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Replies to supplementary questions raised by Finance Committee Members in examining the Estimates of Expenditure 2020-21

Director of Bureau : Secretary for Innovation and Technology

Session No. : 15

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CONTROLLING OFFICER'S REPLY

S-ITB01

(Question Serial No. S080)

Head: (155) Government Secretariat: Innovation and Technology Commission

Subhead (No. & title): (-) Not Specified

Programme: (1) Support for Research and Development

Controlling Officer: Commissioner for Innovation and Technology (Ms Rebecca PUN)

Director of Bureau: Secretary for Innovation and Technology

Question:

Regarding the Government's implementation of the enhanced tax deduction for expenditures incurred on "qualifying research and development (R&D) activities", please advise on:

- (1) whether the current concessionary measure allowing companies which have engaged "designated local research institutions" to undertake "qualifying R&D activities" to claim enhanced tax deduction have been publicised and promoted to overseas or local enterprises; if yes, the details, expenditure and effectiveness; if not, the reasons;
- (2) whether a clear reference sample of research contracts would be provided to assist enterprises in saving administration costs;
- (3) whether the tax concessions introduced in light of the COVID-19 coronavirus epidemic would be counted towards the "qualifying expenditures" of research activities; and
- (4) how the effectiveness of the super tax deduction measures is assessed, the indicators, as well as whether an increase in the tax deduction amount would be considered to promote R&D activities.

Asked by: Hon MOK Charles Peter (LegCo internal reference no.: 82)

Reply:

The requested information is provided below:

- (1) Through the networks of various advisory bodies, professional bodies in accountancy and tax, trade associations, research institutions, universities and colleges, the Innovation and Technology Commission publicises and promotes the Government's latest tax deduction arrangements for research and development (R&D) activities, as well as the application details for designation as "designated local research institutions". We also organised briefings for local institutions in April and June 2019. The relevant work is met by existing manpower. We do not have the breakdown of the manpower and expenditure for the relevant work.

- (2) Since research contracts are commercial documents between clients and the institutions undertaking the R&D activities, relevant copies of contracts are not available.
- (3) In accordance with section 14(b) of Schedule 45 of the Inland Revenue Ordinance, no deduction would be allowed for expenditures of R&D activities which are or are to be, met directly or indirectly by the Government.
- (4) According to the information from the Inland Revenue Department, as at end-March 2020, there were 110 claims for tax deduction relating to R&D expenditures for the 2018-19 assessment year. Though the number of claims was lower than that in the 2017-18 assessment year (244 claims), the total amount of R&D expenditure involved was about \$1.82 billion, representing an increase of 26% as compared with \$1.44 billion in 2017-18.

Over the past year or so, given the changes in the global economic environment, the business plans of many companies, including the resources to be deployed in research projects, were affected. Companies might have become cautious in investing in research projects. Besides, as the implementation of the enhanced tax deduction measure for R&D expenditures is still at the initial stage, we need time to review the response of the measure in order to assess its effectiveness in a holistic manner. We believe that the number of applications and the relevant R&D expenditure will increase as the industry enhances its awareness about the relevant tax incentive and has better understanding on the tax return details.

- End -

CONTROLLING OFFICER'S REPLY

S-ITB02

(Question Serial No. S081)

Head: (155) Government Secretariat: Innovation and Technology Commission

Subhead (No. & title): (-) Not Specified

Programme: (1) Support for Research and Development

Controlling Officer: Commissioner for Innovation and Technology (Ms Rebecca PUN)

Director of Bureau: Secretary for Innovation and Technology

Question:

Regarding the Government's implementation of the enhanced tax deduction for expenditures incurred by enterprises on "qualifying research and development (R&D) activities" pursuant to the Inland Revenue (Amendment) (No. 7) Ordinance 2018, please advise on the numbers of applications for designation as "designated local research institutions" received and approved so far since the launch of the initiative; whether the Government has reviewed the reasons why only few applications have been received from non-publicly funded/university-related institutions, as well as how the Government will encourage more applications to promote local R&D activities.

