

Frequently Asked Questions on Cash Payout Option under the Productivity and Innovation Credit (PIC) Tax Scheme (“PIC Cash Payout”) (Updated as at 16 Apr 2012)

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A1. Overview of the cash payout scheme

1. What is the cash payout?

To support small but growing businesses which may be cash-constrained in innovating and improving productivity, eligible businesses can opt to convert qualifying expenditure to a non-taxable cash payout subject to a cap ("cash payout cap"). The cash conversion rate is 30% for YA 2011 and YA 2012; and 60% for YA 2013, YA 2014 and YA 2015.

For YA 2011 and YA 2012, the maximum cash payout is \$60,000 in total. This is based on a cash conversion rate of 30% on the combined expenditure cap of \$200,000 for all six qualifying activities.

As for YA 2013, YA 2014 and YA 2015, the maximum cash payout is \$60,000 for each YA. This is based on 60% of expenditure cap of \$100,000 for each YA (but not less than \$400) for all six qualifying activities. The cash payout cannot be combined on expenditure across YA 2013 to YA 2015.

2. What is the qualifying period for the cash payout?

The cash payout option is available from YA 2011 to YA 2015.

3. How is the cash payout cap applied?

For sole-proprietorships and companies (including registered business trusts), the cap is applied at the individual or company level; for partnerships, the cap is applied at the partnership level.

4. What is the maximum amount of cash payout I can receive?

For YA 2011 and YA2012, you can convert qualifying expenditure up to \$200,000 (but not less than \$400 for each YA) taken together for the 2 YAs at the rate of 30% for all six qualifying activities. This means you can opt for a total cash payout of up to \$60,000 for two YAs combined.

For YA 2013, YA 2014 and YA 2015, you can convert qualifying expenditure up to a cap of \$100,000 for each YA (but not less than \$400) for all six qualifying activities taken together at the cash conversion rate of 60%. This means you can opt for a total cash payout of up to \$60,000 for each YA.

5. Who is eligible to apply for the cash payout?

Sole-proprietorships, partnerships and companies (including registered business trusts) are eligible as long as they:

- i. incur the qualifying expenditure during the basis period;
- ii. employ at least 3 local employees (Singapore Citizens or Permanent Residents with CPF contributions excluding sole-proprietors, partners under contracts for service and shareholders who are directors of the company); and
- iii. are carrying on business operations.

6. I have incurred wage costs on both my Singaporean and non-Singaporean employees. Am I eligible to apply for the cash payout?

Only employees who are Singaporeans and Permanent Residents will be considered when determining the number of qualifying local employees. Your non-Singaporean employees will not be taken into consideration.

7. I have both full- time and part- time employees. Am I eligible to apply for the cash payout?

Both full-time and part-time employees who are Singaporeans and Permanent Residents will be considered when determining the number of qualifying local employees.

The following groups of people are excluded when determining the number of qualifying employees for the purpose of cash payout:

- Self-employed (this includes sole proprietors and partners under contracts for service)
- Shareholders who are also Directors of companies (as defined in Section 4(1) of the Companies Act).

8. I am self-employed and have contributed to my Medisave Account. Am I considered an employee of the business?

No. As a self-employed, you are the owner of the business and so, cannot be considered an employee of the business. The eligibility of a business to claim the cash payout is based on the number of employees who are not business owners.

9. Is the cash payout taxable?

No, the cash payout is not taxable.

10. Can I convert the qualifying expenditure under PIC into a cash payout if my business still has taxable income?

Yes. However the qualifying expenditure available for computing enhanced allowances / deduction will have to exclude the qualifying expenditure elected to be converted into a cash payout.

11. Is partial conversion of the qualifying expenditure into cash payout allowed?

Partial conversion is not allowed for qualifying expenditure relating to purchase of PIC Automation Equipment, registration and acquisition of IPRs.

For the purchase of PIC Automation Equipment, registration and acquisition of IPRs, you have to decide whether to claim the enhanced allowances/deduction under PIC or to convert such expenditure into a cash payout on a “per equipment”, “per filing” or “per IPR” basis respectively subject to a combined cap of \$200,000 for YA 2011 and YA 2012. The excess expenditure on the same equipment/IPR exceeding the cap will be forfeited and will not qualify for tax allowances/deduction against your income.

