

IRAS e-Tax Guide

Productivity and Innovation Credit



INLAND REVENUE
AUTHORITY
OF SINGAPORE

Published by
Inland Revenue Authority of Singapore

Published on 15 Jul 2011

© Inland Revenue Authority of Singapore

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording without the written permission of the copyright holder, application for which should be addressed to the publisher. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Table of Contents

Productivity and Innovation Credit	1
1. Aim	1
2. Background	1
3. Overview of PIC.....	1
4. General PIC Framework	4
5. Administrative Procedures	14
6. Enquiries.....	16
Annex A.....	17
Enhanced Capital Allowance and Deduction for Qualifying Equipment	17
1. Introduction	17
2. Computation of Capital Allowance under PIC – Acquisition of Qualifying Equipment	18
3. Option to Convert Qualifying Expenditure into Cash – Acquisition of Qualifying Equipment	19
4. Minimum Ownership Period of Qualifying Equipment.....	20
5. Others	22
6. Computation of Deduction under PIC – Leasing of Qualifying Equipment.....	23
7. Option to Convert Qualifying Expenditure into Cash – Leasing of Qualifying Equipment	27
Annex A-1: Example illustrating the conversion of qualifying expenditure into cash and the computation of capital allowance.....	28
Annex A-2: Examples illustrating the application of the claw-back provisions.....	31
Annex B.....	34
Enhanced Writing-Down Allowance (“WDA”) for Acquisition of Intellectual Property Rights (“IPRs”)	34
1. Introduction	34

2.	Expanded Definition of IPR	35
3.	Computation of WDA under PIC	35
4.	Option to Convert Qualifying Expenditure into Cash	35
5.	Minimum Ownership Period of IPR	36
6.	IPRs Approved for Investment Allowance	38
7.	IPRs in Respect of Software	39
	Annex B-1: Examples illustrating the application of the claw-back provisions	40
	Annex C	44
	Enhanced Tax Deduction of Costs for Registering Patents, Trademarks, Designs and Plant Varieties	44
1.	Introduction	44
2.	Registration Costs	44
3.	Computation of Enhanced Deduction under PIC	45
4.	Option to Convert Registration Costs into Cash	46
5.	Minimum Ownership Period	46
	Annex D	48
	Enhancements to Existing Measures to Encourage Research & Development (“R&D”) in Singapore	48
A.	Enhanced Deduction of Qualifying R&D Expenditure	48
1.	Introduction	48
2.	Extension of the Liberalised “Related to Trade or Business” Condition for R&D Activities Conducted in Singapore	49
3.	Prescribed Automation Equipment Acquired for R&D Activities Conducted in Singapore..	50
4.	Computation of Enhanced Deduction under PIC	50
5.	Option to Convert Qualifying R&D Expenditure into Cash	53
6.	Cap on Amount of Deductions under Sections 14, 14D, 14DA and 14E of the ITA	54
B.	Phasing Out of the R&D Tax Allowance (“RDA”) Scheme	54

7.	Current RDA Scheme	54
8.	Phasing Out of RDA Scheme	54
C.	Phasing Out of the R&D Incentive for Start-up Enterprise (“RISE”) Scheme	55
9.	Phasing Out of RISE Scheme.....	55
Annex E		56
Enhanced Tax Deduction of Qualifying Training Expenditure		56
1.	Introduction	56
2.	Qualifying Training Expenditure: In-house Training	56
3.	Qualifying Training Expenditure: External Training.....	57
4.	Option to Convert Qualifying Training Expenditure into Cash	58
Annex F		59
Enhanced Tax Deduction of Qualifying Design Expenditure		59
1.	Introduction	59
2.	General Framework	59
3.	Option to Convert Qualifying Design Expenditure into Cash.....	61

Productivity and Innovation Credit

1. Aim

- 1.1. This e-Tax Guide¹ explains the Productivity and Innovation Credit scheme (“PIC”), which is effective from the Year of Assessment (“YA”) 2011 to YA 2015.
- 1.2. This e-Tax Guide is relevant to businesses that wish to claim PIC benefits.

2. Background

- 2.1. PIC was introduced in Budget 2010 to enhance existing tax measures that encourage productivity and innovation activities and to consolidate these measures into a single scheme. In Budget 2011, the Minister for Finance announced the enhancements to PIC.
- 2.2. This e-Tax Guide gives the overall features of PIC.

3. Overview of PIC

- 3.1. PIC is available for YA 2011 to YA 2015 (“qualifying YAs”).
- 3.2. PIC grants businesses which invest in a range of productivity and innovation activities, enhanced deductions and/or allowances (“enhanced deductions”) on up to \$400,000 of qualifying expenditure incurred for each category of activity. These are in addition to the deductions and/or allowances allowable under current tax rules. 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 qualifying expenditure of up to \$100,000 for each qualifying YA, into cash at the rate of 30%.
- 3.3. In addition, businesses may benefit from an option to defer tax payment based on qualifying expenditure incurred in the basis periods relating to YA 2012 to YA 2015. The tax deferral option enables businesses to defer tax payment of up to \$100,000 for a YA to the following year². This option allows businesses to use the cash flow arising from tax payment deferred for a YA to make investments in productivity and innovation activities in the same year.

¹ This e-Tax Guide replaces IRAS’ e-Tax Guide, “Productivity and Innovation Credit” published on 29 Jun 2010.

² Any tax deferred for the current YA becomes payable when the first assessment for the next YA is raised or three months after the end of the current financial year, whichever is earlier. The tax deferral option effectively allows businesses to enjoy their PIC tax savings one year in advance.

- 3.4. The productivity and innovation activities covered under PIC are:
- a. Acquisition or leasing of prescribed automation equipment (“qualifying equipment”);
 - b. Acquisition of intellectual property rights (“IPRs”);
 - c. Registration of certain IPRs;
 - d. Research and development (“R&D”);
 - e. Training; and
 - f. Design.
- 3.5. Table 1 below contrasts the key features of tax measures in place before and after PIC.

Table 1

Description	Section of the Income Tax Act (“ITA”)	Existing Measures (Before YA 2011)	Enhancements under PIC ³ (YA 2011 to YA 2015)
a. Expenditure on acquisition or leasing of qualifying equipment	Section 19A(2); Section 14T	100% accelerated capital allowance over 1 year; or 100% deduction as normal expenditure	Additional 300%, making it a total of 400%, capital allowance or deduction on the first \$400,000 of qualifying expenditure incurred per qualifying YA 100% capital allowance or deduction on qualifying expenditure incurred in excess of \$400,000

³ A combined expenditure cap of \$800,000 for enhanced deductions under PIC applies for each category of activity for YA 2011 and YA 2012. For YA 2013 to YA 2015, a combined cap of \$1,200,000 applies.

Description	Section of the Income Tax Act ("ITA")	Existing Measures (Before YA 2011)	Enhancements under PIC ³ (YA 2011 to YA 2015)
b. Expenditure on acquisition of IPRs	Section 19B	100% writing-down allowance over 5 years	<p>Scope expanded to include acquisition of plant variety</p> <p>Additional 300%, making it a total of 400%, writing-down allowance on the first \$400,000 of qualifying expenditure incurred per qualifying YA</p> <p>100% writing-down allowance on qualifying expenditure incurred in excess of \$400,000</p>
c. Expenditure on registration of certain IPRs	Section 14A	100% deduction for patenting costs	<p>Scope expanded to include registration costs incurred for trade mark, design and plant variety</p> <p>Additional 300%, making it a total of 400%, deduction on the first \$400,000 of qualifying expenditure incurred per qualifying YA</p> <p>100% deduction on qualifying expenditure incurred in excess of \$400,000</p>
d. R&D expenditure	Section 14D/ DA	Up to 150% deduction for qualifying expenditure incurred on R&D in Singapore	<p>Additional 250%, making it a total of 400%, deduction for the first \$400,000⁴ qualifying expenditure incurred on R&D in Singapore per qualifying YA</p> <p>Up to 150% deduction on qualifying expenditure in excess of \$400,000 incurred on R&D in Singapore</p>
		100% deduction for qualifying expenditure incurred on R&D outside Singapore	<p>Additional 300%, making it a total of 400%, deduction for the first \$400,000⁴ qualifying expenditure incurred on R&D outside Singapore per qualifying YA</p> <p>100% deduction on qualifying expenditure in excess of \$400,000 incurred on R&D outside Singapore</p>

⁴ The same expenditure cap of \$400,000 applies for R&D expenditure regardless of where the R&D activities are carried out, i.e., whether in Singapore or overseas.