Asked by: Hon MOK Charles Peter (LegCo internal reference no.: 83)

Reply:

To encourage more enterprises to conduct research and development (R&D) locally and promote technological innovation and economic development in Hong Kong, the Government implemented in 2018 the enhanced tax deduction for expenditures incurred on "qualifying R&D activities" by enterprises. The relevant Amendment Bill on the Inland Revenue Ordinance (IRO) was passed by the Legislative Council in October 2018. Enterprises may claim enhanced tax deduction for qualifying R&D expenditures incurred on or after 1 April 2018. The amended IRO also empowers the Commissioner for Innovation and Technology (CIT) to designate any university or college located in Hong Kong, or any other institute, association, organisation or corporation located in Hong Kong that undertakes qualifying R&D activities in Hong Kong, as "designated local research institution (DLRI)" for tax deduction purposes.

As at end-March 2020, 34 institutions have been designated by the CIT as DLRI's; 30 of them are local universities and public research institutions and the remaining 4 are local private enterprises. So far, the Innovation and Technology Commission has received

8 applications for designation as DLRI from local private enterprises. Apart from the 4 applications approved, 2 are under processing, 1 has been withdrawn by the applicant enterprise and the remaining 1 has been rejected. We will continue to strengthen promotion on the DLRI initiative through various platforms to enhance local enterprises' understanding on the initiative, with a view to attracting more applications.

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CONTROLLING OFFICER'S REPLY

S-ITB03

(Question Serial No. S069)

Head: (155) Government Secretariat: Innovation and Technology Commission

Subhead (No. & title): ()

Programme: (2) Promotion of Technological Entrepreneurship

Controlling Officer: Commissioner for Innovation and Technology (Ms Rebecca PUN)

Director of Bureau: Secretary for Innovation and Technology

Question:

Regarding the implementation of the Innovation and Technology Venture Fund (ITVF), would the Special Administrative Region Government please advise on the following:

Is the ITVF Advisory Committee (the Committee) involved in the decision-making on the co-investment in the projects? How many Committee members are required for approval of each vetting?

What are the reasons for the decision not to co-invest in the remaining 3 investment proposals?

Has the Government conducted reviews on any aspects of the co-investment mechanism? If not, when will the Government conduct the relevant reviews and announce the details?

Asked by: Hon QUAT Elizabeth (LegCo internal reference no.: 16)

Reply:

The Innovation and Technology Venture Fund (ITVF) Advisory Committee will advise the Innovation and Technology Commission (ITC) on matters related to the ITVF and the Innovation and Technology Venture Fund Corporation, including the investment proposals of the co-investment partners (CPs) and the management of the investment portfolio of the ITVF. In vetting the investment proposals, we will consult all members with no declared conflict of interest and make investment decisions after taking into account their advice.

It would not be appropriate to disclose the specific reasons for not co-investing in the investment proposals as it may involve commercially sensitive information of those companies. In general, factors to be considered in deciding whether to co-invest in the

investment proposals of the venture capital funds include: the proposed investee company shall have innovation and technology elements and sufficient business operation in Hong Kong; and the business of the proposed investee company shall not be in conflict with government policy or legislation nor involve activities that may bring the Government into disrepute, etc.

ITC has reviewed and optimised the vetting procedures and processes with reference to past operational experience, and introduced enhancement initiatives including further streamlining the investment processes. ITC will also allow flexibility in respect of the requirements for the “investment framework” and “company structure” of the start-ups and CPs subject to the circumstances of individual investment projects, with a view to better catering for the needs of the investment market.

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CONTROLLING OFFICER'S REPLY

S-ITB04

(Question Serial No. S070)

Head: (155) Government Secretariat: Innovation and Technology Commission

Subhead (No. & title): ()

Programme: (1) Support for Research and Development

Controlling Officer: Commissioner for Innovation and Technology (Ms Rebecca PUN)

Director of Bureau: Secretary for Innovation and Technology

Question:

Regarding the implementation of the enhanced tax deduction for expenditures incurred on “qualifying research and development (R&D) activities” by enterprises, would the Special Administrative Region Government please advise on the following:

Please set out in the table below the major industries of the “qualifying R&D activities” involved for the approved claims, the number of enterprises claiming tax deduction, the number of claims approved and the total amount involved in the past 3 years.

