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IRAS e-Tax Guide

Enterprise Innovation Scheme (Third Edition)

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1. Aim

- 1.1. This e-Tax Guide explains the Enterprise Innovation Scheme (“EIS”) and is relevant to businesses that wish to claim EIS benefits.

2. At a Glance

- 2.1. In Budget 2023, it was announced that businesses engaging in research and development (“R&D”), innovation and capability development activities may benefit from enhanced/ new tax deductions and/ or allowances on qualifying expenditure incurred during the basis periods for Year of Assessment (“YA”) 2024 to YA 2028. In addition, eligible businesses may opt to convert up to \$100,000 of the total qualifying expenditure incurred for each YA into cash at a conversion rate of 20%.
- 2.2. In Budget 2026, to support businesses in adopting artificial intelligence (“AI”), the EIS was enhanced for YA 2027 and YA 2028 to include a new qualifying activity for the adoption of AI.

3. Background

- 3.1. The EIS was introduced in Budget 2023 to encourage businesses to engage in R&D, innovation and capability development activities. Under the EIS, existing tax measures were enhanced and a new tax measure was introduced. In addition, eligible businesses may opt to convert up to \$100,000 of the total qualifying expenditure incurred across qualifying activities for each YA into cash at a conversion rate of 20%, in lieu of tax deductions/ allowances.
- 3.2. To support businesses in adopting AI, the EIS was enhanced in Budget 2026 for YA 2027 and YA 2028, and a new qualifying activity for the adoption of AI was introduced. The option to convert qualifying expenditure into a cash payout is not available for the new qualifying activity.
- 3.3. This e-Tax Guide provides details on the overall features of the EIS.

4. Overview of the EIS

- 4.1. The EIS is available from YA 2024 to YA 2028.
- 4.2. Under the EIS, enhanced/ new tax deductions and/ or allowances (collectively referred to as “enhanced deductions”) are granted on qualifying expenditure incurred on the following six qualifying activities:
 - a. Qualifying R&D activities undertaken in Singapore;
 - b. Registration of intellectual property (“IPs”);

- c. Acquisition and licensing of IP rights (“IPRs”);
 - d. Training;
 - e. Innovation projects carried out with polytechnics, the Institute of Technical Education (“ITE”) or other qualified partners; and
 - f. Adoption of AI.
- 4.3. Businesses that carry on a trade or business will be able to enjoy enhanced deductions on:
- a. up to \$400,000 of qualifying expenditure incurred for each qualifying activity under paragraph 4.2(a) to (d) for YA 2024 to YA 2028;
 - b. up to \$50,000 of qualifying expenditure incurred for the qualifying activity under paragraph 4.2(e) for YA 2024 to YA 2028; and
 - c. up to \$50,000 of qualifying expenditure incurred for the qualifying activity under paragraph 4.2(f) for YA 2027 and YA 2028.

The qualifying expenditure cap for each qualifying activity is applied on a YA basis and cannot be combined across YAs.

- 4.4. The deductions/ allowances granted under the EIS are in addition to the base deductions/ allowances allowable under prevailing income tax rules. The total deductions/ allowances granted are in effect 400% per dollar of qualifying expenditure (up to the applicable cap) for each qualifying activity¹.
- 4.5. In lieu of tax deductions/ allowances, eligible businesses may also, subject to conditions, opt to convert up to \$100,000 of the total qualifying expenditure across the qualifying activities under paragraph 4.2(a) to (e) for each YA into a cash payout at a conversion rate of 20%. The option to convert qualifying expenditure into a cash payout is not available for the qualifying activity under paragraph 4.2(f).

5. General Framework

Benefits computed based on qualifying expenditure net of grant and subsidy

- 5.1. Where the qualifying expenditure is subsidised, fully or partially, by a grant or subsidy from the Government², only the amount of expenditure that is net of

¹ In other words, if a business incurs qualifying expenditure on all six qualifying activities, it can claim enhanced deductions on up to a total of \$1,700,000 [(\$400,000 x 4) + (\$50,000 x 2)] of qualifying expenditure incurred.

² The term “Government” includes any statutory board.

the grant or subsidy is eligible for an enhanced deduction or a cash payout under the EIS. For example, a company incurs \$100,000 to employ a researcher to undertake R&D activities in Singapore but obtains a \$10,000 grant from the Government. In such a case, the company is considered to have incurred qualifying R&D expenditure of \$90,000 (\$100,000 net of \$10,000 grant). Assuming all other conditions are met, only \$90,000 is eligible for EIS benefits.

