

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:274  
ANSWERED ON:16.03.2007  
INCENTIVES FOR RESEARCH  
Rao Shri Kavuru Samba Siva

**Will the Minister of FINANCE be pleased to state:**

- (a) the details of incentives extended to pharma and other industries for in-house Research and Development;
- (b) the details of financial assistance extended in terms of income tax exemptions provided to different industries for their R&D efforts during each of the last five years;
- (c) whether the Government proposes to review the incentive policy; and
- (d) if so, the details thereof?

**Answer**

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

(a) to (d): A statement is laid on the Table of the House.

Statement referred to in the reply to the Lok Sabha Question 274 raised by Shri K.S. Rao, Member of Parliament for 16.3.2007 regarding Incentives for Research.

(a): The following incentives have been extended to pharma and other industries for in-house research and development:

(i) In terms of the provisions of section 35(2AB) of the Income-tax Act, 1961 inserted w.e.f. 1.4.1998, incentive for in-house research and development in the form of a weighted deduction of a sum equal to 150% of the expenditure (not being expenditure in the nature of cost of any land or building) incurred by a company on scientific research on in-house research and development facility approved by the prescribed authority is allowed if the company is engaged in the business of biotechnology or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipment, computers, telecommunication equipment, chemicals or any other article or thing notified by the Central Board of Direct Taxes. The following articles or things have been notified:

- (a) Manufacture or production of a helicopter or aircraft (Notification No.11112, dated 27.10.1999);
- (b) Manufacture or production of computer software (Notification No. SO 452 (E), dated 8.2.2000); and
- (c) Manufacture or production of automobiles, including automobile components (Notification No. SO 1021 (E), dated 21.9.2004).

The Explanation to section 35(2AB) clarifies that "expenditure on scientific research" in relation to drugs and pharmaceuticals includes –

- (a) expenditure incurred on clinical drug trial;
- (b) obtaining approval from any regulatory authority under any Central, State or Provincial Act; and
- (c) filing an application for a patent under the Patents Act, 1970.

(ii) Under clause

(i) of sub-section (1) of section 35, any expenditure (not being in the nature of capital expenditure) laid out or expended on scientific research related to the business is allowed as deduction in the computation of business income of the assessee.

(iii) Under clause

(ii) of sub-section (1) of section 35, weighted deduction of 125% of the sum paid by any taxpayer to a scientific research association (which has as its object the undertaking of scientific research) or to a university, college or other institution (to be used for scientific research), is allowed as deduction in the case of the donor in computing his business income, provided the donee scientific research association or university or college or other institution is approved, in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed and such association, university, college or other institution is specified as such by notification in the Official Gazette, by the Central Government.

(iv) Under clause

(iii) of sub-section (1) of section 35, a deduction of 125% of the sum paid to a university, college or other institution to be used for research in social science or statistical research, is allowed as deduction in the case of the donor in computing his business income, provided the donee university or college or other institution is approved, in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed and such university, college or other institution is specified as such by notification in the Official Gazette, by the Central Government.

(v) Under clause

(iv) of sub-section (1) of section 35, any expenditure of a capital nature on scientific research related to the business carried on by the assessee (not being expenditure on acquisition of land) is allowed as deduction in computing his business income.

(vi) Under sub-section (2AA) of section 35, 125% of any sum paid by an assessee is allowed as deduction in computing business income where the sum is paid to a National Laboratory or a University or an Indian Institute of Technology or a specified person with a specific direction that the said sum shall be used for scientific research undertaken under a programme approved by the prescribed authority.

(vii) Under section 80GGA, any sum paid by an assessee to a scientific research association (which has as its object the undertaking scientific research) or to a university, college or other institution (to be used for scientific research) is allowed as deduction in the computation of income of the assessee if his gross total income does not include income under the head "Profits and gains of business or profession".

(viii) Under rule 5(2) of the Income-tax Rules, 1962, on satisfaction of prescribed conditions, depreciation is allowed at a higher percentage of 40% of the written down value of any new machinery or plant installed (on or after 1.4.1987) for the purposes of business of manufacture or production of any article or thing if such article or thing -

(a) is manufactured or produced by using any technology (including any process) or other know-how developed in, or

(b) is an article or thing invented in, a laboratory owned or financed by the Government or a laboratory owned by a public sector company or a university or an institution recognised in this behalf by the Secretary, Department of Scientific and Industrial Research, Government of India.

(ix) Under section 10(21) of the Income-tax Act, any income of a scientific research association approved for the purposes of the provisions of clause

(ii) of sub-section (1) of section 35 is exempt from payment of income-tax subject to fulfillment of certain conditions regarding application of income of such association and forms and modes of investment.

(x) Under section 80-IB(8A), 100% of the profits and gains is allowed as deduction in the case of a company carrying on scientific research and development. The deduction is allowable for a period of ten consecutive assessment years, beginning from the initial assessment year, if the company -

(a) is registered in India;

(b) has the main object of scientific and industrial research and development;

(c) is for the time being approved by the prescribed authority at any time after the 31st day of March, 2000 but before the 1st day of April, 2007;

(d) fulfills such other conditions as may be prescribed.

(xi) Entities carrying on research can also claim exemption of their income under section 10(23C) and sections 11 and 12 on satisfaction of conditions listed therein, if their activities are for charitable purposes.

(xii) In the area of Indirect Taxes, Government has provided concessional rate of 5% / nil customs duty on specified R&D equipment for pharma and bio-technology sectors, for importers/manufacturers having research and development wing registered with the Department of Scientific & Industrial Research, in the Ministry of Science and Technology. Full exemption from basic customs duty is available on 101 items and concessional rate of 5% customs duty has been allowed on 24 items (Notification No.21/2002-Customs, dated the 1st March, 2002, Lists 27A and 28). In addition, concessional customs duty of 5%, with full exemption from additional duty has been extended to import of specified equipment, apparatus, accessories, parts, consumables, prototypes, etc. by all research institutions, including those in pharma sector, registered with Department of Scientific & Industrial Research, subject to specified conditions (Notification No.51/96-Customs, dated the 23rd July, 1996). Full exemption from excise duty is also available on supply of specified goods to such research institutions (Notification No.10/97-Central Excise, dated the 1st March, 1997).

(xiii) Exemption from service tax has been provided with effect from 1.4.2007 to all taxable services provided by -

(a) a Technology Business Incubator (TBI)/Science and Technology Entrepreneurship Park (STEP).

(b) incubatees who are located within the premises of TBI/STEP and whose annual business turnover does not exceed Rs.50 lakhs in a financial year, for a period of three years. Exemption from service tax has been provided with effect from 1.3.2007 to Clinical Research Organizations in relation to testing and analysis of newly developed drugs on human participants.

(b): The details of financial assistance extended in terms of income-tax exemptions provided to different industries for their R&D

efforts are as under: In the Budget for 2006-07 and 2007-08, the revenue foregone on account of weighted deduction under section 35(2AB) of the Income-tax Act, 1961 as detailed in the 'Receipts Budget' has been worked as under:

Financial year Revenue foregone  
(Rs. in crores)

2004-05	2318
2005-06	2839
2006-07	4107

The revenue foregone has not been worked out in respect of incentives allowed under other provisions of the Income-tax Act, 1961.

(c) & (d): The provisions regarding incentives for research and development were reviewed during the budgetary exercise for 2007 particularly in regard to deduction under section 35(2AB) which is available only in respect of expenditure incurred up to 31.3.2007. The Finance Bill, 2007 proposes to extend this deduction in respect of expenditure incurred up to 31.3.2012.