The Singapore government has proposed to increase the tax deduction for qualifying expenditure incurred on local R&D activities from 150% to 250% from year of assessment (YA) 2019 to YA 2025.

Various incentive schemes will also be streamlined with the cluster-based approach of the Industry Transformation Maps (ITM).

We provide below a summary of the key changes to incentives and cash grants in the Singapore Budget 2018 that were announced by the Minister of Finance on 19 February 2018.
Enhancing the tax deduction for qualifying expenditure on qualifying R&D projects performed in Singapore

Current

Businesses that have incurred qualifying expenditure on qualifying R&D projects performed in Singapore can claim the following:

► 150% tax deduction for staff costs and consumables incurred
► 100% tax deduction for other qualifying expenditure

Proposed

To support businesses to build their own innovations, the government will increase the tax deduction for staff costs and consumables incurred on qualifying R&D projects performed in Singapore from 150% to 250%.

All other conditions of the scheme remain unchanged.

This change will take effect from YA 2019 to YA 2025.

Points of view

► With the expiry of the 400% tax deduction on qualifying R&D staff costs and consumables expenditure under the Productivity and Innovation Credit Scheme (PIC) post YA 2018, the proposal to increase the total tax deduction for qualifying local R&D expenditure from 150% to 250% will be a welcome relief for businesses as they seek to build their own innovations and enhance their competitive advantages through R&D.

► Unlike the PIC which capped the 400% R&D tax deduction to the first S$400,000 of qualifying R&D expenditure per YA (thereafter 150% for local R&D expenditure), the proposed 250% R&D tax deduction does not impose a cap on qualifying expenditure. As such, businesses incurring significant R&D expenditure on qualifying R&D projects performed in Singapore will be able to correspondingly enjoy greater benefits.

► Based on the current 17% headline corporate tax rate, a 250% R&D tax deduction will equate to an after tax benefit of 42.5% (i.e., 42.5 cents for every qualifying dollar of R&D expenditure). This rate is comparable to other jurisdictions with attractive R&D tax incentives such as Australia (43.5% for small and medium sized enterprises (SMEs) and 38.5% for large companies), Ireland (37.5%), and the UK (43.7% for SMEs and 8.91% for large companies), and Hong Kong’s recently introduced 200%/300% R&D deduction (49.5% on first HK$2m per year and 33% thereafter).

► However, the proposed 250% R&D tax deduction provides no option for businesses in a tax loss position to cash out their R&D tax deductions, unlike many other jurisdictions such as Australia, Ireland or the UK. As such, the 250% R&D tax deduction may be limited in its effectiveness for small and medium-sized enterprises (SME) and start-ups who may not be in a tax paying position and are relying heavily on cash to finance ongoing R&D efforts.

► Another key difference in comparison to other jurisdictions is the current stringent eligibility criteria and practical burdensome process involved in claiming R&D tax deductions in Singapore, which has created fairly significant uncertainty for businesses in terms of their ability to benefit from the enhanced R&D tax deductions. This issue may detract from the desired outcome of an increase in local R&D activities.

► As the current total R&D tax deduction for local qualifying expenditure under sections 14D/DA(1) of the Income Tax Act (ITA) is 150%, the discretionary 200% R&D tax deduction under section 14E of the ITA has been an attractive alternative for taxpayers. The proposed increase of the section 14D/DA(1) tax deduction to 250% will reduce the attractiveness of the section 14E tax deduction and brings into question the continued relevance of the said incentive scheme. In addition, section 14E currently limits the total amount of tax deduction allowed under sections 14, 14D, 14DA and 14E to 200% in respect of each approved project. For section 14E to continue to be a meaningful alternative incentive for R&D, refinements may be required to remove the limitation to the 200% tax deduction.
Enhance the tax deduction for costs on protecting intellectual property (IP)

Current
Businesses that have incurred qualifying IP registration costs can claim 100% tax deduction under section 14A(1) of the ITA on such costs.

The scheme is scheduled to lapse after YA 2020.

Proposed
To encourage businesses, in particular smaller ones, to register and protect their IPs, the government will:

► Extend the scheme till YA 2025
► Enhance the tax deduction to 200% for the first S$100,000 of qualifying IP registration costs incurred for each YA

This change will take effect from YA 2019 to YA 2025.

Points of view
► The current PIC scheme, which will lapse after YA 2018, provides enhanced deduction or cash conversion benefit (subject to certain caps) on qualifying IP registration costs. The proposed enhanced deduction, which is scheduled to take effect from YA 2019, will be welcomed by businesses.