Industry classification	Number of enterprises claiming tax deduction	Number of enterprises of which the claims have been approved	Funding amount
Manufacturing			
Biotechnology			
Trading and logistics			
Wholesale and retail trades			
Accommodation and food services			
Information and communications			
Financing and insurance, real estate, professional and business services			
Others			

Asked by: Hon QUAT Elizabeth (LegCo internal reference no.: 18)

Reply:

To encourage more enterprises to conduct research and development (R&D) locally and to promote technological innovation and economic development in Hong Kong, the Government implemented in 2018 the enhanced tax deduction for expenditures incurred on “qualifying R&D activities” by enterprises. Enterprises may claim enhanced tax deduction for qualifying R&D expenditures incurred on or after 1 April 2018. According to the information provided by the Inland Revenue Department (IRD), as at end-March 2020, among the profits tax returns received, there were 110 claims for tax deduction relating to R&D expenditures for the 2018-19 assessment year pursuant to the amended Inland Revenue Ordinance. The R&D expenditure incurred was about \$1.82 billion. Most of the enterprises which have submitted claims are engaged in the information and communications, import/export trade and wholesale, as well as manufacturing industries, etc. Since the industry classification involves confidential information, the IRD is unable to provide a breakdown.

The IRD adopts the “Assess First, Audit Later” tax assessment mechanism and will select relevant claims for audit. As the tax assessment is still underway, the IRD is unable to provide information on the number of cases approved and the amount of assessed tax deduction.

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CONTROLLING OFFICER'S REPLY

S-ITB05

(Question Serial No. S071)

Head: (155) Government Secretariat: Innovation and Technology Commission

Subhead (No. & title): ()

Programme: (4) Infrastructural Support

Controlling Officer: Commissioner for Innovation and Technology (Ms Rebecca PUN)

Director of Bureau: Secretary for Innovation and Technology

Question:

The allocation of \$10 billion for the *InnoHK* research clusters to promote scientific research is an important innovation and technology development plan of Hong Kong. The Government pointed out last year that the research clusters could be launched in the second half of 2019 and envisaged that the first batch of research institutions will start moving into the Hong Kong Science Park last year. However, it seems that we are going back in time. The Government states that discussion is still in progress, and the details are yet to be announced so far. Would the Government please advise on the following:

What are the reasons for postponing the launch?

What are the expected dates of announcement of the relevant information, admission and official launch in 2020?

What are the specific assessment and discussion procedures?

When will the Government decide and announce the details of the third *InnoHK* research cluster in the future? Will there be any prior consultation?

Asked by: Hon QUAT Elizabeth (LegCo internal reference no.: 71)

Reply:

The first two *InnoHK* research clusters have received enthusiastic response, with a total of 65 proposals from world renowned universities and research institutes. Given that the number of proposals received is more than the original estimate, and that the proposals are of a significantly high academic standard and involve a lot of proposed researches on various fronts, we need time to examine each proposal in detail.

In assessing the proposals, we need to consider a basket of factors holistically, including the scientific merits of the research programmes, the impact of the research (if successful), the academic standing and research achievements of the collaborating institutions and the key research personnel in the relevant research areas, track record of research achievements, past experience and track record of research collaboration, experience and the capability of technological adoption/commercialisation, local talent development, benefits and contributions to the local community, etc. We have also consulted the *InnoHK* Steering Committee on the assessment of the proposals.

In addition, it takes time to discuss the details of the launch of each research and development (R&D) centre, such as the specific collaboration arrangements between the institutions, the needs for ancillary research facilities, and the contents of the agreements to be entered into with the institutions and R&D centres. We expect that the first batch of R&D laboratories will be set up progressively within this year. The relevant list of laboratories will be announced in due course.

As for the third *InnoHK* research cluster, we will review factors including the strengths of Hong Kong and the global technological development and take into account the views of the relevant stakeholders during the process. There is no fixed timeline for now.

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