Description	Section of the Income Tax Act ("ITA")	Existing Measures (Before YA 2011)	Enhancements under PIC ³ (YA 2011 to YA 2015)
	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 14R	100% deduction as normal expenditure	Additional 300%, making it a total of 400%, deduction on the first \$400,000 of qualifying expenditure incurred per qualifying YA
f. Design expenditure	Section 14S		100% deduction on qualifying expenditure incurred in excess of \$400,000

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

4. General PIC Framework

4.1. 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 \$400,000 for each activity. The annual expenditure cap of \$400,000 for each activity is set to focus the benefits of PIC on small and medium sized businesses.

- 4.2. To give businesses greater flexibility to fully benefit from PIC, a combined expenditure cap applies for each activity as follows⁵:

Qualifying YAs	Combined Expenditure Cap For Each Activity
YA 2011 and YA 2012	\$800,000 (i.e. \$400,000 x 2)
YA 2013, YA 2014 and YA 2015	\$1,200,000 (i.e. \$400,000 x 3)

- 4.3. The combined expenditure cap of \$800,000 and \$1,200,000 for the relevant qualifying YAs applies only if a taxpayer carries on a trade or business in the basis period relating to each qualifying YA. If the taxpayer does not carry on a trade or business in the basis period for all qualifying YAs for which a combined cap applies, enhanced deduction on qualifying expenditure must be computed based on an annual or adjusted combined expenditure cap, as the case may be. For example, a company which commences its business in 2011 (i.e. basis period relating to YA 2012) should compute its PIC enhanced deduction based on the annual expenditure cap of \$400,000 instead of the combined expenditure cap of \$800,000. Conversely, if the company winds up its business in 2013 (i.e. basis period relating to YA 2014) and therefore does not carry on any business in 2014 (i.e. basis period relating to YA 2015), the combined expenditure cap applicable for YA 2013 and YA 2014 is \$800,000 and not \$1,200,000.

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

- 4.4. Where the qualifying expenditure on a qualifying activity is funded or subsidised, fully or partially, by the Government⁶, only the amount of expenditure net of the grant or subsidy is eligible for the enhanced deduction 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.

⁵ For simplicity, examples illustrating the application of PIC in this Guide are provided on the basis that the annual expenditure cap of \$400,000 applies (unless stated otherwise).

⁶ The term "Government" includes any statutory board.

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

- 4.5. 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 are first granted on qualifying expenditure incurred in relation to the normal income. If the applicable annual expenditure cap is not exhausted, enhanced deductions are then 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.

Common expenditure and common assets

- 4.6. In general, common expenditure⁷ incurred for both the normal and concessionary trade is to be allocated to income derived from each trade for tax purposes. When computing the PIC benefits, enhanced deductions are first granted on qualifying common expenditure allocated to the normal income as mentioned in paragraph 4.5 above. If the applicable annual expenditure cap is not exhausted, enhanced deductions are then granted on qualifying common expenditure allocated 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.
- 4.7. Enhanced allowances on common assets (i.e. qualifying equipment and IPRs) are granted on the full cost of each asset, unless restricted by the expenditure cap. The enhanced allowances should be computed for each qualifying common asset before the 100% base and 300% enhanced allowances are allocated to each stream of income.

Unutilised trade loss and/ or allowance arising from PIC

- 4.8. Enhanced deductions that cannot be fully offset against the income of a business is treated as unutilised trade loss or allowance.
- 4.9. Such unutilised trade loss or allowance 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 and 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), 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

⁷ For the treatment of common qualifying expenditure incurred on the registration of IPRs, please refer to Annex C of this e-Tax Guide.

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

- 4.10. The annual expenditure cap for each category of activity shall apply, in the case of sole-proprietorships and companies⁸, at the individual and company level respectively. In the case of partnerships, the expenditure cap is applicable at the partnership level regardless of the number of partners.
- 4.11. 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.
- 4.12. 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.

⁸ 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

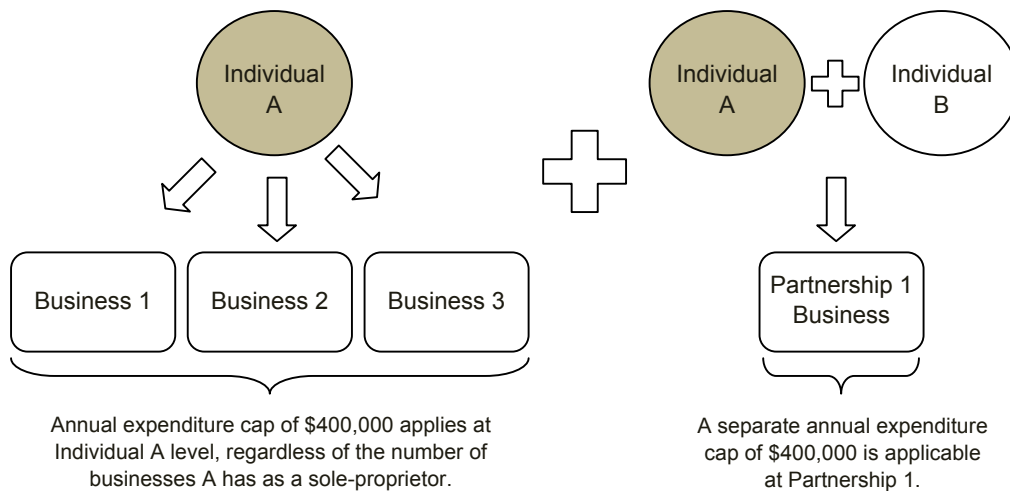
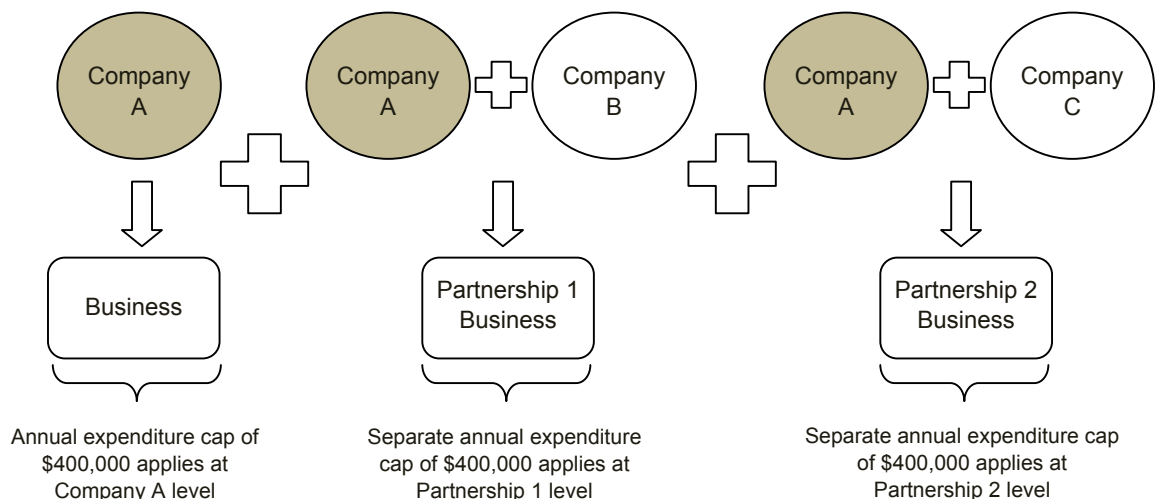


Illustration 2



4.13. 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 \$400,000 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 \$150,000 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.

- 4.14. For qualifying capital expenditure incurred prior to the amalgamation, enhanced deductions are given to the company which actually incurs the expenditure.

Cash conversion option

- 4.15. An eligible business may opt to convert qualifying expenditure of up to \$100,000 for each YA into cash at the rate of 30% (i.e. a cash payout of up to \$30,000), subject to a minimum expenditure of \$400. The expenditure conversion cap of \$100,000 applies to all expenditure incurred on qualifying activities taken together. Cash payouts received from such conversion are not taxable.
- 4.16. The cash conversion option is only available for YA 2011 to YA 2013⁹. It supports small but growing businesses with low taxable income that need cash to fund their investments in technology or upgrade their operations.
- 4.17. Consistent with the intent to enable businesses to enjoy maximum benefits under PIC, an eligible business is given the flexibility of converting up to \$200,000 of its qualifying expenditure into cash (i.e. up to \$60,000) for YA 2011 and YA 2012¹⁰. However, if a taxpayer does not carry on any trade or business in the basis period relating to one of the two qualifying YAs, the annual conversion expenditure cap of \$100,000 remains. For example, a company which commences its business in 2011 (i.e. basis period relating to YA 2012) can only convert up to \$100,000 of its qualifying expenditure into cash instead of the combined expenditure conversion cap of \$200,000.
- 4.18. An eligible business means any sole-proprietorship, partnership, company¹¹ that carries 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-

⁹ The option will be reviewed at the end of the third year.