► The proposed enhanced deduction has a lower qualifying expenditure cap, as compared to the PIC scheme. This appears to be in line with the government’s objective of encouraging smaller businesses to register and protect their IPs. Having said that, it is noted that the cash conversion option under the PIC scheme, which is commonly elected by small enterprises, is not available under the proposed scheme.

► The current legislation requires the claimant to be the legal and economic owner of the IP upon registration. This raises the question of whether the legal and economic ownership condition can still be fulfilled if the claimant is not successful in its application for IP registration. In the context of PIC, the Inland Revenue Authority of Singapore (IRAS) had provided clarifications that PIC benefits are granted regardless of the outcome of the application as long as the business has incurred the qualifying registration cost. A similar clarification by the IRAS on the proposed enhanced deduction will help to eliminate the uncertainty.

► Based on the existing section 14A(1) of the ITA, the 100% tax deduction is available to “a person carrying on a trade or business”. Partnership is not included in the definition of “person” under the ITA. A separate provision under section 14A specifically allows partnerships to claim PIC enhanced deductions. It is hoped that the proposed enhanced deduction will be made available to all businesses including partnerships.

► The current legislation imposes a claw back requirement for the 100% tax deduction if the claimant sells, transfers or assigns all or any part of the qualifying IP that is subject to claim. The enhanced deductions under PIC are clawed back only if the claimant sells, transfers or assigns all or any part of the qualifying IP or the application for the registration or grant of the qualifying IP for which such costs were incurred, within one year from the date of filing the application. We await further details on whether and how claw back of the proposed enhanced deduction will apply.

Enhance the tax deduction for costs on IP in-licensing

Current
Businesses that have incurred qualifying IP in-licensing costs can claim 100% tax deduction under sections 14 or 14D of the ITA on such costs.

Proposed
To support businesses to buy and use new solutions, the government will enhance the tax deduction from 100% to 200% for the first S$100,000 of qualifying IP in-licensing costs incurred for each YA.

Qualifying IP in-licensing costs include payments made by a qualifying person to publicly funded research performers or other businesses, but exclude related party licensing payments, or payments for IP where any allowance was previously made to that person.

This change will take effect from YA 2019 to YA 2025.

Points of view
► The proposed enhanced tax deduction from YA 2019 is welcomed, in view of the expiry of the PIC scheme in YA 2018.

► Under the PIC scheme, all businesses are allowed to claim PIC benefits on qualifying IP in-licensing costs incurred for use in their trade or business, subject to other PIC conditions. The proposed enhanced tax deduction is applicable to qualifying IP in-licensing costs made by a qualifying person. To facilitate the adoption of technology and innovation by all firms, it is hoped that the definition of qualifying persons be flexible enough to cover all types of businesses or business forms. Under the current ITA definition, persons do not include partnerships.
The IRAS has clarified that qualifying IP in-licensing covers patents, copyrights, registered designs, geographical indications, lay-out designs of integrated circuit, trade secrets or information that has commercial value, and plant varieties. Trademarks and any rights to the use of software are excluded.

The IRAS has also clarified that qualifying IP licensing costs will exclude any part of the costs which is subsidised by grants or subsidies from the government or a statutory board, cost on transfer of ownership of the rights as well as legal fees and other costs related to the licensing of each right.

From an implementation perspective, it will be helpful if interested persons may approach a designated government body for a published list of qualifying publicly funded research performers and the IP that may be available for in-licensing.

Apart from qualifying IP in-licensing payments made to publicly funded research performers, the proposed enhanced tax deduction also extends to qualifying IP in-licensing payments made to other businesses. To encourage the in-licensing of a wider range of IP, other businesses should include overseas IP owners.

IP in-licensing payments made to non-Singapore tax residents are subjected to Singapore withholding tax (WHT) at 10% under the ITA. As the proposed enhanced tax deduction is targeted at smaller companies, which may likely be made to bear the WHT, it will further incentivise such smaller companies to in-license IP if Singapore WHT is exempted on qualifying IP in-licensing payments.

Enhancing the Double Tax Deduction for Internationalisation (DTDi) scheme

Current

Under the DTDi scheme, businesses are allowed tax deduction of 200%, on qualifying market expansion and investment development expenses under sections 14B and 14K of the ITA, subject to approval from International Enterprise (IE) Singapore or Singapore Tourism Board (STB).

