REPUBLIC OF TURKEY PRIME MINISTRY
INVESTMENT SUPPORT AND
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Comparative R&D Incentives Study

Turkey
Hungary
Russia
India
China
South Korea
Singapore
Ireland

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KEY INDICATORS

	Real GDP Growth (%)								Nominal GDP ($ bn, current prices) 2008
	2002	2003	2004	2005	2006	2007	2008	Average annual growth rate* 2002-2008	
China	9,1	10,0	10,1	10,4	11,6	13,0	9,0	**10,7%**	4,402
Russia	4,7	7,3	7,2	6,4	7,7	8,1	5,6	**7,0%**	1,677
India	4,6	6,9	7,9	9,2	9,8	9,3	7,3	**8,4%**	1,210
Korea	7,2	2,8	4,6	4,0	5,2	5,1	2,2	**4,0%**	947
Turkey	**6,2**	**5,3**	**9,4**	**8,4**	**6,9**	**4,7**	**1,1**	**5,9%**	**729**
Ireland	6,4	4,5	4,7	6,4	5,7	6,0	-2,3	**4,1%**	273
Singapore	4,1	3,8	9,3	7,3	8,4	7,8	1,1	**6,2%**	182**
Hungary	4,1	4,2	4,8	4,0	4,0	1,1	0,6	**3,1%**	156

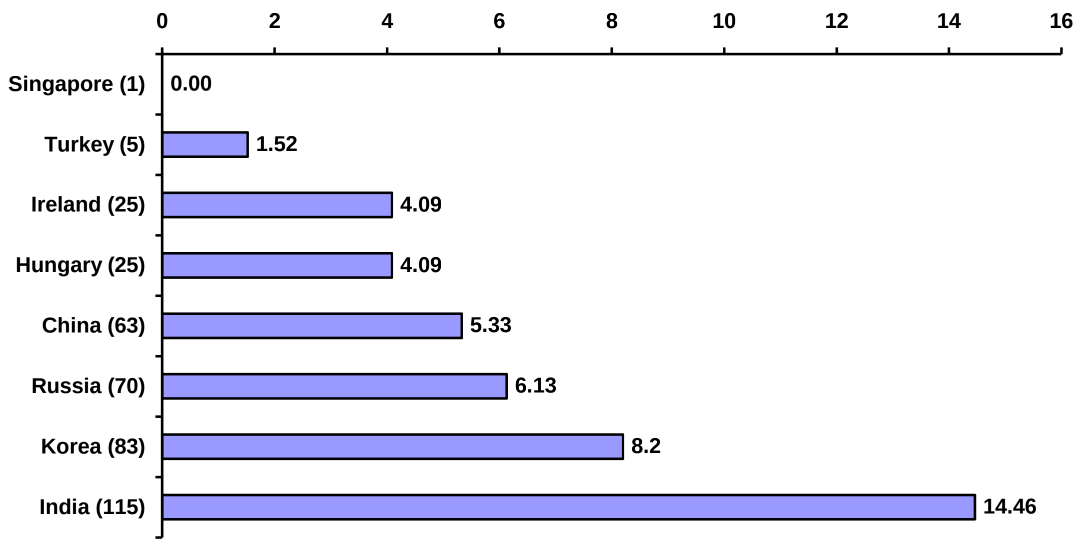
***** Compound Annual Growth Rate (CAGR) ***Source:*** IMF World Economic Outlook, April 2009
****** IMF estimate for Singapore

Market Size				
	Population 2009**	Global Rank	GDP (PPP) $ billion 2007*	Global Rank
China	1,338,612,968	1	7,097	2
India	1,166,079,217	2	3,097	4
Russia	140,041,247	9	2,088	7
Korea	48,508,972	25	1,202	13
Turkey	**76,805,524**	**17**	**957**	**15**
Singapore	4,657,542	117	228	45
Ireland	4,203,200	125	195	51
Hungary	9,905,596	82	189	53

Source: *World Development Indicators database, World Bank, 2009; ** CIA, The 2008 World Factbook (July 2009 estimates)

According to the 2008 *World Trade Indicators* published by the World Bank, Turkey has the 5th least restrictive trade policies.

Tariff Barriers (Trade-weighted barriers, %) TTRI*

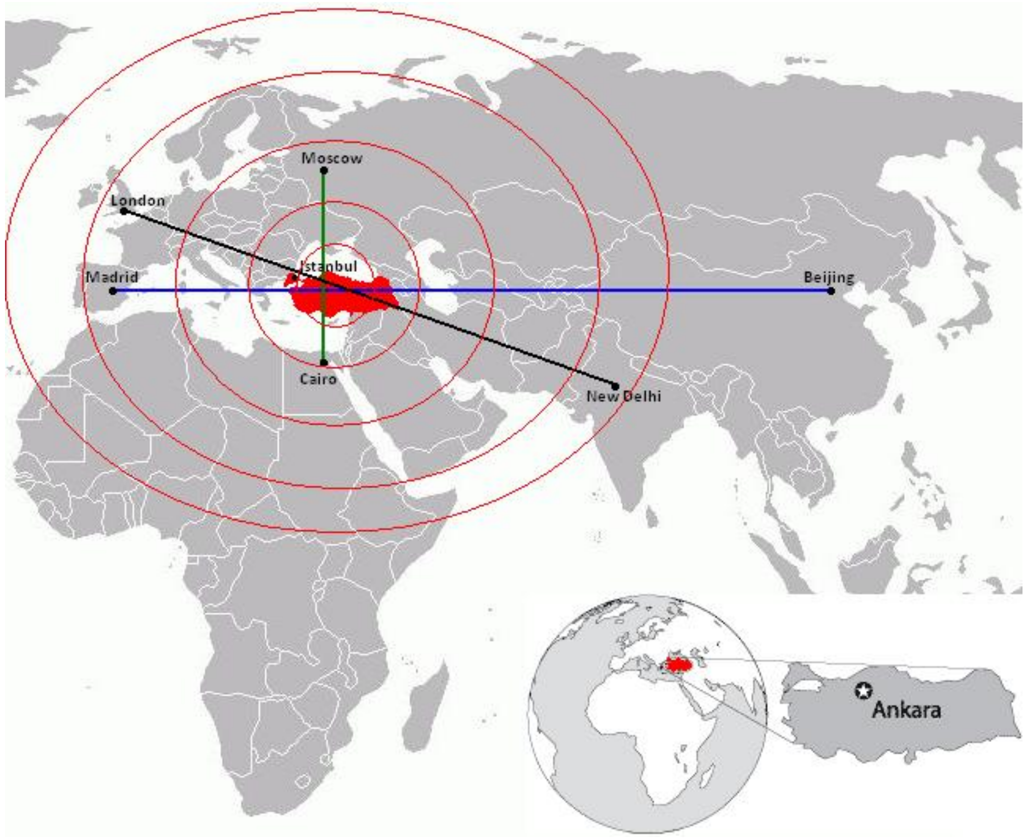


Source: 2008 *World Trade Indicators (Rank)*

*TTRI (MFN applied tariff) - All Goods -This index summarizes the impact of each country's non-discriminatory trade policies on its aggregate imports. It is the uniform equivalent tariff that would maintain the country's aggregate import volume at its current level (given heterogeneous tariffs). It captures the trade distortions that each country's MFN tariffs impose on its import bundle using estimated elasticities to calculate the impact of a tariff schedule on a country's imports. These measures are based on actual or current trade patterns and thus do not capture restrictions facing new or potential trade. They also do not take into account domestic subsidies or export taxes. Expressed as a tariff rate.

