IRAS e-Tax Guide

Productivity and Innovation Credit

INLAND REVENUE
AUTHORITY
OF SINGAPORE

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Productivity and Innovation Credit

1. Introduction

1.1. In Budget 2010, the Minister for Finance introduced a new broad-based tax scheme to encourage businesses to invest in productivity and innovation. The scheme enhances existing tax measures that encourage productivity and innovative activities and consolidates them into a single scheme, known as the Productivity and Innovation Credit scheme ("PIC").

1.2. PIC is available for Year of Assessment (YA) 2011 to YA 2015 ("qualifying YAs").

1.3. PIC grants businesses which invest in a range of productivity and innovation activities, enhanced deductions and/or allowances ("enhanced deductions") on up to $300,000 of expenditure incurred for each category of activity. These are in addition to the deductions and/or allowances allowable under current tax rules ("current deductions"). During the first three qualifying YAs of PIC (i.e. YA 2011 to YA 2013), certain business entities ("eligible businesses") may also, subject to certain conditions, opt to convert their enhanced deductions and current deductions (collectively, "qualifying deductions") of up to $300,000 for each qualifying YA, into cash at the rate of 7%.

1.4. Enhanced deductions available under PIC comprise the following:

a. Enhanced capital allowance or deduction for acquisition or leasing of prescribed automation equipment ("qualifying equipment");

b. Enhanced writing-down allowance for acquisition of intellectual property rights ("IPRs");

c. Enhanced deduction of costs for registering certain IPRs;

d. Enhanced deduction of qualifying research and development ("R&D") expenditure;

e. Enhanced deduction of qualifying training expenditure; and

f. Enhanced deduction of qualifying design expenditure.

1.5. Table 1 below contrasts the key features of the productivity and innovation enhancing tax measures in place before and after the PIC.

Table 1

Description	Section of the Income Tax Act ("ITA")	Existing Measures (Before YA 2011)	Enhancements under PIC[1] (YA 2011 to YA 2015)
a. Expenditure on acquisition or leasing of qualifying equipment	Section 19A(2); Section 14[2] (subject to section 15)	100% accelerated capital allowance over 1 year; or 100% deduction as normal expenditure	Additional 150%, making it a total of 250%, capital allowance or deduction on the first $300,000 of qualifying expenditure incurred per qualifying YA 100% capital allowance or deduction on qualifying expenditure incurred in excess of $300,000
b. Expenditure on acquisition of IPRs	Section 19B	Writing-down allowance over 5 years	Scope expanded to include acquisition of plant variety Additional 150%, making it a total of 250%, writing-down allowance on the first $300,000 of qualifying expenditure incurred per qualifying YA 100% writing-down allowance on qualifying expenditure incurred in excess of $300,000
c. Expenditure on registration of certain IPRs	Section 14A	100% deduction for patenting costs	Scope expanded to include registration costs incurred for trade mark, design and plant variety Additional 150%, making it a total of 250%, deduction on the first $300,000 of qualifying expenditure incurred per qualifying YA 100% deduction on qualifying expenditure incurred in excess of $300,000

[1] A combined expenditure cap of $600,000 for enhanced deductions under PIC shall apply for each category of activity for YA 2011 and YA 2012 only.

[2] New provisions will be legislated to give effect to the enhanced deduction of expenditure on leasing of prescribed automation equipment under PIC.

Description	Section of the Income Tax Act ("ITA")	Existing Measures (Before YA 2011)	Enhancements under PIC[1] (YA 2011 to YA 2015)
d. R&D expenditure	Section 14D/ DA	Up to 150% deduction for qualifying expenditure incurred on R&D in Singapore	Additional 100%, making it a total of up to 250%, deduction for the first $300,000 qualifying expenditure incurred on R&D in Singapore per qualifying YA Up to 150% deduction on qualifying expenditure in excess of $300,000 incurred on R&D in Singapore
	Section 37G	Deduction for incremental qualifying expenditure on R&D	To be phased out with effect from YA 2011 R&D tax allowance ("RDA") ceases to be credited to R&D tax allowance account ("RDA account") from YA 2011 RDA credited to RDA account for YA 2009 & YA 2010 may be drawn down up to YA 2016, subject to existing conditions RDA not utilised by YA 2016 is disregarded
	Section 37H	Cash grant for qualifying R&D expenditure for start-up companies	To be consolidated under PIC from YA 2011 Cash grant option remains available for YA 2009 and YA 2010
e. Training expenditure	Section 14[3] (subject to section 15)	100% deduction as normal expenditure	Additional 150%, making it a total of 250%, deduction on the first $300,000 of qualifying expenditure incurred per qualifying YA 100% deduction on qualifying expenditure incurred in excess of $300,000
f. Design expenditure			

1.6. The operation of the enhanced tax measures for each of the six activities are explained in Annex A to Annex F.

2. General PIC Framework

2.1. PIC grants businesses enhanced deductions on expenditure incurred on any of the six productivity and innovation enhancing activities during the qualifying YAs, subject to an annual expenditure cap of $300,000 for each activity. The

[3] New provisions will be legislated to give effect to the enhanced deduction for expenditure on training and design activities under PIC.

annual expenditure cap of $300,000 for each activity is set to focus the benefits of PIC on small and medium sized businesses.

2.2. To enable businesses to enjoy maximum benefits under PIC, a combined expenditure cap of $600,000 is applicable for each activity for the first two qualifying YAs (i.e. YA 2011 and YA 2012) of PIC. This gives businesses greater flexibility to fully benefit from PIC in the first two qualifying YAs. The annual expenditure cap of $300,000 for each activity shall apply from YA 2013[4].

Enhanced deductions computed based on qualifying expenditure net of grant and subsidy

2.3. Where the qualifying expenditure on a qualifying activity is funded or subsidised, fully or partially, by the Government[5], only the amount of expenditure net of the grant or subsidy is eligible for enhanced deductions under PIC. For example, a restaurant operator sends his service staff to attend a course on Food & Beverages Service conducted by the Singapore Culinary Institute. Instead of the full course fee of $2,000, the restaurant operator pays only $300 (i.e. $2,000 course fee net of funding from the Singapore Workforce Development Agency). In such a case, only $300 is eligible for enhanced deduction under PIC.

Businesses with income subject to tax at the prevailing rate and concessionary rate

2.4. For a business whose income is taxable at the prevailing rate (“normal income”) as well as at one or more concessionary rate(s) (“concessionary income”), enhanced deductions shall first be granted on qualifying expenditure incurred in relation to the normal income. If the applicable annual expenditure cap is not exhausted, enhanced deductions shall then be granted on qualifying expenditure incurred in relation to the concessionary income that is subject to tax at the highest concessionary rate first followed by the next highest rate and so on, until the expenditure cap is reached.

Unutilised trade loss and/ or allowance arising from PIC

2.5. Enhanced deductions that cannot be fully offset against the income of a business is treated no differently from unutilised trade loss or allowance, as the case may be.

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[4] For simplicity, examples illustrating the application of PIC in this Guide are provided on the basis that the annual expenditure cap of $300,000 applies (unless stated otherwise).

[5] The term “Government” includes any statutory board.

2.6. Any trade loss or allowance arising from insufficient income to fully utilise the available PIC benefits can be carried forward subject to the provisions of sections 23, 37 and 37B of the ITA. Alternatively, the unutilised trade loss or allowance can also be transferred to for offset against the income of a related Singapore company under the group relief system (section 37C of the ITA) or a spouse (section 37D of the ITA), as the case may be, subject to the provisions of the relevant section. The unutilised trade loss or allowance can also be carried back to the immediate preceding YA to be offset against the prior year's income of the company, the individual or the individual's spouse subject to the provisions of sections 37E and 37F of the ITA.

Application of the expenditure cap

2.7. The annual expenditure cap for each category of activity shall apply, in the case of sole-proprietorships and companies[6], at the individual and company level respectively. In the case of partnerships, the expenditure cap is applicable at the partnership level regardless the number of partners.

2.8. For sole-proprietors with multiple businesses or companies with multiple business segments, the same annual expenditure cap for each category of activity shall apply for each qualifying YA regardless of the number of businesses or business segments they are engaged in.

2.9. If a sole-proprietor is also a partner of one or more partnerships, the following rules apply:

a. an annual expenditure cap for each category of activity applies for all businesses carried on by him as a sole-proprietor; and

b. a separate annual expenditure cap for each category of activity applies for each partnership business in which he is a partner.

The annual expenditure cap for each category of activity applicable to each partnership therefore does not count towards the expenditure cap applicable to all businesses carried on by the individual as a sole-proprietor. The application of the expenditure cap in such situations is explained graphically in Illustrations 1 and 2 below.

[6] These include registered business trusts insofar as they are treated like companies for tax purposes, provided they also meet the conditions to be eligible for benefits under PIC.

Illustration 1

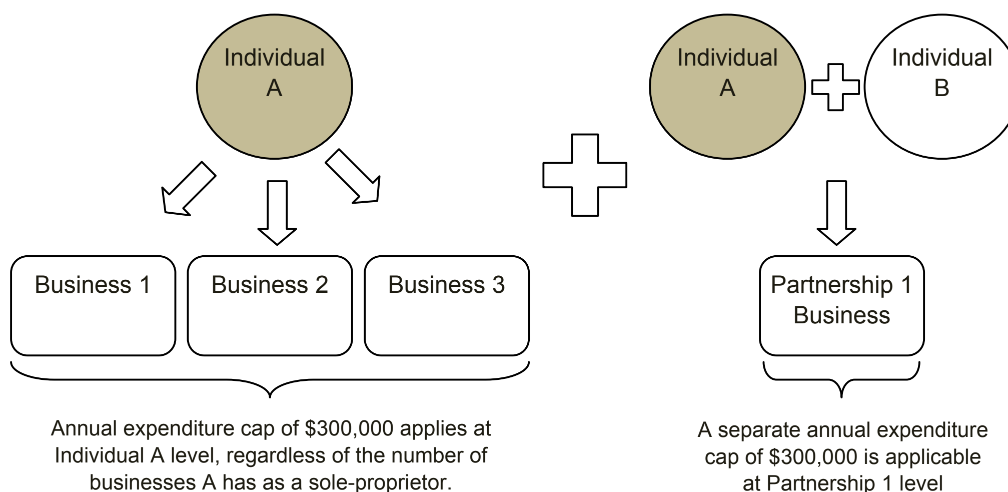
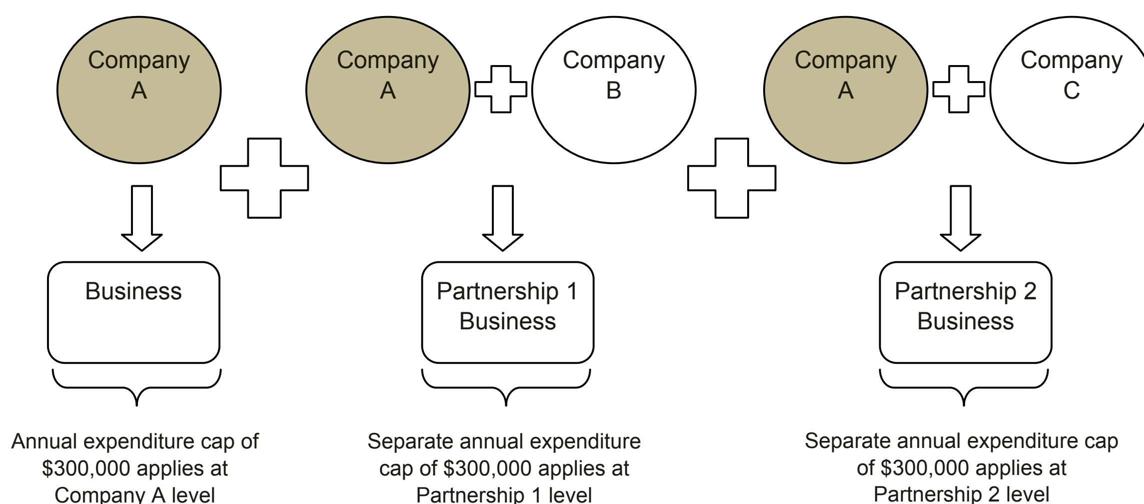


