

For discussion
on 15 December 2009

Legislative Council
Panel on Commerce and Industry

Research and Development Cash Rebate Scheme

PURPOSE

This paper seeks Members' support for the proposed implementation framework for the Research and Development (R&D) Cash Rebate Scheme.

BACKGROUND

2. In June 2009, the Task Force on Economic Challenges (TFEC) appointed by the Chief Executive (CE) outlined a series of recommendations to further develop the six economic areas where Hong Kong enjoys clear advantages, namely:

- (a) medical services;
- (b) environmental industry;
- (c) education services;
- (d) innovation and technology;
- (e) cultural and creative industries; and
- (f) testing and certification.

Under "Innovation and Technology", one of TFEC's recommendations is that Government should explore the provision of financial and policy incentives to encourage more R&D investment in the private sector.

3. In his 2009-10 Policy Address, the CE announced the allocation of \$200 million to launch a new R&D Cash Rebate Scheme. The Scheme aims to inculcate a research culture among enterprises and encourage them to establish long-term partnership with local public research institutions. With cash benefits being the most direct incentive, we hope the Scheme will encourage companies

to invest more in R&D. We briefed Members on this initiative in the context of the 2009 Policy Address at the Panel meeting on 20 October 2009.

R&D CASH REBATE SCHEME

Coverage and Expected Benefits of the Scheme

4. Under the Scheme, we will provide a 10% cash rebate to private companies investing in R&D. There are two categories:

(a) Innovation and Technology Fund (ITF) projects

The Scheme will apply to ITF projects with R&D component; and

(b) Non-ITF projects

The Scheme will apply to R&D projects funded entirely by enterprises in partnership with designated local research institutions.

Regarding (a), this will include all projects receiving funding support from the ITF except the General Support Programme, which funds non-R&D projects like conferences, surveys, events, etc. to promote innovation and technology. As for (b), the designated institutions include -

(a) local universities;

(b) R&D Centres under ITF i.e. -

(i) Automotive Parts and Accessory Systems R&D Centre;

(ii) R&D Centre for Logistics and Supply Chain Management Enabling Technologies;

(iii) Hong Kong Research Institute of Textiles and Apparel;

(iv) Nano and Advanced Materials Institute;

(v) R&D Centre for Information and Communications Technologies under the Hong Kong Applied Science and Technology Research Institute (ASTRI); and

- (vi) Hong Kong Jockey Club Institute of Chinese Medicine (also under ASTRI);
- (c) Hong Kong Productivity Council; and
- (d) Vocational Training Council.

5. Having regard to the ambit of the ITF, certain types of R&D projects will not be eligible under the Scheme, which include but are not restricted to -

- (a) product enhancement and related work without any research content;
- (b) private companies' in-house R&D work (except Small Entrepreneur Research Assistance Programme (SERAP) projects funded under the ITF); and
- (c) research projects outside the science and technology fields such as market research and management studies.

Modus Operandi

6. The Scheme will be administered by the Innovation and Technology Commission (ITC) and will accept applications year round. There is no restriction on the number of applications that may be submitted by a company, nor a ceiling on the amount of cash rebate to be received by a company in a given period.

(a) Application and Payment

ITF projects

7. In terms of investment by private companies in R&D projects under ITF, there are broadly two funding modes:

- (a) under platform projects, the project team is required to secure 10% industry contribution, while the ITF will fund 90% of the project expenditure; whereas
- (b) under collaborative projects, the industry partners are normally required to contribute 50% of the R&D project cost i.e. ITF provides a 50-50 matching grant.

8. Following approval of the ITF funding for a platform project, a company can submit the cash rebate application to ITC upon full payment of its pledged financial contribution. In the case of collaborative projects, we will adopt a two-stage payment approach to facilitate the early release of cash rebates. Companies can apply for the first instalment of cash rebate after the R&D expenditure incurred exceeds 50% of the project budget while the remaining sum of the rebate will be disbursed after project completion and the final project expenditure accounts are known.

9. A flowchart indicating the application and payment process and timeline for ITF projects is at **Annex A**.

“Non-ITF” projects

10. Regarding R&D projects undertaken by designated research institutions and funded entirely by companies, after the project proposal is agreed with the institution, the project proposal will need to be pre-registered with ITC before work commences. This is primarily for budget planning purpose and should not be taken as prior approval of ITC.

11. We will adopt a similar two-stage payment approach for “non-ITF” projects viz. companies can apply for the first instalment of cash rebate after the actual project expenditure incurred exceeds 50% of the project budget. When processing the application, we will request the relevant designated institution to submit a report certifying that the scope of the R&D project undertaken is within the ambit of the Scheme and that project expenditure is in order. The remaining sum of the rebate will be disbursed upon project completion and submission of a final report by the institution.

12. A flow chart indicating the application and payment process and timeline for non-ITF projects is at **Annex B**.

(b) Launching of the Scheme

13. Subject to the approval of funding by the Finance Committee (FC), we propose to launch the Scheme at the beginning of the next financial year i.e. 1 April 2010. The Scheme will cover ITF projects approved on or after 1 April 2009 (so that the impact of the Scheme can be felt earlier), and “non-ITF” projects which are pre-registered with the ITC on or after 1 April 2010. In consultation with the parties concerned, we will draw up detailed application guidelines and procedures. We will upload the application guidelines and procedures onto ITC’s web site. We will also conduct seminars for potential applicants to enable them to better understand the details of the Scheme.

(c) Monitoring

ITF projects

14. For ITF projects, the existing ITF project monitoring and reporting mechanism (e.g. periodic progress reports, audited expenditure accounts, etc.) will apply. We will continue to verify the status of the companies, the financial contributions paid and the project expenditure.