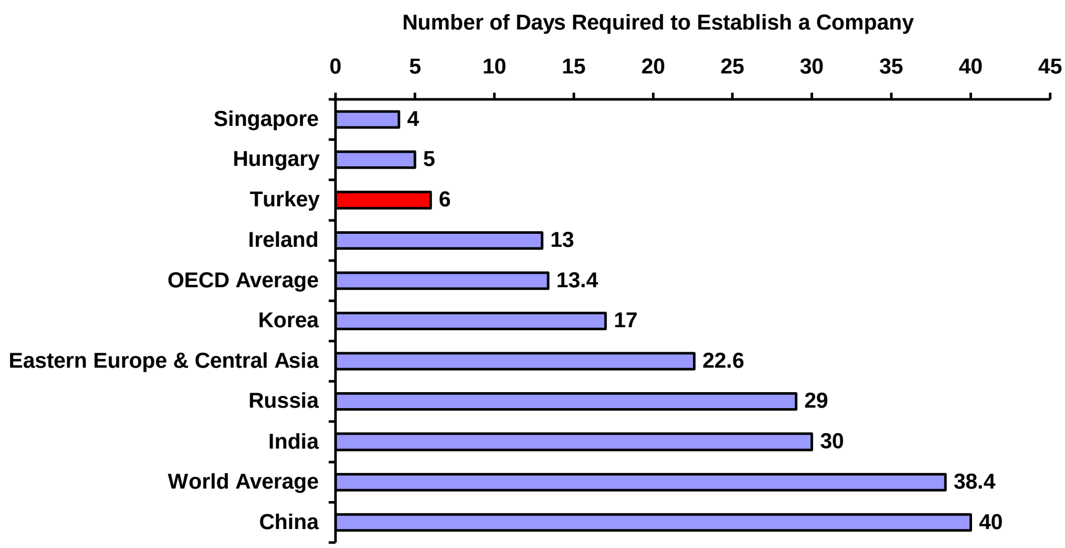
Strategic Position

If you draw lines from Madrid to Beijing, from Moscow to Cairo, from London/Paris to New Delhi, they all pass through Turkey, which straddles a region where east meets west. Over centuries, a blending of hemisphere has been going on here – trade and cultural interchange – with Turkey smack in the middle.



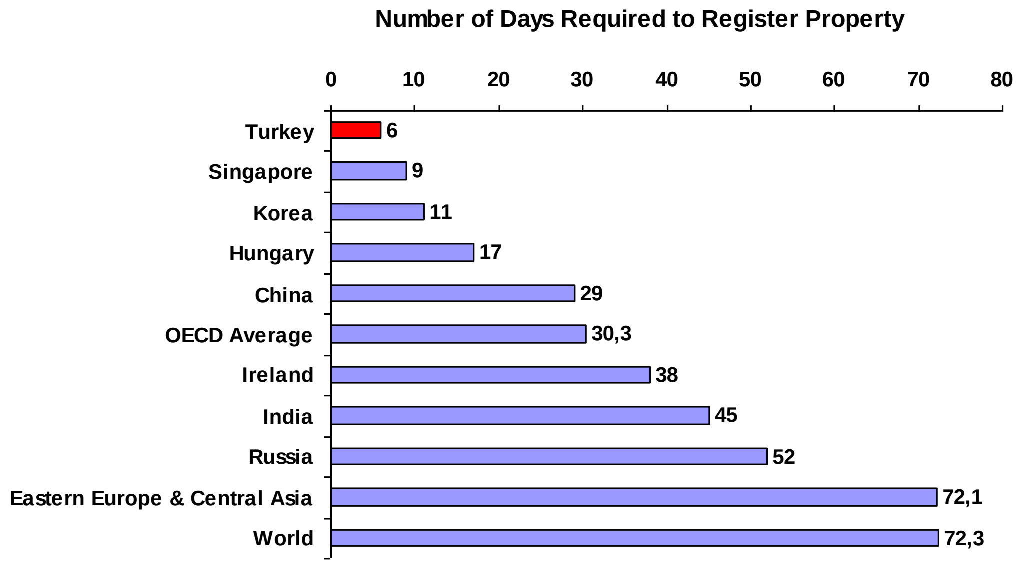
Doing Business in Turkey

Turkey is one of the most liberal countries in the world with regard to doing business as well; Turkey outranks many developed countries in this regard. Turkey offers one of the easiest business start-up legislations in the world. With the introduction of the new FDI law, the average number of days required to establish a company is 6 days. Moreover, a new law is being drafted which will allow online establishment of companies.

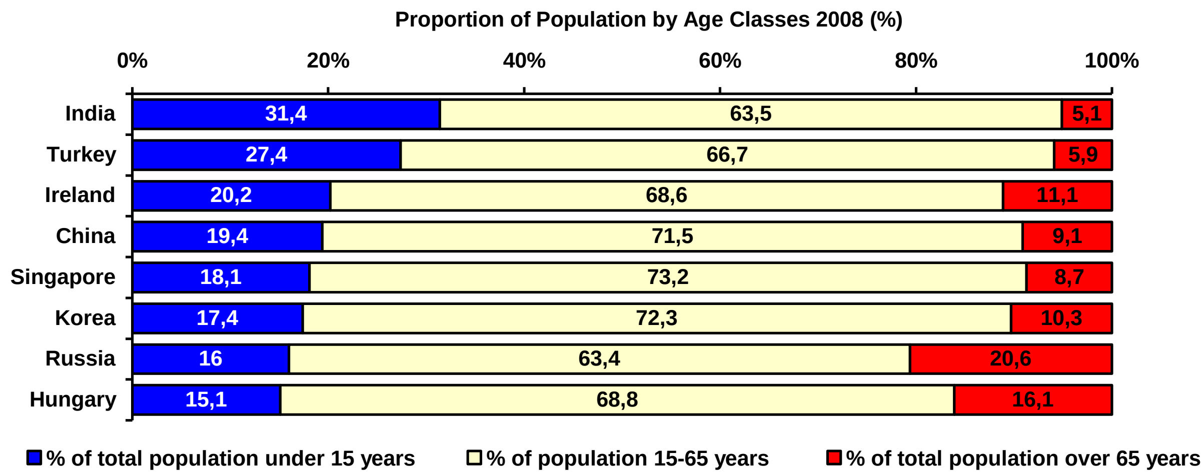


Source: World Bank Doing Business 2009

Once you set up a company easily in Turkey, by the same token, you can effortlessly register your property as well. It takes only 6 days to register your property in Turkey.



