

---

## Tax Benefits for Research & Development Activities

---

The term - 'Research & Development', popularly known as R&D means the investigative activities a business conducts to improve existing products and procedures or to lead to the development of new products and procedures. As a matter of fact, when we speak about R&D, we see a large corporate lab like set-up working heavily for the development of new technology / product. It has become a typical mind-set that Research & Development is the exercise undertaken only by Large Companies. However, small companies are also eligible to claim all the benefits linked with R&D activities.

---

No. of companies  
listed on BSE ~  
5000

No. of companies  
listed on NSE ~  
1600

No. of SMEs  
registered in  
India ~ 1.5 Mn

No. of companies  
registered with  
DSIR ~ 2000

No. of companies  
availing R&D tax  
benefits ~ 1800

---

The Irony is that every company has some sort of Research & Development Activities regularly conducted in their factory. There are around 6600 listed companies in the country and around 1.5 million registered SMEs. However, no. of companies registered with the Department of Scientific & Industrial Research of the Government of India is only around 2000. This clearly means that there has been either lack of awareness or understanding amongst the companies. Fear of Tax Authorities or Misapprehension about Government Regulations can be another reason for such a meagre response to the Government Initiatives for granting tax incentives for R&D Activities.

## Why SMEs are not availing tax benefits linked with R&D?

Not having dedicated set-up for R&D Activities

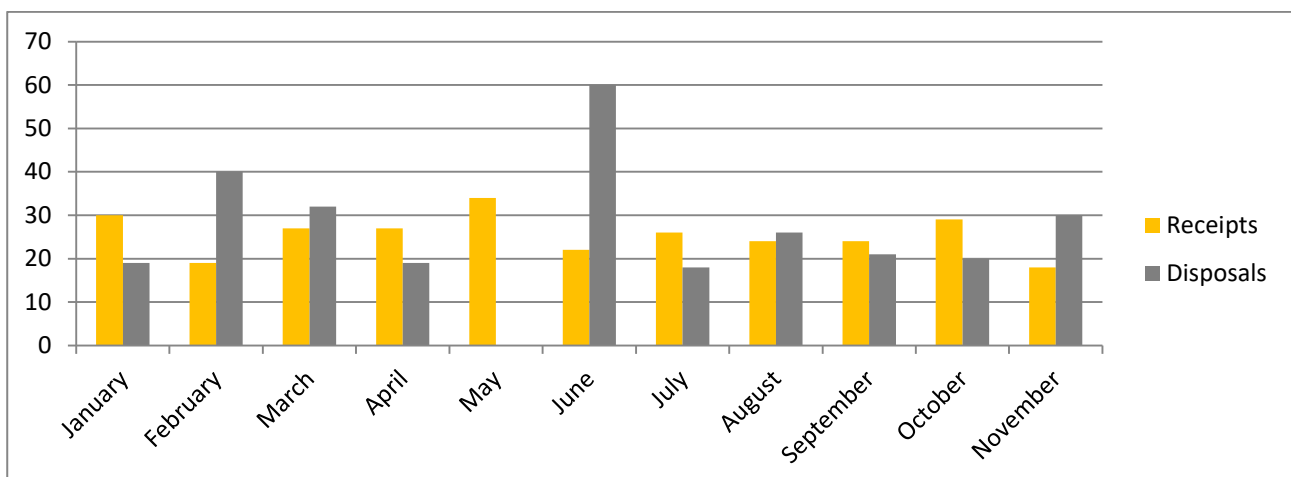
No specific Emphasis for Research Activities

