Summary: R&D incentives – adding value across ASPAC

2009 Edition

GLOBAL TAX SERVICES

AUDIT ▪ TAX ▪ ADVISORY

Contents

This document is a high-level summary of our 40-page *R&D Incentives – adding value across ASPAC* publication. KPMG member firm clients seeking a copy of the full publication with details about the incentives offered in each country should contact their local KPMG R&D Incentives adviser.

ASPAC R&D incentives – Overview

This is the third edition of KPMG's insightful Asia Pacific (ASPAC) research and development (R&D) incentives guide. We have revised and updated the country-specific information in this guide to take account of the changes to R&D incentives that have taken place in the region in the last year.

It is impossible to ignore the impact of the changes in the global economic circumstances on investment in R&D.

Despite reduced tax revenue most governments in the region have responded to the crisis by either enhancing existing or introducing new R&D incentive schemes.

This is a clear indication that governments recognize the inextricable link between R&D and long-term sustained economic growth, even in the face of a major economic downturn.

By way of example a few of the important developments that have occurred since our second edition include:

- The Australian Government announced a reform of its R&D incentives to provide greater benefits
- Singapore's enhanced 150 percent tax deduction for R&D expenditure and deduction for Qualifying Start-up Enterprises is now operative
- Japan has temporarily increased the benefit of its current R&D tax credit incentive, as part of its economic stimulus package in response to the global financial crisis.

As economies begin to emerge from the global financial crisis, we expect that countries will focus even more on investment in R&D as a catalyst for future economic growth.

This together with environmental and sustainable energy considerations, will be a strong impetus for further changes to R&D incentives in the coming years.

R&D in the ASPAC marketplace

In today's globalized business world, ASPAC businesses contend with competition from efficient, well-capitalized foreign companies as well as from familiar local competitors.

It has become increasingly apparent that innovation driven by high quality R&D is vital to the long-lasting success of almost any business in the region.

Many ASPAC countries that may once have inadvertently discouraged investments in R&D by requiring them to be capitalized, now permit a current tax deduction for the costs of R&D activities. Many also allow enhanced deductions and/or special tax credits for R&D costs. Tax incentives are also often granted to businesses that contribute to universities and other research organizations to encourage basic research and investment in assets used in R&D activities.

Although the basic definition of R&D is similar in most countries, there are variations in country-specific taxation legislation and incentive regimes. In some countries, incentives are limited and qualification is difficult, while in others, incentives are lucrative and easily attained.

To illustrate the types of R&D incentives available and the breadth of the benefits, the following table summarizes some of the incentives that are available in the ASPAC region.

KPMG has assembled a cross-border network of experienced R&D incentives specialists in countries around the world, to create a Global R&D Incentives practice. Its aim is to deliver a forward-looking R&D tax advisory service, helping our member firm clients to identify and capitalize on available R&D incentives and related benefits to create long-term competitive advantage on a global basis.

ASPAC R&D incentives summary

Country	Current deductions	Enhanced deductions	Tax credit	R&D property investment	R&D grants	Other incentives
Australia	x	x			x	Various
Bangladesh	x					
China	x	x				Various
Hong Kong	x					Under consideration
India	x	x			x	
Japan	x		x		x	
Malaysia	x	x				
New Zealand	x		x			
Pakistan	x					Various
Papua New Guinea	x	x				
Philippines	x					Various
Singapore	x	x			x	Various
South Korea	x		x	x	x	Various
Sri Lanka	x					
Taiwan	x		x	x	x	Various
Thailand	x	x				Various
Vietnam	x					Various

Related considerations

The practical details of the R&D incentives programs are covered in the following pages, but there are several related matters that decision-makers should consider when determining the best location for their R&D activities within the ASPAC region.

The net cost of R&D

The relative costs of performing R&D in one country versus another, net of respective available R&D incentives, are important in evaluating where and under what circumstances R&D activities should take place.

Intellectual Property (IP)

Similarly, in planning how IP will be created, it is important to consider the tax consequences, the arrangements under which it is created, where it will be used, how it will be paid for and where it will be owned. Entities undertaking R&D in the region should be aware that tax authorities in the Asia Pacific are focusing on the transfer pricing issues arising from the development, ownership and compensation for usage of IP.

Transfer pricing

Transfer pricing provisions in ASPAC countries are complex. They apply to the economic, legal and tax aspects of transfers of technology, and products or services based on technology, to related entities. These provisions may encourage companies to locate some of their R&D activities in one country rather than another.

