

III(C). FISCAL INCENTIVES FOR SCIENTIFIC RESEARCH

1. INTRODUCTION

Government have evolved, from time to time, fiscal incentives and support measures to encourage R&D in industry and increased utilisation of locally available R&D options for industrial development. The union budget for 1996-97 and 1997-98 has introduced a set of new incentives to encourage investments in R&D by industry.

Fiscal incentives and support measures presently available include: (a) Income tax relief on R&D expenditure; (b) Weighted Tax Deduction for sponsored research; (c) Weighted tax deduction on in-house R&D expenditure (d) Customs Duty Exemption on capital equipment, spares, accessories and consumables imported for R&D by approved institutions/ SIROs; (e) Excise duty waiver on indigenous items purchased by approved institutions/ SIROs for R&D; (f) Five year tax holiday for commercial R&D companies; (g) Excise duty waiver for 3 years on goods produced based on indigenously developed technologies and duly patented in any two of the countries out of India, European Union (one country), USA and Japan; (h) Accelerated Depreciation Allowance on plant and machinery set-up based on indigenous technology (i) Price Control exemption on domestic R&D based bulk drugs; (j) Customs duty exemption on imports for R&D projects supported by Government.

2. DEPRECIATION ALLOWANCE ON PLANT AND MACHINERY SET UP BASED ON INDIGENOUS TECHNOLOGY

Government have introduced a system of allowing accelerated depreciation in respect of blocks of assets and rationalised the rate structure by reducing the number of rates as also by providing for depreciation at higher rates.

Secretary, Department of Scientific & Industrial Research, Ministry of Science and Technology, is the Prescribed Authority to certify expenditures where higher rate of depreciation is to be allowed for the plant and machinery using indigenous know-how. Guidelines have been issued for making applications for obtaining the aforesaid certificate. All such applications received are examined in the department, and discussions and technical visits to verify the claim are made to the plants by expert teams. Based on a detailed examination, certificates in deserving cases are issued for eligible expenditure.

During the year 1998, 11 certificates involving Rs. 2606 lakhs on cost of plant and machinery were issued by DSIR. Details of these cases are given at Annexure III.C.1.

3. CUSTOMS DUTY EXEMPTION ON GOODS IMPORTED FOR USE IN GOVERNMENT FUNDED R&D PROJECTS

The Union budget for 1996-97 introduced the provision of customs duty exemption on specific goods imported for use in R&D projects funded partly by any Department of the Central Government and undertaken by the company in their in-house R&D unit recognised by DSIR. A certificate from the Ministry or Department, as the case may be, funding the research project stating the essentiality of the item/s in each case at the time of importation would make the item/s eligible for duty free import for that R&D programme by the company. During the period January-December 1998, 18 certificates for import of capital equipment and consumables/ materials for R&D projects supported by DSIR were issued.

4. REFERENCE UNDER SECTION 35(3) OF I.T. ACT, 1961 REGARDING SCIENTIFIC RESEARCH

In the implementation of various incentive schemes for the promotion of research and development, the Income Tax act inter alia provides that expenditures made on capital equipment and related to research activities are allowed to be written off 100% in the year in which the expenditures are incurred. The Government has however, provided that if a question arises under section 35 of IT Act 1961 as to whether and, if so, to what extent any activity constitutes or constituted or any asset is or was being used for scientific research the Central Board of Direct Taxes would refer the question to the Prescribed Authority. Director-General of Income Tax (Exemptions) in concurrence with Secretary, DSIR is the Prescribed Authority for deciding such cases. On receipt of the reference in DSIR, the department collects information/ background regarding the description of the activity claimed as scientific research, date of commencement of the relevant projects, date of completion of research work as also the results obtained from the specific project. After obtaining all these details, the matter is examined in DSIR. In case where it is considered necessary, a team of technical experts is constituted for on the spot appreciation of the research work done at the premises of the company. After receiving the technical assessment report from the visiting team, a discussion is also normally held so that the point of view of the Company is taken into account before arriving at a decision. After completing the processing of the case in the above fashion, the case file is placed before the Secretary, DSIR for giving a decision. The Secretary, DSIR gives his decision by setting

out a reasoned order duly signed by him which is communicated to Director General of Income Tax (Exemptions).

During the year recommendations of Secretary were sent to DG(ITE) in the case of M/s Indian Organics Ltd, Mumbai.

5. APPROVAL OF COMMERCIAL R&D COMPANIES

In order to promote research and development activities in the commercial research and development companies the Union Budget for 1996-97 has proposed to provide for a five-year tax holiday under section 80-1A of the Income Tax Act, to approved companies whose main objective is scientific and industrial research. This incentive is available to any company that has as its main objective, activities in the area of scientific and industrial research and development and which has been accorded approval by the Prescribed Authority. Secretary, Department of Scientific & Industrial Research is the Prescribed Authority for this purpose vide Gazette notification dated 26 December, 1996, issued by Deptt. of Revenue, Ministry of Finance.

