KPMG

cutting through complexity

R&D Incentives – Adding value across ASPAC

2015 Overview 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.

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. For example, some countries offer distinctly different benefits for small and medium enterprises as compared to large companies; and R&D compliance protocols in ASPAC jurisdictions vary from 'self-assessment' to tax authority 'audit' prior to refund issuance.

This overview of the fifth edition summarizes in tabular form the R&D benefits for each country in the ASPAC region. It also highlights related matters companies should consider when examining the best location for R&D activities. A comprehensive 'country by country' report of the R&D incentive schemes in each ASPAC country is available on request.

Please contact:

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or your R&D country representative (listed on the back cover) if you would like a copy.

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% 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

Whilst R&D tax rates are important, one must consider other related matters when determining the best location for 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?

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