Illustration 2



2.10. In the case of a qualifying amalgamation under section 34C of the ITA, the availability of enhanced deductions to an amalgamated company on its new investments is determined as follows:

a. where prior to the amalgamation, the qualifying expenditure incurred by all amalgamating companies in the basis period during which the amalgamation takes place is, in aggregate, less than the annual expenditure cap of $300,000 for that YA (for example, $250,000), the amalgamated company can continue to enjoy enhanced deductions on qualifying expenditure incurred from the date of amalgamation to the

end of the basis period for that YA, subject to the same expenditure cap (using the same example, up to $50,000 of qualifying expenditure);

b. where prior to the amalgamation, the qualifying expenditure incurred by all amalgamating companies in the basis period in which the amalgamation takes place is, in aggregate, equal to or greater than the annual expenditure cap for that YA, no further enhanced deductions are allowable to the amalgamated company on qualifying expenditure incurred from the date of amalgamation to the end of the basis period for that YA.

2.11. For qualifying capital expenditure incurred prior to the amalgamation, enhanced deductions shall only be given to the company which actually incurs such expenditure.

Cash conversion option

2.12. An eligible business may opt to convert an amount of up to $300,000, but not less than $1,500, of its qualifying deductions for each YA into cash at the rate of 7% i.e. a cash payout of up to $21,000. The conversion cap is $300,000 for all the qualifying activities taken together. Cash payouts received from such conversion are not taxable.

2.13. The option is only available for YA 2011 to YA 2013[7]. It supports small but growing businesses with low taxable income that need cash to fund their investments in technology or upgrade their operations.

2.14. Consistent with the intent to enable businesses to enjoy maximum benefits under PIC, an eligible business is given the flexibility of converting up to $600,000 of its qualifying deductions into cash (i.e. up to $42,000) for YA 2011 and YA 2012 only[8].

2.15. An eligible business means any sole-proprietorship, partnership, company[9] that is carrying on business operations and employs at least 3 local employees (i.e. Singaporeans or Singapore permanent residents with Central Provident Fund ("CPF") contributions). A business is considered to have met this 3-local-employees eligibility requirement if it contributes CPF on the payrolls of at least 3 local employees in the last month of its basis period for a relevant qualifying YA.

[7] The option will be reviewed at the end of the third year.

[8] For simplicity, examples illustrating the application of the conversion option under PIC in this Guide are provided on the basis that the conversion of qualifying deductions is capped at $300,000 (unless stated otherwise).

[9] This includes a registered business trust.

2.16. For the purpose of the cash conversion option under PIC, "employees" shall exclude:

a. Sole proprietors;

b. Partners of partnerships[10];

c. Shareholders who are also directors of companies (as defined in section 4(1) of the Companies Act).

2.17. An eligible business is free to apply the cash received from exercising the option to any use. Where the eligible business applies any payout received to undertake any of the six qualifying activities under PIC (e.g. to pay for the training of its employees or to acquire new qualifying equipment), it is not required to offset the payout so applied against the related qualifying expenditure incurred for the purpose of determining the qualifying deductions available to it.

Application of the conversion cap

2.18. The capping rules explained in paragraphs 2.7 to 2.9 in relation to the application of annual expenditure cap for business entities shall similarly apply in determining the maximum amount of qualifying deductions that may be converted into cash for a relevant qualifying YA.

Cash conversion option is irrevocable

2.19. The qualifying deductions to be utilised for cash conversion may arise from any, or a combination of any, of the six qualifying activities. Once an amount of qualifying deductions is converted into cash, the same amount shall no longer be available for tax deduction.

2.20. The option is a one-time irrevocable option.

2.21. Accordingly, an eligible business cannot opt again subsequently to convert additional amounts of qualifying deductions into cash, even if it had not opted to convert the allowable maximum amount of such deductions in the first place. The eligible business is also not allowed to subsequently change the composition of the qualifying deductions utilised for cash conversion.

2.22. Please also refer to Annex A (qualifying equipment), Annex B (IPRs) and Annex C (registration of certain IPRs) for conditions specific to the cash conversion of these categories of qualifying deductions.

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[10] Non-equity salaried partners who are under contracts of services are excluded.

Relevant deductions for partners of a Limited Liability Partnership ("LLP") and limited partners of a Limited Partnership ("LP")

2.23. Currently, the amount of a limited partner's share of trade loss and allowance from a LLP or LP that can be offset against his other sources of income ("relevant deduction") for a YA, together with all of his relevant deductions allowed in all past YAs, is restricted. The total offset must not exceed the partner's contributed capital as at the end of the basis period relating to the current YA.

2.24. Any trade loss and allowance arising from PIC shall similarly be subject to the above requirements. However, if a LLP or LP converts its qualifying deductions into cash, the partner's share of qualifying deductions that has been converted into cash shall not be treated as a relevant deduction for that qualifying YA.

3. Administrative Procedures

Claim for enhanced deductions

3.1. Other than design projects, no prior approval is required for claiming enhanced deductions on the qualifying activities under PIC. Businesses may claim enhanced deductions on qualifying expenditure incurred in their income tax returns for the relevant qualifying YAs. As a general rule, businesses must maintain adequate records of their qualifying activities and expenditures and provide them to IRAS upon request.

Cash conversion application

3.2. An eligible business that wishes to convert its qualifying deductions into cash has to make an irrevocable option by submitting a PIC Cash Payout Application Form and relevant annexes to IRAS. The eligible business may exercise its option anytime after its accounting year-end but not later than the income tax filing due date for that relevant qualifying YA ("specified timeframe"). A copy of the application form is available on IRAS' website (www.iras.gov.sg).

3.3. A sole-proprietor needs only to submit one application form for all qualifying deductions to be converted for all his businesses. The specified timeframe is anytime after the accounting year end of all his businesses but not later than the filing due date of his income tax return.

3.4. Generally, IRAS will make the cash payout within three months from the date of receipt of the PIC Cash Payout Application Form and relevant annexes, provided all requisite information is submitted at the time of application.

3.5. Under a current concession, sole-proprietorships and partnerships with revenue of less than $500,000 are not required to submit certified statement of accounts together with their income tax returns. Notwithstanding the concession, all eligible businesses that wish to opt for cash conversion under PIC must submit certified statement of accounts together with their income tax returns[11] by the filing due date. Businesses which fail to submit their certified statement of accounts by the filing due date of their income tax returns, will risk IRAS recovering the cash payouts made to them.

Disposal of assets before the minimum ownership period

3.6. Cash payouts made to eligible businesses from the conversion of qualifying deductions relating to the acquisition of qualifying equipment and acquisition/ registration of IPR are recoverable if the applicable minimum ownership period is not met. Please refer to the relevant Annexes for details.

3.7. Businesses have to notify IRAS within 30 days from the date the equipment is disposed of or leased out, or 30 days from the date the IPR is disposed of, by submitting a Disposal of Qualifying Assets Form (available on IRAS' website). Penalties may apply if the notification requirement is not complied with.

3.8. IRAS will issue a notice of "Cash Payout Recovery" requiring repayment of the cash payouts by businesses within 30 days from the date of the notice. Late payment penalties may apply if the sum is not received by IRAS within the stipulated timeframe.

4. Enquiries

4.1. If you wish to seek clarification on the contents of this Guide, please contact IRAS at:

Sole-proprietorships/ partnerships 6351 3534

Companies 1800 356 8622

[11] Companies that do not qualify for the audit exemption under the Companies Act will have to submit audited accounts together with income tax returns as per current practice.

Annex A to e-Tax Guide on Productivity and Innovation Credit

Enhanced Capital Allowance and Deduction for Qualifying Equipment

1. Introduction

1.1. Under section 19A(2) of the ITA, businesses may claim one-year accelerated capital allowance on capital expenditure incurred on the acquisition of prescribed automation equipment. Businesses may refer to the Income Tax (Automation Equipment) Rules 2004[12], for a full list of prescribed automation equipment.

1.2. Under PIC, capital allowance of 250% on the first $300,000[13] of capital expenditure incurred on the acquisition of prescribed automation equipment ("qualifying equipment") in each basis period is granted. The 250% deduction comprises a 150% "enhanced allowance" and a 100% "base allowance". Expenditure in excess of $300,000 shall continue to enjoy the 100% base allowance under section 19A(2) of the ITA. Businesses may continue to elect for both enhanced and base allowances to be written off in one year.

1.3. For businesses that lease qualifying equipment instead of acquiring the equipment, a tax deduction of 250% on the first $300,000[8] of the leasing expenditure incurred in each basis period is granted, subject to certain conditions. Expenditure in excess of $300,000 will continue to enjoy a 100% base deduction under section 14 of the ITA.

1.4. The total amount of expenditure incurred on the acquisition and/ or leasing of qualifying equipment eligible for enhanced deduction in a YA is subject to a cap of $300,000.

1.5. The enhanced deduction for qualifying equipment is available from YA 2011 to YA 2015.

2. Review of the Income Tax (Automation Equipment) Rules

2.1. As defined under section 19A(15) of the ITA, an automation equipment means any machinery or plant designed for the automation of functions or services in any office or factory within the meaning of section 5 of the Workplace Safety and Health Act.

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[12] A copy of the Income Tax (Automation Equipment) Rule 2004 is available on IRAS' website (www.iras.gov.sg) under <Quick Link> <Tax Acts> <Income Tax>.

[13] A combined expenditure cap of $600,000 shall apply for YA 2011 and YA 2012 for each qualifying activity under PIC.

2.2. Arising from feedback received, the current list of prescribed automation equipment has been reviewed and expanded to include automation equipment used in business settings other than an office or a factory. Further feedback is being sought on the expanded list of equipment as part of the public consultation of the draft Income Tax (Amendment) Bill 2010.

2.3. Pending the enactment of a revised list of automation equipment, the enhanced allowance shall be granted on automation equipment currently prescribed in the Income Tax (Automation Equipment) Rules 2004.

