



Newsflash - India's R&D Tax Incentives & Policy Outlook 2025

India's R&D Tax Incentives & Policy Outlook 2025

*For Circulation
25 August 2025*

As India moves toward becoming a global R&D powerhouse, the government has introduced multiple tax incentives, customs benefits, and funding schemes to drive innovation. In 2025, India's focus on research in AI, semiconductors, green energy, and deep-tech has positioned it as a strong competitor among the world's leading economies. This guide breaks down key R&D tax benefits, government schemes, compliance factors, and how India compares with the top 10 economies.



1.0 R&D Tax Incentives in India (2025)

1.1 Corporate Tax Benefits

- a. **Section 35 of the Income Tax Act, 1961 – Key deductions for R&D expenses:** 100% deduction on in-house R&D expenses (excluding land and buildings) for companies approved by the Department of Scientific and Industrial Research (DSIR). 100% deduction on contributions to scientific research institutions and universities.
- b. **Patent Box Regime (Section 115BBF):** 10% concessional tax rate on royalty income from patents developed and registered in India. Companies that opt for this regime must continue to use it for 5 years
- c. **Start-up Tax Exemptions (Section 80-IAC):** Recognized start-ups in innovation-based R&D get a 100% tax exemption on profits for three consecutive years (within the first 10 years of incorporation). Finance Act 2025 even extended the incorporation deadline for eligible startups to 31 March 2030, expanding the pool of entities that can use this benefit

1.2 GST & Customs Duty Exemptions

- a. **Lower GST on R&D Equipment:** 5% GST rate on research equipment for DSIR-approved institutions. Input Tax Credit (ITC) is available for R&D used in taxable supplies.
- b. **Customs Duty Exemptions:** Zero or reduced import duty on R&D-related capital goods and consumables. EPCG scheme allows start-ups to import equipment at concessional rates.

2.0 Government Schemes & Funding for R&D (2025)

2.1 Major R&D Incentive Funds

- a. **Rs. 1 trillion (\$12 Billion) R&D Fund:** The scheme, approved by the Cabinet in July 2025, will offer Long-term, interest-free loans for high-tech R&D in AI, semiconductors, and deep-tech industries.

The scheme is designed to address gaps in private-sector R&D investment by offering long-term loans at low or nil interest rates, as well as equity support. It will also fund the acquisition of critical

technologies to strengthen India's domestic capabilities in globally competitive areas such as artificial intelligence (AI), green technologies, and deep-tech innovation.

This initiative follows the government's vision to position India as a global innovation leader by enabling the commercialisation of research through robust financial backing.

- b. National Research Foundation (NRF) – Rs. 50,000 Crore (\$6 Billion) (2023-28):** The National Research Foundation, established by an Act of Parliament in 2023, is a landmark initiative to bolster India's research ecosystem. It comes with a ₹50,000 crore (~ \$6 billion) budget over five years. NRF's mandate is to fund and facilitate collaborative research between academia, industry, and government.

2.2 Sector-Specific R&D Incentives

- a. Production-Linked Incentive (PLI) for R&D:** Financial incentives of 4-6% of incremental sales for companies investing in local R&D in:
 - i. Semiconductors
 - ii. Pharmaceuticals & Biotech
 - iii. Electric Vehicles & Green Energy
- b. Biotech & Pharma R&D Support:** BIRAC Grants – Funding for biotech start-ups & healthcare research.
- c. Technology Development Fund (DRDO):** Grants for defence start-ups and MSMEs developing indigenous technologies. It provides funding upto Rs 10 Crores (through Grant-in-Aid), mentoring, testing, monitoring and all types of support required to get a quality 'Made in India' product,
- d. Green Hydrogen & Renewable Energy R&D:** 40% accelerated depreciation on R&D investments in clean energy solutions.

3.0 Intellectual Property (IP) Incentives and Reforms

- a.** The government offers an 80% fee reduction in official patent fees for startups, MSMEs, and also for educational institutions.
- b.** Similarly, design patents have a 75% fee discount for MSMEs and startups, and trademarks filings a 50% reduction.
- c.** Provision of Expedited Examination of Patent application has been introduced for Startups, MSMEs, Female Applicants, and Government Institutions/ Departments/ PSUs, applicants electing India an authority for international applications etc. under Rule 24(C) of Patents rules, 2003 (as amended).
- d.** Provision of Expedited Examination of Trade Mark applications is applicable to all category of the applicants

4.0 Global Comparison: India's Position on R&D Incentives (2025)

4.1 India's R&D Spending vs. Global Leaders

Key Takeaway: Despite improvements, India lags behind leading R&D nations in spending as a % of GDP. In recent years, India's gross domestic expenditure on R&D (GERD) has been around 0.64%-0.7% of GDP which is below global average and lower than countries like China, South Korea and US. However, the government-backed investments such as Rs. 1 Trillion R&D Fund are set to bridge this gap.

