover personal expenditures, direct and indirect expenses, etc.

Tax credit on IP purchase

Target audience

SMEs

Eligibility criteria

Available to SMEs purchasing certain types of IP from within South Korea, as prescribed by the taxation laws (except for purchases from a related party).

Benefits

7 percent of the purchase price can be offset against corporate tax liabilities (up to a limit of 10 percent of corporate tax liabilities).

Tax credit on IP transfer

Target audience

Small and Medium Enterprises

Eligibility criteria

Available to SMEs who transfer certain types of IP to local residents, as prescribed by the taxation laws (except for the purchases from related party).

Benefits

50 percent of corporate income tax on capital gains from transfer of IP is exempted.

Tax credit on investment in R&D equipment

Target audience

Company investing in R&D equipment

Eligibility criteria

Acquisition of qualifying R&D equipment.

Benefits

Three percent (Medium sized companies: 5 percent, SME: 7 percent) of the purchase price of the equipment can be used to offset corporate tax liabilities.

Tax exemption

Target audience

Foreign investment

Eligibility criteria

- Foreign companies investing in a Foreign Investment Zone (FIZ), Free Economic Zone (FEZ) and Saemangeum Project Area (SPA), which operate a business involving high technology or industrial support services and, which establish or extend R&D centers, if (i) foreign investment is at least USD 2 million and USD 1 million, respectively, and (ii) employ 10 or more R&D personnel with academic backgrounds of at least a Master's degree and R&D work experience of 3 years or more
- Foreign companies investing in an Industrial City Development Zone (ICDZ) which operate businesses involving high technology or industrial support services and establish or extend R&D centers, if foreign investment is at least USD 2 million

Benefits

Corporate tax, income tax, dividend withholding tax, acquisition tax, registration tax, and property tax are fully exempted, in proportion to the foreign investment, for the first 5 years (in case of companies based in a FIZ) or 3 years (in case of companies based in a FEZ, SPA and ICDZ) and a 50 percent exemption is granted for the subsequent 2 years.

Individual income tax exemption for foreign engineers

Target audience

Foreign engineers

Eligibility criteria

Researchers working for R&D centers in Korea and engineers, under an employment contract to undertake R&D services, who have either (i) work experience in the same field in a foreign country for 5 or more years or (ii) work experience in the same field for 3 or more years with an academic background equivalent to a bachelor degree or above.

Benefits

50 percent income tax exemption for 2 years from the first working day in Korea

In all cases, unused credits may be carried forward 5 years but there is no refund option.

Sri Lanka

Introduction

R&D related incentives and tax concessions are provided under the tax regime contained in the Inland Revenue Act and the Value Added Tax Act.

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Key messages

- Up to triple tax deduction on R&D expenses
- Direct and indirect tax benefits to researchers

Overview of R&D incentives

Double tax deduction

Target audience
All companies

Eligibility criteria

Any company incurring R&D expenditure in carrying on any scientific, industrial, agricultural or any other research for the purpose of upgrading any trade or business.

Benefits

Double the total amount expended (including capital expenditure) is allowed as an immediate tax deduction for income tax purposes.

Triple tax deduction

Target audience
All companies

Eligibility criteria

Any company incurring R&D expenditure if such research is carried through any institution.

Benefits

Triple deduction is allowed for income tax purposes where the R&D is carried out via any institution.

Definition of scientific, industrial, agricultural or any other research expenditure

Any scientific, industrial, agricultural or any other research means any such research carried out for product or produce innovation, or improving the quality or character of any product, produce or service but does not include any market research or feasibility studies.

Direct and indirect tax benefits to researchers

Eligibility criteria

Any person or partnership engaged in the supply of R&D services

Benefits

- VAT exemption on supply of R&D services
- Profits and income earned from research activities is taxable at a maximum rate of 16 percent in the case of individuals and 20 percent in the case of a company

Taiwan

Introduction

The R&D Investment Tax Credit (ITC) is mainly provided under the Statute for Innovation Upgrading Industries (the SIUI) that is effective until 31 December, 2019.

In addition, the Statute for Bio-Tech Pharmaceutical Industries (SBI) provides R&D ITC for eligible companies, effective until 31 December, 2021.

However, the tax payer can only utilize such ITCs under either the SIUI or the SBI.

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Key messages

- Investment tax credits
- More benefit under the SBI than under the SIUI

Overview of R&D incentives

Investment Tax Credit (ITC)

Target audience

All companies incorporated in Taiwan

Eligibility criteria

Companies must be incorporated in Taiwan (branches of overseas companies are excluded). Except for the SBI, no specific industries are targeted or excluded.