¹⁰ For simplicity, examples illustrating the application of the cash conversion option under PIC in this Guide are provided on the basis that the conversion of qualifying expenditure is capped at \$100,000 (unless stated otherwise).

¹¹ This includes a registered business trust.

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.

- 4.19. For the purpose of the cash conversion option under PIC, “employees” exclude:
- a. Sole proprietors;
 - b. Partners of partnerships¹²;
 - c. Shareholders who are also directors of companies (as defined in section 4(1) of the Companies Act).
- 4.20. 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 expenditure conversion cap

- 4.21. The capping rules explained in paragraphs 4.10 to 4.12 in relation to the application of annual expenditure cap for business entities similarly apply in determining the maximum amount of qualifying expenditure that may be converted into cash for a relevant qualifying YA.

Cash conversion option is in lieu of tax deduction and is irrevocable

- 4.22. The qualifying expenditure utilised for cash conversion may relate to any, or a combination of any, of the six qualifying activities. Once an amount of qualifying expenditure is converted into cash, the same amount is no longer available for tax deduction. A corresponding amount of the expenditure cap is deemed utilised. For example, a company incurs \$500,000 on training during the year ending 31 Dec 2011. Since PIC benefits are only granted on the first \$400,000 of qualifying expenditure incurred, the company can either:
- a. Claim enhanced allowance on \$400,000 of qualifying expenditure in its YA 2012 tax return; or

¹² Non-equity salaried partners who are under contracts of services are considered employees for cash conversion purposes.

- b. Convert qualifying expenditure of \$100,000 into cash and claim enhanced allowance on the balance of \$300,000 in its YA 2012 tax return¹³.
- 4.23. The option can only be made once for each YA (between YA 2011 and YA 2013). Once made, the option is irrevocable.
- 4.24. Accordingly, an eligible business cannot opt again subsequently to convert additional amounts of qualifying expenditure into cash, even if it had not opted to convert the allowable maximum amount of such expenditure in the first place. The eligible business is also not allowed to subsequently change the composition of the qualifying expenditure utilised for cash conversion.
- 4.25. 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 expenditure.

Cash conversion option for partners

- 4.26. Where a partnership opts for the cash conversion, all partners, including those who have withdrawn from the partnership during the basis period, where applicable, are deemed to have agreed to the option. Options to convert qualifying expenditure into cash are final and irrevocable.

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

- 4.27. 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.
- 4.28. Any trade loss and allowance arising from PIC is similarly subject to the above requirements. However, if a LLP or LP converts its qualifying expenditure into cash, the partner’s share of qualifying expenditure that has been converted into cash is not eligible for deduction for that qualifying YA.

¹³ The company may convert qualifying expenditure of varying amounts of up to \$100,000, say, \$50,000 into cash and claim enhanced allowance on the balance of \$350,000 in its YA 2012 tax return (subject to minimum expenditure of \$400).

Tax deferral option

- 4.29. Under the tax deferral option, a business can elect to defer payment of up to \$100,000 of tax payable for a current YA if it incurs expenditure qualifying for PIC during the current financial year. The tax deferral option applies to qualifying expenditure incurred during the basis periods relating to YA 2012 to YA 2015 as shown in Table 2 below:

Table 2

Qualifying Expenditure Incurred During Financial Year Ending In	Defer Taxes Relating To
2011 (i.e. basis period for YA 2012)	YA 2011
2012 (i.e. basis period for YA 2013)	YA 2012
2013 (i.e. basis period for YA 2014)	YA 2013
2014 (i.e. basis period for YA 2015)	YA 2014

- 4.30. The amount of tax that can be deferred for a current YA is the lower of (i) the amount of tax payable for the current YA and (ii) the amount of expenditure incurred during the current financial period that is eligible for enhanced deduction under PIC¹⁴, subject to a cap of \$100,000 of tax payable.
- 4.31. IRAS will notify businesses on the payment of the tax deferred (i) when the first assessment for the next YA is raised or (ii) three months from the end of the current financial period, whichever is the earlier¹⁵.

Application of the cap on tax deferral

- 4.32. The capping rules explained in paragraphs 4.10 to 4.12 in relation to the application of annual expenditure cap for business entities similarly apply in determining the amount of tax payable that may be deferred.

¹⁴ In other words, qualifying expenditure in excess of the expenditure cap does not enjoy any PIC benefits, including tax deferral.

¹⁵ For non-corporate taxpayers, the notification for payment of deferred tax will be issued when the first assessment for the next YA is raised.

Interaction of tax deferral option with enhanced deductions and cash conversion option

- 4.33. A business may opt to defer tax of up to \$100,000 for a current YA if it incurs qualifying expenditure of up to an equivalent amount on any, or a combination of any, of the six qualifying activities during the current financial year. A business which opts for tax deferral is not precluded from benefiting from the enhanced deductions and cash conversion available under PIC on the same qualifying expenditure incurred, subject to their respective applicable expenditure caps. Expanding on the example in paragraph 4.22 above, the company has just received its YA 2011 Notice of Assessment and the amount of tax payable is \$25,000. Based on the qualifying expenditure incurred of \$400,000 (Note: Only \$400,000 is eligible for an enhanced allowance under PIC though \$500,000 was incurred during 2011), the company may defer tax payment of \$25,000 for YA 2011 and:
- a. Claim enhanced allowance on \$400,000 of qualifying expenditure in its YA 2012 tax return; or
 - b. Convert qualifying expenditure of \$100,000 into cash and claim enhanced allowance on the balance of \$300,000 in its YA 2012 tax return.
- 4.34. No minimum threshold is set for the tax deferral option and multiple elections can be made in respect of tax payable for the same YA, subject to the tax payable cap of \$100,000 for each YA.

Tax deferral option for partners

- 4.35. As mentioned in paragraph 4.26 above, all partners, including those who have withdrawn from the partnership during the basis period, where applicable, are deemed to have agreed to the tax deferral option and the allocation basis as indicated in the PIC Tax Deferral Form. The allocation basis may defer from the profit/ loss sharing ratio of the partnership. Once the amount of tax to be deferred is ascertained at the partnership level, it is allocated to the individual partners based on the agreed allocation basis. The actual amount of tax to be deferred for each individual partner is the lower of:
- a. The individual partner's tax payable for the current YA; and
 - b. The partner's share of the tax to be deferred.

5. Administrative Procedures

Claim for enhanced deductions

- 5.1. 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. Businesses must maintain adequate records of their qualifying activities and expenditures and provide them to IRAS upon request.

Cash conversion application

- 5.2. An eligible business that wishes to convert its qualifying expenditure 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 financial 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).
- 5.3. A sole-proprietor needs only to submit one application form for all qualifying expenditure to be converted for all his businesses. The application form can be submitted anytime after the financial year end of all his businesses but not later than the filing due date of his income tax return.
- 5.4. 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.
- 5.5. 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 returns¹⁶ by the filing due date.

Disposal of assets before the minimum ownership period

- 5.6. Cash payouts made to eligible businesses from the conversion of qualifying expenditure on acquisition of qualifying equipment and acquisition/

¹⁶ 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.

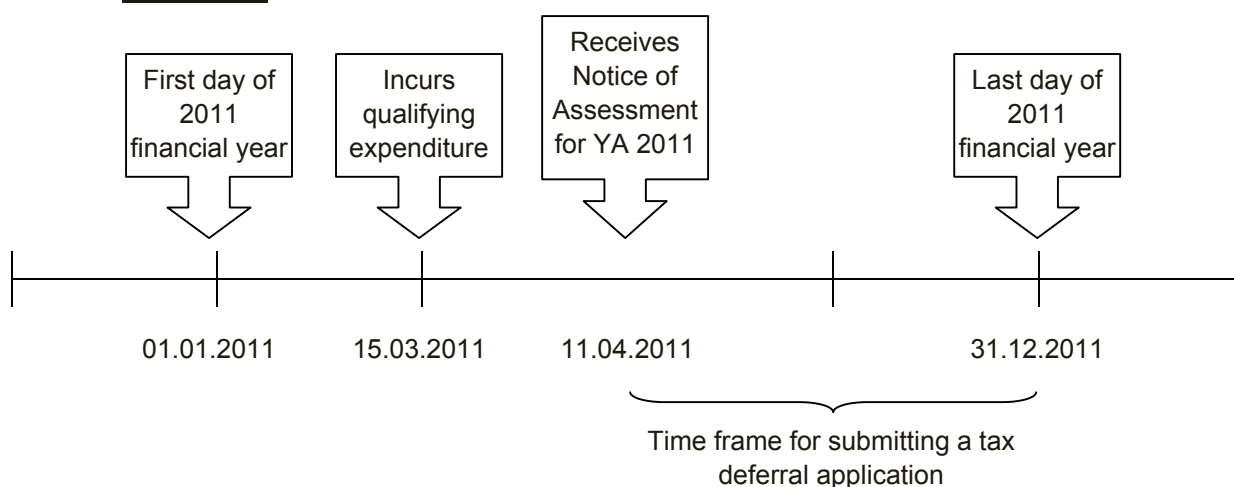
registration of IPR are recoverable if the applicable minimum ownership period is not met. Please refer to the relevant Annexes for details.