5.0 Compliance & Regulatory Considerations for R&D Tax Benefits

5.1 DSIR Approval for R&D Tax Benefits

- a. Companies must register with DSIR to claim Section 35(2AB) deductions.
- b. Annual R&D reports must be submitted to maintain eligibility.

5.2 Foreign Direct Investment (FDI) in R&D

- a. 100% FDI allowed under automatic route for most R&D sectors.
- b. Restrictions apply in defence & strategic technologies.

5.3 Patent & IP Incentives

- a. Lower patent filing fees for start-ups & MSMEs.
- b. Tax concessions (10%) on patent-generated revenue.

6.0 Top Global R&D Investments in India (2025)

- a. NXP Semiconductors – \$1 billion expansion for semiconductor R&D.
- b. Micron Technology – \$2.7 billion semiconductor facility in Gujarat.
- c. Microsoft – \$3 billion investment in AI & cloud R&D.
- d. Tesla – Setting up an EV R&D centre in Bengaluru.
- e. Google – AI research hub in Hyderabad (2025).

7.0 Final Thoughts: India's R&D Incentive Outlook for 2025

India is rapidly scaling up its R&D ecosystem, backed by tax deductions, GST/customs exemptions, PLI schemes, and a Rs. 1 trillion innovation fund. While R&D spending is still lower than global leaders, India's focus on AI, semiconductors, green tech, and biotech makes it a key player in high-growth innovation sectors.



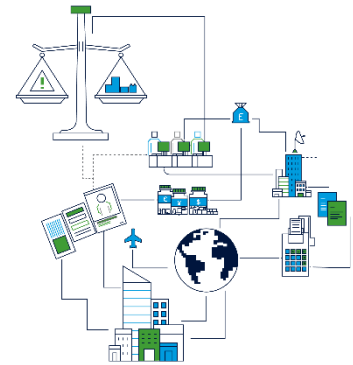
8.0 Why India?

- a. 100% tax deductions on R&D (higher than China, US, UK).
- b. Zero customs duty on select R&D imports.
- c. Massive government-backed funding (Rs. 1 Trillion R&D Fund).
- d. PLI & Start-up India schemes driving innovation.

2025 & Beyond: India's appeal as an R&D destination stems from a unique convergence of factors comprehensive tax incentives, duty exemptions, and substantial government-backed funding, coupled with a vast pool of skilled talent at competitive costs.

The alignment of policy focus with high-growth sectors such as AI, semiconductors, green energy, and biotechnology further strengthens its strategic positioning.

India is well placed to evolve into one of the world's foremost R&D hubs, delivering not just cost advantages but also meaningful innovation at a global scale. With global R&D giants investing heavily, India is on track to becoming a top-5 R&D hub globally.



For further information please contact:

RSM Astute Consulting Pvt. Ltd.

8th Floor, Bakhtawar, 229, Nariman Point, Mumbai - 400021.

T: (91-22) 6108 5555/ 6121 4444

F: (91-22) 6108 5556/ 2287 5771

E: emails@rsmindia.in **W:** www.rsmindia.in

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru, Navi Mumbai, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Jaipur and Vijayanagar.



facebook.com/RSMInIndia



twitter.com/RSM_India



linkedin.com/company/rsm-india



Youtube.com/c/RSMIndia

RSM Astute Consulting Pvt. Ltd. (Including its affiliates) is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London EC4N 6JJ .

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et sec of the Civil Code of Switzerland whose seat is in Zug.

This Newsflash provides an overview of India's R&D tax incentives and policy outlook for 2025. It may be noted that nothing contained in this Newsflash should be regarded as our opinion and facts of each case will need to be analyzed to ascertain thereof and appropriate professional advice should be sought for applicability of legal provisions based on specific facts. We are not responsible for any liability arising from any statements or errors contained in this Newsflash.

This Newsflash is protected under Copyright and Intellectual property laws and regulations

25 August 2025

© RSM India, 2025