For example, India, Australia, China, and Japan have all recently seen an increase in transfer pricing audits, and China and Singapore's tax authorities have recently signaled that they intend to step up their transfer pricing compliance and field audit work.

Country specific tax benefits

Many countries provide tax credits for taxes paid by a resident business to other countries and offer other tax incentives to attract investment and encourage exports. The net cost of R&D performed in the country and the impact of R&D costs on other tax benefits have to be considered in determining the value of these benefits.

Short-term economic stimulus measures

Short term measures implemented by governments as economic stimulus packages in response to the global financial crisis, such as accelerated deduction programs for investment in tangible depreciable assets, are worth taking into account, as these may top up existing benefits delivered through R&D incentive schemes.

The equation to be solved

The tax treatment of R&D costs, technology transfers, transfer pricing and other related local tax issues, is a vital consideration. It is therefore critical to evaluate all the R&D incentives available and the impact of all R&D costs on other tax benefits in countries around the ASPAC region, before coming to a decision on where to locate your R&D programs.

We hope this publication will deliver long-lasting value for your organization by assisting you in identifying current and future opportunities to obtain R&D incentives throughout the ASPAC region.

KPMG's Global R&D Incentives Services

KPMG has an established Global R&D Incentives practice. It comprises a coordinated cross-border network of experienced R&D incentives specialists in various member firms around the world, including the ASPAC region. Addressing local issues, but with a global mindset, the mission of the practice is to assist our member firm clients in capitalizing on R&D incentives and benefits on a global scale to help create long-term competitive advantage.

Our network of specialists assists our clients in realizing significant tax savings related to their investments in R&D in various countries and perform coordinated multi-jurisdictional R&D incentives reviews and analyses. Our specialists think beyond tax, to aim to provide member firm clients with insightful business strategies.

Decisions on where to conduct R&D activities involve many factors, including the availability of the necessary talent and the relative costs of labor, materials and facilities. In addition, the available R&D incentives and the impact of the R&D costs on other available tax benefits may play a significant role in evaluating the after tax cost of performing R&D in one country versus another.

Accordingly, our Global R&D Incentives team works with our international tax specialists to assist our clients in managing the taxation issues arising from:

- Cross-border R&D arrangements
- Transfer pricing
- Intellectual property situs and transfers
- Withholding taxes
- Foreign tax credits
- Duties and tariffs.

KPMG's network ideally positions us to assist member firm clients in creating long-lasting value by evaluating both the available R&D incentives and the impact of R&D costs on other available tax benefits.

kpmg.com

Contact us

For more information about KPMG's R&D Incentives services in the Asia Pacific, please contact:

Australia
David Gelb
National R&D Incentives Partner
+61 3 9288 6160
dgelb@kpmg.com.au

China
Vincent Pang
Partner
+86 532 8907 1728
vincent.pang2@kpmg.com.cn

Hong Kong
Curtis Ng
Partner
+852 2143 8709
curtis.ng@kpmg.com.hk

India
Vikram Doshi
Partner
+91 40 6630 5100
vikramdoshi@kpmg.com

Japan
Yukihiko Endo
Tax Partner
+81 3 6229 8124
yukihiko.endo@jp.kpmg.com

Malaysia
Tai Lai Kok
Executive Director
+603 77213388 ext 7020
ltai1@kpmg.com.my

New Zealand
Paul McPadden
R&D Tax Partner
+64 4 816 4524
pmcpadden@kpmg.co.nz

Pakistan
Saqib Masood
Tax Partner
+92 21 5682290
saqibmasood@kpmg.com

Papua New Guinea
Colin Milligan
Partner
+675 321 2022
cmilligan@kpmg.com.pg

Philippines
Herminigildo G Murakami
Tax Principal
+632 885 7000
hmurakami@kpmg.com

Singapore
Chiu Wu Hong
Executive Director, Tax
+65 6213 2569
wchiu@kpmg.com.sg

South Korea
Jae Won Lee
Senior Tax Partner
+82 2 2112 0955
jlee20@kr.kpmg.com

Sri Lanka
Suresh R I Perera
Director, Tax & Regulatory
+94 11 2426502
sperera@kpmg.com

Taiwan
Kevin Chen
Tax Partner
+886 2 8758 9950
kchen4@kpmg.com.tw

Thailand
Wirat Sirikajornkij
Partner
+66 2 677 2423
wirat@kpmg.co.th

Vietnam
Warrick Cleine
Tax Partner
+84 8 821 9266 ext 8200
warrickcleine@kpmg.com.vn

December 2009. NSWN04455TAX.