A SURVEY REPORT OF ON R&D TAX INCENTIVES IN INDIA

From March 2017, the weighted tax deduction for pursuing research & development by manufacturing industry, has been reduced from 200% to 150% and is about to be phased out by further reducing the same to 100% after March 2020. With the under mentioned objective, Scinnovation Consultants Pvt Ltd (SCPL) has conducted a survey involving technocrats, industrialists, manufacturing companies and clients network.

I. To understand the concerns arising from the reduction of tax incentives from 200% to 150%
II. To get feedback on the proposed further phasing out of the tax incentives to 100%
III. To provide constructive suggestions regarding improvements of the DSIR tax incentive scheme.

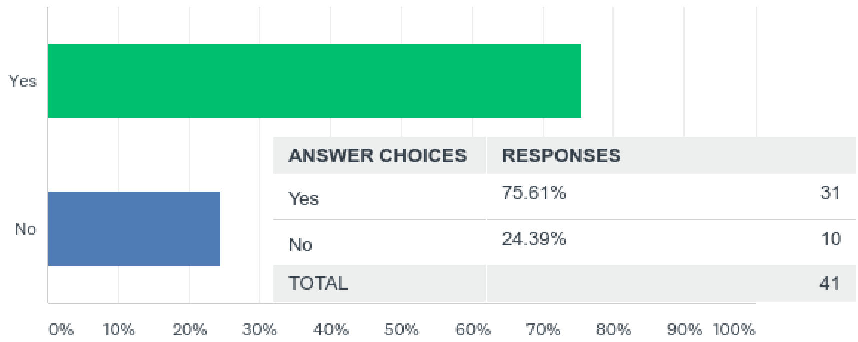
Survey responses were collected through online marketing, mass mails and individual calls to SCPL networks. The survey had 12 questions related to “Tax incentives” scheme in India, which is linked to DSIR(Department of Scientific and industrial Research) recognition program.

Benefits information In brief :

DSIR (Department of Scientific & Industrial Research) gives “In house R&D centre” recognition to Private & Public limited manufacturing companies which gives them eligibility to get the stated “weighted tax deduction” u/s 35(2AB) of the Income Tax Act 1961. This deduction gave tax saving of Rs. 34 (@ rate of the said 200% weighted tax deduction) on expense of every Rs. 100 till March’17 on capital and recurring expenditure incurred for conducting Research & Development activities. But from April’17 onwards this weighted tax deduction has been reduced and the active tax benefit is Rs. 17 (@ rate of 150% weighted tax deduction) on R&D expenditure of Rs. 100.

A total number of 41 responses were collected, which included respondents from wide range of industries such as Automotive, Healthcare, Pharmaceutical and Engineering. Respondent profile mostly included company’s Directors, CEO/CFO/COO.

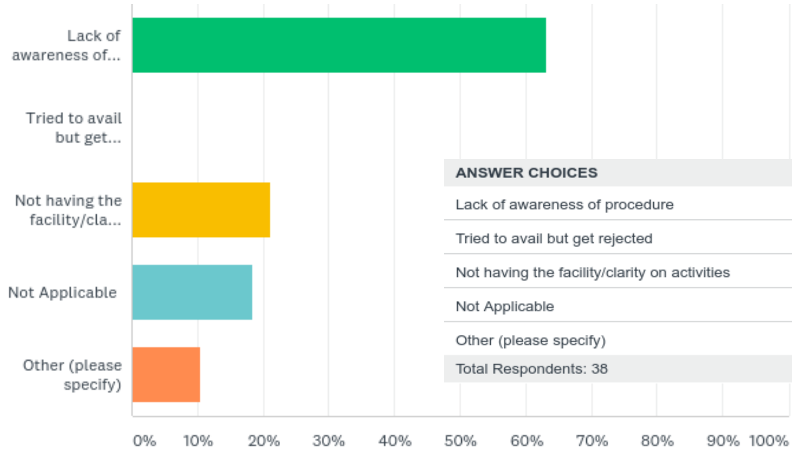
Out of 41, there were 31 responses in yes when asked on awareness of this scheme,



ANSWER CHOICES	RESPONSES	
Yes	75.61%	31
No	24.39%	10
TOTAL		41

(Table 1;Result showing on asking about awareness of R&D tax incentives)

But it is surprising that 63.16% of respondents said that they were not able to avail this incentive because of “Lack of awareness of the procedure”.