The tax holiday is available to any company whether new or existing, which is accorded approval by the Prescribed Authority at any time before the first day of April 1998. The 100% deduction for a five-year period commences from the assessment year relevant to the previous year in which the approval by the Prescribed Authority is accorded to such a company.

The amendment has taken place from 1st April 1997 and will accordingly apply in relation to the assessment year 1997-98 and subsequent year.

The Department has approved two companies as commercial R&D companies during January-December 1998.

6. EXCISE DUTY WAIVER

The Union budget for 1996-97 introduced the provision of exemption of all goods falling under the Schedule to the Central Excise Tariff 1985 (5 of 1986) from the whole of the duty of excise leviable thereon provided such goods are manufactured by a wholly Indian owned company, such goods are designed and developed by such Indian company, the goods so designed and developed are patented by such Indian company in any two countries from amongst India, USA, Japan and any one country of the European Union, for a period of 3 years from the date of issuance of certificate to the effect by DSIR.

7. CUSTOMS DUTY EXEMPTION TO RECOGNISED SIROs

All Scientific and Industrial Research Organisations recognised by DSIR are eligible for Customs Duty Exemption

on the import of scientific equipment, instruments, spares, accessories as well as consumables for research and development activities and programmes.

The procedure for issuing the essentiality certificates to SIROs for obtaining the customs duty exemptions has been formalised. A Committee has been set-up in DSIR, which meets periodically, normally once in a fortnight to examine the requests. The recommendations of the Committee are put up to the Head of the RDI Scheme, for approval.

During the year around 700 essentiality certificates were issued for claiming customs duty exemption on import of scientific equipment, accessories and components, including consumable items. The value of scientific equipment instruments and the consumables was about Rs. 35 crores.

Some of the major equipment for which essentiality certificates were issued were:

Digital Dial gauge; Digital Pressure gauge; Digital Temperature Indicator; Mettler Electronic Analytical Balance; Polytron Aggregate; Atomic Absorption Spectrometer; Optical Design Software; ECV Crash System; VX1 front end system and accessories; Thermal plotter & its media with plotting software; Non-linear video editing DVD/VCD/CD player; Decoding accessories; Testing equipment for Ergonomics lab; Metallurgical microscope; CNC Wirecut EDM; CNC Vertical Machining Centre; Primary Reference Metal Standards; Multiproduct Calibrator; Universal Sampler; Special type of Silicon; Compact Capacitance Gauge; Triple output DC power supply; Pressure Transmitter; TRA differential pressure sensors; BOD-COD Analyser; HPLC with accessories; Thin Layer Chromatograph with accessories; Primary calibration samples, etc.

8. EXCISE DUTY EXEMPTION TO RECOGNISED SIROs

All Scientific and Industrial Research Organisations (SIROs) recognised by DSIR are eligible for Excise Duty Exemption on the purchase of scientific and technical instruments, apparatus, equipment (including computers); accessories and spare parts thereof and consumables; computer software, Compact Disc- Read Only Memory (CD-ROM), recorded magnetic tapes, micro films, microfiches; and prototypes for research and development activities and programmes.

This provision was introduced by Ministry of Finance (Deptt. of Revenue) vide notification No. 10/97-Central Excise dated 1 March 1997. The procedure for issuing essentiality certificates to SIROs for obtaining the Excise duty exemptions has been formalised. A Committee has been set up in DSIR to examine the applications received. The Committee normally meets periodically and essentiality certificates are issued with the approval of Head of RDI Scheme.

During the year 1998, 53 essentiality certificates for a total amount of Rs.153.63 Lakhs were issued for claiming Excise Duty Exemptions.

9. REGISTRATION OF PUBLIC FUNDED RESEARCH INSTITUTIONS AND OTHERS.

The Union Budget for 1996-97 introduced rationalisation of customs duty exemption on import of equipment, spares and accessories and consumables for research purposes by public funded research institutions, universities, IITs, IISc, Bangalore; Regional Engineering Colleges, (other than a hospital) for availing the customs duty exemption. The pass book scheme which was hitherto operated by the Department of Science and Technology and the Ministry of Human Resources Development is superseded by a simple registration with the Department of Scientific and Industrial Research. The ceiling on the value of goods imported for R&D is also removed and the head of the public funded research institutions/organisations duly registered with DSIR can certify the R&D goods for duty free import as per

the notification No. 51/96-Customs dated 23 July 1996.

The Union Budget for 1997-98 has introduced a provision of Central Excise Duty exemption for Public Funded Research Institutions and others. As per the Government notification No. 10/97-Central Excise dated 1.3.1997, the Public Funded Research Institutions, universities, IITs, IISc, Bangalore, Regional Engineering Colleges, registered with DSIR are also eligible for Central Excise Duty Waiver on purchase of indigenously manufactured equipment, spare parts and accessories and consumables for scientific research purposes.

During the period January, 1998 - December, 1998, 175 registration certificates were issued to such public funded research institutions universities, IITs, IISc, Bangalore, Regional Engineering Colleges for availing customs duty exemption on import of scientific equipment, spares and accessories, consumable items and Central Excise Duty exemption on indigenous purchases for scientific research purposes.