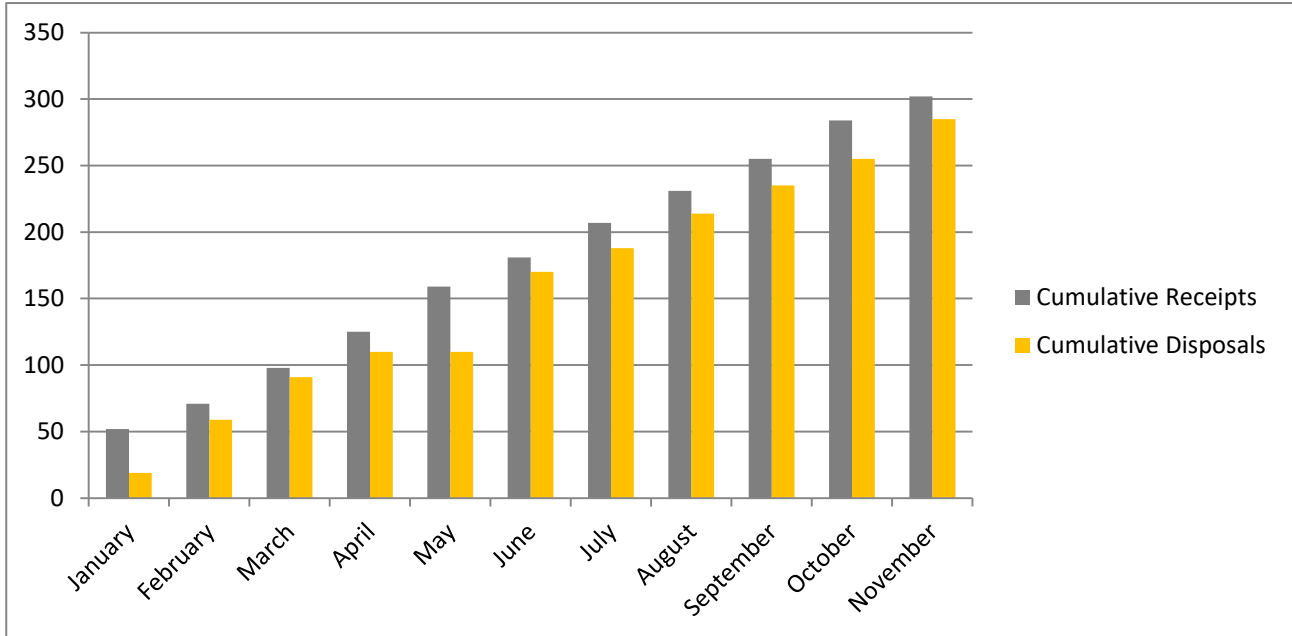
Fear of Tax Authorities and Government Policies

As it is evident the above can be the main reasons behind passiveness of the SMEs towards various R&D Activities. As such, there is a need to spread awareness about the procedural aspects and benefits available for Research & Development Activities. With a little effort and cost, small companies can get huge tax benefits.

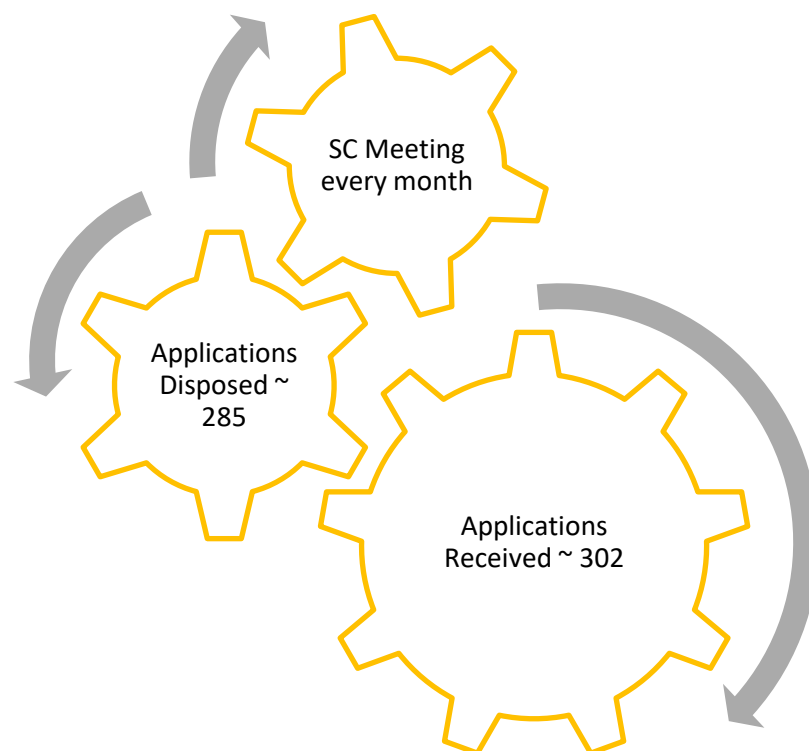
## In-house R&D by Companies

Department of Scientific & Industrial Research (DSIR) under the Ministry of Science & Technology of the Government of India has a scheme for recognition of in-house Research & Development activities. The Annual Report of DSIR reveals the following figures for the period January 2016 to November 2016:





During the period January 2016 to November 2016, a total of 302 applications were received and 285 applications were disposed. The Screening Committee held meetings every month except for the month of May 2016.



