13 May 2024

Tax update

Enterprise Innovation Scheme

As a recap, under the Enterprise Innovation Scheme (EIS), eligible businesses will benefit from enhanced or new tax deductions and allowances on qualifying expenditure incurred during the basis periods for Year of Assessment (YA) 2024 to YA 2028. In addition, eligible businesses may opt to convert the qualifying expenditure into a non-taxable cash payout.

In view of the upcoming YA 2024 income tax return filings, we provide an update of this new scheme and highlight some of the practical considerations relating to the claim for the EIS benefits.

Building a better working world

Background

Sole proprietorships, partnerships, companies (including registered business trusts), registered branches and subsidiaries of a foreign parent or holding company (collectively “eligible businesses”) that engage in research and development (R&D), innovation and capability development activities can enjoy a suite of tax measures under the EIS, which is available from YA 2024 to YA 2028. The benefits under EIS take the form of enhanced tax deductions or allowances, or cash payout conversion.

Enhanced deduction and allowance

The EIS provides for 400% tax deduction (or allowance in the case of acquisition of intellectual property (IP) rights) on the first S$400,000 of qualifying expenditure incurred per YA for each category of activities listed in the table below, with the exception of innovation projects with partner institutions. For the latter, the 400% tax deduction is available on the first S$50,000 of qualifying expenditure incurred on qualifying innovation projects per YA. The 400% tax deduction or allowance is inclusive of the 100% base deduction or allowances allowable under the prevailing income tax rules.

The qualifying expenditure for the EIS benefits is the amount incurred less any grant or subsidy received from the Singapore government or statutory board and should exclude any Goods & Services Tax (GST) that is claimable as input tax by GST-registered businesses.

	Activities	Qualifying conditions	Note
(A)	Qualifying R&D undertaken in Singapore	▶ Carry on active business operations in Singapore. ▶ Incurred qualifying expenditure during the basis period of the qualifying YA.	The qualifying R&D carried out in Singapore need not be related to the taxpayer’s existing trade or business and can include outsourced R&D. All other existing eligibility criteria and conditions for tax deduction on qualifying expenditure (e.g., staff costs and consumables) incurred on qualifying R&D projects conducted in Singapore under Section 14C (deduction for qualifying expenditure on R&D) and Section 14D (enhanced deduction for qualifying expenditure on R&D) of the Income Tax Act 1947 (ITA) remain applicable.
(B)	Registration of IP		All other existing eligibility criteria and conditions for tax deduction on qualifying IP registration costs (e.g., official fees and professional fees) under Section 14A (Deduction for costs of protecting IP) remain applicable. Clawback provisions apply if the relevant IPs rights are disposed within one year of acquisition.
(C)	Acquisition and licensing of IP rights		The enhancement will only be available to businesses with annual revenue of less than S$500 million in the basis period of the YA of claim. Acquisition of the legal and economic ownership rights to patents, copyrights, trademarks, registered designs, geographical indications, layout-designs of integrated circuits, trade secrets or information that has commercial value, or the grant of protection of a plant variety (qualifying IP rights) will qualify for enhanced writing down allowances (WDA) under the EIS. In the context of licensing of IP rights, license fees incurred on trademarks and rights to the use of software do not qualify for enhanced tax deductions under the EIS. All other existing eligibility criteria and conditions for tax deduction or allowance on licensing and acquisition of IP rights under Section 14U (enhanced deduction for expenditure on licensing IP rights) and Section 19B (WDA for capital expenditure on acquiring IP rights) respectively remain applicable. Clawback provisions apply If the relevant IP rights are disposed within one year of acquisition. The one-year minimum ownership period for the acquired IP rights does not apply to licensing of IP rights.

