

Clerk to Bills Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Sir/Madam,

RE: Inland Revenue (Amendment) (No. 3) Bill 2018

With reference to the Bills Committee's first meeting on 18 May and relevant documents, we'd like to provide our views as below for your consideration:

1. As discussed during the first meeting, R&D expense need to be incurred by the claimant itself in order to qualify for enhanced tax deduction, thus excluding salary of R&D team charged by group companies from enhanced tax deduction. i.e. salary for R&D staff employed under Company A to be charged back to fellow subsidiary Company B for R&D service provided and such charge back does not qualify for enhanced tax deduction under Company B. We hope the administration could reconsider this. Our concern is that it is industrial common practice to have one company holding all employment contracts on behalf of all group companies as the same employee usually works for different fellow subsidiaries within the same group for different R&D projects and it is more practical to allow enhanced tax deduction for sharing of common pool of R&D resources within the same group.
2. As mentioned in LC Paper No. CB(1)957/17-18(04) para 11, "The Administration advised that Whilst the expenses incurred in the procurement of a new IT system or upgrading of an existing IT system were not "qualifying expenditure", the expenses incurred in developing new systems **might be** considered as "qualifying R&D"". We hope the administration would clarify in what case expense for developing new systems would qualify for enhanced tax deduction and in what case it would not qualify. As a group that's dedicated in developing network management system, we also would like to know if expenses incurred in developing new features for our self-developed system would qualify for enhanced tax deduction too.
3. As mentioned in LC Paper No. CB(1)957/17-18(03), "the claimant should keep sufficient records on the staff costs of employees engaged directly and actively in a qualifying R&D activity". We hope the administration could elaborate what sufficient records mean, does it have to be daily timesheet with time spent on relevant R&D projects or an annual summary of projects involved by the employee would suffice. We believe staff costs are major costs for most companies that incur R&D expenses and detailed instruction would prepare us better for future claim.
4. The "Inland Revenue (Amendment) (No. 3) Bill 2018" (File Ref.: ITC CR 5/1/2168/18) paragraph 10 (d) mentions that "any work to develop the non-scientific or non-

technological aspect of a new or substantially improved material, device, product, process, system or service". We would like to know what is regarded as non-scientific or non-technological. Specifically, is there some sort of test to identify whether a certain work is scientific or technological.

Yours faithfully,

Plover Bay Technologies Limited