3. Computation of Allowance under PIC – Acquisition of Qualifying Equipment

Qualifying equipment acquired on cash terms

3.1. The enhanced allowance and base allowance for qualifying equipment are available for deduction in one year on a due claim basis. Instead of one year, businesses may elect to claim the allowances over three years or over the tax working life of the assets concerned according to the Sixth Schedule of the ITA. Businesses may also elect to defer their claim of the allowances.

3.2. The determination of the allowances, i.e. initial allowance ("IA") and annual allowance ("AA") is summarised in Table 1 below:

Table 1

Type	Computation of IA and AA
Accelerated claim over one year (Section 19A(2) of the ITA)	AA = 100% x (Base allowance + Enhanced allowance)
Accelerated claim over three years (Section 19A(1) of the ITA)	AA= 33⅓% x (Base allowance + Enhanced allowance)
Claim over tax working life of asset (Section 19 of the ITA)	IA = 20% x (Base allowance + Enhanced allowance) AA = [80% x (Base allowance + Enhanced allowance] / Tax working life

3.3. As a general rule, enhanced allowance is claimed based on the full cost of a particular item of qualifying equipment, subject to the annual expenditure cap of $300,000. However, enhanced allowance may be claimed on the partial

cost of only one item of equipment if this was to achieve the maximum expenditure cap in a qualifying YA.

Qualifying equipment acquired on hire purchase

3.4. Generally, the amount of capital allowance available for assets acquired on hire purchase in a YA is determined by reference to the principal sum repaid (i.e. capital expenditure incurred) during a basis period.

3.5. Under PIC, special provisions apply in determining the enhanced allowance available for qualifying equipment acquired on hire purchase. This is to align the tax benefits under PIC accorded to a business that acquires an asset with cash and another that acquires the same asset on hire purchase term.

3.6. For qualifying equipment acquired on hire purchase, the enhanced allowance is determined based on the cost of the equipment for the purpose of applying the annual expenditure cap. Enhanced allowance is only allowed to the business concerned based on the principal repayment during the year.

3.7. The determination of IA and AA allowable is summarised on Table 2 below:

Table 2

Type	Computation of IA and AA
Accelerated claim over one year (Section 19A(2) of the ITA)	AA = 100% x Y/Z x (Base allowance + Enhanced allowance)
Accelerated claim over three years (Section 19A(1) of the ITA)	AA = 33⅓% x Y/Z x (Base allowance + Enhanced allowance)
Claim over tax working life of asset (Section 19 of the ITA)	IA = 20% x Y/Z x (Base allowance + Enhanced allowance) AA = $\frac{80\% \times (\text{Base allowance} + \text{Enhanced allowance})}{\text{Tax working life}}$

where Y = principal repayments during the year (including deposits if any)
Z = cost of the qualifying equipment:

3.8. Although the repayment schedules for certain hire purchase agreements may extend beyond the basis period for the last qualifying YA (i.e. YA 2015), businesses may continue to claim enhanced allowance on their qualifying equipment based on their repayment schedules. The amount of enhanced allowance is locked in as long as the qualifying equipment is acquired during the basis periods relating to any qualifying YAs (i.e. YA 2011 to YA 2015).

4. Cash Conversion Option – Acquisition of Qualifying Equipment

4.1. The cash conversion option is only available on a per equipment basis and subject to the conversion cap of $300,000[14] for all six qualifying activities for each YA.

4.2. Businesses must convert the full amount of base and enhanced allowances (collectively, “qualifying allowances”) relating to an item of qualifying equipment into cash, subject to the overall cap.

4.3. As qualifying allowances related to an item of qualifying equipment cannot be partially converted into cash, the option is not available to any qualifying equipment acquired on hire purchase with repayment schedule straddling over two or more basis periods, i.e. accounting years.

4.4. Where the qualifying allowances related to an item of equipment are in excess of the conversion cap of $300,000, the excess is forfeited upon making the option and will no longer be available for deduction against income of the business concerned.

4.5. The example in Annex A-1 illustrates the computation of qualifying allowances and the conversion of such allowances into cash.

5. Minimum Ownership Period of Qualifying Equipment

5.1. Businesses must own the qualifying equipment for a minimum period of one year (“one-year ownership period”).

5.2. If the one-year ownership period is not met, the enhanced deduction or cash payout made will be clawed back or recovered. Table 3 below summarises the claw-back provisions.

[14] An overall combined conversion cap of $600,000 for all 6 qualifying activities under PIC will apply for YA 2011 and YA 2012.

Table 3

<table>
<tr><th rowspan="2">Qualifying allowances comprising</th><th colspan="2">Claim allowance on equipment</th><th colspan="2">Convert qualifying allowances into cash</th></tr>
<tr><th>Equipment disposed of within one year</th><th>Equipment disposed of after one year</th><th>Equipment disposed of within one year</th><th>Equipment disposed of after one year</th></tr>
<tr><td>Base allowance</td><td colspan="2">Compute balancing adjustments based on current rules[15]</td><td rowspan="2">Recovery of cash payout i.e. cash converted from allowances pursuant to option made.

Balancing adjustments are not applicable
(Note 3)</td><td rowspan="2">No recovery of cash payout

Balancing adjustments are not applicable</td></tr>
<tr><td>Enhanced allowance</td><td>Deemed as income chargeable to tax in the year of disposal
(Note 1)</td><td>Adjustments not required
(Note 2)</td></tr>
</table>

Note 1: For an equipment that is written off for tax purposes over three years or over its tax working life, the deemed income is capped at the amount of enhanced allowance previously granted to the taxpayer. The remaining enhanced allowance that has yet to be drawn down by the taxpayer is no longer available since the equipment is disposed of within one year.

Note 2: For an equipment that is written off for tax purposes over three years or over its tax working life, any enhanced allowance that has yet to be drawn down by the taxpayer is allowable to the business in the YA relating to the year of disposal.

Note 3: Once an eligible business converts the qualifying allowances relating to an item of equipment into cash, the same amount of allowances is no longer available for deduction against its taxable income. In the event the equipment is sold within one year, the cash payout is fully recoverable from the eligible business. Notwithstanding the recovery of the cash payout, no reinstatement of the related allowances is allowed.

5.3. Where a business has claimed enhanced allowance on qualifying equipment and the one-year ownership period is not met, it should make claw-back adjustments in the income tax return and tax computation for the basis period in which the qualifying equipment is disposed of.

5.4. If a business has converted the qualifying allowances into cash and the one-year ownership period is not met, it has to notify IRAS within 30 days from the date of disposal of the equipment. Penalties may apply if the notification is not given.

[15] Section 20 of the ITA refers.

5.5. Annex A-2 illustrates the application of the claw-back provisions.

6. Others

Qualifying equipment approved for Investment Allowance

6.1. Qualifying equipments approved for investment allowance under Part X of the Economic Expansion Incentives (Relief from Income Tax) Act ("EEIA") are not precluded from benefitting from enhanced allowance available under PIC. However, if a company elects to claim enhanced allowance on the full cost of an item of qualifying equipment, it is not allowed to claim investment allowance on the same item of qualifying equipment. However, if enhanced allowance is granted on the partial cost of the qualifying equipment, the company may still enjoy investment allowance on the remaining cost of the qualifying equipment. For example, if Company Q incurs expenditure to purchase only one item of qualifying equipment costing $500,000 during the basis period for a qualifying YA, Company Q may claim enhanced allowance on the first $300,000 of the expenditure and investment allowance on the balance of $200,000.

6.2. Generally, the investment allowance certificate specifies the maximum and minimum amount of capital expenditure required to be incurred and the maximum amount of investment allowance to be granted for each approved project. For the purpose of determining whether such capital expenditure requirements are met, the full cost of an item of equipment is taken into consideration even if investment allowance is computed on part of the cost.

6.3. All other prevailing conditions governing the investment allowance under Part X of the EEIA continue to apply.

Qualifying equipment approved for Integrated Industrial Capital Allowance

6.4. Qualifying equipment approved for Integrated Industrial Capital Allowance ("IICA") claim under Part XIIID of the EEIA do not qualify for enhanced allowance available under PIC.

7. Computation of Deduction under PIC – Leasing of Qualifying Equipment

Types of leases

7.1. For tax purposes, leases can be divided into 3 types[16]:

[16] As defined under section 10D of the ITA and the Income Tax (Income From Finance Leases) Regulations. For a copy of the Income Tax Regulations, please refer to IRAS' website (www.iras.gov.sg).

a. Finance lease

A lease where the obsolescence, risks or rewards incidental to ownership of the equipment is substantially transferred from the lessor to the lessee.

b. Finance lease treated as sale agreement

A finance lease is treated as a sale agreement for tax purposes if:

1. the lessee has an option to purchase the machinery or plant during the term of the lease including any extension or renewal thereof upon expiry;

2. the machinery or plant which is leased is a limited use asset;

3. the machinery or plant in a sale and lease-back transaction has been previously used by the lessee or any other person;

4. the lessor and lessee are related to each other and

   i. the lessee or any other person related to the lessee lends to the lessor any of the funds necessary to acquire the leased asset or guarantees any debt of the lessor incurred in connection with the lease;

   ii. the terms of the lease are determined otherwise than on the basis that there is no such relationship between the lessor and the lessee; or

   iii. the total value of the rentals or hire received or receivable for the term of those finance leases entered into by the lessor with lessees, who are related to the lessor, at any time during the basis period for any year of assessment exceeds half of all finance leases entered into by the lessor in that basis period; or

5. the lease is a leveraged lease unless the Comptroller determines that it shall be treated otherwise.

c. Operating lease

This refers to any lease other than a finance lease. This typically involves a pure rental of equipment.

General framework

7.2. Under PIC, enhanced deduction is also granted on leasing expenditure incurred on qualifying equipment. However, the benefit from enhanced deduction shall be granted only to the lessee, not the lessor, of the qualifying equipment, since it is the lessee that has put the equipment into productive use. Table 4 below contrasts the existing tax treatment with that under PIC.

Table 4

Types of Leases	Existing Treatment (Before YA 2011)		Enhancements under PIC (YA 2011 to YA 2015)	
	Claims by Lessor	Claims by Lessee	Claims by Lessor	Claims by Lessee
Operating lease	Allowance on 100% of cost of equipment	Deduction on 100% of lease payment	Allowance on 100% of cost of equipment	Deduction on 250% of lease payment
Finance lease	Allowance on 100% of cost of equipment	Deduction on 100% of lease payment (inclusive of finance charges)	Allowance on 100% of cost of equipment	Deduction on 250% of lease payment (inclusive of finance charges[17])
Finance lease treated as sale agreement	N.A.	Allowance on 100% of cost of equipment	N.A.	Allowance on 250% of cost of equipment

7.3. The same annual expenditure cap of $300,000 shall apply to both expenditure incurred on the acquisition and the leasing of qualifying equipment. To illustrate, if a business incurs $200,000 to acquire an item of qualifying equipment and $200,000 to lease another item of qualifying equipment during a basis period for a qualifying YA, it may claim enhanced allowance on the cost of qualifying equipment acquired ($200,000) and an enhanced deduction on the charges of qualifying equipment leased ($100,000).

7.4. A lessor is not entitled to claim enhanced allowance on qualifying equipment acquired for the purpose of leasing. He is also not allowed to convert the base allowance related to the equipment into cash.