Source: World Bank Doing Business 2009



Source: IMD World Competitiveness Yearbook 2008

SKILLED and DILLIGENT LABOR FORCE

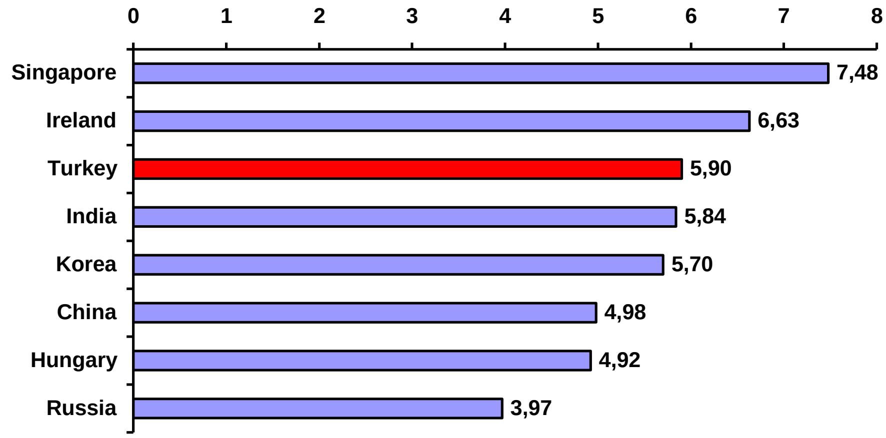
A key component of R&D investment is availability of skilled workforce. Turkey offers investors a young, talented, motivated and skilled workforce of 25 million. The Turkish labor market is one of the most skilled ones in the world, having the required qualifications, talents, dedication and motivation. This skilled labor force is capable of meeting the needs of the globally integrated and highly diversified Turkish economy.

Availability of Qualified Labor Force Scores

	Skilled Labor	Qualified Engineers	Competent Senior Managers	Language Skills	Finance Skills	Average Score
Singapore	6.37	7.81	6.79	8.26	7.26	7.30
Ireland	6.47	6.43	6.47	5.88	7.45	6.54
Turkey	5.83	6.97	6.17	5.70	6.83	6.30
India	5.60	7.07	5.07	6.93	6.58	6.25
Hungary	5.44	6.08	5.68	3.36	5.60	5.23
Russia	5.45	4.71	4.96	2.99	5.84	4.79
Korea	4.26	4.53	3.92	4.75	4.85	4.46
China	4.48	4.23	4.05	3.86	4.73	4.27

Source: IMD World Competitiveness Yearbook 2008; Scores (0: Not-Available, 10: Available)

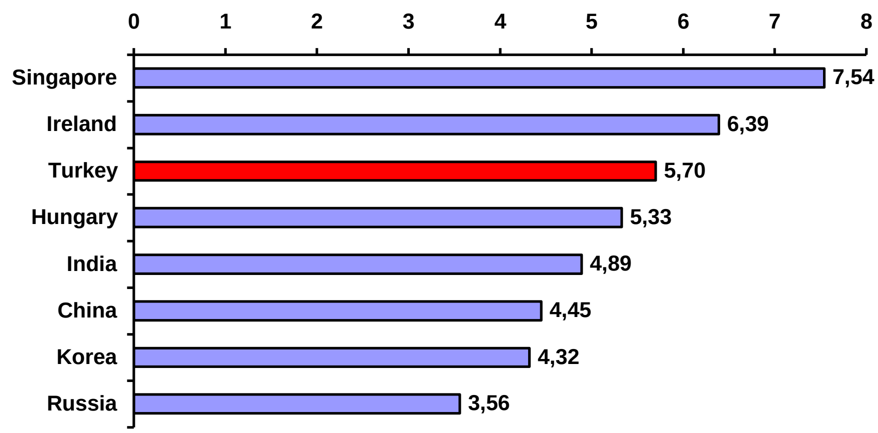
Worker Motivation



Source: IMD World Competitiveness Yearbook 2008; Executive Opinion Survey based on an index from 0 to 10 (0: less motivated, 10: High motivated)

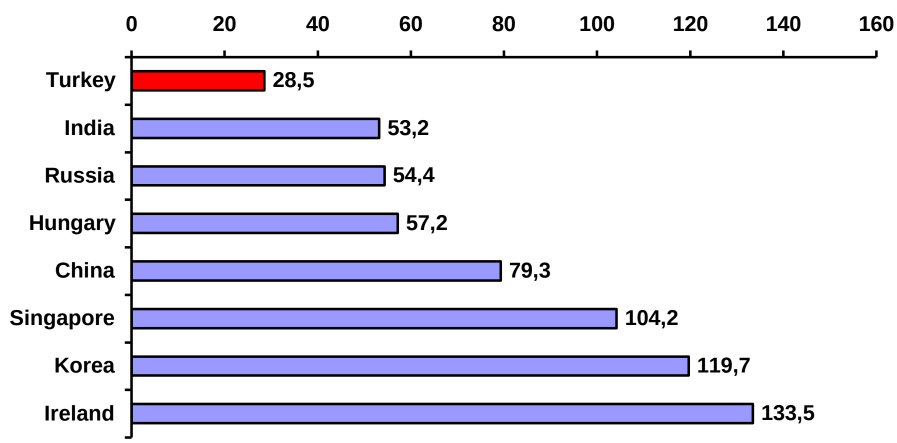
International experience of senior managers is very important for multinational companies to run their business efficiently. Turkish managers are highly qualified and experienced thus their caliber is capable of meeting the need and challenges of the global business world.

International Experience of Senior Managers



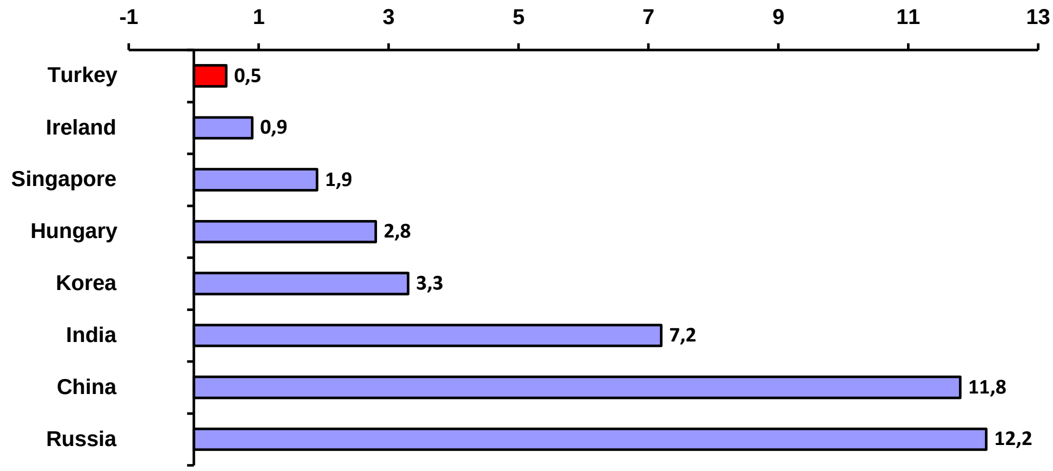
Source: IMD World Competitiveness Yearbook 2008; Executive Opinion Survey based on an index from 0 to 10 (0: less experienced, 10: High experienced)

Overall Unit Labor Cost Level (Index: US=100) 2008*



Source: Economist Intelligence Unit (EIU) calculation, May 11 2009; *the labour cost of producing one unit of output (GDP) indexed to US=100 by the EIU. Defined with respect to real GDP per worker in PPP, and the average.

