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Panel on Commerce and Industry

Meeting on 20 March 2012

**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 expressed 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 set up under ITF, Vocational Training Council and the Hong Kong Productivity Council) to undertake R&D work. Overseas and Mainland companies in partnership with local designated research institutions are also eligible to apply for cash rebate under the Scheme. 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 co-operation 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.

7. At the Panel meeting on 19 July 2011, the Administration briefed members on the progress of the operation of the Scheme for 2010-2011. The Panel noted that only \$5.86 million out of the original estimated expenditure of \$20 million for the Scheme had been approved in the first year of operation, and that the amount of cash rebate granted for over 180 approved applications out of the total of 212 was below \$50,000 each. Some Panel members opined that the current 10% level of cash rebate was not attractive enough, therefore the industry was not keen to apply. These members suggested that the Administration should increase the level of cash rebate to improve the attraction of the Scheme.

8. Noting that the lowest amount of cash rebate disbursed was \$500, some Panel members opined that the Administration should set a minimum amount of cash rebate for each application to ensure the cost-effectiveness of the Scheme. Some other Panel members suggested that for the benefit of the small and medium enterprises, higher level of cash rebate should be granted to relatively smaller projects with a low level of industry contribution.

9. The Administration advised that it would consider enhancement measures to improve the attractiveness of the Scheme, including reviewing the level of cash rebate and other aspects of the ITF mechanism to provide more incentives to companies in conducting R&D in collaboration with public research institutes. The Administration would also encourage the designated research institutions to seek greater collaboration with the industry in conducting projects and explain clearly to them the availability of cash rebates under the Scheme, the financial support from ITF and the relevant application procedures. The Administration would report the outcome of the review and proposed enhancement measures to the Panel in early 2012.

Recent developments

10. In the 2012-2013 Budget, the Financial Secretary proposed a threefold increase in the level of cash rebate under the Scheme for enterprises' qualified R&D projects, from 10% to 30%, with a view to enhancing the effectiveness of the Scheme.

Special Finance Committee meetings

11. At the special FC meetings to examine the Estimates of Expenditure 2012-2013 on 7 March 2012, Members raised questions on the recent developments of the Scheme. The Administration advised that as at end-January 2012, the Scheme had approved a total of 351 applications and

\$10.62 million of rebate, benefiting 277 companies, of which over 80% were local companies. Of these approved applications, 334 pertained to ITF projects while the remaining 17 were partnership projects, covering various technology areas such as textiles and clothing, electronics, foundation industries, information technology, biotechnology, nanotechnology, environmental technology, etc. Since the launch of the Scheme, only 9 applications had been rejected. They all involved ITF projects which were approved before 1 April 2009, i.e. beyond the eligibility period and therefore did not meet the application requirements of the Scheme.

Latest position

12. The Administration will brief the Panel on 20 March 2012 on the budget initiatives on innovation and technology and testing and certification. Enhancement measures of the Scheme will be covered.

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 paper for the Commerce and Industry Panel meeting on 19 July 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0719cb1-2722-1-e.pdf>

Updated background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 19 July 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0719cb1-2722-2-e.pdf>

Minutes of Commerce and Industry Panel meeting on 19 July 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20110719.pdf>

Administration's replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2012-2013: serial nos. CEDB(CT)034, CEDB(CT)045 and CEDB(CT)046

http://www.legco.gov.hk/yr11-12/english/fc/fc/w_q/cedb-ct-e.pdf

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