7.5. However, where the qualifying equipment is acquired by the lessor for own use in his business, he is entitled to claim enhanced allowance on the qualifying equipment. In such a case, he may also opt to convert qualifying allowances related to the equipment into cash. However, he must ensure that

[17] The inclusion of finance charges for purpose of PIC is a concession which helps businesses avoid the administrative difficulties faced in having to separate finance charges from the principal sum.

the one-year ownership period, described in paragraph 5, is met. In addition, the same qualifying equipment must not be leased out within 1 year from the date of acquisition. Otherwise, any enhanced allowance or cash payout granted previously in respect of the equipment shall be clawed back.

Enhanced deduction not available to the leasing of software

7.6. The enhanced deduction for expenditure on leasing of qualifying equipment is not applicable to leasing charges for software, regardless of how such charges are reflected in the financial statements. However, if the software is installed in the qualifying equipment leased and both are leased as a single item of equipment, without separate pricing for the software and the equipment leased, the full lease charges are eligible for enhanced deduction. On the other hand, if separate leasing charges for the software and the qualifying equipment apply, only the charges relating to the qualifying equipment leased are eligible for enhanced deduction.

Sublease of qualifying equipment

7.7. If an item of qualifying equipment is subleased to another person during the basis period, the lessee is not allowed to claim enhanced deduction on the lease charges incurred during that basis period. This is notwithstanding that the equipment may have been used by the lessee for part of the basis period. Any enhanced deduction granted to the lessee in prior YAs in respect of that leased equipment will not be clawed back.

8. Option to Convert Qualifying Deductions into Cash – Leasing of Qualifying Equipment

8.1. The option to convert qualifying deductions (comprising 150% enhanced deduction and 100% base deduction) into cash is subject to the overall conversion cap of $300,000[18] for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013.

8.2. If an item of qualifying equipment is subleased to another person during the basis period, besides being precluded from claiming an enhanced deduction on the lease charges incurred during that basis period, the lessee is not allowed to convert the base deduction into cash.

8.3. Unlike the cash conversion option for qualifying allowances arising from the acquisition of qualifying equipment, the cash conversion for qualifying deductions arising from the leasing of qualifying equipment need not be made on a per equipment basis.

[18] An overall conversion cap of $600,000 for all 6 qualifying activities under PIC will apply for YA 2011 and YA 2012.

Annex A-1: Example illustrating the computation of qualifying allowances and conversion of such allowances into cash

During the year ending 31 December 2012, Company A invests in several items of qualifying equipment for its factory. Besides Equipment W that is acquired on hire purchase ("HP"), all other equipments are acquired with cash. The cost and repayment schedule (where applicable) for each item of equipment is as follows:

Equipment	Cost	Repayments in year ending 2012 (i.e. YA 2013)	Repayments in year ending 2013 (i.e. YA 2014)
	$'000	$'000	$'000
W [HP]	150	100[19]	50
X	130	130	-
Y	70	70	-
Z	50	50	-
Total	400	350	50

Step 1: Compute qualifying allowances

Enhanced allowance is granted on the first $300,000 of qualifying costs incurred. As the aggregate of the cost of Equipment W and Equipment X is $280,000 (i.e. $150,000 + $130,000), this leaves a balance of $20,000, which Company A matches against the cost of Equipment Y.

Equipment	Cost	Cost to be enhanced (capped at $300,000)	150% enhanced allowance (1)	100% base allowance (2)	Qualifying allowances (1) + (2)
	$'000	$'000	$'000	$'000	$'000
W [HP]	150	150	225	150	375
X	130	130	195	130	325
Y	70	20	30	70	100
Z	50	-	-	50	50
Total	400	300	450	400	850

[19] Excludes interests and other finance charges but includes deposits made during the basis period.

Step 2: Compute capital allowance

Company A decides to write-off the cost of its equipment in one year. The amount of annual allowance ("AA") due to Company A for each YA is as follows:

Capital allowance schedule for YA 2013 and YA 2014

Equipment	W [HP]	X	Y	Z	Total
	$'000	$'000	$'000	$'000	$'000
Cost	375	325	100	50	850
Less: YA 2013 AA	250[20]	325	100	50	725
Tax written down value ("TWDV") c/f	125	-	-	-	125
Less: YA 2014 AA	125[21]	-	-	-	125
TWDV c/f	-	-	-	-	-

Step 3: Make election for cash conversion

Company A may decide either to offset its capital allowance against income earned or elect to convert the allowances into cash. The table below summarises Company A's options for cash conversion:

Equipment	W [HP]	X	Y & Z
	$'000	$'000	$'000
Allowance available	NA	325	150
Less: Allowance converted to cash (capped at $300,000)		300	150
Allowance to be forfeited		25	-
Cash receivable at 7%	-	21	10.5

The option to convert qualifying allowances into cash must be made on a per equipment basis (i.e. full amount of base allowance and enhanced allowance relating to an item of qualifying equipment). As Equipment W was acquired through hire purchase and the principal repayments straddle over two basis periods, the qualifying allowances related to Equipment W are not eligible for cash conversion. In relation to Equipment X, should Company A opt to convert the qualifying allowances into cash, it is allowed to only convert up to the cap of $300,000 and is required to forfeit the balance of $25,000 (i.e. $325,000 - $300,000) as a deduction against its

[20] YA 2013 AA for Equipment W is dependent on the principal sums repaid during the year ending 31 December 2012 i.e. $100,000 / $150,000 x $375,000 = $250,000

[21] YA 2014 AA for Equipment W = $50,000 / $150,000 x $375,000 = $125,000

income.

Alternatively, given the aggregate of qualifying allowances related to Equipment Y and Z (i.e. $100,000 + $50,000 = $150,000) is below the cap of $300,000, Company A may wish to convert the qualifying allowances relating to Equipment Y and Z into cash. If so, Company A's tax computation for YA 2013 is as follows:

Tax computation for YA 2013

		$'000	$'000
Adjusted profit			231
Less:	Current year capital allowance (as computed in Step 2)	(725)	
	Amount converted into cash	150	(575)
Unutilised capital allowance c/f			(344)
Chargeable income			Nil

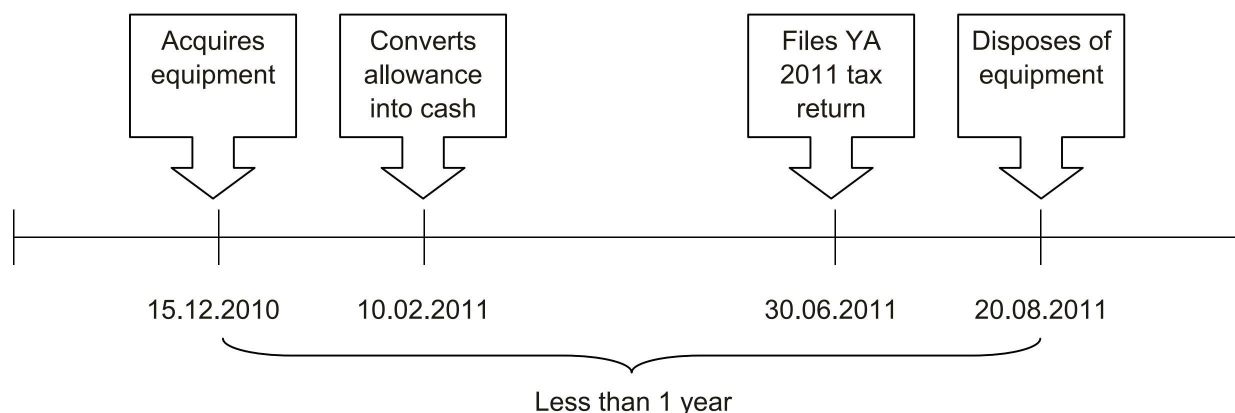
Annex A-2: Examples illustrating the application of the claw-back provisions

Scenario

Company B is a December year-end company. On 15 December 2010, Company B acquires an item of qualifying equipment for $100,000 with cash. The qualifying allowance related to the equipment comprises $100,000 of base allowance and $150,000 of enhanced allowance. The equipment is disposed of on 20 August 2011 at the price of $60,000. Company B has not acquired any other items of qualifying equipment during the financial year ended 31 December 2010.

Example 1

Shortly after the year ending 31 Dec 2010, Company B elects to convert the qualifying allowances of $250,000 (i.e. $100,000 + $150,000) into a cash payout of $17,500 (i.e. $250,000 x 7%).



As the equipment is disposed of within one year from the date of acquisition, Company B is required to inform IRAS of the disposal within 30 days from the date of disposal. Based on the information provided, a notice is issued to Company B to recover the amount of cash payout from Company B. The cash payout of $17,500 is repayable to the Comptroller within 30 days from the date of the notice.

Regardless of the amount of sale proceeds, Company B is not allowed to claim any base allowance in respect of the equipment. Company B's tax computations for YA 2011 and YA 2012 are as follows:

<u>Tax computation for YA 2011</u>

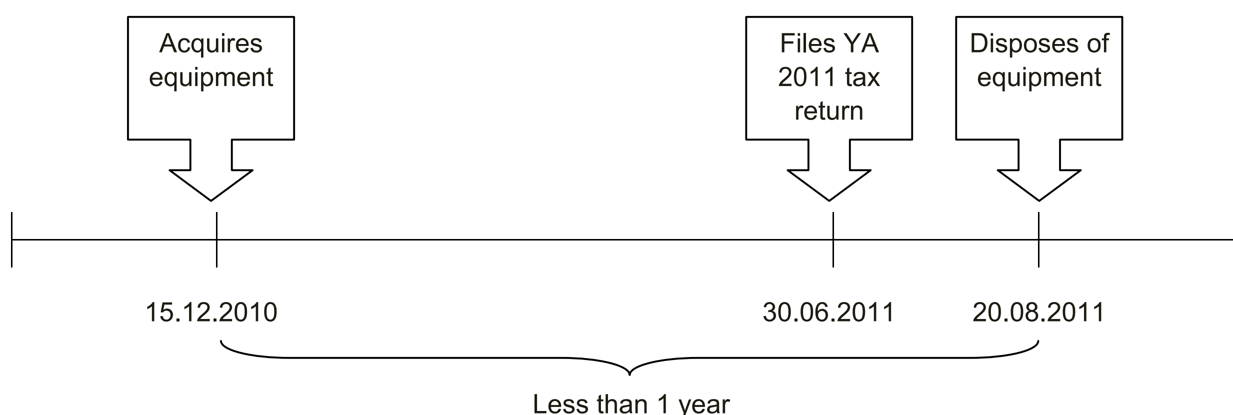
	$'000
Adjusted profit/ (loss)	(24)
Unutilised losses c/f	(24)
Chargeable income	Nil

Tax computation for YA 2012

	$'000
Adjusted profit/ (loss)	85
Less: Unutilised loss b/f	(24)
Chargeable income (before exempt amount)	61
Less: Exempt amount	(33)
Chargeable income (after exempt amount)	28
Tax thereon at 17%	4.76

Example 2A

Company B elects to claim capital allowance over three years, starting from YA 2011. As before, given the minimum holding period of one year is not met, besides balancing adjustments on the base allowance, adjustment is made in the YA 2012 tax computation to claw-back any enhanced allowance granted previously.