- 5.7. Businesses have to notify IRAS within 30 days from the date the equipment or the IPR is disposed of¹⁷ by submitting a Disposal of Qualifying Assets Form (available on IRAS' website). Penalties may apply if the notification requirement is not complied with.
- 5.8. 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.

Tax deferral application

- 5.9. Businesses may elect for the tax deferral option by submitting a PIC Tax Deferral Form to IRAS. The option may be elected anytime after the qualifying expenditure is incurred or the first assessment for the current YA is raised, whichever the later, but not later than the end of the current financial year. See illustration below. A copy of the application form is available on IRAS' website (www.iras.gov.sg).

Illustration



- 5.10. A sole-proprietor may make his election by submitting one application form for all qualifying expenditure incurred for all his businesses. The election must be made no later than the end of the financial year for all his businesses.
- 5.11. Generally, IRAS will process the tax deferral election within 30 days from the date of receipt of the PIC Tax Deferral Form, provided all requisite information is submitted at the time of application

¹⁷ The notification requirement also applies to equipment and IPR relating to software that are leased out/ licensed out within minimum ownership period.

6. Enquiries

- 6.1. If you wish to seek clarification on the contents of this e-Tax Guide, please contact IRAS at:

Sole-proprietorships/ partnerships 6351 3534

Companies 1800 356 8622

Annex A

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 and the Income Tax (Automation Equipment) Amendment Rules 2010¹⁸ for a full list of prescribed automation equipment.
- 1.2. Under PIC, capital allowance of 400% on the first \$400,000¹⁹ of capital expenditure incurred on the acquisition of prescribed automation equipment (“qualifying equipment”) during each basis period is granted. The 400% deduction comprises a 300% “enhanced allowance” and a 100% “base allowance”. Expenditure in excess of \$400,000 continues 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 instead of acquire qualifying equipment, a tax deduction of 400% on the first \$400,000¹⁹ of the leasing expenditure incurred during each basis period is granted, subject to certain conditions. Expenditure in excess of \$400,000 continues to enjoy a 100% 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 \$400,000.
- 1.5. The enhanced deduction for qualifying equipment is available from YA 2011 to YA 2015.

¹⁸ Previously, 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. Arising from feedback received, the list of prescribed automation equipment has been expanded to include prescribed automation equipment used in business settings other than an office or a factory. Copies of the Rules are available on IRAS’ website (www.iras.gov.sg) under <Quick Link> <Tax Acts> <Income Tax>.

¹⁹ A combined expenditure cap of \$800,000 applies for YA 2011 and YA 2012 for each qualifying activity under PIC. For YA 2013 to YA 2015, a combined cap of \$1,200,000 applies.

2. Computation of Capital Allowance under PIC – Acquisition of Qualifying Equipment

Qualifying equipment acquired on cash terms

- 2.1. 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 based on the Sixth Schedule of the ITA. Businesses may also elect to defer their claim of the allowances.
- 2.2. 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 = $\frac{80\% \times (\text{Base allowance} + \text{Enhanced allowance})}{\text{Tax working life}}$

- 2.3. 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 \$400,000. However, enhanced allowance may be claimed on the partial cost of only one item of equipment if this is to achieve the maximum expenditure cap in a qualifying YA.

Qualifying equipment acquired on hire purchase

- 2.4. 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.
- 2.5. 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.

- 2.6. 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.
- 2.7. 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:

- 2.8. 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).

3. Option to Convert Qualifying Expenditure into Cash – Acquisition of Qualifying Equipment

- 3.1. The cash conversion option is only available on a per equipment basis, subject to the expenditure conversion cap of \$100,000²⁰ for all six qualifying activities for each YA.

²⁰ A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC applies for YA 2011 and YA 2012.

- 3.2. Businesses must convert the full amount of expenditure incurred on an item of qualifying equipment into cash, subject to the expenditure conversion cap for each YA.
- 3.3. As qualifying expenditure incurred on 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. financial years.
- 3.4. Where the qualifying expenditure incurred on an item of equipment is in excess of the expenditure conversion cap of \$100,000 for each YA, the excess is forfeited upon making the option and is no longer available for deduction as capital allowances against income of the business concerned.
- 3.5. Annex A-1 illustrates the cash conversion of qualifying expenditure and the computation of capital allowance.

4. Minimum Ownership Period of Qualifying Equipment

- 4.1. Businesses must own the qualifying equipment for a minimum period of one year (“one-year ownership period”).
- 4.2. If the one-year ownership period is not met, the enhanced deduction or cash payout made may be clawed back or recovered. Table 3 below summarises the claw-back provisions.

Table 3

PIC benefits		Equipment disposed of within one year	Equipment disposed of after one year
Claim allowance	Base allowance	Compute balancing adjustments based on current rules ²¹	
	Enhanced allowance	Deemed as income chargeable to tax in the year of disposal (Note 1)	Adjustments not required (Note 2)
Convert qualifying expenditure into cash		Recovery of cash payout	No recovery of cash payout

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

²¹ Section 20 of the ITA

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.

- 4.3. 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.
- 4.4. If a business has converted the qualifying expenditure into cash and the one-year ownership period is not met, it has to notify IRAS by submitting the Disposal of Qualifying Assets Form (available on IRAS' website) within 30 days from the date of disposal of the equipment. Penalties may apply if the notification is not given.
- 4.5. Annex A-2 illustrates the application of the claw-back provisions.

Waiver of the claw-back provisions for qualifying equipment

- 4.6. Arising from feedback received on the one-year ownership period requirement, the Ministry of Finance has decided to waive the claw-back provisions under certain circumstances²². The waiver applies from YA 2011. The two scenarios in which the requirement may be waived are elaborated below:

- a. Scenario 1

If in the year of disposal, the cost of qualifying equipment (excluding cost of the equipment disposed of) acquired in the same basis period as the equipment disposed of is more than or equal to the expenditure cap applicable for that basis period, there will not be any claw-back of enhanced allowance or cash payout granted previously. This waiver is given automatically.

For example, a company acquired \$1,000,000 worth of qualifying equipment in Dec 2010 and claimed enhanced allowance on \$800,000²³ of the cost incurred when it submitted its YA 2011 tax return in Jun 2011. In Oct 2011, the company disposed of a piece of qualifying equipment, on which an enhanced allowance has been claimed. Assuming this piece of equipment costs \$45,000, the

²² The waiver of the claw-back provision is not extended to the acquisition of intellectual property rights ("IPRs") and the registration of specific IPRs.

²³ Enhanced allowance is claimed based on the combined expenditure cap of \$800,000 for YA 2011 and YA 2012.

enhanced allowance of \$135,000 (i.e. 300% x \$45,000) will not be clawed back as the cost of qualifying equipment (excluding the cost of equipment disposed of) acquired in 2010 is \$955,000 (i.e. \$1,000,000 less \$45,000), which is higher than the cap of \$800,000.

b. Scenario 2

Where in the year of disposal, the cost of qualifying equipment (excluding cost of the equipment disposed of) acquired in the same basis period as the equipment disposed of is less than the expenditure cap applicable for that basis period, the claw-back provision may be waived on a case-by-case basis if IRAS is satisfied with the commercial reason(s) that led to the disposal.

- 4.7. Prior approval is not required for a waiver under Scenario 1 as described in paragraph 4.6 above. A business needs only to declare in its tax return for the relevant YA that cost of qualifying equipment (excluding cost of the equipment disposed of) acquired in the same basis period as the equipment disposed of is more than or equal to the expenditure cap applicable for that basis period. Otherwise, the PIC benefits will be clawed back. Where necessary, IRAS may call for supporting documents for verification purposes.
- 4.8. For a business whose disposal of qualifying equipment falls under Scenario 2 described in paragraph 4.6, the commercial reasons for such disposal should be provided together with the Disposal of Qualifying Assets Form or with its income tax return for the relevant YA, depending on whether a cash payout is claimed or an enhanced allowance is claimed. Similar to Scenario 1, IRAS may call for supporting documents for verification purposes.

5. Others

Qualifying equipment approved for Investment Allowance

- 5.1. Qualifying equipment 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. On the other hand, if enhanced allowance is granted on only part of the 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 \$400,000 of the expenditure and investment allowance on the balance of \$100,000.

- 5.2. 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. In 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.
- 5.3. 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

- 5.4. Qualifying equipment approved for Integrated Industrial Capital Allowance (“IICA”) claim under Part XIID of the EEIA do not qualify for enhanced allowance under PIC.

