In-house Research & Development (R&D) Innovation Incentivized

Fiscal Incentives for Innovation under Income-tax Act, 1961 (“the Act”)
Innovation is the key to new Government’s “Make in India” initiative. R & D activities apart from business advantage can bring tax efficiency to the tax payer. Complying with certain conditions may help in lowering the tax liability of the Company. R & D activities having following ingredients would be eligible for tax incentives.

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Eligible tax payer</th>
<th>Categories</th>
<th>Benefit available as % of expenditure*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies undertaking in-house R&amp;D</td>
<td>Companies undertaking in house R &amp; D expenses</td>
<td>Not approved by DSIR</td>
<td>Normal deduction – 100% of the revenue expenses</td>
</tr>
<tr>
<td>RA / Universities / College undertaking Scientific Research, Social Science or Statistical Research</td>
<td>Taxpayer who contributes / donates to such organization</td>
<td>On obtaining approval of income tax authorities</td>
<td>Weighted deduction - 175% / 125% of the contribution made</td>
</tr>
<tr>
<td>Companies having main object of undertaking Scientific Research</td>
<td>Taxpayer who gives contribution to such companies for scientific research activities</td>
<td>On obtaining approval of income tax authorities</td>
<td>Weighted deduction - 125% of amount given to such companies</td>
</tr>
</tbody>
</table>

Benefit u/s 35(2AB) - Pre-requisites for claiming weighted (super) deduction

1. Company engaged into business of biotechnology or manufacture/production of article or thing other than those specified in the Eleventh Schedule.
2. Direct and Indirect tax benefits available on expenditure incurred by Company on ‘in-house’ R&D.
3. R&D Centre to have valid recognition by DSIR and maintain separate set of accounts for each R&D centre and reflect the expenditure in the Annual Report.
4. In-house R&D centre to be located in a separate earmarked area/building in India and has exclusive R&D manpower of its own.
5. R&D Facility not to relate to market research, quality control, testing, sales promotion, commercial production, etc.
6. Disposal of R&D Assets subject to DSIR Approval – Sale Proceeds thereof to be reduced from claim for weighted deduction.

Phases of obtaining approval of DSIR

Initial recognition from DSIR
- Application to DSIR for initial recognition to be made in the prescribed form along with various enclosures before DSIR on the R&D activities of the Company.
- Approval u/s. 35(2AB) from DSIR
- Approval u/s. 35(2AB) granted for maximum period of three years.

Approval u/s. 35(2AB) from DSIR
- Submission of progress of R&D activities and expenditure every year to DSIR for the approved period.

Ongoing filings
- Online application to be made for renewal of approval three months before the expiry of the approval period.
- Process for initial recognition and approval to be followed.

Renewal of approval under Section 35(2AB)
- Approval u/s 35(2AB) granted for maximum period of three years.

How Deloitte can help – end to end assistance

Strategize
- Identify R&D activities
- Identify available incentives

Implementation
- Obtaining DSIR approval
- Mapping the accounting and other processes
- Setting up R&D unit
- Budgeting expenditure and activities

Claim
- Collating expenditure details
- Obtain certificate from chartered accountant
- Filing a tax return for claim
- Annual filing with approving authority