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Government of India
Ministry of Communications and Information Technology
Department of Electronics and Information Technology (DeitY)

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Guidelines on Research and Development (R&D) expenditure under the Modified Special Incentive Package Scheme for Electronics System Design and Manufacturing Sector

1. Background

- 1.1 The Modified Special Incentive Package Scheme (M-SIPS) hereinafter called 'Scheme' to encourage investments in the Electronics System Design and Manufacturing sector in India was notified vide Notification No.175 dated 27.07.2012 in Part-I, Section 1 of the Gazette of India (Extraordinary) [F.No.24(10) –IPHW].
- 1.2 In pursuance of paragraph 6.2 of the said notification and for the effective functioning of the M-SIPS Appraisal Committee (AC), M-SIPS guidelines dated 07th October 2012 were laid down.
- 1.3 As per Para 3.4 of the said notification, "the capital expenditure will be the total capital expenditure in land, building, plant & machinery and technology including Research and Development (R&D)". Further as per clause 2.3 (d), definition of capital expenditure under M-SIPS guidelines includes "expenditure on plant, machinery and equipment, tools, dies, moulds, jigs, fixtures and parts, accessories, components, spares required for in-house and captive Research and Development including associated software costs and software license fees; purchase of technology, IPRs, patents, copyrights shall be treated as part of the capital expenditure. The cost of technology, IPRs, patents, copyrights shall be based on auditors' certificate, purchase agreements and assessment by the technical experts".
- 1.4 In furtherance of this, these Guidelines provide elaborate instructions with respect to dealing with expenditure related to Research & Development activities by potential M-SIPS applicants.

2. Scope of Research and Development

- 2.1 The purpose of M-SIPS is to offset disability and to promote large scale manufacturing in the Electronic System Design and Manufacturing (ESDM) sector. Hence, only proposals wherein R & D leading to manufacturing of products would be considered eligible for incentives under the Scheme. Standalone R&D units will not be eligible for subsidy under the scheme.
- 2.2 R&D expenditure should be related to the product for which M-SIPS application is made. The term "related" here refers to all stages in the entire value chain of the product proposed to be manufactured including software integral for the functioning of the product.

2.3 All expenditure directly attributable to product development will be considered R&D expenditure. Examples of product development costs are:

- a) Capital equipment, including purchase of design tools, software costs (directly used for R&D) and licence fees, technology, IPR, Patents and Copyrights for R&D;
- b) expenditure on materials and services used or consumed for prototype development;
- c) the salaries, wages and other employment related costs of personnel directly engaged in product development activities;
- d) any other expenditure that is directly attributable to product development, such as fees to register a legal right.

3. Eligibility Criteria

3.1 Any application for claiming subsidy for R&D expenditure should have an eligible proposal under M-SIPS for manufacturing as well. R&D expenditure should be a part of the overall M-SIPS application and not exceed 50% of the approved project cost.

3.2 In case the expenditure on R&D exceeds 20% of the total project cost,

- a) The applicant's in-house R&D unit must hold valid recognition by the Department of Scientific & Industrial Research (DSIR) at the time of application. In such cases, the applicant must undertake to provide valid renewal of recognition of its in-house R&D units by DSIR for the entire duration of its project under the Scheme.
- b) IPR generated from the R&D activities should be in the name of the applicant. The applicant to submit an undertaking to this effect at the time of application. At the time of claiming reimbursement for R&D expenses, applicant to submit necessary documents in this regard.

4. Extent of support for R&D expenditure

4.1 R&D expenditure should not to be in excess of 50% of the approved project cost.

4.2 In case a project is proposed to be implemented in more than one phases, then R&D expenditure eligible for incentives under M-SIPS for any phase would be equal to or less than 50% of the cost approved for that particular phase.

4.3 Expenditure related to the salaries, wages and other employment related costs of personnel directly engaged in product development activities should be capped at 15% of the eligible R&D expenditure for each of the phases of the project.

4.4 The Technical Evaluation Committee (TEC) would evaluate the proposal for expenditure on R&D. The scope of evaluation by TEC would be the following:

- a) Ascertain whether the proposed R&D activities relate to the manufacturing of the products under the proposed project
- b) Ascertain whether the proposed R&D activities relate to the manufacturing of the products under the proposed project
- c) Assess whether the machinery & equipment, technology and manpower proposed are commensurate with the R&D activities proposed.

5. Others

- 5.1 The applicant to provide an undertaking that it has not obtained or applied for grant or assistance for the same purpose or activity from any entity other than the State Government or any of its agencies or local bodies.
- 5.2 The applicant to provide a CA certificate regarding expenditure incurred towards R&D activities.
- 5.3 The applicant to provide information relating to success ratio of past R&D activities, information on R&D projects in the following period(s) as stipulated by DSIR, annual outlays on R&D activities both, revenue and capital expenditure for past 4 years.



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To,

1. All concerned Ministries/Departments of Govt. of India
2. Cabinet Secretariat
3. Comptroller & Auditor General of India
4. PMO
5. Members of Appraisal committee (M-SIPS)
6. Members of various Technical Evaluation Committees (M-SIPS)
7. JS&FA, DeitY
8. OSD to secretary, DeitY

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