Qualifying equipment for which allowance under section 19 or 19A had been previously granted to the same business

- 5.5. If a business was previously granted allowance under section 19 or 19A of the ITA on an equipment, the same equipment does not qualify for enhanced allowance under PIC. For example, this applies where a business exercises its option to purchase qualifying equipment at the end of a sale-and-leaseback agreement.

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

Types of leases

- 6.1. For tax purposes, leases can be divided into 3 types²⁴:

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:

²⁴ 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).

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

- 6.2. 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. This is because the lessee is the person who puts 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 400% 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 400% of lease payment (inclusive of finance charges ²⁵)
Finance lease treated as sale agreement	N.A.	Allowance on 100% of cost of equipment	N.A.	Allowance on 400% of cost of equipment

- 6.3. The same annual expenditure cap of \$400,000 shall apply to both expenditure incurred on the acquisition and the leasing of qualifying equipment. To illustrate, if a business incurs \$300,000 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 (\$300,000) and an enhanced deduction on the charges of qualifying equipment leased (\$100,000).
- 6.4. 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 expenditure on the equipment into cash.
- 6.5. 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 expenditure on the equipment into cash. However, he must ensure that the one-year ownership period, described in paragraph 4, is met. In addition, the same qualifying equipment must not be leased out within one year from the date of acquisition. Otherwise, any enhanced allowance or cash payout granted previously in respect of the equipment shall be clawed back

²⁵ 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.

Leasing of software

- 6.6. Prior to the public consultation of the Income Tax (Amendment) Bill 2010, leasing charges for software would not have qualified for enhanced deduction under PIC, unless the software is installed in a qualifying equipment and both are leased as a single item of equipment without separate pricing for the software and the equipment leased.
- 6.7. Following feedback received, the Ministry of Finance has decided to extend PIC to leasing of software without distinguishing between the software and the system on which it is installed to operate. This is in recognition that the lessee has put the qualifying equipment into productive use.
- 6.8. Consequently, the restriction on enhanced capital allowance claims by lessor as explained in paragraphs 6.4 and 6.5 above would also apply to the claiming of section 19B writing-down allowance on the acquisition of IPR relating to software.
- 6.9. The enhanced deduction under PIC available for software leasing is limited to payments where the lessee or end-user only receives the right to use the software but is not permitted to reverse engineer, decompile or disassemble the software, or exploit the copyright to the software. In other words, payments for the right to commercially exploit software do not qualify for enhanced deduction under PIC.

Qualifying equipment for which allowance under section 19 or 19A had been previously granted to the same business

- 6.10. As explained in paragraph 5.5, if a business was previously granted allowance under section 19 or 19A of the ITA on an item of equipment, lease payments on the same equipment do not qualify for enhanced deduction under PIC. For example, this applies where a business enters into a sale-and-leaseback agreement for a qualifying equipment that it previously owned.

Sublease of qualifying equipment

- 6.11. If an item of qualifying equipment is subleased to another person (i.e. sub-lessee) 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 for that leased equipment will not be clawed back.

7. Option to Convert Qualifying Expenditure into Cash – Leasing of Qualifying Equipment

- 7.1. The option to convert qualifying expenditure into cash is subject to the expenditure conversion cap of \$100,000²⁶ for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013.
- 7.2. If an item of qualifying equipment is subleased to another person (i.e. sub-lessee) during the basis period, the lessee is not allowed to convert any part of the leasing charges incurred during the basis period into cash.
- 7.3. Unlike the cash conversion option for qualifying expenditure incurred on the acquisition of qualifying equipment, the cash conversion for qualifying expenditure arising from the leasing of qualifying equipment need not be made on a per equipment basis.

²⁶ A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC will apply for YA 2011 and YA 2012.

Annex A-1: Example illustrating the conversion of qualifying expenditure into cash and the computation of capital allowance

During the year ending 31 Dec 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 equipment 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]	200	100 ²⁷	100
X	150	150	-
Y	70	70	-
Z	30	30	-
Total	450	350	100

Step 1: Identify qualifying equipment on which PIC benefits will be claimed

PIC benefits are granted on the first \$400,000 of qualifying expenditure incurred. As the aggregate of the cost of Equipment W and Equipment X is \$350,000 (i.e. \$200,000 + \$150,000), this leaves a balance of \$50,000, which Company A matches against the cost of Equipment Y.

Equipment	Cost	Amount eligible for PIC benefits (capped at \$400,000)
	\$'000	\$'000
W [HP]	200	200
X	150	150
Y	70	50
Z	30	-
Total	450	400

Step 2: Make election for cash conversion

Company A can either claim enhanced allowance on the qualifying expenditure incurred on Equipment W, X and Y (capped at \$400,000) or convert up to \$100,000 of the qualifying expenditure into cash.

The option to convert qualifying expenditure into cash is on a per equipment basis (i.e. option must be made on the full amount of capital expenditure incurred in

²⁷ Excludes interests and other finance charges but includes deposits made during the basis period.

relation to an item of qualifying equipment). In this regard, Equipment W and Y are not eligible for cash conversion. The option can only be made on Equipment X.

Equipment	Eligibility for cash conversion
W [HP]	Not eligible. Equipment W is acquired through hire purchase and the principal repayments are straddled over two basis periods. Since only part of the capital expenditure is incurred in 2012, it is not possible to opt for cash conversion on Equipment W.
X	Eligible. Should an option be made on Equipment X, Company A can only convert up to the cap of \$100,000. The balance of \$50,000 (i.e. \$150,000 - \$100,000) is forfeited and no allowance can be claimed on it
Y	Not eligible, as only a portion of the cost of Equipment Y is eligible for PIC benefits.

Company A makes a cash conversion option on Equipment X and receives \$30,000 (i.e. \$100,000 x 30%) in cash. Consequently, capital allowance claim on the balance of the cost of Equipment X is forfeited.

Step 3: 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:

Total capital allowance claimable for each item of equipment

Equipment	Cost	Amount eligible for PIC benefits (capped at \$400,000)	300% enhanced allowance (1)	100% base allowance (2)	Total capital allowance (1) + (2)
	\$'000	\$'000	\$'000	\$'000	\$'000
W [HP]	200	200	600	200	800
X	150	150	NA	NA	NA
Y	70	50	150	70	220
Z	30	-	-	30	30
Total	450	400	750	300	1,050

Capital allowance schedule for YA 2013 and YA 2014

Equipment	W [HP]	X	Y	Z	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total capital allowance claimable	800	-	220	30	1,050
Less: YA 2013 AA	400 ²⁸	-	220	30	650
Tax written down value ("TWDV") c/f	400	-	-	-	400
Less: YA 2014 AA	400 ²⁸	-	-	-	400
TWDV c/f	-	-	-	-	-

²⁸ AA for Equipment W is dependent on the principal sums repaid during the year. Since equal amounts are repaid during the years ending 31 Dec 2012 and 2013 respectively, AA for YA 2013 and YA 2014 is the same amount i.e. $\$100,000 / \$200,000 \times \$800,000 = \$400,000$

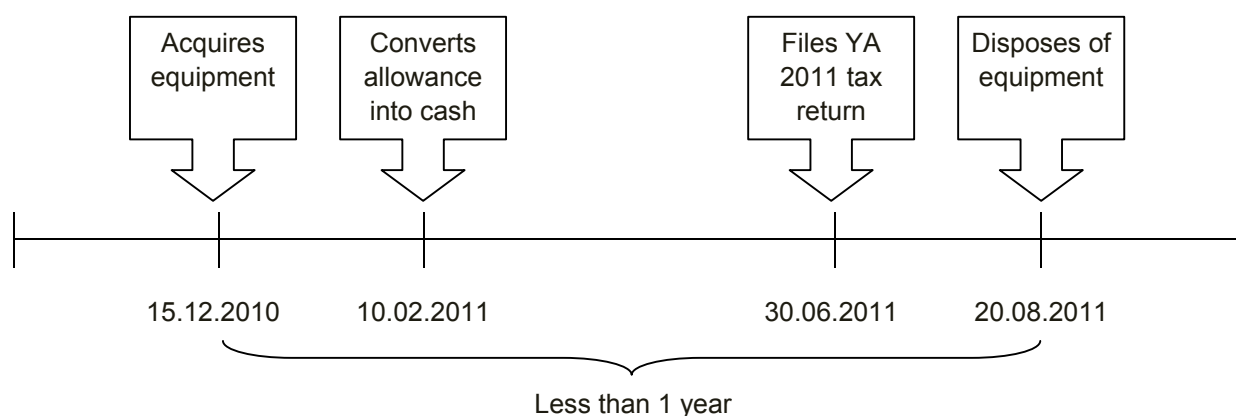
Annex A-2: Examples illustrating the application of the claw-back provisions

Scenario

Company B is a December year-end company. On 15 Dec 2010, Company B acquires an item of qualifying equipment for \$100,000 with cash. The equipment is disposed of on 20 Aug 2011 for \$60,000. Company B has not acquired any other items of qualifying equipment during the financial year ended 31 Dec 2010.