Annual Average Change (%) in Average Real Wages (2002-2008)*



***Source* : EIU**

*CAGR in hourly wages in local currency adjusted for inflation based on CAGR calculation by ISPAT staff.

Foreign Direct Investment

Turkey's benign investment climate has yielded high results in attracting foreign direct investment. FDI flow into Turkey has tremendously increased by 1844 % from 2002 to 2007 with an average annual growth rate of 81 %. Net FDI inflows, which had averaged around $1 billion in the past, increased to $22 billion in 2007. Foreign investors have shown great confidence in investing in Turkey over the recent years. According to the UNCTAD World Investments Prospect Survey 2008-2010 which was conducted among the largest 226 transnational corporations, Turkey is the 15th most preferred destination for FDI.

FDI Inflow (Billion of US Dollars)

Country	2002	2003	2004	2005	2006	2007	CAGR 2002-2007	Cumulative Growth 2002-2007
Turkey	**1,1**	**1,8**	**2,8**	**10,0**	**20,0**	**22,0**	**81%**	**1844%**
Russia	3,5	8,0	15,4	12,9	32,4	52,5	**72%**	**1416%**
India	5,6	4,3	5,8	7,6	19,7	23,0	**32%**	**308%**
Singapore	7,2	11,7	19,8	13,9	24,7	24,1	**27%**	**235%**
Hungary	3,0	2,1	4,5	7,7	6,8	5,6	**13%**	**86%**
China, Mainland	52,7	53,5	60,6	72,4	72,7	83,5	**10%**	**58%**
Ireland	29,3	22,8	-10,6	-31,7	-5,5	30,6	**1%**	**4%**
Korea	3,4	4,4	9,0	7,1	4,9	2,6	**-5%**	**-23%**

Source: UNCTAD World Investment Report 2008; Ranking based on growth rates in FDI.

R&D INCENTIVES

Country	Current Deductions	Enhanced Deduction	R&D Grants	Other Incentives
Turkey	✓	✓	✓	✓
Hungary	✓		✓	✓
Russia	✓		✓	✓
India	✓	✓		✓
China	✓	✓		✓
South Korea	✓	✓	✓	✓
Singapore	✓		✓	✓
Ireland	✓	✓	✓	✓

Summary of R&D Incentives for Selected Countries

TURKEY

Introduction

There are various incentives programs aiming to boost R&D activities in Turkey. The most comprehensive one is the Law on Supporting R&D Activities **(Law No: 5746)**. The law offers incentives and supports for investors who want to make research and development investments, regardless of sector or industry. Other incentives programs for R&D activities offer various incentives as well.

Key messages

- R&D allowances
- Enhanced Tax allowances
- Income Withholding Tax Deduction
- Social Security Premiums Support
- Cash support for entrepreneurial scientists

Overview of R&D Incentives

Eligibility criteria

- Incentives are granted regardless of industry until 2024.
- In order to benefit from the incentives, companies must hire at least 50 full-time equivalent R&D personnel.
- Foreign companies with no production facility in Turkey can also benefit from the incentives by establishing an R&D center in Turkey.

Benefits Multiple tax deduction, social security premiums support, cash support and tax exception for R&D funds.

1. R&D allowances (Corporate Tax Deduction)

Eligibility criteria For full subtraction of R&D and innovation expenditures from the corporate tax base, at least 50 full-time equivalent R&D personnel must be hired.

Benefits All R&D and innovation expenditures are deducted from the corporate income tax base, i.e., all R&D and innovation expenditures are deducted from the earnings, and then the corporate tax base is recalculated based on the deduction of the expenditures from the earnings which constitute the base for corporate tax. The amount which could not be a matter of allowance due to inadequate earning in the relevant accounting period, is transferred to the following accounting periods. These transferred amounts are taken into consideration in the following years with an increase calculated by the revaluation ratio which is determined in every year as per Law No. 213.

2. Enhanced R&D allowances (Enhanced Corporate Tax Deduction)

Eligibility criteria For enhanced subtraction of R&D expenditures from the corporate tax, at least 500 R&D personnel must be hired.

Benefits In addition to 100% deduction of R&D expenditures from the tax base, half of the increase in R&D expenditures with respect to the R&D expenditures in the previous period is also deducted from the corporate tax base. The unutilized R&D deduction is carried forward by being indexed to the revaluation rate which is determined in every year as per Law No. 213.

3. Income Tax Withholding Incentive for R&D and Support Personnel

Eligibility criteria At least 50 R&D personnel must be hired. The number of support personnel whose income tax is deducted cannot exceed 10% of R&D personnel. The total amount of support personnel benefiting from the income tax exemption cannot exceed 10% of the total R&D personnel.

Benefits 80% reduction in income tax of R&D and support personnel; 90% reduction in income tax of those with PhD degree.

4. Insurance Premium Support

Eligibility criteria At least 50 R&D personnel must be hired. The total amount of support personnel benefiting from the insurance premium support cannot exceed 10% of the total R&D personnel.

Benefits Half of the employer portion of Social Security premiums of the R&D and support personnel is funded by the budget of the Ministry of Finance for 5 years for each employee.

5. Stamp Tax Exemption

Eligibility criteria At least 50 R&D personnel must be hired.

Benefits The stamp duty tax is not levied on the papers arranged on all sorts of R&D and innovation activities.

6. Cash Support / Technopreneurship Capital Subsidy	
Eligibility criteria	To be student able to graduate from an undergraduate programme of any university, masters students or doctoral students or those persons who received their undergraduate, masters or doctoral degrees maximum five years before the preliminary application date to turn their technology and innovation oriented business ideas into the enterprises which have a high potential of creating added value and qualified employment within the framework of a work plan approved to be supported by the public institutions within the scope of the central administration providing the contribution.
Benefits	Technopreneurship capital subsidy up to 100.000 Turkish Liras is granted for once only to the students by the public administrations under the central government.
7. Tax allowances for Pre-competition Cooperation Projects	
Eligibility criteria	In the pre-competition cooperation projects, the contributions of enterprises constituting cooperation is monitored through a private account opened on behalf of the enterprise set in the cooperation protocol. These amounts transferred to private account is deemed R&D expenditure of enterprises having contributed in the expenditure period and cannot be used for any purposes except for the project.
Benefits	The amounts collected in project account are not taken into account as revenue in determining the profit of the enterprise that opened the private project account.
8. Tax allowances for Funds	
Eligibility criteria	The support provided to those engaged in R&D and innovation by public bodies and institutions, foundations established on the basis of law and international funds must be kept in a private fund account. In the event that this fund is transferred to another account by any means other than additions made onto the capital in five years time following the account period in which the fund is acquired or withdrawal of this fund from the enterprise, taxes not accrued within the respective time period will be deemed loss.
Benefits	Such funds are not taken into account in determining the taxable profit on the basis of Laws no 193 and 5520 and R&D expenditure in relevant year.

Definitions

Research and Development Activity (R&D): creative studies, environment friendly product design or hardware activities conducted on a systematic basis so as to enrich knowledge made up of research and development and knowledge of culture, human and society, and to make use of this in order to design new processes, systems and applications, as well as activities with experimental, scientific and technical content and original outputs, which provide scientific and technical improvement in its field, focus on a scientific and technological uncertainty

Innovation: the processes or process outcomes that could meet social and economic needs, could create new markets or be introduced in new markets, which have been formulated with an idea of a new product, service, application, method or business model.