Example:

Equipment A is purchased at cost of \$150,000 in YA 2011

Enhanced allowances under PIC = 300% x \$150,000= \$450,000

(Total Capital Allowance = Base Capital Allowance of \$150,000 + Enhanced Capital Allowance under PIC of \$450,000)

You can either claim \$600,000 as capital allowance against your income or opt to convert the qualifying expenditure of \$150,000 into a cash payout.

The cash payout is computed at 30%* of the qualifying expenditure (i.e. 30% x \$150,000 = \$45,000), subject to a cash payout cap of \$60,000 for YA 2011 and YA 2012.

You cannot make a partial conversion, i.e. you cannot apply for a cash payout on the \$100,000 expenditure and claim the remaining \$50,000 expenditure as capital allowance of \$200,000 (400% x \$50,000). If only \$100,000 expenditure is converted to a cash payout, the remaining \$50,000 expenditure will be forfeited.

Conversion of qualifying expenditure into a cash payout on a “per equipment” basis does not apply to lease payments for PIC Automation Equipment.

* The cash conversion rate has been increased to 60% for YA 2013 to YA 2015.

12. Can PIC Automation Equipment acquired on hire purchase qualify for cash payout?

The cash payout option will not be available for assets purchased on hire purchase terms (with repayment schedule straddling two or more basis periods) during the basis period for YA 2011.

As announced in Budget 2012, businesses can opt for cash payout on assets purchased on hire purchase terms, with repayment schedule straddling two or more financial years, for YA 2012 to YA 2015. The amount of cash payout each YA will be computed based on the principal amount paid during the basis period for that YA.

13. Can I claim tax deduction or allowance in my income tax return after the expenditure has been converted into a cash payout?

No. Once you have elected to convert the qualifying expenditure into a cash payout, you cannot claim tax deductions or allowances on the encashed expenditure. Thus you are advised to evaluate carefully before making the election to claim the cash payout.

A2. Applying for the cash payout

14. How do I apply for the cash payout?

You can apply for the cash payout by submitting the completed PIC Cash Payout Application Form to IRAS.

Businesses can now apply for the cash payout after the end of any financial quarter(s) in the business' financial year, but no later than the filing due date of the income tax return for each YA.

15. My company's financial year will end on 31 Dec 2012 (YA 2013). When can I apply for the cash payout? If so, when will I receive the cash payout?

As announced in Budget 2012, companies can now opt for PIC cash payout on a quarterly basis. This means that you can now apply for the cash payout by submitting the PIC Cash Payout Application Form anytime after the end of each financial quarter by 30 Nov 2013 (income tax filing due date for YA 2013).

For example, in July 2012, you can claim your cash payout on qualifying expenditure incurred during the financial quarter from 1 Apr 2012 to 30 Jun 2012. If you submit the PIC Cash Payout Application Form on 15 July 2012 and the claim is approved, you will receive the cash payout by 15 Oct 2012. IRAS generally disburses cash payout within 3 months of receipt of application forms.

In Jan 2013, you can submit your cash payout claim again on qualifying expenditure incurred during the financial quarter from 1 Oct 2012 to 31 Dec 2012.

16. I am submitting my company's Estimated Chargeable Income ("ECI") soon. Do I have to submit any forms (for purposes of PIC) together with the ECI?

You do not need to submit the PIC Cash Payout Application Form together with your company's ECI. If you are claiming the enhanced tax deduction or allowance under PIC, the claim should be made in the tax computation for the relevant YA.

(Note: ECI has to be submitted within 3 months from the company's accounting year-end)

17. Can I submit a facsimile copy of the cash payout application form to IRAS?

No, only the hard copy of the original form, endorsed by the authorised person and sent in to IRAS, will be accepted. The authorised persons who can endorse the form are sole-proprietor for sole-proprietorships; precedent partner for partnerships; and company director or principal officer or a person authorised by the company for companies.

18. What supporting documents do I need to submit with my cash payout application?

The PIC Cash Payout Application Form will need to be submitted together with the relevant annexes. You are not required to submit any supporting documents.

19. What supporting documents of my cash payout claim do I need to retain for IRAS' verification?

You should retain supporting documents in relation to the claim for cash payout, such as sales invoices, declaration or approval letters from external agencies, CPF record of payment for IRAS' verification.