Unutilised trade loss and/ or allowance arising from the EIS

- 5.2. Enhanced deductions that cannot be fully offset against the income of a business are treated as unutilised trade loss or allowance.
- 5.3. Such unutilised trade loss or allowance may be:
 - a. carried forward, subject to the provisions of sections 23, 37 and 37A of the Income Tax Act 1947 (“ITA”);
 - b. transferred to and offset against the income of a related Singapore company under the Group Relief system, subject to the provisions of section 37B of the ITA; or
 - c. carried back to the immediate preceding YA to be offset against the prior year’s income of the company or the individual, subject to the provisions of section 37D of the ITA.

Application of the expenditure cap

- 5.4. In the case of companies³, the expenditure cap for each qualifying activity is applicable at the company level.
- 5.5. In the case of sole-proprietorships, the expenditure cap for each qualifying activity is applicable at the sole-proprietor level. The same expenditure cap for each qualifying activity is applied regardless of the number of businesses the sole-proprietor is carrying on.
- 5.6. In the case of partnerships, the expenditure cap for each qualifying activity is applicable at the partnership level regardless of the number of partners.
- 5.7. If a sole-proprietor is also a partner of one or more partnerships, the following rules apply:
 - a. An expenditure cap for each qualifying activity applies for all businesses carried on by him as a sole-proprietor; and

³ 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 the EIS benefits.

- b. A separate expenditure cap for each qualifying activity applies for each partnership business in which he or she is a partner.

In other words, the expenditure cap applicable to each partnership does not count towards the expenditure cap applicable to all businesses carried on by the person as a sole-proprietor. Likewise, where a company is also a partner of one or more partnerships, the expenditure cap applicable to each partnership does not count towards the expenditure cap applicable to the company. The application of the expenditure cap in such situations is explained graphically in the illustrations below:

Illustration 1

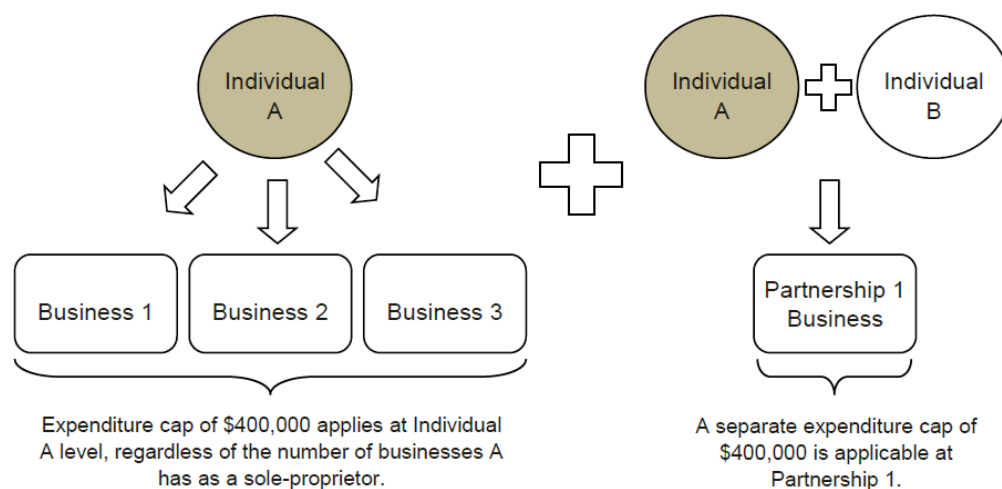
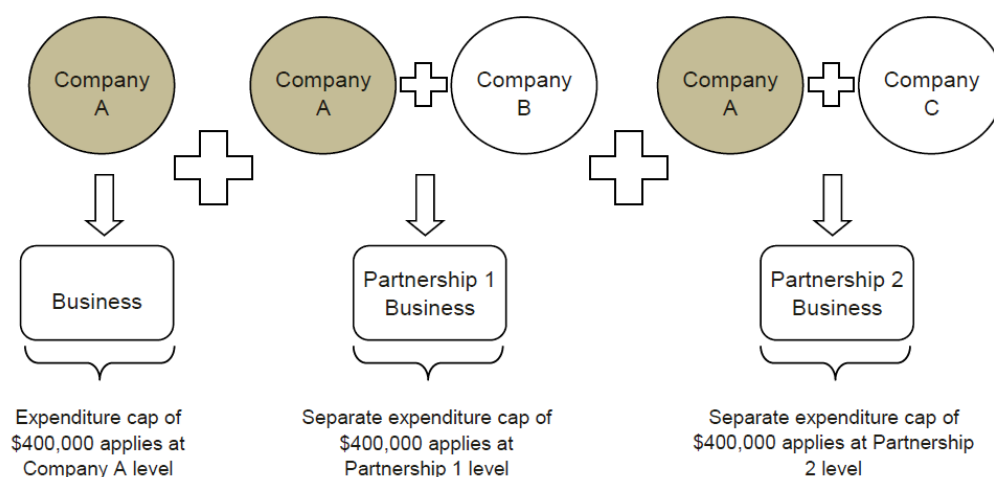