Benefits

- SIUI: The ITC for R&D is 15 percent of the expenditure. The amount of the tax credit is limited to 30 percent of the company's tax liability for that year and unused tax credit cannot be carried forward
- SBI: The ITC for R&D is 35 or 50 percent of the expenditure, depending on the amount of R&D expenditure over the previous 2 years. The amount of the tax credit is limited to 50 percent of the company's tax liability from the year in which the company incurs the tax liability and may be carried forward for 4 years (the 50 percent limitation does not apply in the last year the credit is used)

Scope of R&D Expenditure

R&D expenditure mainly includes:

- salaries of full time R&D staff
- expenditures for consumable equipment, materials and samples provided to the R&D unit for research
- fees or costs for patents, special technology or copyrights exclusively purchased or used for R&D purposes
- expenditure for outsourcing or partnership R&D activities (however, the expenditure does not qualify if all the R&D activities are outsourced)

Under the SBI, similar R&D expenditure for Bio-Tech Pharmaceutical Industries are also applicable, with a broader scope and slight difference.

Definition of R&D

R&D is defined as activities that involve innovation carried on for the purpose of development of new materials, products or techniques, manufacturing processes, or service workflow.

Thailand

Introduction

R&D related incentives and tax concessions are available under the Revenue Code and the Board of Investment (BOI) regulations.

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Key messages

- Enhanced tax deductions and accelerated depreciation
- Tax exemption for qualifying R&D companies

Overview of R&D incentives

INCENTIVES GRANTED BY THE THAI REVENUE DEPARTMENT (TRD)

Special depreciation deduction

Target audience

All companies

Eligibility criteria

Machinery and accessories used in R&D which meet the following criteria:

- they are not for manufacturing goods or providing services
- they are not second-hand and have a useful life of 2 years or more
- their cost is not less than Baht 100,000.

Benefits

Depreciation at the rate of 40 percent, applied to the cost at the date of acquisition.

Double deduction of R&D expenditure

Target audience

All companies

Eligibility criteria

R&D expenditure spent on in house R&D activities which are conducted in Thailand.

R&D expenditure paid to government or private agencies which are approved providers of R&D services which are conducted in Thailand.

Benefits

Double deduction of R&D expenditure on R&D conducted internally and/or paid to the above government or private agencies.

Definition of R&D

R&D activities must be either of the following.

- Basic industrial research — formal research with a view to discovering new knowledge. There must be an expectation that such knowledge would be useful in developing products, manufacturing processes, or providing services, aimed at achieving evident improvement in existing products, processes or services.

- Applied research — application of the result of basic industrial research for use as a model, blueprint or pattern for new, modified or improved products, processes or services, whether for sale or for own use, including invention of a non-commercial prototype. In addition, applied research also includes conceptual formulation and the creation of designs in various forms, of products, processes and services, and a primary demonstration or a pilot project, with a condition that any such project is not capable of being modified or applied for industrial or commercial purposes.

Eligibility Requirements

Only legal entities and partnerships subject to Thai corporate income tax (CIT) are eligible.

Registration

An application to be treated as a person conducting qualifying R&D services must be submitted to the TRD.

Another application for proposed R&D activities must be submitted to the National Science and Technology Development Agency (NSTDA) for approval.

Claiming the Concession

For double deduction purposes, the agreement and receipt issued by R&D service provider must state that the R&D is in accordance with the definition given by TRD.

INCENTIVES GRANTED BY THE BOI

Tax incentives

Target audience

Available to all companies conducting R&D

Eligibility criteria

Any company which has been granted an investment incentive by the BOI to conduct R&D.

Benefits

Net profit derived from promoted R&D activity is exempt from CIT for 8 years. If the company engaged in biotechnology is located in a science and technology park, it is also entitled to a 50 percent reduction of CIT for 5 years after the end of the CIT exemption period. Dividends paid out of profits from a tax-exempted business during the tax-exemption period are exempted from CIT / withholding tax in the hands of the recipient.

Import duty exemption

Target audience

All companies conducting R&D

Eligibility criteria

Any company which has been granted an investment incentive by the BOI to conduct R&D.

Thailand

*continued

Definition of R&D under BOI rules

Benefits

Machinery imported for use in R&D is exempt from import duty.

R&D activities must be either:

- Basic Research — theoretical or operational activities that are conducted to obtain new knowledge from basic natural phenomena and factual observation, without initially considering any possible application
- Applied Science — research to explore new knowledge with the objective of putting it in practice for specific use
- Experimental Development — an activity based on the result of research and/or experience with the objective of producing new materials, products or inventions; to install new procedures, systems and services; or to substantially improve existing products

Additional year(s) for CIT exemption

Target audience

All BOI companies

Eligibility criteria

Any company granted an investment incentive from the BOI in any business category that intends to invest in the development of Skill, Technology and Innovation (STI).

