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cutting through complexity

R&D incentives overview – adding value across ASPAC

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KPMG Asia Pacific Tax Centre

The emerging economic strength of the Asia Pacific region means more companies are making it a priority to do business in the area and, in many cases, creating regional hubs. However, the diversity and complexity of the region poses many challenges and pitfalls 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 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 multinational corporations in the Asia Pacific region
- Delivering 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 the Asia Pacific region
- Organizing KPMG's widely recognized Asia Pacific Tax Summit.

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ASPAC R&D incentives – overview

The fourth edition of KPMG's Asia Pacific (ASPAC) R&D incentives guide sees a number of revisions since the third edition was published in 2009.

Benefits have increased in Australia, India, Singapore and Sri Lanka, and for specific programs in South Korea. Taiwan and New Zealand have stepped back R&D incentives.

In a globally mobile business world, R&D investment is a key factor in enhancing skills, developing 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.

Recent changes include the following:

- Australia has a new tax credit system with increased 'cash offset' benefits for companies with a turnover under Australian Dollars (AUD) 20 million.
- India has increased in-house R&D benefits from 150% to 200% and benefits for R&D paid to approved institutions have increased from 125% to 175%, and to 200% on some programs.
- Singapore has increased the R&D deductions from 150% to 400% on the first Singapore Dollars (SGD) 400,000.
- South Korea has extended the scope of the R&D tax credit to expenditure incurred on the development of new services and service delivery systems.
- Sri Lanka has doubled their deduction benefit to 200% under the Inland Revenue Act. The tax holidays under the Board of Investment regime have been discontinued.
- Under the new Statute for Innovation Upgrading Industries scheme, Taiwan has reduced benefits from 30% to 15% of R&D spend and reduced the cap from 50% to 30% of the tax liability.

The pace of change is expected to continue as R&D incentives mature in this globally competitive environment.

The schemes are broadly similar but unique to each country's tax system. Many systems offer distinctly different benefits for small and medium enterprises and large companies.

This overview of the fourth 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 detailed 'country by country' report of the R&D incentive schemes in each ASPAC country is available upon request.

Please contact Alan Garcia, ASPAC R&D Lead, your local KPMG team member or R&D country representative (listed on the back cover) if you would like a copy.

Summary of R&D benefits

Country/Region	Typical SME benefits	Typical large company benefits
Australia	45% refundable offset at 30% tax rate	40% non-refundable offset at 30% tax rate
Bangladesh	100% deduction at 27.5% tax rate	100% deduction at 27.5% tax rate
China	150% deduction at 25% tax rate	150% deduction at 25% tax rate
Hong Kong	100% deduction at 16.5% tax rate	100% deduction at 16.5% tax rate
India	200% deduction at 33% tax rate	125% deduction at 33% tax rate
Indonesia	100% deduction at 25% tax rate	100% deduction at 25% tax rate
Japan	12% credit up to 30% of tax due, tax rate 28%	8% credit up to 30% of tax due, tax rate 38%
Malaysia	200% deduction at 25% tax rate	200% deduction at 25% tax rate
Pakistan	100% deduction at 35% tax rate	100% deduction at 35% tax rate
Papua New Guinea	150% deduction at 30% tax rate	150% deduction at 30% tax rate
Philippines	100% deduction at 30% tax rate	100% deduction at 10% tax rate (If R&D provided as an HQ function)
Singapore	400% on first SGD 400,000 then 150% on remainder at 17% tax rate	400% on first SGD 400,000 then 150% on remainder (if onshore) at 17%tax rate
South Korea	25% credit at 11%/22% tax rate	25% credit at 22%/24% tax rate
Sri Lanka	200% deduction at 15% tax rate	200% deduction at 15% tax rate
Taiwan	15% credit up to 30% of tax due, tax rate 17%	15% credit up to 30% of tax due, tax rate 17%
Thailand	200% deduction at 30% tax rate	200% deduction at 30% tax rate
Vietnam	100% deduction at 25% tax rate	100% deduction at 25% tax rate

Sample company profiles used in KPMG's comparison
(amounts are in US Dollars (USD))

	SME	Large company
Capital	$750,000	$50 million
Turnover	$5 million	$100 million
Profit (before R&D spend)	$1 million	$20 million
R&D location	In-house	Multiple
R&D spend	$500,000	$10 million
Average over last 3 years	$500,000	$10 million

- It is assumed R&D meets qualifying criteria depending upon country definitions and restrictions.
- No additional funding for location or field of research is considered, even if available.
- USD amounts for qualifying thresholds have been converted to local currencies at May 2012 exchange rates.

Individual company situations may vary and these profiles are for comparison only. The ratings should not be used as a substitute for professional advice based on specific circumstances.

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

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

Intellectual Property (IP)

Similarly, in planning how IP will be created, it is important to consider tax consequences, the arrangements under which IP is created, where it will be used, how it will be paid and where it will be owned. Entities undertaking R&D in the region should be aware that tax authorities within the ASPAC region are focusing on transfer pricing issues arising from the development, ownership and compensation for usage of IP. For example, India, Australia, China, and Japan have all recently seen an increase in transfer pricing audits.

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.

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 government measures in the form of economic stimulus packages will impact the rate of tax paid.

These include tax holidays, accelerated depreciation programs and reduced rates of tax for foreign investment. These may top up existing benefits delivered through R&D incentive schemes.

Regulators

The role of regulators in assessing R&D activity must not be underestimated. Whilst R&D tax criteria might be similar across ASPAC jurisdictions, much also depends on the R&D application process itself and matters of interpretation. For example, is the R&D claim 'self-assessed' or do you need to pass a number of hurdles before you receive the benefit?

The equation to be solved

The tax treatment of R&D costs, technology transfers, transfer pricing and other related local tax issues, are all vital considerations impacting investment decisions.

KPMG's global R&D incentives services

Global R&D assistance

KPMG has an established global R&D Incentives practice. It comprises a coordinated cross-border network of experienced R&D Incentives specialists around the world, including the ASPAC region. Addressing local issues, with a global mindset, our mission is to assist you to capitalize on R&D benefits on a global scale to help create long-term competitive advantage.

Our 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 analyses. 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 labour, 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, our global R&D Incentives team works with our international tax specialists to assist clients manage tax issues arising from:

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

Country specific R&D assistance

We can help you understand how the local country R&D Tax Incentive specifically 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?
- What records are needed to substantiate a claim?

We hope this publication will deliver long-lasting value to your organization by assisting you to identify R&D incentive opportunities throughout the ASPAC region.

A detailed 'country by country' report of the R&D incentive schemes in each ASPAC country is available upon request.

For more information about KPMG's R&D incentives services in the Asia Pacific region, please contact:

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