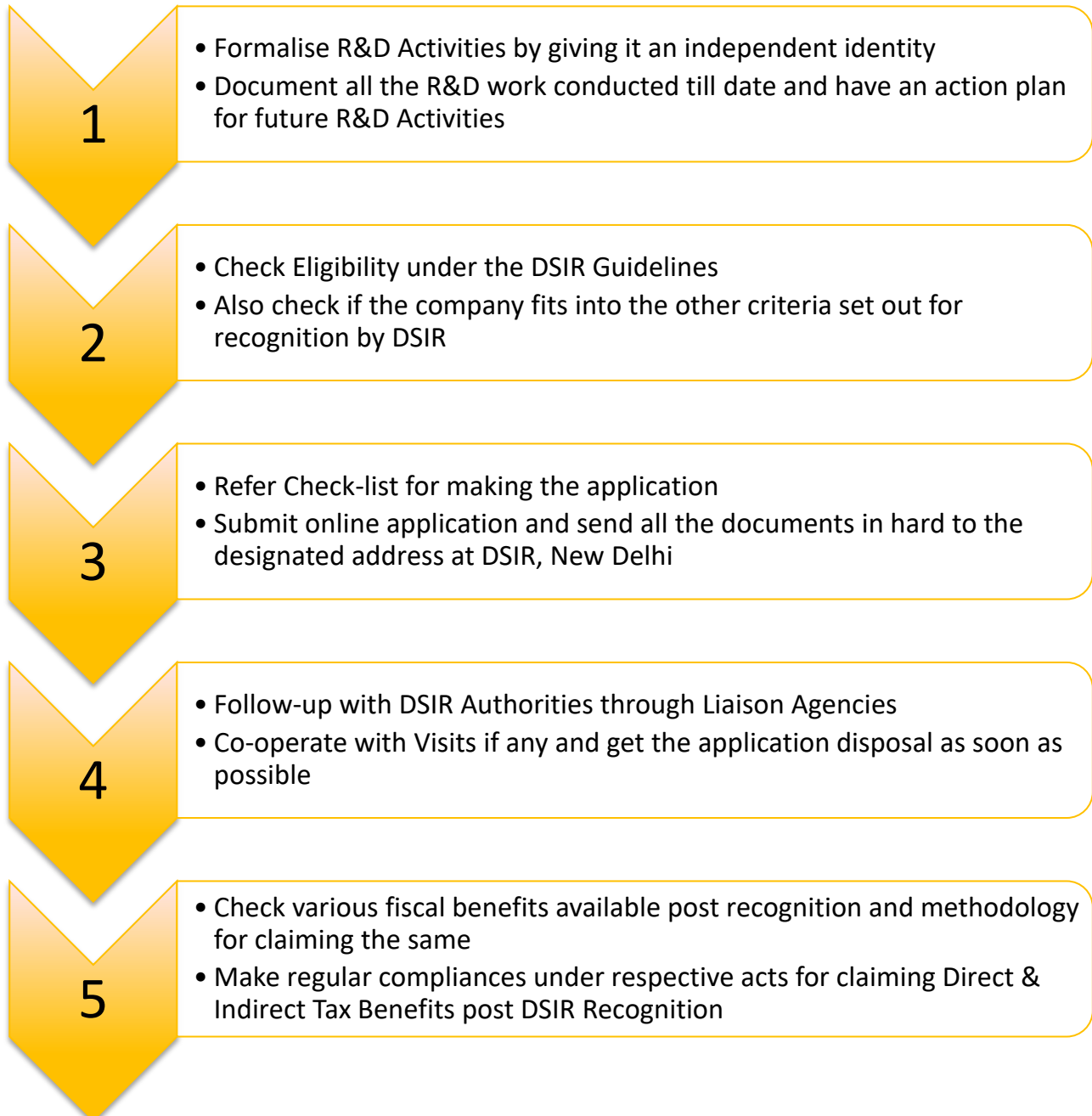
## **Benefits Available to DSIR Recognised In-house R&D**

1. Under section 35(2) of the Income Tax Act, 1961, 100% deduction is allowed for Capital expenditure on R&D including cost of building (excluding cost of land), plant & equipment etc.
2. Under section 35 (2AB) of the Income Tax Act, a weighted deduction of 150% is allowed to Recognized R&D unit for all expenditures (other than Land & Building) incurred for R&D purpose. Here, it is to be noted that this weighted deduction of 150% is allowed for all the direct expenses incurred for R&D purpose such as Salaries & Allowances, Traveling & Conveyance, Staff Welfare, Electricity, Computer & Software, Raw material used by R&D department etc. Therefore an additional amount equivalent to 50% of R&D expenses incurred by a recognized R&D unit is allowed as deduction from the income of such unit.
3. 100% exemption is allowed in Custom Duty for Capital Goods imported for Research & Development Activities.
4. 100% exemption is allowed in Excise Duty on purchase of Capital Equipment and Consumables needed for Research & Development Activities.
5. Not only Tax Benefits are granted by the Government; but the unit also becomes eligible for receiving funds from the Department of Scientific & Industrial Research of the Government of India under various schemes.