Benefits

Additional CIT exemption in total up to 8 years for a company that incurs specified amount of STI expenditures.

Eligibility requirements

A company is required to obtain an investment incentive from the BOI.

Registration

Applications for investment incentive must be made to the BOI. Upon approval, companies are entitled to the CIT exemption/reduction.

Claiming the concession

An application for CIT exemption must be filed with the BOI before filing the tax return.

Vietnam

Introduction

The Vietnamese Government has issued various policies to encourage enterprises in all sectors to invest in R&D activities with a number of tax incentives available.

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Key messages

- ax exemption
- Tax deductions
- Corporate Income Tax (CIT) incentives
- Customs duty and Value Added Tax (VAT) exemption

Overview of R&D incentives

Science and technological development fund

Target audience

All companies and industry sectors

Eligibility criteria

A company legally established under the laws of Vietnam will be allowed to use up to 10 percent of its annual taxable profit to create a fund for scientific research and technological development activities.

The company establishing the above fund must report its actual fund level and amount, and the status of using the fund together with its annual CIT return. After 5 years from the date when the fund is provided, if the fund is not entirely used up to 70 percent, or the fund is not used in accordance with the statutory purposes, CIT liabilities in relation to the unused fund amount, or the fund amount which is not used in accordance with the statutory purposes, and the associated interest arising on such tax liabilities, must be paid to the tax authorities.

The science and technological development fund must only be used to invest in science and technology in Vietnam, and disbursements from the above fund must be supported by legitimate invoices and supporting documents as required by law.

As the provision for R&D fund enjoys a full and outright CIT deduction when it is set up, no further deduction is allowable upon subsequent disbursements. In the event of a change of ownership, merger or consolidation, the new entity which is created from such event may inherit the R&D fund and the associated obligations to manage it. The tax authority must be notified of such inheritance.

Benefits

Creation of a scientific research and technological development fund funded by 10 percent of annual taxable profit.

Vietnam

*continued

Tax exemption

Target audience

Companies implementing scientific research and technological development contracts in Vietnam

Eligibility criteria

Income derived from implementation of scientific research and technological development contracts is exempt from CIT provided such companies are legally registered and licensed to carry out scientific research and technological development, and the related income is certified by the relevant State science authorities. However, the exemption period will not exceed 1 year from the effective date of such contracts.

Benefits

CIT exemption for a period not exceeding 1 year.

Tax incentives

Target audience

Companies investing in R&D activities

Eligibility criteria

Newly established companies investing in scientific research and technological development activities will be entitled to:

- preferential CIT rate of 10 percent for 15 years from the first income-generating year
- where an investment project is regarded as large-scale project, with high-technology or new technology which is especially encouraged by the government, the period of the preferential CIT rate of 10 percent may be extended up to 30 years, subject to approval by the Prime Minister upon the Minister of Ministry of Finance's recommendation; and
- four years of CIT exemption commencing from the first year of taxable profits, and 9 consecutive years of 50 percent CIT reduction

Where a company does not make taxable profits after 3 years from the first income-generating year, the CIT incentive period will automatically start in the fourth year.

Benefits

CIT exemption and reduction, and CIT incentive rates for newly established companies.

Tax deduction

Target audience

All companies and industry sectors

Eligibility criteria

Qualified R&D expenses (including market research expenses, expenses incurred for development and support of market surveys, service fees paid to consultants carrying out research, development and providing support to market survey activities, expenses incurred for display and introduction of goods, and trade fairs or exhibitions) are fully deductible from taxable income for CIT purposes.

Benefits

Tax deduction on taxable income for CIT purposes.

Exemption of VAT and import duties

Target audience

All companies and industry sectors

Eligibility criteria

Machinery, equipment and parts which are imported and directly used for scientific research and technological development, and are not domestically produced, will be exempted from VAT at the import stage.

In addition, machinery, equipment, parts, materials, and means of transportation which are imported and directly used for scientific research and technological development, and are not domestically produced, will be exempted from import duties.

Benefits

Exemption from VAT and import duties.

Definition of R&D

Science and technology activities include scientific research, and technology research and development, science and technological services, and activities of idea initiatives, technical improvement, production rationalization, and other activities which are to develop science and technology.

Scientific research is an activity of discovering, and understanding natural and social phenomena, things and rules, and thinking and creating solutions for practical implementation purposes. Scientific research includes fundamental and practical research.

Technological development is an activity which creates and improves a new technology or product. Technological development includes experimental deployment and production.

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