Tax computation for YA 2011

	$'000
Adjusted profit/ (loss)	(24)
Unutilised losses c/f	(24)
Current year capital allowance (Note 1)	(83)
Unutilised capital allowances c/f	(83)
Chargeable income	Nil

Note 1: Current year capital allowance = 33⅓% x (Base + Enhanced allowances)
= 33⅓% x ($100,000 + $150,000)
= $33,000* + $50,000
= $83,000

* Rounded to the nearest thousand

Tax computation for YA 2012

		$'000	$'000
Adjusted profit/ (loss)			85
Add:	Enhanced allowance granted previously (Note 2)		50
			135
Less:	Unutilised capital allowances b/f	(83)	
	Balancing allowance (Note 3)	(7)	(90)
			45
Less:	Unutilised losses b/f		(24)
Chargeable income (before exempt amount)			21
Less:	Exempt amount		(13)
Chargeable income (after exempt amount)			8
Tax thereon at 17%			1.36

Note 2: Balance of enhanced allowance that has not been drawn down is forfeited (i.e. $150,000 - $50,000 = $100,000).

Note 3: Balancing allowance = TWDV b/f- sale proceeds
= ($100,000 - $33,000) - $60,000
= $7,000

Example 2B

Similar to Example 2A above but in this instance, the equipment is disposed of on 20 December 2010. In this instance, as Company B has met the one-year ownership period requirement, its tax computation for YA 2012 is as follows:

Tax computation for YA 2012 (revised)

		$'000	$'000
Adjusted profit/ (loss)			85
Less:	Unutilised capital allowances b/f	(83)	
	Balancing allowance (as before)	(7)	
	Enhanced allowance not drawn down (Note 4)	(100)	(190)
Unutilised capital allowances c/f			(105)
Unutilised losses b/f & c/f			(24)

Note 4: As the one-year ownership period condition is met, the remaining enhanced allowance that has not been drawn down is allowed to the Company B in the year of disposal i.e. YA 2012.

Annex B to e-Tax Guide on Productivity and Innovation Credit

Enhanced Writing-Down Allowance ("WDA") for Acquisition of Intellectual Property Rights ("IPRs")

1. Introduction

1.1. Section 19B of the ITA provides for WDA to be granted over five years on capital expenditure incurred by any company or partnership in acquiring IPRs for use in its trade or business.

1.2. Under PIC, the definition of IPRs is expanded to include plant varieties[22]. In addition, a 250% WDA is granted on the first $300,000[23] of the capital expenditure incurred to acquire IPRs in each basis period (i.e. comprising 150% "enhanced WDA" and 100% "base WDA"), subject to certain conditions. Expenditure exceeding $300,000 continues to enjoy 100% base WDAs.

1.3. The above tax changes are effective for five years from YA 2011 to YA 2015, and are applicable only where IPRs are legally and economically owned by a company or partnership in Singapore. IPRs granted a waiver of the legal ownership condition under section 19B(2B) of the ITA and IPRs pertaining to films, television programmes, digital animations or games or other media and digital entertainment contents approved for WDA over two years under section 19B(2C) of the ITA therefore do not qualify for enhanced WDA deduction.

1.4. Under section 19B(4) of the ITA, when an IPR ceases to be used before the end of the five year writing-down period, an amount equal to the allowance granted previously is brought to tax in the year of disposal and the balance of WDA that has not been drawn-down is forfeited. These claw-back provisions will be relaxed from YA 2011 to YA 2015. Details of the revised provisions are discussed in paragraphs 5.2 to 5.4.

1.5. All other prevailing conditions governing the allowance under section 19B of the ITA continue to apply.

2. Expanded Definition of IPR

2.1. For the purpose of section 19B of the ITA, IPR means:

[22]As defined in the website of the Intellectual Property Office of Singapore (www.ipos.gov.sg), a plant variety is a plant group within a single botanical taxon (i.e. plant group having natural relationship) of the lowest rank.

[23] A combined expenditure cap of $600,000 shall apply for YA 2011 and YA 2012 for each of the qualifying activity under PIC.

a. Patent;

b. Copyright;

c. Trade mark;

d. Registered designs;

e. Geographical indication;

f. Layout design of integrated circuit; and

g. Trade secret and information with commercial value.

2.2. With effect from YA 2011, the definition of IPR is expanded to include plant variety for a period of 5 years.

3. Computation of WDA under PIC

3.1. As a general rule, enhanced WDA for IPRs must be claimed on the full cost of an IPR, provided that the total costs of all IPRs acquired during the qualifying YA does not exceed the annual expenditure cap of $300,000. However, the partial cost of only one IPR may be claimed if this was to achieve the maximum expenditure cap for a qualifying YA.

3.2. As with current treatment, the base WDA and enhanced WDA (collectively, "qualifying WDAs") shall be claimed on a straight-line basis over 5 years. Annual allowance ("AA") for each YA is determined as follows:

AA = 20% x (Based WDA + Enhanced WDA)

4. Option to Convert Qualifying WDAs into Cash

4.1. The option to convert qualifying WDAs into cash is only allowed on a per IPR basis, subject to the overall cap of $300,000[24] for all six qualifying activities for each qualifying YA. The amount of qualifying WDAs is determined up-front in the year where the IPR is acquired notwithstanding the writing-down period of 5 years.

4.2. Where the qualifying WDAs related to an IPR are in excess of the conversion cap of $300,000, the excess is forfeited upon making the option and will not be available for deduction against the income of the company or partnership concerned.

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[24] An overall conversion cap of $600,000 for all 6 qualifying activities under PIC will apply for YA 2011 and YA 2012.

5. Minimum Ownership Period of IPR

5.1. Companies or partnerships must own the IPRs for a minimum period of one year ("one-year ownership period"). Claw-back provisions shall apply if the one-year ownership period is not met. The application of the claw back provisions and the new tax treatment under section 19B(4) of the ITA are explained below.

Amendments to section 19B(4) of the ITA

5.2. Section 19B(4) of the ITA currently provides that where WDAs have been made to a company or partnership in respect of any IPRs[25] and, before the writing-down period ends, any of the following events (i.e. "specified events") occurs:

a. the IPRs come to an end without being subsequently revived;

b. the company or partnership sells, transfers or assigns all or any part of the IPRs;

c. the company or partnership permanently ceases to carry on the trade or business for which the IPRs were acquired,

no WDA for the IPRs shall be made to the company or partnership for the year in which the event occurs or any subsequent years. In addition, any WDA granted previously shall be deemed as income in the year in which the event occurs.

5.3. Section 19B(4) of the ITA will be amended to provide for the following new tax treatments to apply if any of the specified events occurs during the basis period for YA 2011 to YA 2015:

- Where an IPR comes to an end without being subsequently revived, or a company or partnership owning the IPR permanently ceases to carry on the trade or business for which the IPR was acquired, no WDA shall be made to the company or partnership for the year in which the event occurs or any subsequent years. However, any WDA granted previously shall <u>not</u> be deemed as income in the year in which the event occurs.

- Where a company or partnership sells, transfers or assigns all or any part of the IPRs:

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[25] Section 19B(4) is applicable to all IPRs, including those granted a waiver under section 19B(2B) or approved under section 19B(2C) of the ITA.

<u>Proceeds from disposal of IPR is greater than the tax written down value[26] (“TWDV”)</u>

The difference between the sale price and the TWDV of the IPR is deemed as income (i.e. a balancing charge) of the company or partnership in the year in which the disposal occurs, but the balancing charge is capped at the amount of WDA granted previously.

<u>Proceeds from sale of IPR is lesser than or equals to the TWDV</u>

The difference between the sale price and the tax written down value of the IPR is not available to the company or partnership as balancing allowance in the year in which the disposal occurs.

5.4. Table 1 and Table 2 below summarise the application of claw-back provisions in light of the changes to section 19B(4) of the ITA.

<u>Table 1: WDA for IPR</u>

Qualifying WDAs comprising	**Specified event occurred within one year**	**Specified event occurred within two to five years**	**Specified event occurred after five years**
Base WDA	If sale price > TWDV, balancing charge (capped at the amount of allowance granted previously) is brought to tax. If sale price $\leq$TWDV, balancing allowance is not allowed.		Balancing charge (capped at the cost of the IPR) is brought to tax (as per current tax treatment)
Enhanced WDA	Any enhanced WDA granted previously is deemed as income in the year of disposal. Balance of enhanced WDA is forfeited.	No claw-back of enhanced WDA previously granted. Balance of enhanced WDA is forfeited.	No claw-back of enhanced WDA.

[26] Refers to the amount of base allowance that has not been drawn down as writing-down allowance

Table 2: Conversion of qualifying WDAs into cash

Specified event occurred within one year	Specified event occurred within two to five years	Specified event occurred after five years
Claw-back the entire cash payout in the year of disposal	Claw-back a proportionate amount of the cash payout in the year of disposal (Note 1)	No claw-back of cash payout Balancing adjustments are not applicable

Note 1: Amount to claw-back = [(5 - No. of complete years which the IPR was held)/5] x cash payout

5.5. Where a company or a partnership has claimed enhanced WDA on an IPR and the specified event occurs within 1 one year of the IPR, it should make claw-back adjustments in the income tax return and tax computation for the basis period in which the specified event occurs. Where the company or partnership has converted the related qualifying WDA into cash, it must notify IRAS within 30 days from the date of the specified event. Penalties may apply if the notification requirement is not complied with.

5.6. The examples in Annex B-1 illustrate the application of the claw-back provisions.

6. IPRs Approved for Investment Allowance claim

6.1. IPRs approved for investment allowance under Part X of the Economic Expansion Incentives (Relief from Income Tax) Act ("EEIA") are not precluded from benefitting from enhanced WDA available under PIC. However, if a company or partnership elects to claim enhanced WDA on the full cost of an IPR, it is not allowed to claim investment allowance on the same IPR. On the other hand, if enhanced WDA is granted on the partial cost of an IPR, the company or partnership may still enjoy investment allowance on the remaining cost of the IPR. For example, if Company R incurs expenditure to purchase an IPR costing $1,000,000 during the basis period for a qualifying YA, Company R may claim enhanced WDA on the first $300,000 of the expenditure and investment allowance on the balance of $700,000.

6.2. Generally, the investment allowance certificate specifies the maximum and minimum amount of capital expenditure required to be incurred and the maximum amount of investment allowance to be granted for each approved project. For the purpose of determining whether such capital expenditure requirements are met, the full cost of an IPR is taken into consideration even if investment allowance is computed on part of the cost.

