

Inland Revenue (Amendment) (No. 7) Ordinance 2018 gazetted

The Government published in the Gazette today (November 2) the Inland Revenue (Amendment) (No. 7) Ordinance 2018 to implement the initiative announced in the Chief Executive's 2017 Policy Address of providing enhanced tax deduction for the expenditures incurred by enterprises on research and development (R&D) activities in Hong Kong.

A government spokesman said, "To encourage more enterprises to conduct R&D locally so as to promote technological innovation and economic development as well as to groom local R&D talent, the Amendment Ordinance will provide enhanced tax deduction. This also addresses the calls from the business community. We aim to encourage more R&D investment from private enterprises, thereby gradually reversing the ratio of public sector expenditure versus private sector expenditure on R&D from government-led to private-led, which is more sustainable."

The Ordinance stipulates that R&D expenditures are now classified into either "Type A expenditures" which qualify for 100 per cent deduction or "Type B expenditures" which qualify for enhanced tax deduction. The enhanced tax deduction for "Type B expenditures" is a two-tier deduction regime. The deduction is 300 per cent for the first \$2 million of the aggregate amount of payments made to "designated local research institutions" for "qualifying R&D activities", and expenditures incurred by the enterprises for in-house qualifying R&D, and 200 per cent for the remaining amount. There is no cap on the amount of enhanced tax deduction. The arrangement is applicable to R&D expenditures incurred by enterprises on April 1, 2018, and thereafter.

In addition, the Ordinance also empowers the Commissioner for Innovation and Technology to designate any university or college located in Hong Kong, or any other institute, association, organisation or corporation that undertakes "qualifying R&D activities" in Hong Kong, as a "designated local research institution" for tax deduction purposes. R&D service providers which provide R&D services in Hong Kong and are competent to provide such services may apply to the Innovation and Technology Commission (ITC) for designation. The detailed conditions and application procedures for designation will be available on the ITC webpage shortly.