No prior approval is needed from IE Singapore or STB for tax deduction on the first $100,000 of qualifying expenses incurred from 1 April 2012 to 31 March 2020 on the following activities:

- Overseas business development trips or missions
- Overseas investment study trips or missions
- Participation in overseas trade fairs
- Participation in approved local trade fairs

Proposed

To further encourage internationalisation, the $100,000 expenditure cap for claims without prior approval from IE Singapore or STB will be raised to $150,000 per YA. Businesses can continue to apply to IE Singapore or STB on qualifying expenses exceeding $150,000, or on expenses incurred on other qualifying activities.

All other conditions of the scheme remain the same. This change will apply to qualifying expenses incurred on or after YA 2019.

IE Singapore and STB will release further details of the change by April 2018.

Points of view

- The enhancement of the DTDi scheme expenditure cap is to further support businesses to internationalise. This will be welcomed by businesses especially SMEs, which have been increasingly looking towards internationalisation as a growth strategy as they continue to face rising costs and manpower pressures in Singapore.

- It is noted that the proposed enhancement will take effect before the qualifying expenditure period lapses from 1 April 2020. In the absence of any announcement of the extension of the qualifying period, it appears that the proposed enhancement is only available for a short period from YA 2019 to 31 March 2020.

- The scheme is currently not available to companies that are already enjoying other forms of tax incentives or concessions (such as Finance & Treasury Centre Incentive, Global Trader Programme and Investment Allowance). This restriction remains unless specific approval is granted.
Support for firms to build capabilities and forge partnerships

Prior to the Budget 2018 announcement, there are significant complexities and overlaps in objectives, support mechanisms and qualifying costs or activities between the different grant schemes as shown in the following:

**Current**

<table>
<thead>
<tr>
<th>Types of grant</th>
<th>Objectives</th>
<th>Support levels</th>
<th>Qualifying cost categories or support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capability Development Grant (CDG)</td>
<td>Support SMEs to scale up business capabilities, ensure business sustainability and support future efforts in areas of partnerships, product diversification and internationalisation. Focus areas include: ▶ Branding and marketing ▶ Product development ▶ Enhancing business processes for productivity ▶ Intellectual property ▶ Business model transformation</td>
<td>Cash grants defray up to 70% of qualifying costs</td>
<td>Manpower, consultancy, training, certification and equipment costs</td>
</tr>
<tr>
<td>Global Company Partnership (GCP)</td>
<td>Support companies in internationalisation efforts Focus areas include: ▶ Market access ▶ Manpower development ▶ Overseas market promotion ▶ Capability building</td>
<td>Cash grants defrays up to 50% or 70% of qualifying costs</td>
<td>Manpower, overseas office rental and consultancy services</td>
</tr>
</tbody>
</table>

**Proposed**

CDG and GCP grants will be combined into the Enterprise Development Grant (EDG). The EDG will provide funding support for up to 70% of qualifying costs from financial year (FY) 2018 to FY 2019. EDG will be administered by Enterprise Singapore (ESG).
Current

Even with the conclusion of the PIC Automation scheme effective from YA 2018, there are a number of existing schemes that support the companies' adoption of pre-approved digital technologies, consulting and infocomm technology solutions including iSPRINT and SMEs Go Digital Programme (pre-approved technology solutions). Some of these schemes may be consolidated into the new Productivity Solutions Grant (PSG).

Proposed

The existing grant schemes that support pre-scoped, off-the-shelf productivity solutions will be streamlined into one PSG. The PSG will provide funding support for up to 70% of qualifying costs.

Current

<table>
<thead>
<tr>
<th>Types of grant</th>
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</tr>
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</table>
| Partnerships for Capability Transformation (PACT) Programme (SPRING and EDB) | To identify and implement collaborative projects between the large organisations (LO) and local SMEs in areas of:  
  ▶ Knowledge transfer from an LO to at least one SME  
  ▶ Capability upgrading of an LO's new or existing suppliers  
  ▶ Development and test-bedding of innovative solutions between an LO and at least one SME | Up to 70% funding support for qualifying costs | Manpower-related costs  
Professional services  
Prototyping-related services  
Technical support services  
Equipment, materials, consumables and software IP acquisition |
| Collaborative Industry Projects (CIP)       | Supports collaborations between enterprises and industry partners, such as Trade Associations and Chambers, to source for suitable solutions to help overcome industry-specific business challenges | Up to 50% or 70% funding support | Solutions development and adoption costs  
Software-and equipment-related project cost |

Proposed

The existing PACT (SPRING and EDB) and the CIP will be combined into the PACT scheme. PACT will provide funding support of up to 70% of qualifying costs, for collaborations between companies in areas including capability upgrading, business development and internationalisation. PACT will be administered by EDB and ESG.
Points of view

In his budget speech, the Finance Minister reiterated the need to take a more cluster-based approach in the next phase of Singapore’s ITM journey - to reap synergies, strengthen linkages across multiple industries, and to explore potential new opportunities.