For sole-proprietorships

20. When can I submit my claim for cash payout if I am a sole-proprietor with multiple sole-proprietorships?

As a sole-proprietor is only required to submit one PIC Cash Payout Application form for the multiple sole-proprietorships that have incurred qualifying expenditures, please submit the claim form and the relevant annexes after the accounting period of all the businesses have ended.

As announced in Budget 2012, businesses can now apply for the cash payout on a quarterly basis. The form can be submitted after the end of any financial quarter(s) in the business' financial year, but no later than the filing due date of income tax return for each YA.

21. If I have more than one sole-proprietorship, how many claim forms must I submit?

You only need to submit one claim form for all your sole-proprietorships as the cash payout is capped at the sole-proprietor level. However separate annexes for claims relating to each individual sole-proprietorship will need to be submitted together with the claim form.

22. I am not required to file certified statement of accounts for income tax purposes for both my sole-proprietorship and partnership as both businesses have revenue of less than \$500,000 each. Do I have to submit certified statement of accounts if I wish to apply for the cash payout?

For the purpose of claiming cash payout, you will be required to submit certified statement of accounts by the income tax filing due date of 15 Apr. This is regardless of whether the revenue of the business is less than \$500,000.

A3. Payment of the cash payout

23. Will the cash payout be used to offset my tax arrears?

Yes. The cash payout will be used to offset any tax arrears (such as Individual / Corporate / GST / Property tax) of the business before any remaining amount is paid to the business.

24. When will I receive the cash payout?

You will receive the cash payout within 3 months from the date IRAS receives the completed PIC Cash Payout Application form and the relevant documents.

25. How will the payment of the cash payout be made?

The cash payout is paid to the business which incurred the qualifying expenditure. You can expect the cash payout to be credited into your existing GIRO account (according to IRAS' records) or receive a cheque otherwise.

If you have received the payment via cheque, please deposit it into your bank account within 3 months from the date of the cheque.

26. My business uses different bank accounts for GIRO payment of income tax and GST. In which bank account will cash payout be credited to?

The cash payout will be credited to your Income tax GIRO account.

27. What will happen in the event that the GIRO crediting is not successful (e.g. bank account is closed)?

We will send you a cheque for the cash payout within a week of the unsuccessful GIRO payment.

28. I have misplaced the cheque for the payment of cash payout. What should I do?

Please send an e-mail to picredit@iras.gov.sg or call our helpline at 1800-356 8622 (for companies) / (+65) 6351 3534 (for Self-employed / partnership) for assistance.

A4. Recovery of the cash payout

29. Under what circumstances do I have to repay the cash payout?

You are required to own the automation equipment and/or IPRs for which the cash payout has been made, for at least 1 year from the date of acquisition of the automation equipment; or acquisition of the IPR; or filing of the IPR (whichever is applicable).

Under certain circumstances, if you dispose of your automation equipment within one year, you do not have to repay the cash payout. For more details, please refer to Question 34 of our FAQs on Productivity and Innovation Credit.

If you lease / dispose of your acquired IPRs within two to five years, you will need to repay the cash payout proportionately.

Cash payout will also be recovered if your design project submitted to DSg is not approved.

You will have to inform IRAS within 30 days from the date you lease / dispose the automation equipment and/or IPRs. You will also be required to repay the cash payout within 30 days of IRAS' **Productivity & Innovation Credit Cash Payout Recovery** notice.

30. How do I inform IRAS if I dispose of an equipment / IPR in respect of which a cash payout was claimed within the 1 year holding period?

You should complete the Disposal of Qualifying Assets Form and provide the details of the equipment / IPR disposed. The completed form should be submitted to IRAS within 30 days from the date of disposal of the equipment / IPR.

31. How is the recovery of cash payout on disposed IPRs computed?

For acquired IPRs disposed within a year from the date of acquisition of the IPR, the full amount of cash payout claimed will be recovered. For IPRs disposed within 2 to 5 years from the date of acquisition of the IPR, the amount of cash payout to be recovered will be apportioned as follows:

Amount to recovered = $[(5 - \text{No. of complete years which the IPR was held}) / 5] \times \text{cash payout}$

32. Is there a penalty for disposing a piece of equipment for which cash payout was claimed within the holding period?

Besides the recovery of cash payout, no penalty will be imposed if you inform IRAS of the disposal within 30 days from the date the equipment is disposed. However, penalties will be imposed for late notification, non-compliance or fraud.