Illustration 2



EIS cash payout

- 5.8. In lieu of tax deductions/ allowances, eligible businesses may opt to convert up to \$100,000 of the total qualifying expenditure across the qualifying activities under paragraph 4.2(a) to (e) for each YA⁴ into cash at a conversion rate of 20%. The option for cash payout is not available for the qualifying activity of adoption of AI under paragraph 4.2(f). The cash payout is capped at \$20,000 per YA. Each cash payout application is subject to a minimum expenditure of \$400.
- 5.9. The cash payout option is to help small, growing businesses defray the costs of their innovation activities. The cash payout is not taxable and may be used for any purpose.
- 5.10. The cash conversion cap of \$100,000 cannot be combined across YAs.

Illustration

Company A incurs \$80,000 of qualifying R&D expenditure and \$30,000 of qualifying training expenditure during the year ending 31 December 2023 (YA 2024). It opts to receive the maximum cash payout of \$20,000 by converting the full amount of qualifying R&D expenditure of \$80,000 and part of the qualifying training expenditure into cash at the conversion rate of 20%.

Conversion of qualifying expenditure into cash:

			<u>Cash payout</u>
Qualifying R&D expenditure	\$80,000 x 20%	=	\$16,000
Qualifying Training Expenditure	\$20,000 ^[1] x 20%	=	\$4,000
Total cash payout received			<u>\$20,000</u>

Note: ^[1] \$20,000 = \$100,000 less \$80,000.

Company A will be able to claim enhanced deductions on \$10,000 (\$30,000 - \$20,000) of qualifying training expenditure in YA 2024. As Company A has claimed the full cash payout of \$20,000 for YA 2024, it will not be able to convert any additional qualifying expenditure into cash payout for YA 2024.

- 5.11. The qualifying expenditure for cash payout may relate to one or more of the five qualifying activities under paragraph 4.2(a) to (e). Once an amount of qualifying expenditure is converted into cash, the same amount is no longer available for tax deduction/ allowance. The option to convert the qualifying expenditure into cash is irrevocable once exercised.

⁴ The capping rules in paragraphs 5.4 to 5.7 similarly apply for determining the amount that may be converted into cash.

- 5.12. An eligible business refers to any company⁵, partnership or sole-proprietorship that carries on business operations in Singapore and has at least three full-time local employees (i.e., Singapore Citizens or Permanent Residents with Central Provident Fund (“CPF”) contributions) in employment for six months or more in the basis period of the relevant YA.
- 5.13. For the purpose of the EIS cash payout, a full-time local employee refers to a Singapore Citizen or Permanent Resident who earns a gross monthly salary of at least \$1,400 and is required under his or her contract of service with an employer to work for at least 35 hours a week.
- 5.14. For the purpose of the EIS cash payout, “employee”:
- a. may include an individual who is deployed to a business under a centralised hiring arrangement⁶ or secondment arrangement⁷. The individual is regarded as “employee” of the business where he or she is deployed, subject to the following conditions:
 - i. The claimant (Business B) is able to produce supporting documents on the work arrangement and recharging of employment costs by a related entity (Business A), in respect of the employee working solely in the claimant entity (i.e., Business B);
 - ii. The corporate structure and centralised hiring practices are adopted for bona fide commercial reasons; and
 - iii. The employee whose cost has been recharged will not contribute to the requisite headcount of the related entity which borne the upfront manpower costs (i.e., Business A).
 - b. excludes an individual who is a:
 - i. sole-proprietor;
 - ii. partner of the partnership⁸;
 - iii. shareholder who is also a director of the company (as defined in section 4(1) of the Companies Act 1967).