Example 1

Shortly after the year ended 31 Dec 2010, Company B elects to convert the qualifying expenditure of \$100,000 into a cash payout of \$30,000 (i.e. \$100,000 x 30%).



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 \$30,000 is repayable to the Comptroller within 30 days from the date of the notice, unless a waiver is granted.

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

Tax computation for YA 2011

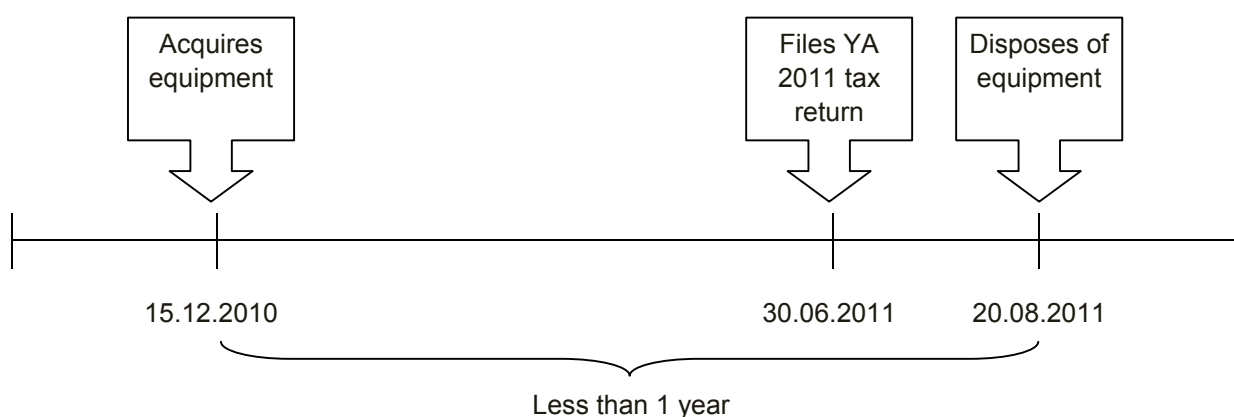
	\$'000
Adjusted profit/ (loss)	(24)
Unutilised losses c/f	(24)
Chargeable income	Nil

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. This comprises \$100,000 of base allowance and \$300,000 of enhanced allowance. As before, given that the one-year ownership period 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)	(133)
Unutilised capital allowances c/f	(133)
Chargeable income	Nil

Note 1: Current year capital allowance = $33\frac{1}{3}\%$ x (Base + Enhanced allowances)
= $33\frac{1}{3}\%$ x (\$100,000 + \$300,000)
= \$33,000* + \$100,000
= \$133,000

* Rounded to the nearest thousand

Tax computation for YA 2012

	\$'000	\$'000
Adjusted profit/ (loss)		85
Add: Enhanced allowance granted previously (Note 2)		100
		<hr/> 185
Less: Unutilised capital allowances b/f	(133)	
Balancing allowance (Note 3)	(7)	(140)
		<hr/> 45
Less: Unutilised losses b/f		(24)
Chargeable income (before exempt amount)		21
Less: Exempt amount		(13)
Chargeable income (after exempt amount)		<hr/> 8
Tax thereon at 17%		<hr/> <hr/> 1.36

Note 2: Balance of enhanced allowance that has not been drawn down is forfeited (i.e. \$300,000 - \$100,000 = \$200,000).

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 Dec 2011. 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	(133)	
Balancing allowance (as before)	(7)	
Enhanced allowance not drawn down (Note 4)	(200)	(340)
Unutilised capital allowances c/f		<hr/> (255)
Unutilised losses b/f & c/f		<hr/> (24)

Note 4: As the one-year ownership period requirement 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

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. As announced in Budget 2010, the definition of IPRs is expanded to include plant variety²⁹. In addition, a 400% WDA is granted on the first \$400,000³⁰ of the capital expenditure incurred to acquire IPRs in each basis period (i.e. comprising 300% “enhanced WDA” and 100% “base WDA”), subject to certain conditions. Expenditure exceeding \$400,000 continues to enjoy 100% base WDA.
- 1.3. The above tax changes are effective for five years from YA 2011 to YA 2015. They 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 have been relaxed for 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.

²⁹As 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.

³⁰ A combined expenditure cap of \$800,000 applies for YA 2011 and YA 2012 for each of the qualifying activity under PIC. For YA 2013 to YA 2015, a combined cap of \$1,200,000 applies.

2. Expanded Definition of IPR

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

- a. Patent;
- b. Copyright;
- c. Trade mark;
- d. Registered designs;
- e. Geographical indication;
- f. Layout design of integrated circuit;
- g. Trade secret and information with commercial value; and
- h. Plant variety³¹.

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 do not exceed the annual expenditure cap of \$400,000. However, the partial cost of only one IPR may be claimed if this is 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:

$$AA = 20\% \times (\text{Based WDA} + \text{Enhanced WDA})$$

4. Option to Convert Qualifying Expenditure into Cash

4.1. The option to convert qualifying expenditure into cash is only allowed on a per IPR basis, subject to the expenditure conversion cap of \$100,000³² for all six qualifying activities for each qualifying YA.

³¹ With effect from YA 2011, the definition of IPR is expanded to include plant variety for a period of 5 years.

³² A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC applies for YA 2011 and YA 2012.

- 4.2. Where the qualifying expenditure incurred on an IPR is in excess of the expenditure conversion cap of \$100,000, the excess is forfeited upon conversion. The excess is not available for deduction as WDA against the income of the company or partnership concerned.

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”), failing which, claw-back provisions apply. 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 provided that where WDA has been made to a company or partnership for any IPRs³³ 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 has been 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:

- a. 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 not be deemed as income in the year in which the event occurs.

³³ 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.

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

Proceeds from disposal of IPR is greater than the tax written down value³⁴ (“TWDV”)

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.

Proceeds from sale of IPR is less than or equal to the TWDV

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.

Table 1: WDA for IPR

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 ≤ 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.

³⁴ Refers to the amount of base allowance that has not been drawn down as writing-down allowance

Table 2: Conversion of qualifying expenditure 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

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 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 expenditure 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

- 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 \$400,000 of the expenditure and investment allowance on the balance of \$600,000.
- 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.

7. IPRs in Respect of Software

7.1. Consequential to the extension of PIC to lease payments (or license fees) incurred by end-users for the use software, a company or partnership that acquires IPRs in respect of software for purpose of licensing are not entitled to claim enhanced WDA on these IPRs. They are also not allowed to convert expenditure on IPRs relating to software into cash.

7.2. Where such IPRs are acquired for own use in business (other than for licensing), the company or partnership is entitled to claim enhanced WDA on the IPRs. In such a case, it may also opt to convert qualifying expenditure on the IPRs into cash. However, it must ensure that the one-year ownership period, described in paragraph 5, is met. Should these IPRs be licensed out within one year from the date of acquisition, any enhanced WDA or cash payout granted previously in respect of the equipment will be clawed back.

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

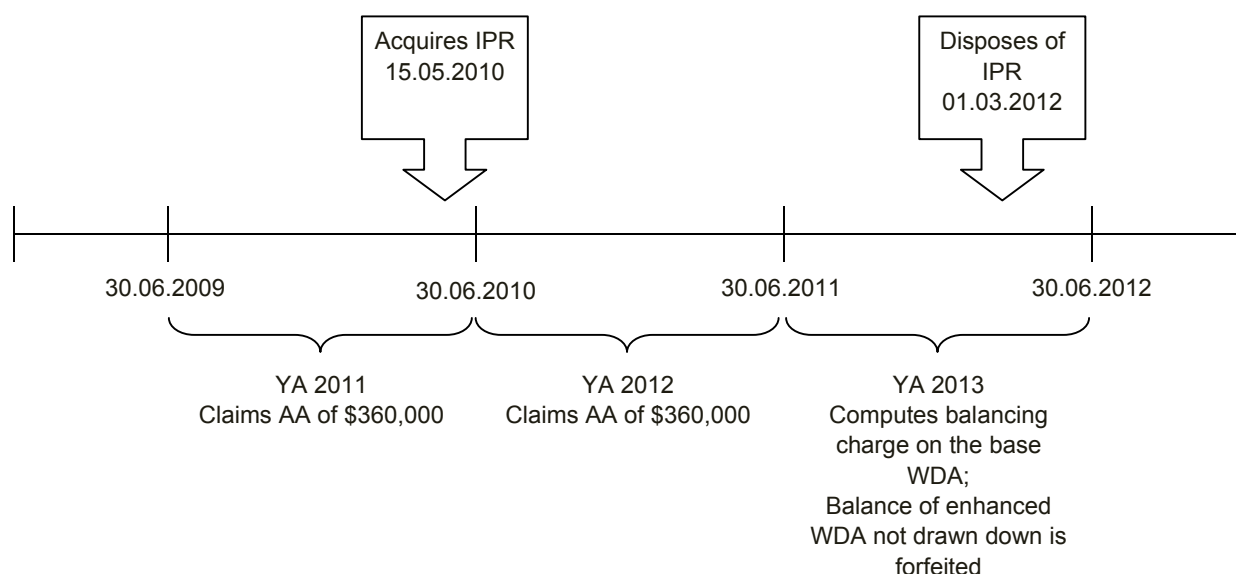
Example 1

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

With the combined expenditure cap of \$800,000 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 during the basis period for YA 2011³⁵. 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 300% = \$1,350,000
Qualifying WDAs (1) + (2)	= \$450,000 + \$1,350,000 = \$1,800,000
Annual allowance ("AA")	= 20% x (\$450,000 + \$1,350,000) = \$90,000 + \$270,000 = \$360,000