(D)	Training that are eligible for SkillsFuture Singapore (SSG) funding and aligned with the Skills Framework		Qualifying expenditure relates to course fees paid by employers (whether directly or in the form of reimbursement) to a SSG-funded course provider, including certification fees and assessment fees. The list of courses that are eligible is available on go.gov.sg/eis-training. All other existing eligibility criteria and conditions for tax deduction on training expenditure remain applicable, including the new Section 14ZG.
(E)	Innovation with partner institutions* * Current list includes local polytechnics, Institute of Technical Education (ITE), and Precision Engineering Centre of Innovation at A*STAR SIMTech		Qualifying innovation projects with partner institutions refer to projects that predominantly involve one or more of the following innovation activities: ► Research and experimental development activities. ► Engineering, design and other creative work activities. ► IP-related activities. ► Software development and database activities. The relevant partner institutions will validate the project as a qualifying innovation project and issue the innovation project invoice. Expenditure incurred outside of the collaboration with the partner institution will not qualify for this tax deduction. The eligible business needs to be the beneficiary of the qualifying innovation project. The above is covered in the new Section 14EA of the ITA.

Cash payout conversion

In lieu of deduction or allowance, eligible businesses can opt for a non-taxable cash payout at a conversion ratio of 20% on up to S$100,000 of total qualifying expenditure per YA across all qualifying activities. The cash payout option is capped at S$20,000 per YA and each cash payout application is subject to a minimum expenditure of S$400. The election is available on an annual basis and is irrevocable once exercised.

	Activities	Qualifying conditions	Note
(A)	Qualifying R&D undertaken in Singapore	► Carry on active business operations in Singapore and did not cease business at the time of disbursement of the cash payout. ► Incurred qualifying expenditure during the basis period of the qualifying YA. ► Meet the three full-time local employee condition. ► File the income tax return for the respective YA before the statutory filing due date.	Partial cash conversion is allowed for qualifying R&D undertaken in Singapore, licensing of IP rights, training and innovation projects carried out with partner institutions. Partial cash conversion is not allowed for registration of IPs and acquisition of IP rights. For registration of IPs and acquisition of IP rights, the option to convert qualifying expenditure into a cash payout will be on a per IP registration or per IP right basis. Any cost incurred on IP registration or acquisition of IP rights that is in excess of the S$100,000 expenditure cap will be forfeited and will not be available for deduction. Once an amount of qualifying expenditure is converted into cash, the same amount is no longer available for tax deductions or allowances.
(B)	Registration of IP		
(C)	Acquisition and licensing of IP rights		
(D)	Training that are eligible for SSG funding and aligned with the Skills Framework		
(E)	Innovation with partner institutions		