⁵ This includes a registered business trust.

⁶ In a centralised hiring arrangement, the hiring function of a group of companies is centralised in a single entity, with the staff costs (including training expenses) allocated to the respective entities.

⁷ Refer to cases where employees of a business are seconded to work for a related entity. The staff costs of the seconded staff are fully recharged to the latter entity.

⁸ A non-equity salaried partner who is under a contract of service is considered an employee for cash payout purposes.

- 5.15. To receive the cash payout, the eligible business must be carrying on a trade or business and not have ceased business⁹ at the time of disbursement of the cash payout.
- 5.16. Please also refer to Annex B (registration of IPs) and Annex C (Acquisition and licensing of IPRs) for conditions specific to the conversion of these two categories of qualifying expenditure.

EIS cash payout for partners

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

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

- 5.18. Currently, the amount of a limited partner’s share of trade loss and allowance from an LLP or LP that can be offset against his or her other sources of income (“relevant deduction”) for a YA, together with all of his or her 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.
- 5.19. Any trade loss and allowance arising from the EIS is similarly subject to the above requirements. However, if an LLP or LP converts its qualifying expenditure into cash, the partner’s share of the qualifying expenditure that has been converted into cash is no longer available for deduction for that YA.

Qualifying conditions and computations for each of the qualifying activities

- 5.20. The qualifying conditions and computations of the deductions/ allowances as well as cash conversion for each of the qualifying activities are further explained in:
- a. Annex A – Qualifying R&D activities undertaken in Singapore;
 - b. Annex B – Registration of IPs;
 - c. Annex C – Acquisition and licensing of IPRs;
 - d. Annex D – Training;

⁹ A business entity is considered to have ceased business if its status in ACRA’s register is “Amalgamated”, “In liquidation”, “Struck off”, “Ceased registration”, or “Dissolved”.

- e. Annex E – Innovation projects carried out with polytechnics, the ITE or other qualified partners; and
- f. Annex F – Adoption of AI.

6. Administrative Procedure

Enhanced deductions

- 6.1. Companies may claim the enhanced deductions on qualifying expenditure incurred in their income tax returns. Sole-proprietors and partners may submit their claims for enhanced deductions via IRAS' Digital Service, "Submit EIS Enhanced Deduction/ Allowance Records" after they have filed their income tax returns, but before the income tax filing due date for the relevant YA. All businesses must maintain adequate records of their qualifying activities and expenditure and provide them to IRAS upon request.

Cash payouts

- 6.2. Businesses may opt to convert its qualifying expenditure to a cash payout on a YA basis.
- 6.3. An eligible business which wishes to convert its qualifying expenditure into cash is required to make the irrevocable option by submitting its application via IRAS' Digital Service, "Apply for EIS Cash Payout" after it has filed its income tax return, but before the income tax filing due date for the relevant YA.
- 6.4. Businesses are only allowed to file one EIS cash payout application per YA.
- 6.5. The "Apply for EIS Cash Payout" digital service will only be made available to businesses that have submitted their income tax returns before the income tax filing due date.
- 6.6. Sole-proprietors and partners who are filing paper income tax returns are reminded to submit their income tax returns early as it will take up to 7 business days for our system to be updated of the successful filing status. The "Apply for EIS Cash Payout" digital service will only be made available after the successful update of the filing status in the system. Sole-proprietors and partners are encouraged to e-File their income tax returns to avoid delays in accessing the "Apply for EIS Cash Payout" digital service.
- 6.7. An acknowledgement will be issued when the EIS cash payout application is filed successfully. Businesses may check the status of their EIS cash payout applications at [myTax Portal](#) under "View Status of EIS Cash Payout Application".
- 6.8. A sole-proprietor needs to submit only one application form for all qualifying expenditures incurred for all his businesses.

- 6.9. The cash payout will be disbursed after IRAS has assessed and verified the claims.
- 6.10. The disbursement of cash payout does not preclude IRAS from selecting the EIS application for further audit review subsequently. If IRAS discovers from its audit that the business did not qualify for the enhanced deductions and/ or the EIS cash payout, IRAS will recover any EIS cash payout that may have been incorrectly disbursed to the business.
- 6.11. Businesses that have erroneously claimed both enhanced deductions in their income tax returns and cash payouts on the same qualifying expenditure are required to notify IRAS via [myTax Portal](#) > Email Us > EIS Enhanced Deductions – Amend Filing to correct the erroneous claims. Penalties may apply to businesses that fail to notify IRAS promptly of such erroneous claims.