6.3. All other prevailing conditions governing the allowance under Part X of the EEIA continue to apply.

Annex B-1: Examples illustrating the application of the claw-back provisions

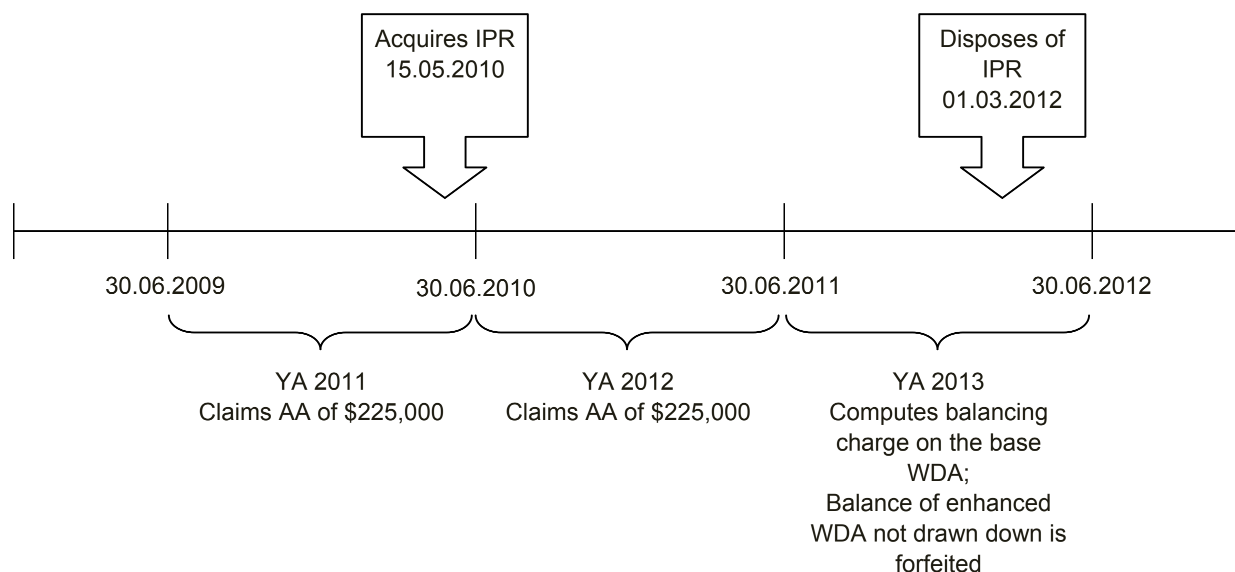
Example 1

Company C, whose financial year ends on 30 June, is in the business of providing logistic and freight forwarding service. On 15 May 2010, it acquires the registered design for a packing box from a third party for $450,000. Company C has not acquired any other IPRs during the financial year ended 30 June 2010.

With the combined expenditure cap of $600,000 for each of the qualifying activities under PIC for YA 2011 and YA 2012, Company C can claim enhanced WDA on the full cost of the design of $450,000 incurred in the basis period relating to YA 2011[27]. The qualifying WDAs, comprising base WDA and enhanced WDA, shall be written down over 5 years. The annual allowance for each YA is determined as follows:

Base WDA (1)	= $450,000
Enhanced WDA (2)	= $450,000 x 150% = $675,000
Qualifying WDAs (1) + (2)	= $450,000 + $675,000 = $1,125,000
Annual allowance ("AA")	= 20% x ($450,000 + $675,000) = $90,000 + $135,000 = $225,000

Company C sells the design to another company for $580,000 on 1 March 2012 (basis period relating to YA 2013). Accordingly, the adjustments to be made in its YA 2013 tax computation are as follows:



[27] Company C in this case is eligible to avail enhanced WDA on expenditure incurred to acquire IPR of up to $150,000 in YA 2012.

Computation of balancing charge in relation to base WDA

Base WDA granted previously	= $180,000 (i.e. $90,000 x 2) [a]
Tax written down value ("TWDV")	= $450,000 – $180,000 = $270,000
Difference between sale price and TWDV	= $580,000 - $270,000 = $310,000 [b]

Balancing charge is the lower of [a] or [b]. As such, the amount of $180,000 is brought to tax in YA 2013.

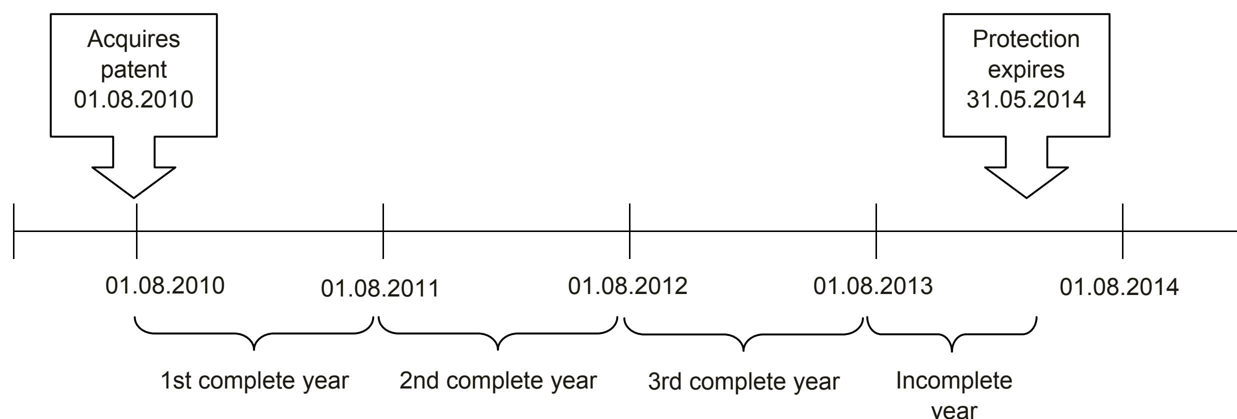
Enhanced allowance

Since Company C has met the one-year ownership period requirement, the enhanced WDA granted to Company C in YA 2011 and YA 2012 of $270,000 (i.e. $135,000 x 2) is not clawed back. However, the balance of enhanced WDA of $405,000 (i.e. $675,000 - $270,000) that has not been drawn down is forfeited.

Example 2

Instead of incurring royalties for the use of a patented component used in its products, Company D, whose financial year ends on 30 September, decides to buy over the patent for $230,000. The patent is acquired on 1 August 2010 and an election is made to convert qualifying WDA of $575,000, comprising base WDA of $230,000 and enhanced WDA of $345,000 (i.e. $230,000 x 150%), into cash.

Protection for the patent expires on 31 May 2014, which is within the 5-year writing-down period. Claw-back of the cash payout is determined as follows:



YA 2011

Cash payout = 7% x ($230,000 + $345,000)
= $40,250

YA 2015

Amount to claw-back = [(5 - No. of complete years IPR is held) / 5] x cash payout
= [(5 - 3) / 5] x $40,250
= $16,100

Company D is required to inform IRAS of the expiration of the patent by 30 June 2014 (i.e. within 30 days from the expiration of the patent).

Example 3

Company E is a manufacturer whose financial year ends on 31 December. During the year ended 31 December 2006, it acquired a bundle of IPRs relating to the manufacturing process of one of its products at the price of $450,000. The bundle of IPRs was subsequently sold in parts over a period of 3 years, starting from the year ended 31 December 2010.

Date of sale	YA	Sale price
1 September 2010	2011	$80,000
15 July 2011	2012	$380,000
4 January 2012	2013	$40,000

With the amendments to section 19B(4) of the ITA, the amount of WDA to be clawed back is determined as follows:

Cost of IPRs = $450,000
WDA granted previously = $360,000 (i.e. for 4 YAs; from YA 2007 to YA 2010)
TWDV = $90,000

YA	Sale price	TWDV (Note 1)	Sale price > TWDV?	Balancing charge (Note 2)
2011	$80,000	$90,000	No	N.A. (No balancing allowance or charge)
2012	$380,000	$10,000 (i.e. $90,000 - $80,000)	Yes	Lower of : • Sale price less TWDV= $370,000; • WDA granted previously = $360,000 Balancing charge = $360,000
2013	$40,000	$0; since $90,000 less previous sale prices is negative	Yes	Lower of : • Sale price less TWDV= $40,000; • WDA granted previously = $0 (i.e. $360,000 - $360,000) Balancing charge = $0

Note 1: Where IPRs are sold in parts, the amount of TWDV as at each point of sale is determined by taking the total WDA yet to be allowed less the aggregate of prices from the past sales of other parts of the IPRs. If the difference is less than or equal to zero, the TWDV at the point of the current sale will be zero.

Note 2: Where IPRs are sold in parts, the amount of WDA granted previously at each point of sale is determined by taking the total WDA granted less the aggregate of balancing charges made prior to the current sale.

Annex C to e-Tax Guide on Productivity and Innovation Credit

Enhanced Tax Deduction of Costs for Registering Patents, Trademarks, Designs and Plant Varieties

1. Introduction

1.1. Currently, patenting costs incurred by any person carrying on a trade or business are deductible under section 14A of the ITA. The deduction is allowed on the condition that the legal and economic ownership of the patent belong to the business entity in Singapore.

1.2. Under PIC, the scope of section 14A of the ITA is expanded to allow deduction of costs incurred in registering trademarks, designs and plant varieties.

1.3. The tax deduction under section 14A of the ITA is increased to 250% ("qualifying deductions", comprising 150% "enhanced deduction" and 100% "base deduction") for the first $300,000[28] of the costs incurred in a basis period to register patents, trademarks, designs and plant varieties ("qualifying IPRs"). Any such costs in excess of $300,000 incurred in the basis period continue to enjoy 100% tax deduction.

1.4. The above tax changes are effective for five years from YA 2011 to YA 2015. With this, the sunset clause currently applicable under section 14A of the ITA is also extended to YA 2015 to align with PIC. All other prevailing conditions governing the deduction under section 14A of the ITA continue to apply.

2. Registration Costs

2.1. Registration costs are broadly divided into two categories: official fees and professional fees.

2.2. Official fees refer to payments made to the Registry of Patents, Registry of Trade Marks, Registry of Designs or the Registry of Plant Varieties in Singapore or elsewhere for the –

a. filing of an application for a patent, for registration of a trade mark or design, or for the grant of protection of a plant variety;

b. search and examination report on the application for a patent;

c. examination report on the application for grant of protection for a plant variety; or

[28] A combined expenditure cap of $600,000 will apply for YA 2011 and YA 2012 for each of the qualifying activity under PIC.

d. grant of a patent.

2.3. Professional fees refer to fees incurred in relation to the registration of the qualifying IPRs, including fees payable to a person acting as an agent for:

a. applying for any patent, for the registration of a trade mark or design, or for the grant of protection of a plant variety, in Singapore or elsewhere;

b. preparing specifications or other documents for the purposes of the Patents Act (Cap. 221), the Trade Marks Act (Cap. 332), the Registered Design Act(Cap. 266), the Plant varieties Protection Act (Cap. 232A) or the intellectual property law of any other country in respect of patents, trademarks, designs or plant varieties; or

c. giving advice on the validity or infringement of any patent, trade mark, design or plant variety.

Examples of allowable costs include those prior art searches and translation costs where overseas intellectual property offices require documentation or specifications to be submitted in their native languages.

3. Computation of Enhanced Deduction under PIC

3.1. The 150% enhanced deduction is granted on the first $300,000 of costs incurred during a basis period on the registration of qualifying IPRs. The enhanced deduction is granted regardless of the outcome of the application. This means that even though an application for registration may be rejected, the related registration costs incurred are still eligible for the enhanced deduction. This is no different from the current tax treatment for patenting costs.

3.2. For purpose of computing the qualifying deductions, any cost subsidised by grants or subsidies from the Government shall not be taken into account.

