You and the Taxman

Singapore Refundable Investment Credit: shaping the future of foreign direct investment

The implementation of Base Erosion and Profit Shifting (BEPS) 2.0 Pillar Two framework has put the attractiveness of traditional tax incentives in question. Under this framework, multinational corporations (MNCs) with annual group turnover exceeding €750mn are subject to a global minimum effective tax rate (ETR) of at least 15%. This effectively nullifies any tax advantages MNCs previously gained through traditional tax incentives that provide for concessionary tax rates.

To address this, the Organisation for Economic Co-operation and Development (OECD) introduced the concept of Qualified Refundable Tax Credits (QRTC). This provides countries with a way to design alternative tax incentive schemes that remain competitive while complying with international tax standards.

QRTCs are refundable tax credits to be paid to qualifying businesses, either in cash or as cash equivalents, within four years of meeting the prescribed conditions under the granting jurisdiction's laws. Unlike traditional tax credits, which reduce tax liability, QRTCs are counted as income when calculating a company’s jurisdictional ETR, allowing them to remain Pillar Two-compliant.

In response, Singapore introduced the Refundable Investment Credit (RIC) that is fully aligned with the QRTC framework. Officially gazetted on 27 November 2024, the RIC aims to position Singapore as a globally competitive tax hub while ensuring compliance with BEPS 2.0.

About the RIC

Now enshrined in Section 93B of the Income Tax Act 1947, the RIC offers tax credits that can be applied against corporate income tax (CIT), including Domestic Top-up Tax and Multinational Enterprise Top-up Tax under Pillar Two, and penalties and surcharges related to CIT. Any unutilised RIC may be carried forward for a specified period or converted into a refundable cash or cash equivalent within four years from its award.

RIC aims to encourage companies to bring in substantive, high-value economic activities to Singapore in key economic sectors. These activities include investing in new productive capacity in manufacturing, implementing decarbonisation solutions, conducting R&D and establishing Centres of Excellence (CoE). Companies applying for RIC will be evaluated based on both quantitative and qualitative criteria, including their economic impact, capability development and track record.

Eligible taxpayers can access tiered support rates of 10%, 30%, or 50% on qualifying expenditures.[1] The support rate will depend on the nature of the project.

- 10%: For projects that lead to new or expanded capabilities or capacity in high value-added economic activities. Minimally, the project needs to involve investments of no less than S$3mn and no less than 8 employees.

- 30%: For projects that extend beyond high value-added economic activities and lead to new or expanded qualifying activities, or deepening of capabilities or capacity in value creation capabilities. Minimally, each project needs to involve investments of no less than S$5mn and no less than 10 employees.

- 50%: For projects that involve investments in best-in-class facilities, operations or lead to new or expanded value capture in the industry ecosystem in Singapore. Minimally, the project needs to involve investments of no less than S$7mn and no less than 18 employees.

Qualifying expenditures refer to costs incurred in Singapore for undertaking qualifying activities during the qualifying period. This may include manpower and capital expenditure. Costs arising from activities involving R&D, commodity trading or ecosystem development may also be treated as qualifying expenditures.

Approved RIC applications will be granted a qualifying period of up to 10 years. The administering authorities are the Singapore Economic Development Board (EDB) and Enterprise Singapore (ESG).

[1] For detailed information, please visit the EDB website: Refundable Investment Credit | Incentives & Schemes | Singapore EDB

How does the RIC compare globally?

Many countries either already have in place QRTC-compliant mechanisms or are looking to introduce the same to mitigate the impact of Pillar Two. Some examples include:

- France: R&D tax credit of 30% on the first €100mn of eligible R&D expenses, with a 5% rate beyond that threshold. Unused credits are refundable after three years.
- Germany: R&D tax credit of 25% on eligible R&D expenses (expenditure is capped at €10mn per year, for expenses incurred after 27 March 2024). Unused tax credits are immediately refundable after the tax year.
- Hungary: Tax credits are capped at 10% of eligible R&D costs and can be paid as a cash grant after three years if unutilised.
- Ireland: 30% R&D tax credit, payable in three instalments (50% in year one, 30% in year two, and 20% in year three), offering an effective tax benefit of 42.5% when combined with Ireland's standard corporate tax deduction.

Unlike most QRTCs, which primarily focus on R&D, it is a unified, multi-sector incentive covering green economy, manufacturing and service-based activities. This broad scope allows multiple economic agencies to align their development objectives, while ensuring flexibility to update the scheme in response to evolving international tax policies.

Leveraging RIC at different stages of business life cycle

Now that the fundamental rules have been set, the success of the RIC incentive would depend on how the scheme will be implemented – an area that businesses investing in Singapore would be keen to understand.

The RIC offers distinct advantages for entities at various stages of their life cycle, whether they are new to Singapore, are established companies, or planning an exit.

- For entities new to Singapore:
  The RIC's refundable cash component offers a unique opportunity to offset initial setup costs. This feature is particularly beneficial for new market entrants, as it provides immediate financial relief and liquidity. This support helps mitigate the financial burden during the critical early stages of establishment, enabling companies to focus on growth and development.
- For existing entities:
  The RIC can be a valuable tool to support various expansion efforts. These efforts may include scaling up production capabilities to meet increasing demand, enhancing service offerings to stay competitive, or investing in innovative technologies and processes to improve efficiency and productivity.

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The versatility of the RIC allows it to be applicable across various industries, each with its own unique opportunities.

A targeted approach to incentives

The EDB and ESG will take a targeted approach in evaluating RIC applications, ensuring that incentives align with Singapore’s economic priorities and create meaningful job opportunities. Businesses applying for the RIC must demonstrate how their investments contribute to Singapore’s long-term economic objectives.

The versatility of the RIC allows it to be applicable across various industries, each with its own unique opportunities. The award of the RIC is at the discretion of the Singapore authorities evaluating the applications. Here are some examples of how companies may explore the RIC to support their investment and expansion plans.

- Headquarters: Businesses planning to establish headquarters offering marketing, global trading and procurement CoE in Singapore can utilise the RIC to defray the initial entity setup costs and development of new and innovative digital AI-enabled platforms to support the CoE.
- Advanced manufacturing: For product development and manufacturing projects with activities such as R&D, designing and prototyping new products, or enhancing production processes to improve efficiency and reduce costs, the RIC benefits may be used to accelerate the development lifecycle or improve the project’s return on investment.
- Digital and technology: Businesses in these sectors can use the RIC benefits to defray the costs of R&D manpower in developing innovative software solutions and building digital platforms, or setup costs in establishing R&D CoEs.

Final considerations

While the RIC is a Singapore-based QRTC scheme, businesses must consider its interaction with foreign tax regulations. For example, US businesses should review how such a tax credit aligns with foreign tax credit calculations and overall US tax liability. European groups should consider the interaction between the RIC and EU's state aid rules.

Finally, while QRTC-compliant schemes are designed to align with Pillar Two requirements, they also highlight the growing global competition for investment. As jurisdictions develop incentives to attract businesses, there may be a risk of a "race to the bottom", where countries continuously increase tax credits to outcompete one another. This could shift the focus away from tax harmonisation towards aggressive fiscal incentives, potentially straining national budgets.

The future remains uncertain. Through the timely and carefully designed RIC, Singapore has demonstrated proactive, bold and innovative thinking to sustain its economic competitiveness in an evolving global landscape.

This article was published in March 2025.

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APAC no. 12003881
ED None

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