“Non-ITF” projects

15. For “non-ITF” projects, we will work closely with the designated institutions to monitor the operation of the Scheme. As mentioned in paragraph 11 above, the designated institutions are required to submit reports on the R&D projects undertaken under the Scheme. We will also conduct random checks to ensure compliance with the relevant guidelines and requirements as well as introduce other measures as necessary to prevent abuse.

(d) Evaluation

16. We will regularly review the Scheme, and put in place improvement measures in the light of operating experience and promulgate revisions to the guidelines and procedures on ITC’s web site. We will also report progress of the

Scheme to Members on an annual basis. In addition we will conduct a full review of the Scheme after three years to assess the impact on the level of private sector investment in R&D and consider the way forward.

FINANCIAL IMPLICATIONS

17. To meet expenditure under the Scheme, we propose to create a new non-recurrent commitment of \$200 million. The estimated amount of cash rebate to be disbursed under the Scheme in the coming 5 years is as follows -

Financial year	\$ million
2010-11	20
2011-12	40
2012-13	45
2013-14	45
2014-15	50
Total:	200

The estimate for 2010-11 is based on the amount of industry contributions pledged under the current pool of R&D projects under ITF and adjusted assuming there is a lead time before the Scheme will be operating in full swing.

CONSULTATION

18. We have consulted local universities, R&D Centres under ITF, chambers of commerce, etc. They have indicated support for the Scheme and their comments will be taken into account as we draw up the guidelines for the Scheme.

ADVICE SOUGHT

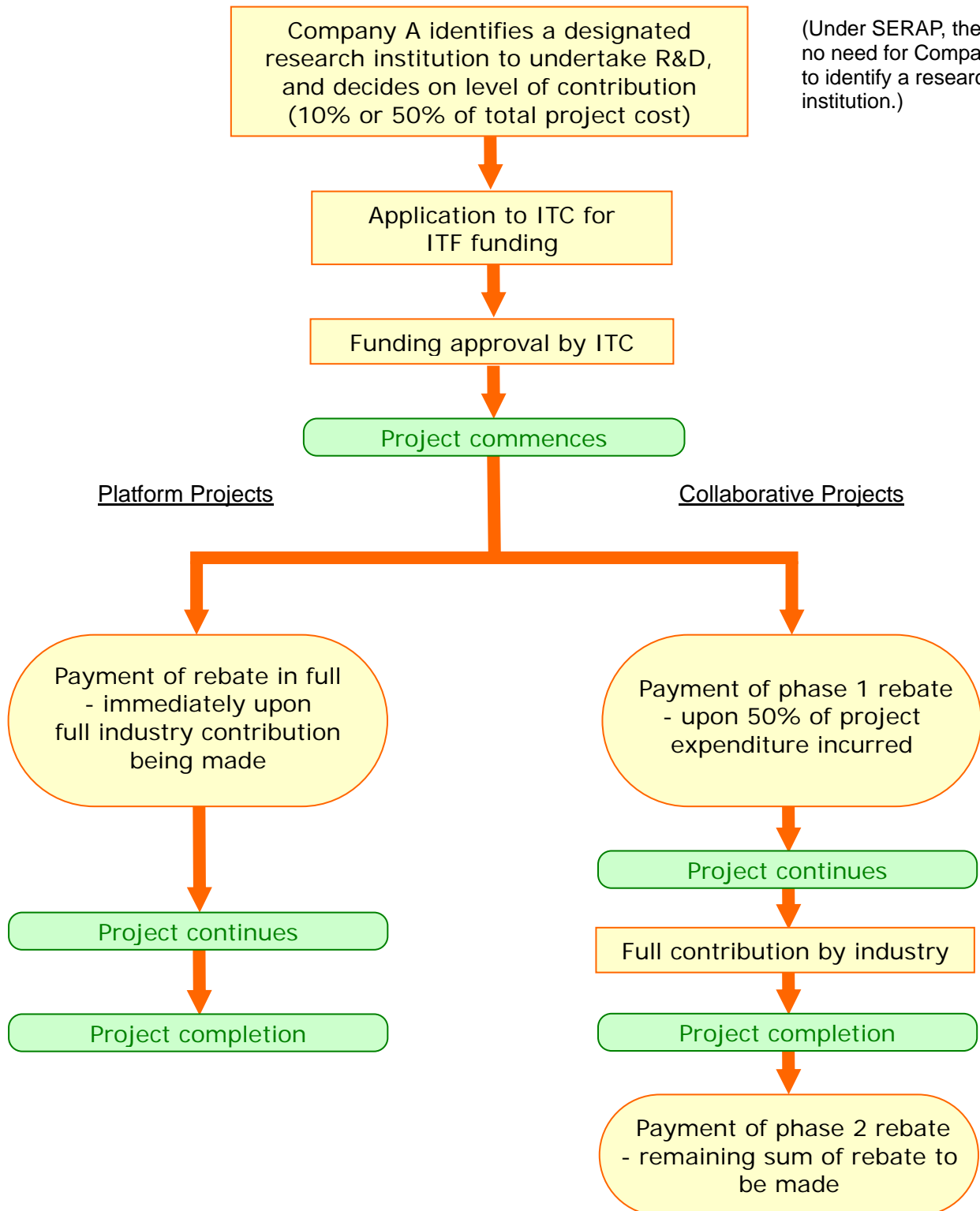
19. Members are invited to comment on the proposed implementation framework of the R&D Cash Rebate Scheme. Subject to Members' support, we shall put up the funding proposal to FC for approval.

Innovation and Technology Commission
December 2009

R&D Cash Rebate Scheme

ITF Projects

Remarks



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Non-ITF Projects

Remarks