4. Option to Convert Deduction into Cash

4.1. The option to convert any qualifying deductions into cash is allowed on a per registration basis, subject to the overall cap of $300,000[29] for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013. A business may therefore only convert the total qualifying deductions related to a single application for registration of an IPR into cash, subject to the abovementioned overall cap.

[29] A combined cap of $600,000 for all 6 qualifying activities under PIC shall apply for YA 2011 and YA 2012 only.

4.2. Where the total qualifying deductions related to a single application for registration of an IPR is greater than $300,000, a business may still convert such deductions into cash but any amount in excess of $300,000 is forfeited and shall not be available for deduction against the income of the business.

5. Minimum Ownership Period

5.1. Businesses must own the related IPRs registered (or, where applicable, ensure the application for registration or grant of the related IPR is not assigned to another person) for a minimum period of one year ("one-year ownership period"). Claw-back provisions shall apply if the one-year ownership period is not met. Table 1 below summarises the claw-back provisions.

Table 1

<table>
<tr><th rowspan="2">Qualifying deductions comprising</th><th colspan="2">Claim deduction on registration costs</th><th colspan="2">Convert qualifying deductions into cash</th></tr>
<tr><th>IPR disposed of within one year</th><th>IPR disposed of after one year</th><th>IPR disposed of within one year</th><th>IPR disposed of after one year</th></tr>
<tr><td>Base deduction</td><td colspan="2">Lower of sale price of IPR or deduction granted previously shall be deemed as income in the year of disposal
(as per current tax treatment)</td><td rowspan="2">Recovery of cash payout i.e. cash converted from deduction pursuant to option made
Claw-back of enhanced deduction not applicable</td><td rowspan="2">No recovery of cash payout
Claw-back of enhanced deduction not applicable</td></tr>
<tr><td>Enhanced deduction</td><td>Deemed as income chargeable to tax in the year of disposal</td><td>No claw-back of enhanced deduction</td></tr>
</table>

5.2. Where a business has claimed enhanced deduction on registration costs of IPRs and the one-year ownership period is not met, any claw-back of the enhanced deduction granted shall be reflected in its income tax return and tax computation relating to the basis period in which the IPR is disposed of or the application for the registration or grant of the IPR is assigned to another, as the case may be. If the business has opted to convert the related qualifying deductions into cash, it must notify IRAS within 30 days of the occurrence of such an event. Penalties may apply if the notification requirement is not complied with.

Annex D to e-Tax Guide on Productivity and Innovation Credit

Enhancements to Existing Measures to Encourage Research & Development ("R&D") in Singapore

A. Enhanced Deduction of Qualifying R&D Expenditure

1. Introduction

1.1. In Budget 2008[30], the tax deduction of qualifying R&D expenditure allowable under section 14D of the ITA was enhanced to grant enhanced tax deduction based on 150% of qualifying R&D expenditure incurred. The enhanced tax deduction, allowable under sections 14D (100%) and 14DA (50%), is only applicable for 5 years from YA 2009 to YA 2013 for R&D expenditure incurred on R&D activities carried out or undertaken in Singapore, whether directly or outsourced by a taxpayer.

1.2. Under PIC, the tax deduction of qualifying R&D expenditure on R&D carried out in Singapore is enhanced as follows:

a. A further enhanced 100% deduction ("enhanced deduction") is granted on the first $300,000[31] of qualifying R&D expenditure incurred in a basis period. This is in addition to the 100% ("base deduction") and 50% ("additional deduction") currently allowable on qualifying R&D expenditure incurred under section 14D and section 14DA of the ITA respectively. With this enhancement, businesses may now enjoy 250% tax deduction (collectively, "qualifying deductions") on the first $300,000 of such expenditure incurred;

b. The base deduction and additional deduction remain applicable to qualifying R&D expenditure exceeding $300,000 incurred in the basis period.

1.3. The enhanced deduction is granted for five years from YA 2011 to YA 2015.

2. Extension of the Liberalised "Related to Trade or Business" Condition

2.1. The condition that the R&D must be related to the existing trade or business of the business was liberalised, allowing businesses to claim deduction for R&D expenditure not incurred in respect of their existing trade or business.

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[30] For details of the tax measures introduced in 2008, please refer to e-Tax Guide "Research and Development Tax Measures" that is available on IRAS' website (www.iras.gov.sg).

[31] A combined expenditure cap of $600,000 shall apply for YA 2011 and YA 2012 only for each qualifying activity under PIC.

This is subject to the condition that the R&D expenditure is incurred for R&D activities conducted in Singapore, either directly by a taxpayer or by an R&D organisation in Singapore on his behalf.

2.2. The lifting of the "related to trade or business" condition applies to sections 14D, 14DA and 14E of the ITA, and is effective for YA 2009 to YA 2013. To align with PIC, the effective period for lifting the condition is extended to YA 2015. This liberalised tax treatment is applicable to the enhanced deduction available under PIC for qualifying R&D expenditure incurred on R&D activities conducted in Singapore.

2.3. Consequential changes will also be made to sections 19 and 19A of the ITA to extend the lifting of the "related to trade or business" condition to YA 2015 for capital expenditure incurred on plant and machinery acquired for R&D activities conducted in Singapore that are not related to the existing trade or business carried on by a taxpayer[32].

3. Prescribed Automation Equipment Acquired for R&D Activities

3.1. Currently, capital allowances are granted on plant and machinery acquired for R&D activities conducted in Singapore that are not related to a person's existing trade or business but such allowances can only be claimed over the tax working life of the asset or over three years. One-year accelerated capital allowance under sections 19A(2) to 19A(10) of the ITA is not permitted even if the asset in question is a prescribed automation equipment[33] ("qualifying equipment").

3.2. With effect from YA 2011, this restriction is lifted. This means qualifying equipment acquired for R&D activities conducted in Singapore that are not related to a person's existing trade or business may be written-down in one year from YA 2011.

4. Computation of Enhanced Deduction under PIC

4.1. Similar to the additional deduction (50%) currently allowable under section 14DA of the ITA, qualifying R&D expenditure for the purpose of the enhanced deduction (100%) under PIC is restricted to the following expenditure attributable to R&D:

a. staff costs (excluding directors' fees);

[32] Capital expenditure incurred on the acquisition of plant & machinery for use in R&D activities constitutes expenditure on plant & machinery to which capital allowance under sections 19 and 19A of the ITA applies and not qualifying R&D expenditure under section 14DA of the ITA.

[33] Under current rules, an asset which constitutes prescribed automation equipment qualifies for one-year capital allowance claim if it is acquired for the purpose of carrying on a trade or business.

b. consumables; or

c. any other item of expenditure on qualifying R&D activities which the Minister for Finance may prescribe by regulations[34],

but does not include any expenditure to the extent it is subsidised by grants or subsidies from the Government. Table 1 below summarises the deduction claimable for R&D expenditure:

Table 1

Local R&D expenditure			Overseas R&D expenditure (subject to conditions)
Staff costs & consumables		Others	
First $300,000	Balance		
250% (comprising 100% base deduction, 50% additional deduction and 100% enhanced deduction)	150% (comprising 100% base deduction & 50% additional deduction)	100%	100%

4.2. A business that contracts with a R&D organisation to undertake on its behalf qualifying R&D activities in Singapore may also claim base deduction and additional deduction on the fees payable to the R&D organisation to the extent the fees relate to qualifying R&D expenditure mentioned in paragraph 4.1. For this purpose, 60% of all fees payable to the R&D organisation are deemed to be such qualifying R&D expenditure[35]. To illustrate, Company S, a manufacturing company, contracts with a R&D organisation to undertake R&D activities in Singapore on its behalf for a fee of $500,000. Assuming Company S has obtained a grant of $50,000 from the Government and does not have a breakdown of the expenditure items from the R&D organisation, the amount of additional and enhanced deductions claimable by Company S is determined as follows:

R&D expenditure net of Government grant = $450,000 (i.e. $500,000 - $50,000)

Deemed qualifying R&D expenditure = 60% x $450,000
= $270,000

[34] So far, no further items of expenditure have been prescribed for this purpose.

[35] Where more than 60% of the fees actually relate to such qualifying R&D expenditure, the business may claim base deduction and additional deduction based on such actual qualifying R&D expenditure incurred if it is able to substantiate the claim.

Additional tax deduction = 50% x $270,000
= $135,000

Enhanced tax deduction = 100% x $270,000
= $270,000

Qualifying R&D expenditure not relating to existing trade or business

4.3. Where a person concurrently derives income subject to tax at the prevailing rate ("normal income") and the concessionary rate ("concessionary income"), deduction of any qualifying R&D expenditure not related to its trade or business shall be first made against normal income. Where its normal income cannot sufficiently absorb the qualifying R&D expenditure, the excess qualifying R&D expenditure is treated as normal unutilised loss and is available for offset against its concessionary income in accordance with section 37B of the ITA.

4.4. Where a person derives income that is subject to tax at more than one concessionary rate, and incurs qualifying R&D expenditure that is not related to its trade or business, the qualifying R&D expenditure is allowed as a deduction against its income that is subject to tax at the highest concessionary tax rate, after applying an adjustment factor (see formula below):

$$A \times \frac{\text{Prevailing corporate tax rate}}{\text{Highest concessionary tax rate}}$$

A is the total amount of claimable deduction in respect of the non-trade related qualifying R&D expenditure under sections 14D, 14DA and 14E of the ITA.

4.5. If the concessionary income subject to tax at the highest concessionary tax rate cannot sufficiently absorb the qualifying R&D expenditure, the excess qualifying R&D expenditure is treated as unutilised loss for the trade for which the concessionary income is derived and is available for offset against other concessionary income in accordance with section 37B of the ITA.

4.6. For the purpose of PIC, the annual expenditure cap of $300,000 is applied on qualifying R&D expenditure before applying the adjustment factor (i.e. applied on "A" in the formula above). To illustrate, Company T enjoys a concessionary tax rate of 10% on its trade income. During the year ending 30 June 2011, Company T incurs $400,000 of qualifying R&D expenditure in respect of R&D activities that is not related to its existing trade. The amount of tax deduction against Company T's concessionary income is determined as follows:

Qualifying R&D expenditure = $400,000

	$'000
Base deduction (section 14D)	400
50% additional deduction on qualifying R&D expenditure (section 14DA)	200
100% enhanced deduction on qualifying R&D exp. (Note 1)	300
Qualifying deductions claimable against normal income	900

Qualifying deductions against concessionary income = $900,000 x (17% / 10%)
= $1,530,000

Note 1: Capped at the first $300,000 of qualifying R&D expenditure incurred for each basis period.

5. Option to Convert Qualifying Deductions into Cash

5.1. The option to convert qualifying deductions into cash is subject to the overall conversion cap of $300,000[36] for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013.

