

LCQ14: Innovation and Technology Fund

Following is a question by the Hon Jimmy Ng and a written reply by the Secretary for Innovation and Technology, Mr Alfred Sit, in the Legislative Council today (November 4):

Question:

To encourage and assist Hong Kong enterprises in upgrading their innovation and technological level, the Government has set up funding schemes under the Innovation and Technology Fund (ITF) to finance research and development (R&D) projects on innovation and technology. Besides, enterprises may claim enhanced tax deduction for the expenditures incurred on qualifying R&D activities which they have engaged Designated Local Research Institutions to undertake: a 300 per cent tax deduction being granted for the first \$2 million of the aggregate amount of expenditures, and 200 per cent for the remaining amount. Quite a number of Hong Kong businessmen hope that the Government will review and enhance the vetting and approval mechanism of the aforesaid funding schemes, and relax the eligibility criteria for applying for funding and claiming enhanced tax deduction, so that more R&D activities undertaken outside Hong Kong may benefit. In this connection, will the Government inform this Council:

(1) of the respective numbers of applications received by (a) the Mainland-Hong Kong Joint Funding Scheme (MHKJFS) since its launch in April 2019, and (b) the Research and Development Cash Rebate Scheme (CRS) in the past three years (which are both under ITF), and among them, the respective numbers of applications (i) approved, (ii) rejected, and (iii) still being processed; among the rejected applications, of the respective numbers of those which were rejected for the following reasons: the institutions undertaking the R&D work not being local institutions, and more than 50 per cent of the R&D work being conducted on the Mainland;

(2) whether it will study relaxing the restrictions of the various funding schemes under ITF (including revising the funding guidelines of MHKJFS to increase, in respect of the projects under application, the maximum proportion of R&D work that may be conducted on the Mainland from the current 50 per cent to 80 per cent or above); if so, of the details; if not, the reasons for that;

(3) whether it will review and expand the scope of CRS to cover R&D projects undertaken by Hong Kong enterprises in collaboration with Mainland research institutions; if so, of the details; if not, the reasons for that; and

(4) whether it will study relaxing the requirement that enterprises must engage local research institutions to undertake R&D activities before they may obtain enhanced tax deduction for the expenditures incurred on R&D activities, so that the R&D activities that Hong Kong enterprises have engaged research institutions outside Hong Kong to undertake may also be

entitled to enhanced tax deduction; if so, of the details; if not, the reasons for that?

Reply:

President:

Research and Development (R&D) is the foundation of innovation and technology (I&T). The current term Government has been committed to increasing resources for R&D, promoting local R&D activities and lifting the Gross Domestic Expenditure on R&D as a percentage of the Gross Domestic Product, so as to foster Hong Kong's I&T and economic development, and nurture local R&D talent, thereby flourishing the I&T ecosystem and development in Hong Kong. To achieve this goal, a number of new initiatives have been introduced to support R&D work by universities and public research institutes, encourage R&D investment by the private sector, provide R&D infrastructure to the industry, as well as proactively attract and retain talent for R&D work.

The reply to various parts of the question is set out below:

(1) Introduced in April 2019, the Mainland-Hong Kong Joint Funding Scheme (MHKJFS) aims to support applied R&D projects jointly conducted by Hong Kong and the Mainland to further enhance R&D cooperation between the two places. Therefore, the R&D work of approved projects must be carried out in both Hong Kong and the Mainland. The Innovation and Technology Commission (ITC) and the Ministry of Science and Technology (MOST) will provide funding for the approved projects to the Hong Kong and Mainland applicant organisations respectively for conducting the R&D work which the latter are individually responsible for; and will monitor the progress of projects according to their own requirements.

The MHKJFS accepts applications once a year. Although the outbreak of the 2019 Coronavirus Disease (COVID-19) has caused a slight delay in the assessment of the first year's applications, the ITC and the MOST have already completed the assessment of the 113 eligible applications received in last year's application period. The ITC and the MOST are communicating with the relevant Hong Kong and Mainland applicant organisations in respect of the applications mutually supported by both sides, with a view to announcing the approved projects soon. The Hong Kong and Mainland sides are also assessing in parallel the 84 eligible applications received during the application period in 2020.

Introduced in 2010, the R&D Cash Rebate Scheme (CRS) provides a cash rebate equivalent to 40 per cent of an enterprise's expenditure in two types of applied R&D projects, namely R&D projects funded by the Innovation and Technology Fund (ITF) in which the enterprises participate (ITF projects), and R&D projects funded entirely by enterprises and conducted in partnership with designated local public research institutes (see Note 1) (partnership projects). The number of applications received under the CRS in the three most recent financial years and the processing status are tabulated below:

Financial Year	Number of Applications Received	Number of Applications Approved	Number of Applications Rejected	Number of Applications pending approval (see Note 2)
2017-18	297	291	2	4
2018-19	343	334	1	8
2019-20	369	328	0	41

The three applications above were rejected for failing to meet the eligibility criteria, i.e. the applicant concerned was not a private enterprise (two applications) and the application was not submitted within two years after the completion of the project (one application).

(2) – (4) The Government's policy objective is to promote local R&D activities, thereby driving vibrant I&T development in Hong Kong. When formulating various measures to encourage R&D, we are committed to achieving this policy goal.

At present, the various R&D funding schemes under the ITF stipulate that the majority of the R&D work funded by the ITF should be conducted within the territory of Hong Kong. Given the close ties between Hong Kong and the Mainland, the ITC has allowed up to 50 per cent of the R&D work of an ITF project to be conducted (and the relevant expenditure to be incurred) in the Mainland. To continue our policy goal in supporting more R&D work to be conducted locally, we currently have no plan to raise the relevant ceiling for carrying out R&D work in the Mainland. As for the partnership projects under the CRS, enterprises are required to partner with a designated local public research institute. This also reflects the aforementioned policy objective. We will continue to closely monitor the implementation of schemes and consider enhancement measures when appropriate.

Currently, enterprises can enjoy a 100 per cent tax deduction for the R&D activities conducted outside Hong Kong. The Government's purpose of providing an enhanced tax deduction of up to 300 per cent for enterprises' qualifying R&D expenditures is precisely to attract enterprises to make more R&D investments in Hong Kong. We have no plan to provide enhanced tax deduction to those R&D activities outsourced by the local enterprises to scientific research institutes outside Hong Kong.

Note 1: In respect of partnership projects under the CRS, designated local public research institutes include local universities, R&D Centres set up by the Government, the Hong Kong Productivity Council, the Vocational Training Council, and the Hong Kong Institute of Biotechnology.

Note 2: The applications are pending approval for reasons such as: the applicant enterprise has not made the pledged contribution yet; the progress of the project has not fulfilled the conditions for disbursing rebates under the CRS (for example, the project expenditure has not exceeded 50 per cent of

the estimated total project expenditure for the disbursement of the interim cash rebate, or the relevant R&D project has not yet been completed for the disbursement of the final cash rebate); or the relevant applicant enterprise and/or designated local public research institute have not provided complete documents/information to the ITC for review.