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Panel on Commerce and Industry

Meeting on 19 July 2011

**Updated background brief on
Research and Development Cash Rebate Scheme**

Purpose

This paper provides background information on the Research and Development (R&D) Cash Rebate Scheme (the Scheme) and a summary of views and concerns raised by Members during previous discussions on the subject matter.

Background

2. Following the recommendations of the Task Force on Economic Challenges in June 2009 on further promoting innovation and technology in Hong Kong, the Administration undertook to explore actively the provision of financial and policy incentives to encourage more R&D investment in the private sector. On 14 October 2009, the Chief Executive announced in his 2009-2010 Policy Address that the Government would introduce the Scheme in 2010 to inculcate a research culture among enterprises and encourage them to establish long-term partnerships with local public research institutions.

3. Under the Scheme, the Government provides a 10% cash rebate on the technological R&D investment by local companies. It covers all R&D projects under the Innovation and Technology Fund (ITF) and non-ITF R&D projects where enterprises partner with or engage local designated research institutions (including local universities, the R&D Centres, Hong Kong Jockey Club Institute of Chinese Medicine, Vocational Training Council under ITF and the Hong Kong Productivity Council) to undertake R&D work. Following the approval of the Finance Committee (FC) on 29 January 2010, the Administration launched the Scheme on 1 April 2010 with a commitment of

\$200 million. The Administration will conduct a review on the effectiveness of the Scheme after three years.

Previous discussions

Panel on Commerce and Industry

4. At the meetings of the Panel on Commerce and Industry (the Panel) on 20 October and 15 December 2009, the Administration briefed members on the proposed implementation framework for the Scheme. Panel members in general supported the Scheme and considered that it was an innovative initiative to encourage enterprises to increase their investment in R&D. Unlike tax rebate schemes, the Scheme obviated the need for enterprises to generate a profit before becoming eligible for the rebate. The Scheme would also provide more job opportunities for university graduates and expand the commercialization of R&D deliverables. Some members suggested that the Administration should conduct a review on the effectiveness of the Scheme after one year instead of three years. The Administration accepted members' suggestion and agreed to monitor the operation of the Scheme on an annual basis.

5. Some Panel members opined that apart from providing direct financial support, the Administration should step up efforts in grooming talent and bringing in talent which was unavailable in Hong Kong. The Administration should also consider measures to encourage the commercialization of R&D deliverables in Hong Kong rather than allowing the technologies to be acquired by overseas companies, so as to create more job opportunities in Hong Kong. Moreover, the Administration should foster cooperation amongst the Government, the industry and the various stakeholders in this area, and formulate a forward-looking manpower plan for the R&D industry.

6. Some Panel members suggested that in addition to cash rebate, the Administration should provide incentives for enterprises to set aside a certain percentage of their profits for R&D purpose by means of tax concessions. The Administration advised that a 100% deduction for R&D expenditure from the business profits for the purpose of tax assessment was already provided for under section 16B of the Inland Revenue Ordinance (Cap. 112). The Scheme was designed to provide added incentives on top of the existing tax concession to further stimulate private investment in R&D, which would contribute to the overall Gross Domestic Product. The Administration would monitor the response to the Scheme and make suitable adjustments to the financial commitment as and when necessary.

Special Finance Committee meeting

7. At the special FC meeting to examine the Estimates of Expenditure 2011-2012 on 21 March 2011, Members raised questions on the recent developments of the Scheme. The Administration advised that as at end-December 2010, a total of 153 applications had been approved within the first 9 months, involving a total cash rebate of \$4.46 million and benefiting 135 enterprises. The highest and lowest amount of cash rebate disbursed among the cases were \$814,500 and \$500 respectively. So far, all approved applications were related to ITF projects. The Administration anticipated that about 310 applications would be approved in 2011, with an estimated cash rebate of about \$14.4 million. The Administration would review the Scheme annually and conduct a comprehensive review in 2013, including the Scheme's coverage and level of cash rebate. Members were concerned about the low level of cash rebate granted under the Scheme, with only \$4.46 million out of the \$200 million had been approved within the first 9 months. They urged the Administration to step up efforts in promoting the Scheme.

Recent developments

8. At the meeting of the Panel on 19 April 2011, members noted that in the first year of operation, the Scheme approved over 200 applications with a total cash rebate of around \$5.8 million. The Administration advised that the response to the Scheme was less favourable than originally envisaged. Possible reasons could be that the operation of the Scheme remained new, there was no deadline for applying the Scheme, slow progress in individual ITF projects, and the level of rebate not attractive enough. The Innovation and Technology Commission would review the Scheme (including the scope, level of rebate, etc.) and introduce improvement measures as appropriate.

Latest position

9. The Administration will brief the Panel on 19 July 2011 on the progress of the implementation of the Scheme.

Relevant papers

Administration's paper for the Commerce and Industry Panel meeting on 20 October 2009

<http://www.legco.gov.hk/yr09-10/english/panels/ci/papers/ci1020cb1-13-3-e.pdf>

Minutes of Commerce and Industry Panel meeting on 20 October 2009
<http://www.legco.gov.hk/yr09-10/english/panels/ci/minutes/ci20091020.pdf>

Address by the Chief Executive at the Legislative Council meeting on 14 October 2009 - "Breaking New Ground Together"
<http://www.legco.gov.hk/yr09-10/english/panels/0910policy-e.pdf>

The 2009-2010 Policy Address - "Policy Agenda"
<http://www.legco.gov.hk/yr09-10/english/panels/0910agenda-e.pdf>

Administration's paper for the Commerce and Industry Panel meeting on 15 December 2009
<http://www.legco.gov.hk/yr09-10/english/panels/ci/papers/ci1215cb1-614-3-e.pdf>

Background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 15 December 2009
<http://www.legco.gov.hk/yr09-10/english/panels/ci/papers/ci1215cb1-614-4-e.pdf>

Minutes of Commerce and Industry Panel meeting on 15 December 2009
<http://www.legco.gov.hk/yr09-10/english/panels/ci/minutes/ci20091215.pdf>

Administration's replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2011-12: serial nos. CEDB(CT)056 and CEDB(CT)059
http://www.legco.gov.hk/yr10-11/english/fc/fc/w_q/cedb-ct-e.pdf

Administration's paper for the Commerce and Industry Panel meeting on 19 April 2011
<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0419cb1-1893-5-e.pdf>

Minutes of Commerce and Industry Panel meeting on 19 April 2011
<http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20110419.pdf>

Council Business Division 1
Legislative Council Secretariat
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