ANSWER CHOICES	RESPONSES	
Lack of awareness of procedure	63.16%	24
Tried to avail but get rejected	0.00%	0
Not having the facility/clarity on activities	21.05%	8
Not Applicable	18.42%	7
Other (please specify)	10.53%	4
Total Respondents: 38		

(Table 2: Result showing reasons of not able to avail the R&D tax incentives)

There were 33 responses to the question on the challenges they face in taking the benefits from this scheme, 63.41% of the responses were for " Not able to understand the procedure"

ANSWER CHOICES	RESPONSES	
Not able to understand the procedure	63.64%	21
Uncertain about the time taken to process the application	27.27%	9
Lack of defined guidelines	24.24%	8
Less Return on Investment	3.03%	1
Other (please specify)	21.21%	7
Total Respondents: 33		

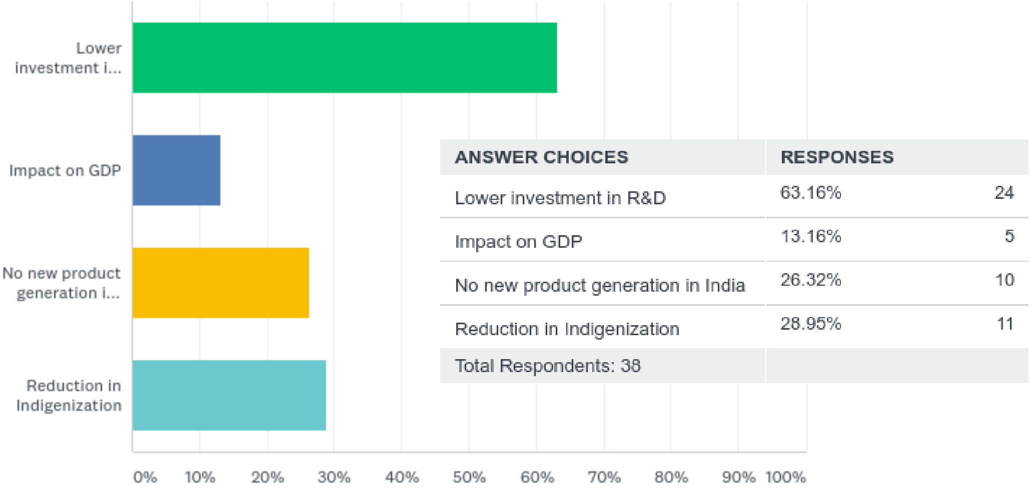
(Table 3: Results showing challenges face during taking R&D tax incentives)

Out of 41 respondents, 58.54% did not know about the phasing out of this scheme. When asked for the feasible replacement to the proposed deduction that can be given to manufacturing companies to conduct R&D in India, 42.50% of the responses were in favour of increasing the deduction to the previous rate of 200%, so that the In house R&D centres will get the incentives for conducting R&D and fulfil the "Make in India" objective of the current Govt of India.

ANSWER CHOICES	RESPONSES	
Increase the deduction to more than 150% (to previous rate of 200%)	42.50%	17
Give subsidies on R&D equipment	0.00%	0
Refunds on R&D expenditure	20.00%	8
Existing system is fine, just streamline the system & process	25.00%	10
Other (please specify)	12.50%	5
TOTAL		40

(Table 4 Results showing on other way of give incentives for conducting R&D)

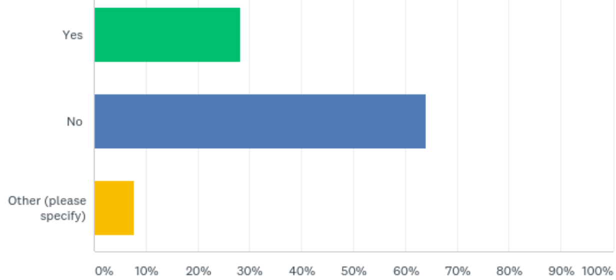
Reducing the only tax benefits that are available to existing manufacturing units for conducting R&D, the companies will also face plunge in investment in R&D and thus will create a negative impact on new product development in India. Results were not surprising on the "**loss due to reduction in incentives":**



ANSWER CHOICES	RESPONSES	
Lower investment in R&D	63.16%	24
Impact on GDP	13.16%	5
No new product generation in India	26.32%	10
Reduction in Indigenization	28.95%	11
Total Respondents: 38		

(Table 5: Result showing loss due to reduction in incentives)

There were also 64.10% (out of 39 respondents) of respondents who, not surprisingly, think that reducing the tax incentives is an unwise decision taken by finance ministry of the current Govt.



(Table 5: Result showing views on reduction in R&D tax incentives)

If any conclusions may be drawn from the data, they are, perhaps, with the government's support, under "Make in India" the R&D sector in India is all set to witness some robust growth in the coming years. Therefore GoI and DSIR stakeholders should rethink on the decision of phasing out the R&D incentives in India, even if the phase out is certain, then GoI should think on providing some other benefits, which ultimately give encouragement to existing manufacturing industries to conduct in house R&D, hence generating more technologies and products in India.

How we can help this this? As active advisors to various manufacturing companies from setting up R&D labs to helping them get maximum tax benefits, we welcome any initiative to discuss the relevance of stated matter to appropriate authority with relevent facts and docuements.

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