## **Eligibility for the Recognition**

1. Applicant should be a registered company under the Companies Act, 1956 / 2013.
2. The company shall be eligible for consideration only after the completion of three financial years after formation.
3. The applicant should have regular source of income at least during the last two years to sustain the business and this needs to be elaborated in the application.
4. The companies seeking recognition to their in-house R&D units should be engaged in manufacture or production or in rendering technical services.
5. Such Companies should also have separate independent infrastructure for R&D Activities with qualified manpower. Such separate infrastructure can be a separate facility or a separate building or a separate floor in the same building or a separate room on the same floor. Minimum area requirement is 1,000 Sq. Ft.
6. At the time of application, the R&D unit(s) should be functional and should have well defined, time-bound R&D programmes leading to development of innovative products and / or technologies.

## Action Plan for Companies



## Closing Remarks

Apart from the monetary benefits as above, In-House R&D Recognition is a prestigious accreditation for any unit for its continuous research and development of new technologies, products, process, design, quality, ranges, etc. The recognition, once received is valid for 3 years from the date of receipt of the recognition. It is to be renewed again for next 3 years by a simple process of renewal.



As discussed earlier, every company undertakes some sort of R&D on continuous basis; however, lack of formal arrangement and lack of awareness keep small companies away from claiming benefits from DSIR.

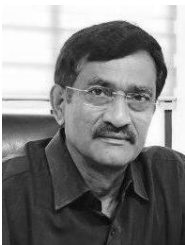
It is recommended apply to DSIR for recognition which will take around 4-6 months for disposal. Once approved, the company will become eligible to claim millions of benefits related to Direct Tax, Indirect Tax and other incentives.

## Why DRBM

DRBM Corporate Consulting Private Limited DRBM is a team of Expert Professionals with a legacy of more than 30 years. Our expert professionals will help you identify R&D Activities, Build-up independent infrastructure for in-house R&D as per the instant requirements of DSIR, File necessary application with DSIR, Liaison and follow-up with the authorities and avail post recognition tax benefits.

The prominent members of our team include:

---



**Vithal Deshmukh, FCA**  
Chairman & Managing Director

-----  
More than 30 years in practice and significant experience of working with Government Authorities

---



**Aalhad Deshmukh, FCA**  
Director & Chief Executive Officer

-----  
Fellow Member of ICAI, Certified Forensic Auditor and Diploma holder in International Financial Reporting from ACCA-UK

---



**Vishwas Raje, FCA**  
Director - Head of Div. Operations

-----  
More than 35 years of experience in Finance Sector, having worked at top managerial levels in renowned corporates

---



**Nilkanth Bhanage, LLM**  
Mentor - Designated Director

-----  
Retired IAS Officer, last served as the Secretary to the Govt. of MH; astute personality with high respect amongst all the industries

---



---

## DRBM Corporate Consulting Private Limited

---

### MUMBAI

Sh. No. 1, Shingre Chawl, Azad Road,  
Andheri (East), Mumbai - 400093 MH  
Main: +91-22-26875900 | Fax: +91-22-26875700  
Cell: +91-9702012725

---

### AURANGABAD

2nd Floor, Yashodhan, Pl. No. 10,  
Bhagyanagar, CBS Road, Aurangabad - 431001 MH  
Main: +91-240-2345864, 2333282  
Fax: +91-240-2328968

---

### PUNE

Office No. 401, Centre Point, Plot No. 491,  
Mitramandal Square, Parvati, Pune - 411009 MH  
Cell: +91-9423781746

---

Visit us at: [www.drbm.in](http://www.drbm.in)

Write to us at: [info@drbm.in](mailto:info@drbm.in)

Follow us on Social Media:



### DISCLAIMER:

This document contains the information derived from different sources and is intended to be used for general informative purpose only. It is not to be used for any kind of professional judgement / advice of any sort. Neither DRBM Corporate Consulting Private Limited ('DRBM'); nor any of its representatives accept any kind of responsibility for any loss occurring due to use of this document. The opinions and views expressed in this document represent the author and do not necessarily represent DRBM. The content of this document must be viewed in the context of time in which this document has been drafted.

---

May 2017

© DRBM Corporate Consulting Private Limited  
All rights reserved

---