R&D center: the units, having the capacity and knowledge of R&D, of legal equity companies, narrow tax-payer institutions or those the business centers of which are located in Turkey; units which are organized separately within the organizational structure, which are exclusively engaged in R&D activities in the country and those that employ minimum 50 full-time equivalent R&D personnel and which have the sufficient R&D knowledge and capability, including the business places of the limited tax-paying companies in Turkey.

R&D project: the project, whose purpose, scope, general and technical definitions, duration, budget and special terms are identified as well as the amounts to be provided as support by other bodies, institutions, real and legal persons either in kind or in cash and the principles of which to regulate the sharing of intellectual property rights that would arise have been determined, which are prepared in line with scientific principles and capable of determining each step of R&D activities.

Pre-competition cooperation projects: projects, scientific and technological in nature, which are under the scope of cooperation agreement regarding R&D activities and based on feasibility, conducted by more than several institutions so as to increase efficiency by designing new process, systems and applications by making use of economies of scale; for the purpose of developing joint apparatus or systems or being able to form a platform before competition in order to provide higher added value considering the current situation.

R&D personnel: Researchers and technicians directly assigned for the R& D activities;

1) Researcher: Experts having at least an undergraduate degree, who participates in R&D activities and projects under the definition of innovation, in the designing and building up of new knowledge, products, processes, methods and systems and in the management processes of the related projects.

2) Technician: People having a degree in engineering, science and health sciences or having graduated from technical, science and health departments of vocational high schools or higher vocational schools, who are in possession of technical knowledge and experience.

Support personnel: Manager, technical staff, laboratorian, secretary, worker and staff as such participating in or directly related to R&D activities.

Source: Investment Support and Promotion Agency of Turkey, http://www.invest.gov.tr/ March 2009

HUNGARY

Introduction

The Hungarian government provides subsidies and tax allowances for investments aiming to establish new research and development facilities.

Key messages

- Cash subsidy assessed by individual Government decision (EKD)
- Development tax allowance
- Training subsidy
- Job creation subsidy

Overview of R&D Incentives

Eligibility criteria	There are two main conditions in order to benefit from the special incentive package offered by the Hungarian Government: **1.)** The R&D Investment must be worth at least Euro 10 million. **2.)** The Package is available only for projects which are not eligible to benefit from the government's EU-co-financed grant schemes.
Benefits	Once the above conditions are met, then investors might be granted direct subsidies from and tax allowances from the government.
1. Direct Subsidy Assessed by Individual Government Decision	
Eligibility criteria	Investment volume • *At least EUR 10 million* Job creation potential • *At least 10 employees* For investments worth more than EUR 100 million and if the subsidy to be granted would be higher than the EU threshold applied for the specific region, a pre-approval of the European Commission is necessary. For five years or, for SMEs three years, contractual commitments are monitored continuously.
Benefits	Subsidy in cash is provided to the investor. The level of the subsidy is decided individually by the Hungarian Government.
2. Development Tax Allowance	
Eligibility criteria	Investment volume of at least HUF 100 million. If the investment volume does not reach EUR 100 million (HUF 25 billion) at present value, a request is submitted to the Ministry of Finance. The allowance is granted on a non-discretional basis. If the investment volume exceeds EUR 100 million (HUF 25 billion) at present value, an application shall be submitted to the Ministry of Finance or to ITD Hungary. The application is assessed and a resolution taken by the Ministry.
Benefits	The investor is exempt from paying 80% of the payable corporate tax for 10 years following the completion of the project. The amount of the allowance is specified in compliance with the maximum regional intensity ratio.
3. Training Subsidy	
Eligibility criteria	Individual cash subsidy has been granted by the Hungarian Government.
Benefits	**1.)** For large companies the following ratio of project-related training costs can be reimbursed: • 50% General (listed in the National Training Register or accredited) training • 25% Specialized (company-tailored) training • +10% Training of disadvantaged employees (pro rata) • +10% Training in Hungary outside Budapest and Pest County • +5% Training in Budapest and Pest County **2.)** For small and medium sized companies*, the following ratio of project-related training costs can be reimbursed: • 70% General (listed in the National Training Register or accredited) training • 35% Specialized (company-tailored) training • +10% Training of disadvantaged employees (pro rata) • +10% Training in Hungary outside Budapest and Pest County • +5% Training in Budapest and Pest County ***Conditions for SMEs:** a) the number of employees is not more than 250 AND b) annual net sales revenue is not more than EUR 50 million; and the balance sheet total is not more than EUR 43 million.
4. Job Creation Subsidy	
Eligibility criteria	The job creation subsidy is applicable to projects: • for which an individual cash subsidy has been granted by the Hungarian Government;

	• which are located in Northern Hungary, the Great Hungarian Plain (North and South), South Transdanubia, or in less and least developed micro-regions or settlements in other regions; • which create at least 501 jobs in less developed areas, or at least 201 in least developed micro-regions; • the ratio of registered unemployed within the newly-employed staff exceeds 50% in less developed or 30% in least developed micro-regions. For five years or, for SMEs three years, contractual commitments are monitored continuously.
Benefits	**Subsidy per investment** • **HUF 260 million** (app. EUR 1,04 million) if headcount increases at least by 500 • **HUF 160 million** (app. EUR 640.000) if headcount increases at least by 300 • **HUF 80 million** (app. EUR 320.000) if headcount increases at least by 200 (Exchange rate: 250.13 Ft/EUR)

Source: The Hungarian Investment and Trade Development Agency, http://www.itdh.com/ March 2009

RUSSIA

Introduction

Majority of R&D activities in Russian Federation are still financed and strongly guided by the Russian government or through the State Owned Companies (Rosnano, Rosatom, etc.). At the same time, nourishing and encouraging private R&D and innovative activities have also become a national policy with the top of the agenda. R&D incentives package is applicable in the Technology Innovative Zones (TIZ) which are categorized as Special Economic Zones (SEZ). Commercialization, patenting, realization and intellectual right protection still remain as weak points of Russian legislation.

Key messages

- Corporate profit tax:
- Reduced uniform social tax rate
- Property and land tax exemption

Overview of R&D Incentives

Eligibility criteria To provide support for implementation of projects in nano-, bio- and information technologies sector (technologies) the government has created special economic zones and technology parks. In 2006–2010 technology parks are planned for the territories of Moscow, Novosibirsk, Nizhny Novgorod, Kaluga, Tumen, Kemerovo regions, the Republic of Tatarstan and St. Petersburg. Currently, they are opened in St. Petersburg, Zelenograd (Moscow Region), Dubna (Moscow Region), Tomsk. In order to benift from the incentives, companies must operate within the SEZs-Techonoparks whose lifetime lasts 20 years.

1. Income Tax Deduction

Eligibility criteria Residents of TIZs – An individual entrepreneur or a commercial company shall be recognized, except for unitary enterprise, registered in accordance with the law of the Russian Federation in the territory of the municipal entity, within the boundaries which are located special economic zones, and having concluded with public authorities special economic zones agreement on technology-innovative activity in accordance with the procedure and on the terms.