Practical considerations to take note of when considering the EIS

- Businesses need to carefully evaluate the various pre-existing eligibility criteria and post claim conditions for each qualifying EIS activity, where applicable. Some of these come with additional administrative requirements, which may not be straightforward or are time sensitive. We have listed some of these additional considerations below but note that these are by no means exhaustive. It is important that businesses plan ahead and factor in additional time and resource to make a claim under the EIS or seek separate advice from their tax advisors where necessary.
    - For R&D projects undertaken in Singapore, it is the onus of the eligible businesses to ensure that their projects qualify as R&D, as defined in the ITA, if they wish to enjoy the base and enhanced R&D deductions. The claim will need to be supplemented with the details of each project in the relevant R&D claim form. Qualifying R&D expenditure in excess of S$400,000 may enjoy an additional 150% tax deduction under Section 14D(1) of the ITA.
    - For acquisition of IP rights, eligible businesses will need to complete the relevant Section 19B WDA declaration form and submit third party valuation reports if the capital expenditure incurred to acquire the IP rights is at least S$500,000. Businesses that are granted waiver of the legal ownership requirement in respect of its qualifying IP rights would be allowed to claim the 100% deduction or allowance under Section 14A or Section 19B but would not be able to enjoy the additional 300% deduction or allowance under the EIS.
    - Eligible businesses may claim EIS benefits on qualifying IP rights in respect of software acquired (e.g., software copyright rights) for use in its own business. However, it will not be entitled to EIS benefits if the IP rights in respect of software are acquired for the purpose of licensing. Further, if a business had been granted WDA under Section 19B on a qualifying IP right previously, it cannot claim enhanced deductions under the EIS for expenditure incurred on the licensing of the same IP right.
    - Special provisions apply in determining the enhanced WDA or cash payouts on qualifying IP rights acquired under instalment arrangements, including the completion of Instalment Arrangement Template for Acquisition of IP rights Form for the Inland Revenue Authority of Singapore (IRAS) to disburse the cash payout, which takes into account the amount of principal sum repaid in each YA.
    - Where EIS benefits are claimed on the registration or acquisition of IP rights, eligible businesses need to ensure that those IP rights are not disposed within one year to avoid a claw back of the EIS benefits. Otherwise, they should ensure that the EIS – Disposal of IPRs Form is submitted to the IRAS within 30 days from the disposal date (if cash payout is elected), or together with the income tax return for the relevant YA of disposal (if enhanced WDA is claimed). Penalties may apply if the business does not comply with the notification requirement.
    - The enhanced deduction for qualifying training expenditure is applicable on courses that are eligible for SSG funding and aligned with the Skills Framework. In-house or internal training will not qualify. In addition, no EIS benefits will be granted on qualifying training expenditure reimbursed by an employer to an employee if the amount reimbursed relates to that part of the qualifying training expenditure paid by an employee using his individual SkillsFuture Credit.
    - For qualifying innovation projects with partner institutions, if the qualifying expenditure is also eligible for R&D deductions under Sections 14C or 14D and the eligible business makes a claim for EIS under Section 14EA, no deduction under Section 14C or 14D is allowed to that eligible business on whole or any part of the qualifying expenditure.
    - Eligible businesses claiming enhanced tax deductions or allowances will have to make the claims in their respective income tax returns by the tax filing due dates for the relevant YA. However, for the cash payout option, an election will need to be made after the eligible business submits its income tax return and before the income tax filing due dates for the relevant YA. This means that those who wish to elect for the cash payout conversion will have to buffer in additional time to make the election. The eligible business must also ensure that it remains active at the time of disbursement of cash payout (i.e., not considered to have ceased business operations).
    - The cash payout conversion may be more attractive for eligible businesses that have yet to turn profitable or do not have sufficient profits to maximise the benefits from the tax deduction. However, they must ensure that they meet the minimum three full-time local employee condition i.e., make Central Provident (CPF) contributions for at least six months during the basis period of the qualifying YA. A full-time employee may include an individual who is deployed to a business under a centralised hiring arrangement or secondment arrangement, subject to conditions.
    - Businesses are expected to maintain adequate records of their qualifying activities and expenditure and provide them to the IRAS upon request (unless otherwise required to be submitted with the claims made). Under the new Section 37S of the ITA, it is an offence to give false information or omission of information or carry out any fraudulent activity in connection with a cash payout election. It is also an offence to claim enhanced deductions or allowances if cash payout conversion is elected on the same qualifying expenditure.

If you would like to know more about the issues discussed or EY services, please contact one of the following or your usual EY contact:

EY tax leaders in Singapore

Head of Tax
Soh Pui Ming
Ernst & Young Solutions LLP
Email: pui.ming.soh@sg.ey.com

Business Tax Services

Private Client Services
Desmond Teo
Ernst & Young Solutions LLP
Email: desmond.teo@sg.ey.com

Tax Policy and Controversy
Angela Tan
Ernst & Young Solutions LLP
Email: angela.tan@sg.ey.com

Global Compliance and Reporting
Chai Wai Fook
Ernst & Young Solutions LLP
Email: wai-fook.chai@sg.ey.com

Financial Services Tax
Stephen Bruce
Ernst & Young Solutions LLP
Email: stephen.bruce@sg.ey.com

Indirect Tax Services
Yeo Kai Eng
Ernst & Young Solutions LLP
Email: kai.eng.yeo@sg.ey.com

People Advisory Services Tax
Panneer Selvam
Ernst & Young Solutions LLP
Email: panneer.selvam@sg.ey.com

International Tax and Transaction Services

International Corporate Tax Advisory
Chester Wee
Ernst & Young Solutions LLP
Email: chester.wee@sg.ey.com

Transfer Pricing
Luis Coronado
Ernst & Young Solutions LLP
Email: luis.coronado@sg.ey.com

Transaction Tax Advisory
Darryl Kinneally
Ernst & Young Solutions LLP
Email: darryl.kinneally@sg.ey.com

Legal Services
(provided by Atlas Asia Law Corporation,
an independent member firm of the global EY network)
Kenneth Cheow
Atlas Asia Law Corporation
Email: kenneth.cheow@atlasasialaw.com.sg

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