The move to merge SPRING and IE Singapore into ESG will enable a holistic approach towards developing the SMEs and allow a more integrated support for them to internationalise, develop capabilities, and ultimately be more competitive both locally and abroad.

Aligned with the cluster-based approach of the ITMs and the creation of ESG, the proposed streamlining of the various incentive schemes into the three key pillar schemes namely the PACT, EDB and PSG, will minimise overlaps and confusion amongst companies, particularly the SMEs, who may not have the resource nor bandwidth to navigate the intricacies of the various schemes.

The three key grant support schemes are targeted at supporting companies through the different stages of their growth, within the ITM:

► Industry ecosystem partnership: The PACT scheme is aimed at leveraging large organisations as demand and technology drivers to upgrade the capabilities of other smaller Singapore-based companies. Through this process the government hopes to enhance collaborations and encourage knowledge or technology transfer.

► Business excellence: The EDG will help companies to develop or enhance their internal organisational, innovation and international market capabilities. Through this scheme, companies can accelerate their internationalisation efforts and build differentiating competencies that would allow them to win in the global market.

► Automation or digital capability enhancement: The PSG will help companies that are currently smaller and lack economies of scale to cost-effectively implement standard solutions to improve their current process or capabilities through technology adoption. The PSG would likely be targeted at adoption of digital and automation solutions for these companies.

The budget of more than S$800m that has been set aside for these schemes demonstrates the growing recognition that all companies, in particular SMEs, play a significant role in achieving success on the ITMs. The streamlining of the various incentive schemes, which will simplify the process and minimise confusion, is a step in the right direction to accelerate the growth of these SMEs.
Extend the Investment Allowance (IA) scheme to include qualifying investment in submarine cable systems landing in Singapore

Current
Capital expenditure incurred on submarine cable systems does not qualify for IA.

Proposed
To strengthen Singapore’s position as a leading digital connectivity hub, the government will extend the IA scheme in respect of productive equipment to capital expenditure incurred on newly-constructed strategic submarine cable systems landing in Singapore, subject to qualifying conditions.

All other conditions of the IA scheme apply, except for the following that will be permitted:
► The submarine cable systems can be used outside Singapore.
► The submarine cable systems, on which IA has been granted, can be leased out under the indefeasible rights of use (IRU) arrangements. This change will take effect for capital expenditure incurred between 20 February 2018 and 31 December 2023, inclusive of both dates.

Points of view
► The proposed extension of the IA scheme to capital expenditure incurred on submarine cable systems landing in Singapore demonstrates the government’s commitment to encourage new and strategic infrastructure for digital connectivity to support the emergence and adoption of new technologies.
► Currently, IA grants an additional allowance based on a specified percentage not exceeding 100% of the capital expenditure incurred on specified items on an approved project. To further incentivise and spur e-commerce and digital activities across the industry, it is hoped that the percentage of IA claim under the proposed extension can be up to 100% of the capital expenditure.
► The eligibility for the current IA scheme is subject to the following restrictions:
  ► The productive equipment needs to be used in Singapore (except where specific approval is given for the equipment to be used outside Singapore, such as capital expenditure incurred for a project for the operation of any space satellite).
  ► The productive equipment cannot be sold, leased out or disposed during the IA qualifying period or within two years after the end of the qualifying period.
► Under the proposed extension, the permissions granted for the submarine cable systems to be used outside Singapore and to be leased out under the IRU arrangements will allow the grantors of IRUs who incur the capital expenditure on the submarine cable systems landing in Singapore to benefit from this incentive scheme. However, the current restriction under the IA scheme on the sale, lease or disposal of the productive equipment on which IA is granted should continue to apply.
► Section 19D of the ITA defines “international telecommunications submarine cable system” to be an international submarine cable that is laid in the sea and includes its cable landing station and any other equipment ancillary to the submarine cable system. The proposed extension raises the following questions:
  ► What is the definition of “newly-constructed strategic submarine cable systems landing in Singapore”?
  ► What is considered strategic?
  ► Can equipment ancillary to the submarine cable system be covered under the extension of the IA scheme?
  ► Can capital expenditure incurred to upgrade or enhance any existing submarine cable systems landing in Singapore be covered under the extended IA scheme?
  ► What other conditions must be met in order to qualify for the extended IA scheme?
► It is noted that the sunset clause of the proposed IA’s coverage on capital expenditure incurred in relation to submarine cable systems is set as the same date for other projects under the IA scheme as provided under the current legislation.

Contact us
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