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



³⁵ Company C in this case is eligible to avail enhanced WDA on expenditure incurred to acquire IPR of up to \$350,000 (i.e. \$800,000 less \$450,000) 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.

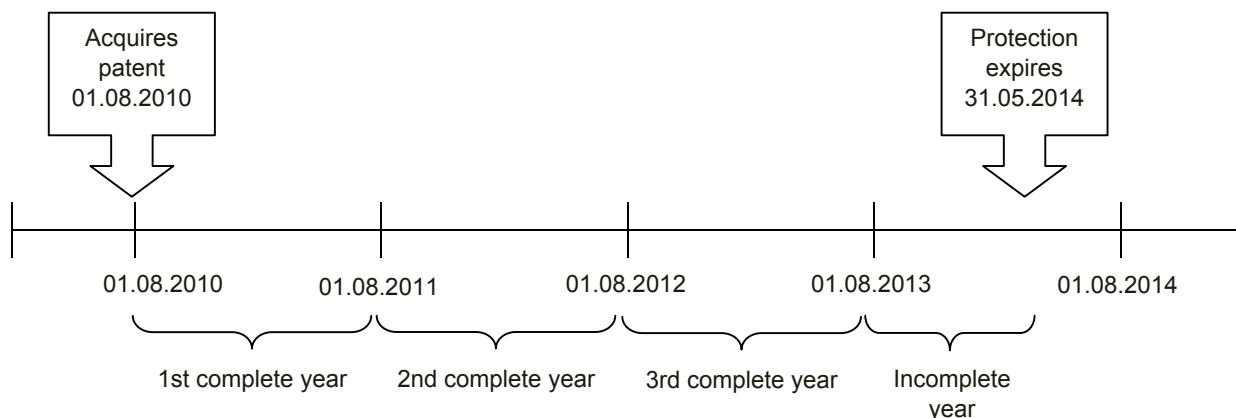
Enhanced allowance

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 \$540,000 (i.e. \$270,000 x 2) is not clawed back. However, the balance of enhanced WDA of \$810,000 (i.e. \$1,350,000 - \$540,000) 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 Sep, decides to buy over the patent for \$230,000. Company D acquired the patent on 1 Aug 2010 and made an election to convert qualifying expenditure of \$230,000 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

$$\begin{aligned}\text{Cash payout} &= 30\% \times \$200,000^{36} \\ &= \$60,000\end{aligned}$$

YA 2015

$$\begin{aligned}\text{Amount to claw-back} &= [(5 - \text{No. of complete years IPR is held}) / 5] \times \text{cash payout} \\ &= [(5 - 3) / 5] \times \$60,000 \\ &= \$24,000\end{aligned}$$

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

³⁶ A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC applies for YA 2011 and YA 2012.

Example 3

Company E is a manufacturer whose financial year ends on 31 Dec. During the year ended 31 Dec 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 Dec 2010.

Date of sale	YA	Sale price
1 Sep 2010	2011	\$80,000
15 Jul 2011	2012	\$380,000
4 Jan 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 : c. Sale price less TWDV= \$370,000; d. WDA granted previously = \$360,000 Balancing charge = \$360,000
2013	\$40,000	\$0; since \$90,000 less previous sale price 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 is 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

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 belongs to the business entity in Singapore.
- 1.2. As announced in Budget 2010, 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 400% (“qualifying deductions”, comprising 300% “enhanced deduction” and 100% “base deduction”) for the first \$400,000³⁷ of the costs incurred during a basis period to register patents, trademarks, designs and plant varieties (“qualifying IPRs”). Any such costs in excess of \$400,000 incurred during the basis period continue to enjoy 100% base 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

³⁷ A combined expenditure cap of \$800,000 applies for YA 2011 and YA 2012 for each of the qualifying activity under PIC. For YA 2013 to YA 2015, a combined cap of \$1,200,000 applies.

variety; or

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 300% enhanced deduction is granted on the first \$400,000 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. As a general rule, enhanced deduction for IPR registration cost must be claimed on the full cost of a filing, provided that the total IPR registration cost incurred during the basis period for a qualifying YA does not exceed the annual expenditure cap of \$400,000. Partial cost of only one IPR filing may be claimed if this is to achieve the maximum expenditure cap for a qualifying YA. Where the IPR registration cost is a common expenditure, the base and enhanced deductions are determined first before allocating the deductions to each stream of income.

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

4. Option to Convert Registration Costs into Cash

- 4.1. The option to convert any registration costs into cash is allowed on a per registration basis, subject to the expenditure conversion cap of \$100,000³⁸ for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013. A business may therefore convert only the total registration costs incurred in relation to a single application for registration of an IPR into cash, subject to the abovementioned expenditure conversion cap.
- 4.2. Where the total registration costs incurred in relation to a single application for registration of an IPR are greater than \$100,000, a business may still convert such costs into cash but any amount in excess of \$100,000 is forfeited. The excess 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”) failing which, claw-back provisions apply. Table 1 below summarises the claw-back provisions.

Table 1

PIC benefits		IPR disposed of within one year	IPR disposed of after one year
Claim deduction	Base deduction	Lower of sale price of IPR <u>or</u> deduction granted previously shall be deemed as income in the year of disposal (as per current tax treatment)	
	Enhanced allowance	Deemed as income chargeable to tax in the year of disposal	No claw-back of enhanced deduction
Convert registration costs into cash		Recovery of cash payout	No recovery of cash payout

- 5.2. Where a business has claimed enhanced deduction on registration costs of IPRs and the one-year ownership period is not met, claw-back of the enhanced deduction granted must 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 registration

³⁸ A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC applies for YA 2011 and YA 2012.

costs 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

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 2008³⁹, the tax deduction of qualifying R&D expenditure allowable under section 14D of the ITA was enhanced. As a result, tax deduction was granted based on 150% of qualifying R&D expenditure incurred. The 150% 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 in Singapore, whether directly or outsourced by a taxpayer.
- 1.2. Under PIC, the tax deduction of qualifying R&D expenditure is further enhanced as follows:

R&D activities conducted in Singapore

- a. A further 250% deduction (“enhanced deduction”) is granted on the first \$400,000⁴⁰ of qualifying local R&D expenditure incurred during a basis period. This is in addition to the 100% “base deduction” and 50% “additional deduction” currently allowable on qualifying local R&D expenditure incurred under section 14D and section 14DA of the ITA respectively. With this enhancement, businesses may now enjoy 400% tax deduction on the first \$400,000 of such expenditure incurred;
- b. The base deduction (i.e. 100%) and additional deduction (i.e. 50%) remain applicable to qualifying local R&D expenditure exceeding \$400,000 incurred during the basis period.

R&D activities conducted overseas

- c. A further 300% deduction (“enhanced deduction”) is granted on the first \$400,000 of qualifying overseas R&D expenditure incurred during a basis period. This is in addition to the 100% base deduction currently allowable on qualifying overseas R&D expenditure incurred under section 14D of

³⁹ 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).