Benefits The SEZ Residents may declare all R&D expenditure (incl. those without any positive result) as the amount of actual expenses in the reporting period, in which these expenditures had been made.

2. Social Tax Deduction

Eligibility criteria Residents of TIZs

Benefits The cuurent social tax rate is 26% which is deductable to;

- 14% - in the event of taxable base for each natural person as progressive total from the beginning of the year to 280 000 roubles;
- RUB 39 200 + 5, 6% from amount in excess of 280 000 roubles, - in the event of taxable base from 280 001 to 600 000 roubles;
- RUB 51 120 + 2% from amount in excess of 600 000 roubles, - in the event of taxable base above 600 000 roubles.

3. Personal Income Tax Deduction

Eligibility criteria

- Residents of SEZs-Technology Innovative Zones.
- Subject to enter to the budget of the Russian Federation

Benefits Various discount rates

4. Land Tax Exemption

Eligibility criteria

- Residents of TIZs
- The exemption is valid for 5 years (10 years in the TIZ in Tomsk)

Benefits Residents of TIZs are exempted from land tax for 5 years as of the moment of emergence of right of property to a land plot. (10 years in the TIZ Tomsk)

5. Wealth Tax Exemption

Eligibility criteria

- Residents of TIZs
- The exemption is valid for 5 years (10 years in the TIZ in Tomsk)

Benefits Residents of TIZs are exempted from wealth tax for 5 years as of the moment of property registration (10 years in the TIZ Tomsk)

6. Transport Tax Exemption

Eligibility criteria

- Residents of TIZs
- The exemption is valid for 5 years (10 years in the TIZ in Tomsk)
- Except air and water transport vehicles in St. Petersburg and Tomsk;
- Except motor cars, air and water transport vehicles in Dubna

Benefits Residents of TIZs are exempted from transport tax for 5 years as of the moment of registration of transport vehicle (10 years in the TIZ Tomsk)

7. Custom duty incentives	
Eligibility criteria	• Residents of TIZs • Goods may be in the territory of special economic zones in accordance with customs regulations of a free customs zone during all life special economic zones, with the exception of cases when customs regulations of the free customs zone terminate in accordance with the provisions of the relevant law. •
Benefits	• The TIZs are considered as free trade zones, thus foreign products can be imported to TIZs without paying customs duties and VAT • Russian products imported to TIZs are exempted from custom duties. • Imported products are exempted from economic bans and restrictions

Sources: Department of Investment Policy – Ministry of Economic Development of the Russian Federation, (http://www.investinrussia.info/), March 2009
Federal Agency for Management of Special Economic Zones (SEZ), (http://eng.www.rosoez.ru/), March 2009 ***Note:*** All materials of the SEZs Web-site had been translated automatically by the machine translation system; hence the translated materials are for information only and have no legal effect.

INDIA

Introduction

To encourage investments in R&D in India, the Government has provided various incentives. These incentives are available to entities across sectors such as biotechnology, automobiles, computer hardware and software, pharmaceuticals, telecom, electronic equipment chemicals, etc. The entities can be Indian or foreign owned.

Key messages

- Immediate 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

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

Eligibility criteria: Capital and revenue expenditure incurred on in-house R&D facility up to 31 March 2012 for scientific research (excluding acquisition of land and/or buildings) which is approved by DSIR.

Benefits: A tax deduction of 150 percent of the expenditure incurred.

2. Tax deduction on expenditure on outsourcing of R&D

Eligibility criteria

- Expenditure on outsourcing of R&D to an eligible approved scientific research company registered in India.
- 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 150 percent mentioned above.

Benefits A tax deduction of 125 percent of the amount paid to the Indian company.

3. Tax deduction on capital/revenue expenditure

Eligibility criteria

For revenue expenditure:

- any revenue expenditure on scientific research related to the business
- any revenue expenditure incurred within three years immediately preceding the commencement of business on payment of any salary 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:

- expenditure should be incurred during the year on scientific research.

Benefits

Tax deduction for capital/revenue expenditure allowed in the same year when incurred.

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.

4. Tax deduction on profits and gains derived by an undertaking from the export of articles or things or computer software

Eligibility criteria

- A new business set up inter alia for R&D in software and other areas like pharmaceuticals, performance materials.
- Not formed by splitting up or reconstruction of an existing business or by transfer of used plant and machinery.
- Business operations can be setup in any part of the country.
- Pre-approval required from certain designated authorities.
- The R&D services should be exported from India. Partial exemption for local services available through pre-approval.

Benefits

One hundred percent income tax holiday on profits from such activities till 31 March 2010.

Certain indirect tax concessions on capital equipment used for setup of the operations and for raw materials used in the operations. This continues beyond 31 March 2010 until a change in policy.

5. Tax deduction on profits and gains derived by an undertaking from the export of articles or things or services (including computer software)

Eligibility criteria In addition to the conditions above, the operation should be setup in a designated area i.e. a 'Special Economic Zone'. At present, there are more than 600 Special Economic Zones at various stages of approval throughout India.

Benefits

Income tax holiday as under:

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

No expiry period stipulated for such income tax holiday.
Certain indirect tax concessions on capital equipments 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 of scientific research, but do 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.

For Export Oriented Undertakings and units located in Special Economic Zones, any operation entailing export is eligible for the concessions. Therefore, normal operations are also eligible for the tax concessions.

Source: KPMG International, July 2008

CHINA

Introduction

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

Key messages

- Enhanced tax deductions.
- Customs duty and VAT exemption.
- Business tax exemption on technology transfers.

Overview of R&D Incentives

1. R&D Tax Concession

Eligibility criteria	Various types of entities including corporate taxpayers (foreign invested enterprise (FIE) and non-FIEs), research institutions and R&D centers (legal person or non-legal person).
Benefits	• 150% tax deduction on qualified R&D expenses (R&D Super Deduction) incurred during the current 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 % of the capitalized R&D expenses constitute the costs of intangible assets subject to amortization. • Import VAT and Customs Duty may be exempted on qualified import R&D equipment. • R&D equipment can be either expensed immediately or depreciated on an accelerated basis depending on the value.

2. Tax concession on technology transfer

Eligibility criteria	Revenues that are derived from technology transfers, technology development or consultancies and related technical services.
Benefits	Business tax exemption on derivation of revenue.

Definition of R&D expenses

Qualified ‘R&D’ expenses refer to:

- expenses incurred on design of new products, establishment of technological processes, commissioning, consumption of raw materials, prototype of semi-finished products, purchase of technical publications, lab costs, depreciation of R&D equipment and salary costs
- costs paid to other R&D outsourcing parties, expenses incurred that are directly related to new product testing and technical research.

Eligibility requirements

All types of corporate taxpayers such as FIEs non-FIEs, i.e. domestic companies (private, state-owned or public companies), scientific research institutions, universities and colleges. Branch operations of foreign companies in China may also be eligible for the R&D tax concession.

R&D activities may be undertaken by a R&D department inside an entity or by stand-alone R&D centers with a legal person status. For legal person type of R&D centers which are invested in by foreign investors, a number of criteria and conditions must be fulfilled before a R&D project can be recognized by the approval authority and the relevant tax incentives can be granted. Conditions include minimum R&D funding, necessary facilities used for R&D purposes, and a minimum percentage of designated R&D personnel. A strict application procedure needs to be followed.