5.2. For this purpose, the amount of qualifying R&D expenditure incurred for R&D activities unrelated to a person's current trade or business that is convertible into cash shall be determined before the application of the adjustment factor (as described in paragraph 4.4 above). If Company T in the illustration above opts to receive the maximum cash payout of $21,000 (i.e. to convert a maximum deduction of $300,000 into cash at the rate of 7%), the revised amount of tax deduction against its concessionary income is determined as follows:

	$'000
Qualifying deductions claimable against normal income	900
Less: Conversion into cash	(300)
Balance	600

Qualifying deductions against concessionary income = $600,000 x (17% / 10%)
= $1,020,000

6. Cap on Amount of Deductions under Sections 14, 14D, 14DA and 14E of the ITA

6.1. Section 14E of the ITA allows a further deduction on approved R&D projects. However, the total deduction allowable under sections 14E, 14, 14D and 14DA

[36] A combined cap of $600,000 for all 6 qualifying activities under PIC shall apply for YA 2011 and YA 2012 only.

in respect of any expenditure incurred by a business for the approved R&D project shall not exceed 200% of such expenditure incurred.

6.2. The above cap remains in place during the five-year qualifying YAs of PIC. To illustrate, if Company U wishes to claim a 100% enhanced deduction on the first $300,000 of qualifying R&D expenditure incurred for an approved R&D project, it is precluded from making any further claim under section 14E of the ITA on such amount of expenditure. Company U may however claim the further tax deduction under section 14E of the ITA on the balance of qualifying R&D expenditure that does not qualify for the 100% enhanced deduction, subject to the cap of 200% of such expenditure incurred.

B. Phasing Out of the R&D Tax Allowance ("RDA") Scheme

7. Current RDA Scheme

7.1. Under section 37G of the ITA[37], a company that derives chargeable income in any YA falling within YA 2009 to YA 2013 is granted a R&D tax allowance[38] of up to $150,000, computed based on 50% of the first $300,000 of a company's chargeable income or such lower amount where the company's chargeable income is less than $300,000, for each YA.

7.2. A company, subject to meeting certain qualifying conditions, may utilise the R&D tax allowance against the income it derives in subsequent YAs. The last YA in which any R&D tax allowance granted may be utilised is YA 2016.

8. Phasing Out of RDA Scheme

8.1. With PIC, the RDA scheme will be phased out. Though no R&D tax allowance will be granted from YA 2011, companies may still utilise any R&D tax allowance granted in respect of the chargeable income for YA 2009 and YA 2010 as a deduction against their income in the subsequent YAs, up to YA 2016. This is subject to the satisfaction of the existing qualifying conditions under section 37G.

8.2. The claim for R&D tax allowance and 100% enhanced deduction under PIC is mutually exclusive. For each YA during the five-year qualifying YAs of PIC from YA 2011 to YA 2015, a company must make a choice between utilising its R&D tax allowance or claiming the enhanced deduction on the first $300,000 of its qualifying R&D expenditure under PIC.

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[37] For details of the RDA scheme, please refer to e-Tax Guide "Research and Development Tax Measures" that is available on IRAS' website (www.iras.gov.sg).

[38] Any R&D tax allowance granted to a company is credited into an account known as a R&D account. Companies can view the balances in their R&D accounts via the "View R&D Account Details" e-Service available on myTax Portal (https://mytax.iras.gov.sg/ESVWeb/default.aspx).

8.3. Any R&D tax allowance not utilised by YA 2016 shall be disregarded.

C. Phasing Out of the R&D Incentive for Start-up Enterprise ("RISE") Scheme

9. Phasing Out of RISE Scheme

9.1. Under section 37H of the ITA[39], a qualifying start-up company may elect to convert its unutilised tax adjusted losses for a current YA into cash, subject to certain conditions. The option to convert unutilised tax adjusted losses into cash is only available for a qualifying start-up company whose first three YAs fall within the period from YA 2009 to YA 2013 (both YAs inclusive).

9.2. Under PIC, the option to convert R&D tax deductions into cash is no longer limited to loss-making qualifying start-up companies but applies to all qualifying businesses (i.e. sole-proprietorships, partnerships and companies with at least three local employees) regardless of their levels of profitability. Instead of maintaining two separate schemes for the conversion of qualifying R&D expenditure into cash, the RISE scheme shall be phased out from YA 2011. However, options made under RISE in respect of YA 2009 and YA 2010 are allowed and processed accordingly.

[39] For details of the RISE scheme, please refer to e-Tax Guide "Research and Development Tax Measures" that is available on IRAS' website (www.iras.gov.sg).

Annex E to e-Tax Guide on Productivity and Innovation Credit

Enhanced Tax Deduction of Qualifying Training Expenditure

1. Introduction

1.1. To encourage continual upgrading of skills of our workforce, a deduction of 250% ("qualifying deductions", comprising 100% "base deduction" and 150% "enhanced deduction") is granted on the first $300,000[40] of qualifying training expenditure incurred in the basis period for a qualifying YA. All training expenditure, including qualifying training expenditure, exceeding $300,000 incurred in the basis period will continue to enjoy 100% base deduction, subject to the general tax deduction rules under sections 14 and 15 of the ITA.

1.2. The enhanced deduction for qualifying training expenditure is available for five years from YA 2011 to YA 2015.

2. Qualifying Training Expenditure: In-house Training

2.1. For training conducted in-house by employees of a business, enhanced deduction is restricted to qualifying expenditure incurred in relation to the provision of the qualifying training programmes:

a. accredited Workforce Skills Qualification ("WSQ") training courses by a WSQ in-house training provider[41];

b. structured Institute of Technical Education ("ITE") courses by an Approved Training Centre ("ATC")[42];

c. on-the job training by a Certified On-the-Job Training Centre ("COJTC")[42]; and

d. any other in-house training courses that may be prescribed by the Minister for Finance by regulation.

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[40] A combined expenditure cap of $600,000 shall apply for YA 2011 and YA 2012 for each qualifying activity under PIC.

[41] The WSQ framework is administered by the Singapore Workforce Development Agency ("WDA"). For more information, please refer to WDA's website (www.wda.gov.sg).

[42] The ATC and COJTC status are awarded by ITE under the ATC and COJTC schemes. For more information, please refer to ITE's website (www.ite.edu.sg).

2.2. Qualifying training expenditure comprises the following:

a. salary and other remuneration of in-house trainers for the delivery of the training courses (i.e. based on hours spent delivering the courses), excluding directors' fees;

b. rental of external training premises;

c. costs of meals and refreshments provided during the courses; and

d. costs of training materials and stationery.

2.3. The enhanced deduction is computed based on the amount of qualifying training expenditure incurred by a business for qualifying training programmes net of any grant or subsidy provided by the Government.

2.4. Some examples of expenditure that do not qualify for enhanced deduction are:

a. salary and other remuneration paid to in-house trainers for their other duties, including time spent in the preparation of course contents and training materials;

b. salary and other remuneration paid to employees who provide administrative support to the training department;

c. absentee payroll (i.e. salaries and other remuneration of any employee attending the training courses);

d. accommodation, travelling and transport expenditure; and

e. overheads like rental and utilities.

3. Qualifying Training Expenditure: External Training

3.1. For training provided through an external training provider, enhanced deduction is available for qualifying training expenditure, including the following:

a. training fees payable to the external training service provider;

b. registration or enrolment fees;

c. examination fees;

d. tuition fees; and

e. aptitude test fees.

3.2. For the purpose of PIC, an external training service provider means a training provider who conducts training programmes for another person in return for a fee, whether they are related to each other or not. However, as with any related party transaction, businesses must ensure that such fees are charged on an arm's-length basis.

3.3. The enhanced deduction shall be computed based on the amount of qualifying training expenditure incurred by a business in respect of the external training programmes net of any grant or subsidy provided by the Government.

4. Option to Convert Qualifying Deductions into Cash

4.1. The option to convert qualifying deductions into cash is subject to the overall cap of $300,000[43] for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013.

[43] A combined cap of $600,000 for all 6 qualifying activities under PIC shall apply for YA 2011 and YA 2012 only.

Annex F to e-Tax Guide on Productivity and Innovation Credit

Enhanced Tax Deduction of Qualifying Design Expenditure

1. Introduction

1.1. To encourage the development of design as a key business capability, a deduction of 250% ("qualifying deductions", comprising 100% "base deduction" and 150% "enhanced deduction") is granted on the first $300,000[44] of qualifying design expenditure incurred on approved product and industrial design projects conducted in Singapore during each basis period. Any such expenditure exceeding $300,000 incurred during the basis period will continue to enjoy 100% base deduction, subject to the general tax deduction rules under sections 14 and 15 of the ITA.

1.2. Businesses who wish to enjoy the enhanced deduction on qualifying design expenditure incurred to conduct approved design projects under PIC may apply to DesignSingapore Council ("DSg"), which administers this category of activity under PIC. For details of the qualifying conditions and application procedure, please refer DSg's website (www.designsingapore.org).

1.3. The enhanced deduction for qualifying design expenditure is available for five years from year of assessment ("YA") 2011 to YA 2015 for businesses who are the beneficiaries of the design activities but not for persons who are in the trade of providing design services (i.e. a design service providers).

2. General Framework

2.1. Design activities are assessed by DSg on a project-by-project basis.

2.2. Qualifying criteria include:

a. the design must relate to an industrial or product design, resulting in the final design of a physical product[45];

b. the design activities must be conducted in Singapore;

c. the business must be engaged in a range of design activities as specified by DSg. Ad-hoc designs and one-time cosmetic changes to product or industrial designs do not come within the scope of the scheme;

[44] A combined expenditure cap of $600,000 shall apply for YA 2011 and YA 2012 only.

[45] Certain design categories (e.g. architecture, landscape design, multimedia design, etc.) are not covered by PIC. Please refer to DSg's website for details.

d. the design project must lead to the creation of an intellectual property, either in the form of a registered design or patent that is registered with the Intellectual Property of Singapore;

e. the business claiming for the qualifying design expenditure must be the sole owner of the registered design; and

f. the project must be completed (i.e. including the registration of the design or patent) within 2 years.

Qualifying design expenditure

2.3. For design activities conducted in-house, enhanced deduction is only applicable to the remuneration cost of qualified design professional(s) (excluding directors' fees) engaged by a business to carry out the approved design project. A qualified design professional is one who possesses a tertiary academic qualification (at least a diploma) in industrial or product design approved by DSg.

2.4. A business that contracts with an approved design service provider to undertake on its behalf approved design activities may claim enhanced deduction on the fees payable to the design service provider to the extent the fees relate to the remuneration cost of qualified design professional(s) engaged by the design service provider.

2.5. For the purpose of computing enhanced deduction under PIC, 60% of the total fees payable to an approved design service provider are deemed to be the remuneration cost of qualified design professional(s) engaged by the design service provider[46].

2.6. The enhanced deduction is computed based on the amount of qualifying design expenditure incurred by a business for such approved design projects net of any grant or subsidy from the Government.

3. Option to Convert Qualifying Deductions into Cash

3.1. The option to convert qualifying deductions into cash is subject to the overall cap of $300,000[47] for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013.

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[46] Where more than 60% of such fees payable actually relate to the remuneration cost of qualified design professional(s) engaged by the design service provider, enhanced tax deduction may be claimed on the higher actual remuneration costs if the business is able to substantiate the claim.

[47] A combined cap of $600,000 for all 6 qualifying activities under PIC shall apply for YA 2011 and YA 2012 only.