⁴⁰ A combined expenditure cap of \$800,000 applies for YA 2011 and YA 2012 for each qualifying activity under PIC. For YA 2013 to YA 2015, a combined cap of \$1,200,000 applies.

the ITA. With this enhancement, businesses will similarly enjoy a 400% tax deduction on the first \$400,000 of their qualifying overseas R&D expenditure;

- d. Qualifying overseas R&D expenditure exceeding \$400,000 incurred during the basis period continues to enjoy 100% base deduction.
- 1.3. Regardless whether the R&D activities are conducted in Singapore or overseas, a taxpayer's qualifying R&D expenditure are subject to the same \$400,000 expenditure cap for each qualifying YA.
- 1.4. 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 for R&D Activities Conducted in Singapore

- 2.1. The condition that the R&D must be related to the existing trade or business of the business was liberalised in 2008. With this, businesses may claim deduction for R&D expenditure incurred not in respect of their existing trade or business. This is however 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 lifting of the condition is extended to YA 2015. The liberalised tax treatment is only applicable to the enhanced deduction for qualifying R&D expenditure incurred on R&D activities conducted in Singapore.
- 2.3. The lifting of the “related to trade or business” condition till YA 2015 also applies to 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 taxpayer⁴¹.
- 2.4. Notwithstanding the above, for the purpose of claiming a deduction or enhanced deduction on expenditure incurred on R&D activities conducted overseas, the “related to trade or business” condition continues to apply.

⁴¹ 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.

3. Prescribed Automation Equipment Acquired for R&D Activities Conducted in Singapore

- 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. However, 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 equipment⁴² ("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 (250% for local R&D expenditure and 300% for overseas R&D expenditure) under PIC is restricted to the following expenditure attributable to R&D:
- a. staff costs (excluding directors' fees);
 - b. consumables; or
 - c. any other item of expenditure on qualifying R&D activities which the Minister for Finance may prescribe by regulations⁴³,

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:

⁴² 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.

⁴³ So far, no further items of expenditure have been prescribed for this purpose.

Table 1

	Staff costs & consumables		Others
	First \$400,000	Balance	
Local R&D expenditure	400% (comprising 100% base deduction, 50% additional deduction and 250% enhanced deduction)	150% (comprising 100% base deduction & 50% additional deduction)	100%
Overseas R&D expenditure	400% (comprising 100% base deduction and 300% enhanced deduction)	100%	

- 4.2. A business that contracts with a R&D organisation to undertake on its behalf qualifying R&D activities 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 expenditure⁴⁴. To illustrate, Company S 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

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

Enhanced tax deduction = 250% x \$270,000
= \$675,000

- 4.3. A person who conducts R&D activities both in Singapore and overseas is free to decide on the manner in which to claim his enhanced deductions. For instance, enhanced deduction may be claimed on qualifying overseas R&D expenditure

⁴⁴ 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.

first. Where such expenditure is below the expenditure cap of \$400,000, the enhanced deduction may then be claimed on the qualifying local R&D expenditure, up to the expenditure cap.

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

- 4.4. 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 local R&D expenditure not related to its trade or business is first made against its normal income. Where its normal income cannot fully absorb the qualifying R&D expenditure, the excess qualifying local 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.
- 4.5. Where a person derives income that is subject to tax at more than one concessionary rate, and incurs qualifying local R&D expenditure that is not related to its trade or business, the qualifying local 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.

- 4.6. If the concessionary income subject to tax at the highest concessionary tax rate cannot fully absorb the qualifying local R&D expenditure, the excess qualifying local 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.
- 4.7. For the purpose of PIC, the annual expenditure cap of \$400,000 is applied on qualifying local 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 \$500,000 of qualifying local 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 = \$500,000

	\$'000	
Base deduction	500	
50% additional deduction on qualifying R&D expenditure	250	
250% enhanced deduction on qualifying R&D expenditure	1,000	(Note)
Deductions claimable against normal income	<u>1,750</u>	

Note: \$1,000,000 = 250% x \$400,000 (capped)

Deductions against concessionary income = \$1,750,000 x (17% / 10%)
= \$2,975,000

5. Option to Convert Qualifying R&D Expenditure into Cash

- 5.1. The option to convert qualifying R&D expenditure (whether incurred locally or otherwise) into cash is subject to the expenditure conversion cap of \$100,000⁴⁵ 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 local R&D expenditure incurred for R&D activities unrelated to a person's current trade or business that is convertible into cash is determined before the application of the adjustment factor (as described in paragraph 4.5 above). If Company T in the illustration above opts to receive the maximum cash payout of \$30,000 (i.e. to convert a maximum qualifying local R&D expenditure of \$100,000 into cash at the rate of 30%), the revised amount of tax deduction against its concessionary income is determined as follows:

	\$'000	
Total qualifying R&D expenditure	<u>500</u>	
Qualifying R&D expenditure eligible for PIC benefits (capped)	400	
Less: Qualifying R&D expenditure converted into cash	<u>(100)</u>	
Qualifying R&D expenditure eligible for an enhanced deduction	<u>300</u>	
	\$'000	Note
Base deduction (i.e. \$500,000 less \$100,000 converted into cash)	400	
50% additional deduction on qualifying R&D expenditure	200	1
250% enhanced deduction on qualifying R&D expenditure	750	2
Deductions claimable against normal income	<u>1,350</u>	

Note:

- 1 \$200,000 = 50% x \$400,000 (i.e. base deduction)
2 \$750,000 = 250% x \$300,000

⁴⁵ A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC shall apply for YA 2011 and YA 2012.

Deductions against concessionary income = \$1,350,000 x (17% / 10%)
= \$2,295,000

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 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 250% enhanced deduction on the first \$400,000 of qualifying local 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 250% 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 ITA⁴⁶, a company that derives chargeable income in any YA falling within YA 2009 to YA 2013 is granted a R&D tax allowance⁴⁷ 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 is being phased out. Though no R&D tax allowance will be granted from YA 2011, companies may still utilise any R&D

⁴⁶ 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).

⁴⁷ 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>).

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 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 and claiming the enhanced deduction on the first \$400,000 of its qualifying R&D expenditure under PIC.
- 8.3. Any R&D tax allowance not utilised by YA 2016 is 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 ITA⁴⁸, 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 qualifying R&D expenditure into cash is available 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 cash conversion schemes, the RISE scheme is phased out from YA 2011. However, options made under RISE in respect of YA 2009 and YA 2010 are allowed and processed accordingly.

⁴⁸ 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

Enhanced Tax Deduction of Qualifying Training Expenditure

1. Introduction

- 1.1. To encourage continual upgrading of skills of our workforce, a deduction of 400% (comprising 100% “base deduction” and 300% “enhanced deduction”) is granted on the first \$400,000⁴⁹ of qualifying training expenditure incurred in the basis period for a qualifying YA. All training expenditure, including qualifying training expenditure, exceeding \$400,000 incurred during the basis period continues 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 on the provision of the qualifying training programmes:
 - a. accredited Workforce Skills Qualification (“WSQ”) training courses by a WSQ in-house training provider⁵⁰;
 - b. structured Institute of Technical Education (“ITE”) courses by an Approved Training Centre (“ATC”)⁵⁰; and
 - c. on-the job training by a Certified On-the-Job Training Centre (“COJTC”)⁵¹.
- 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;

⁴⁹ A combined expenditure cap of \$800,000 applies for YA 2011 and YA 2012 for each qualifying activity under PIC. For YA 2013 to YA 2015, a combined cap of \$1,200,000 applies.

⁵⁰ 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).

⁵¹ 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).

- 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 Training Expenditure into Cash

- 4.1. The option to convert qualifying training expenditure into cash is subject to the expenditure conversion cap of \$100,000⁵² for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013.

⁵² A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC applies for YA 2011 and YA 2012.

Annex F

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 400% (comprising 100% “base deduction” and 300% “enhanced deduction”) is granted on the first \$400,000⁵³ of qualifying design expenditure incurred on approved product and industrial design projects conducted primarily in Singapore during each basis period. Any such expenditure exceeding \$400,000 incurred during the basis period continues 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”). Dsg 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 YA 2011 to YA 2015. It is applicable to 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 provider).

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 product⁵⁴;
 - b. the design activities must be primarily 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

⁵³ A combined expenditure cap of \$800,000 applies for YA 2011 and YA 2012. For YA 2013 to YA 2015, a combined cap of \$1,200,000 applies.

⁵⁴ Certain design categories (e.g. architecture, landscape design, multimedia design, etc.) are not covered under PIC. Please refer to Dsg’s website for details.

product or industrial designs do not come within the scope of the scheme;

- 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.
- 2.3. For a design project to be considered primarily conducted in Singapore, at least 3 out of the 5 design phases (i.e. design research, idea generation, concept development, technical development and communication) must be conducted wholly in Singapore.

Qualifying design expenditure

- 2.4. 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.
- 2.5. 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.
- 2.6. 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 provider⁵⁵.
- 2.7. 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.

⁵⁵ 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.

3. Option to Convert Qualifying Design Expenditure into Cash

- 3.1. The option to convert qualifying design expenditure into cash is subject to the expenditure conversion cap of \$100,000⁵⁶ for all six qualifying activities under PIC for each qualifying YA from YA 2011 to YA 2013.

⁵⁶ A combined expenditure conversion cap of \$200,000 for all six qualifying activities under PIC applies for YA 2011 and YA 2012.