Claiming the Tax Concession on R&D expenses

- Taxpayers who wish to claim the R&D ’Super Deduction‘ shall have a sound financial accounting system and their financial records must be independently audited.
- Taxpayers are required to supply detailed information about R&D activities when filing annual income tax returns.
- IP rights of R&D results should be owned or co-owned by the R&D executing party or with another entrusting party.
- Costs incurred on acquisition of a technology or use-right of a technology are not considered as R&D expenses.
- Companies engaged by another party to provide R&D services cannot claim the ’Super Deduction‘ on the expenses incurred in the course of rendering such services.

Accelerated depreciation for R&D equipment

The cost of R&D equipment can be expensed immediately if the unit value does not exceed RMB 300,000. If the equipment value is above RMB 300,000, it can be depreciated on an accelerated basis e.g. double-declining balance method or total of use-year method.

Source: KPMG International, July 2008

SOUTH KOREA	
Introduction The Korean Government is granting a wide variety of incentives in different industry sectors to promote domestic R&D activities. **Key messages** • Tax exemptions for company and workforce. • Cash grants and subsidies.	
Overview of R&D Incentives	
Eligibility criteria	Expenses incurred by a R&D centre of a company engaged in a business can be eligible for a tax credit if they fall under the scope provided by relevant laws.
Benefits	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 annual average for the past four years or (ii) 15 percent of the eligible expense amount. For non- small and medium sized companies, the tax credit is computed as either (i) 40 percent of the eligible expense amount in excess of annual average for the past four years or (ii) a maximum 6 percent of the eligible expense amount.
1. Tax exemptions	
Eligibility criteria	An R&D centre in a designated R&D special zone performing R&D activities for bio-technology, IT technology, etc.
Benefits	Once an eligible R&D centre obtains prior approval, corporate tax is fully exempted for the first 3 years and a 50 percent exemption is granted for the subsequent 2 years.
2. Cash grants	
Eligibility criteria	Share ownership ratio by a foreign investor must be 30 percent or more, and 10 or more of the R&D personnel must have academic backgrounds of at least a master's degree and R&D work experience of three years or more.
Benefits	More than 5 percent of total foreign direct investment will be granted in a lump sum payment immediately or in installments for the subsequent five years. The size of the cash grant is determined through deliberations among relevant authorities.
3. Subsidy for R&D expenses	
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.
4. Tax credit on investment in R&D equipment	
Eligibility criteria	Acquisition of qualifying R&D equipment.
Benefits	Seven percent of the purchase price of the equipment can be used to offset against corporate tax liabilities.
5. Tax exemption	
Eligibility criteria	1) Foreign invested companies based in a Foreign Investment Zone (FIZ) and Free Economic Zone (FEZ) which operate business accompanying high technologies or industrial support services and 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 of the R&D personnel having academic backgrounds of at least a master's degree and R&D work experience of three years or more. 2) Foreign invested companies based in an Industrial City Development Zone (ICDZ) which operate business accompanying high technologies or industrial support services and establish or extend R&D centers, if foreign investment is at least USD 5 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 and ICDZ) and a 50 percent exemption is granted for the subsequent 2 years.
6. Individual income tax exemption for foreign engineers	
Eligibility criteria	Foreign engineers working for R&D centers in Korea should have either (i) work experience in the same field for 5 or more years or (ii) work experience in the same field for 3 or more years and an academic background equivalent to a bachelor degree or above.
Benefits	One hundred percent income tax exemption for the first 5 subsequent years.

Source: KPMG International, July 2008

SINGAPORE

Introduction

Singapore is one of the world's most competitive economies and has a host of incentives to encourage companies to undertake R&D activities.

Key messages

- Immediate and enhanced tax deductions available.
- Non-assessable foreign sourced royalty income on Singapore-based R&D activities.

Overview of R&D Incentives

1. Tax deduction for R&D expenditure

Eligibility criteria	Expenses are incurred for an R&D project undertaken in-house or outsourced to a R&D organization where the benefits from the R&D project accrue to the Singapore company. In Budget 20081, it was proposed that where the R&D is conducted in Singapore, the R&D need not be related to the trade or business.
Benefits	Tax deduction on expenditure incurred for R&D activities. In Budget 20081, it was proposed that the tax deduction be enhanced to 150 percent of actual expenditure on R&D carried out in Singapore, effective from the Year of Assessment (YA) 2009 to 2013.

2. Budget 2008* proposal – R&D Tax Allowance Scheme

Eligibility criteria	R&D expenditure that meets the basic criteria for tax deduction and the project is undertaken in-house, in Singapore and is not funded by a government grant.
Benefits	R&D tax allowance (RDA) at 50 percent of the company's chargeable income (effective from YA 2009 to 2013), subject to a maximum claim of SGD 150,000 for each YA.

3. Budget 2008 proposal – R&D Incentive for Qualifying Start-up Enterprise

Eligibility criteria	Qualifying start-up where at least SGD 150,000 of expenditure has been incurred on R&D undertaken in-house in Singapore and is not funded by a government grant.
Benefits	Subject to certain conditions, qualifying start-ups can surrender their tax losses for cash grants (effective from YA 2009 to 2013). The cash grant is capped at SGD 20,250 for each YA.

4. Further tax deduction for R&D expenditure

Eligibility criteria	The R&D project must be carried out in Singapore and approved by the Minister for Finance.
Benefits	Further tax deduction allowed for expenses incurred.

5. Further deduction for specified expenditure on R&D relating to new financial activities

Eligibility criteria	The specified R&D expenses must be incurred by approved financial institutions in researching and developing any approved new financial activity.
Benefits	Further deduction on qualifying expenses incurred, subject to a capping of 30 percent of the statutory income of the financial institution before the deduction.

6. Tax deduction for patenting costs

Eligibility criteria	The patent must be legally registered in Singapore and owned by a Singapore company/business (which must also not receive a reimbursement from the Patent Application Fund Plus).
Benefits	Tax deduction for qualifying patenting costs incurred to 31 May 2013.

7. Write-down allowance for intellectual property rights

Eligibility criteria	Intellectual property rights acquired for use in the company's business. The company is an assignee of the intellectual property rights unless approval is granted for such requirement to be waived.
Benefits	Write-down allowance over five years on capital expenditure to 31 October 2013.

8. Write-down allowance for approved cost-sharing agreements for R&D activities

Eligibility criteria	Approved cost sharing agreement in respect of R&D activities for the purpose of the trade.
Benefits	Write-down allowance of 100 percent may be claimed on approved R&D expenditure for cost sharing agreements entered into and approved on or after 17 February 2006.

9. Tax exemption of foreign-sourced royalties or interest received in Singapore

Eligibility criteria	The foreign-sourced royalties and foreign-sourced interest must be used to fund R&D activities and the resulting intellectual property must be owned and commercialized by the approved Singapore-based company.
Benefits	Tax exemption on remittance of foreign-sourced royalties and foreign-sourced interest made within a period of 5 financial years.

Definition of R&D

Any systematic or intensive study carried out 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 certain activities.

Registration
For incentives that require approval, applications for the R&D incentives must be made to statutory boards that are administering the incentive.

Claiming the concession
The claim for a tax deduction or exemption is made in the annual tax return and the company's tax computation. To claim writing down allowances for intellectual property, companies are required to submit a declaration to the Inland Revenue.

***** This has not been promulgated as law yet
Source: KPMG International, July 2008

IRELAND

Introduction

Ireland's intellectual property laws provide companies with generous incentives to innovate. Ireland recently introduced a new R&D Tax Credit, designed to encourage companies to undertake new and/or additional R&D activity in Ireland.

Key messages

For companies several schemes are available:

RD & I Programme (IDA Ireland Funding)

- Research, Development and Innovation (RD&I) Support
- Feasibility and Training Support
- The Innovation Partnership Initiative
- EU Framework Programme
- R & D Tax Credit
- Stamp Duty on Intellectual Property

Overview of R&D Incentives

1. Research, Development and Innovation (RD&I) Support

Eligibility criteria

Eligible activities:

- *RD&I Project*
  - (a) In-house Company RD&I project
  - (b) Collaboration with Third Level Institutes
  - (c) Collaboration with other industrial partners
- *Other activities may include*
  - (a) Feasibility Studies in connection with this project
    - Industrial Research – max eligible grant rate of 50%
    - Experimental Development – max eligible grant rate of 40%
  - (b) Training Grants
    - General training – max eligible grant rate of 50%
    - Specific training – max eligible grant rate of 25%

Benefits

RD&I Support supports companies at all stages of the RD&I development.

i) This RD&I Support replaces the existing RTI and R&D Capability Grant with a new single grant.

ii) Support levels are tied to an assessment of strategic objectives in conjunction with commercial and technical assessments.

Eligible Costs

- Costs directly related to RD&I Project undertaken within the company
  - (a) Capital Expenditure that is used solely for RD&I Projects or proportion thereof which is used for RD&I Projects
    - Building and Land (Site development costs are eligible to the extent and for the duration used in the research project. For buildings only the depreciation cost corresponding to the life of the research project and for land, costs of commercial transfer or actually incurred capital costs are eligible).
    - Equipment (for the period used in the research project. If not used for the full life of the project only the depreciation costs corresponding to the life of the project are eligible).
  - (b) Current Expenditure
    - Personnel costs (researchers and support staff)
    - Travel and Subsistence
    - Consultancy
    - Materials
    - Technology Acquisition required to carry out RD&I
    - Overheads‡
- Costs directly related to RD&I Project undertaken with external collaborators
  - (a) Capital Expenditure that is used solely for RD&I Projects or proportion thereof which is used for RD&I Projects
    - Building and Land
    - Equipment
  - (b) Current Expenditure
    - Personnel costs (researchers and support staff)
    - Travel and Subsistence
    - Consultancy
    - Materials
    - Technology Acquisition required to carry out RD&I
    - Overheads‡
- Costs directly related to preparatory costs, if applicable
  - (a) Costs directly related to Feasibility Studies
    - Salary costs
    - Overheads
    - Travel and Subsistence
    - Consultancy
    - Materials

(b) Costs directly related to R&D Training
- Trainers Salary Costs
- Trainers Travel and Subsistence Costs
- Trainee Salary Costs
- Trainee Travel and Subsistence Costs
- Cost of external courses
- Materials

2. Feasibility and Training Support

Eligibility criteria

Eligible Activities

- Feasibility Studies
- Training Grants
- Small Pilot RD&I project

Benefits

Size of Grant
Up to €250,000
Grant Rates with an overall maximum rate would be **50%** of eligible costs

- Feasibility Studies
  - (a) Industrial Research – max eligible grant rate of 50%
  - (b) Experimental Development – max eligible grant rate of 40%
- Training Grants
  - (a) General training – max eligible grant rate of 50%
  - (b) Specific training – max eligible grant rate of 25%
- Small R&D project
  - (a) Industrial Research – max eligible grant rate of 50%
  - (b) Experimental Development – max eligible grant rate of 25%

3. The Innovation Partnership Initiative

Eligibility criteria

The Innovation Partnership Initiative can provide financial support to encourage companies to undertake collaborative projects with Irish Universities and Institutes of Technology. All manufacturing, processing and research companies involved in science, engineering, technology and internationally tradable goods and services and with an operating base in the Irish Republic are eligible to participate. Collaboration with Irish third-level institutions is also a required criterion.

Benefits*

New Innovation Partnership Programme Funding Levels under State Aid Guidelines

- Funding rates can vary from 25% to 80% depending on the size of company involved and the type of research undertaken.
- Under the new guidelines, a **15% bonus** will be awarded to projects which are deemed to be truly collaborative.
- Please note that there will no longer be a bonus awarded for regional location.
- The table below shows the maximum level of funding that will be awarded depending on the size of the company involved and the type of research involved.

DEPENDENCY OF GRANT ALLOCATIONS ON THE SIZE OF THE COMPANY INVOLVED AND THE TYPE OF RESEARCH INVOLVED

Type of Research	Small company	Medium company	Large company
Industrial Collaborative	**80%***	**75%***	**65%***
Industrial Contract	65%	60%	50%
Experimental Collaborative	**60%***	**50%***	**40%***
Experimental Contract	45%	35%	25%

*** Inclusive of the 15% Collaborative Bonus**

4. R & D Tax Credit

Eligibility criteria

Ireland introduced the R&D Tax Credit scheme in 2004 which was designed to encourage both foreign and indigenous companies to undertake new and/or additional R&D activity in Ireland.
The tax credit is available to Irish tax-resident companies engaged in in-house qualifying R&D undertaken within the European Economic Area (EEA), provided such expenditure is not otherwise eligible for tax benefit elsewhere within the EEA. The credit, as initially legislated, provided that up to 5% of R&D expenditure could be outsourced to European universities.

Benefits

The R&D tax credit scheme was enhanced by both the 2007 and 2008 Finance Acts. The 2007 Finance Act fixed the base year, against which qualifying incremental expenditure on R&D is measured, at 2003 for a further three years to 2009. This provided an additional incentive for increased expenditure on R&D in 2007, 2008 and 02009. The 2003 base year had originally been fixed for the first three years of the scheme (2004-2006) and was due to roll forward to 2004 for the purpose of calculating the tax credit for 2007. The 2008 Finance Act has further improved the scheme by retaining the base year at 2003 until 2013. This measure provides additional incentive for any company

* Source: Enterprise Ireland, http://www.enterprise-ireland.com/ May 2009

	performing R&D activities. The Finance Act No.2 2008 declared the base year as 2003 for all new R&D projects, which effectively works on a volume basis, in addition the credit was increased to 25%. Companies that sub-contract R&D work to unconnected parties also qualify up to a maximum of 10% of the qualifying R&D expenditure in any one year. In order to qualify for the tax credit, it is necessary to seek to achieve scientific or technical advancement and involve the resolution of scientific or technological uncertainty.
5. Stamp Duty on Intellectual Property	
Eligibility criteria & Benefits	There is no stamp duty tax charge from the transfer of Intellectual Property to Ireland. This exemption also applies to the value of any goodwill attaching to the intellectual property. For the purpose of this exemption, IP includes any patent, trademark, copyright, registered design, design right, invention, domain name, supplementary protection certificate or plant breeders' rights.

Source: IDA Ireland (Industrial Development Agency), http://www.ida.ie May 2009