Disposal of assets before the minimum ownership period

- 6.12. Cash payouts made from the conversion of qualifying expenditure on the registration of IPs and acquisition of IPRs will be recovered if the applicable minimum ownership period is not met. Please refer to Annex B and Annex C for details of the minimum ownership period.
- 6.13. Businesses have to notify IRAS within 30 days from the date the IPR is disposed of by submitting an “[Enterprise Innovation Scheme \(EIS\) – Disposal of Intellectual Property Rights Form](#)”. Penalties may apply if the business does not comply with the notification requirement.
- 6.14. IRAS will issue a notice of “Enterprise Innovation Scheme (EIS) – Cash Payout Recovery” and the business will have to repay the cash payouts 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.

7. Contact Information

- 7.1. For any enquiries or clarification on this e-Tax Guide, please contact:

For sole-proprietorships/ partnerships

6351 3375

For companies

1800 356 8622

8. Updates and Amendments

	Date of amendment	Amendment made
1	30 Sep 2025	The amendment is made to reflect the following updates: • Remove the general rule from paragraph 5.13. • Remove sub points (a) and (b) from paragraph 3.8 under Annex C – ‘Tax deductions for licensing of qualifying IPRs’. • Align footnote 23 to take reference to ‘related party’ definition under section 2 of the Income Tax Act 1947.
2	31 Aug 2026	The amendments reflect the enhancements to the EIS as announced in Budget 2026: • Expand the list of qualified partners to include the Sectoral AI Centre of Excellence for Manufacturing; and • Introduce a new qualifying activity for the adoption of AI. Other amendments include: • Update Annexes A to E to clarify that the cash payout option is not available for the new qualifying activity relating to adoption of AI. • Update the example in paragraph 2.3 of Annex A to make clear that the 150% additional deduction remains applicable to qualifying R&D expenditure exceeding \$400,000 incurred in the basis period of the relevant YA. • Update references to “SkillsFuture Singapore” to “Skills and Workforce Development Agency” in Annex D, following the merger between SkillsFuture Singapore and Workforce Singapore on 1 Jul 2026. • Insert a new Annex F on the new qualifying activity relating to the adoption of AI.

Annex A – Enhanced Tax Deduction for Qualifying Research & Development (“R&D”) Activities Undertaken in Singapore

1. Introduction

- 1.1. Businesses may claim 250% tax deduction on qualifying R&D expenditure incurred on qualifying R&D activities undertaken in Singapore¹⁰. The 250% tax deduction is allowable under sections 14C (100% “base deduction”) and 14D (150% “additional deduction”) of the ITA. The 150% additional deduction under section 14D is only applicable to qualifying R&D expenditure incurred between YA 2019 and YA 2025.
- 1.2. To further incentivise businesses, especially the small and medium enterprises and the large local enterprises to invest in R&D, a further 150% tax deduction (“enhanced deduction”) is granted on the first \$400,000 of qualifying R&D expenditure incurred on qualifying R&D activities undertaken in Singapore from YA 2024 to YA 2028. To align with the EIS, the 150% additional deduction for qualifying R&D expenditure incurred on qualifying R&D activities undertaken in Singapore (related or not related to trade) is also extended to YA 2028.
- 1.3. Together with the 100% base deduction and the 150% additional deduction, a total of 400% tax deduction is available on the first \$400,000 of qualifying R&D expenditure incurred for each YA. The 100% base deduction and 150% additional deduction remain applicable to qualifying R&D expenditure exceeding \$400,000 incurred in the basis period of the relevant YA.

2. Computation of Enhanced Deduction under the EIS

- 2.1. Similar to the 150% additional deduction allowed under section 14D of the ITA, qualifying R&D expenditure for the purpose of the 150% enhanced deduction under the EIS refers to the following expenditure that is attributable to the qualifying R&D activities undertaken in Singapore:
 - a. staff costs (excluding directors’ fees);
 - b. consumables; or
 - c. such other item of expenditure which the Minister for Finance may prescribe by regulations¹¹.
- 2.2. The amount of qualifying R&D expenditure qualifying for the enhanced deduction excludes any cost subsidised by a grant or subsidy from the Government.

¹⁰ For details of the R&D tax measures, please refer to e-Tax Guide on “Research and Development Tax Measures”.

¹¹ No other items of expenditure have been prescribed for this purpose.

- 2.3. A business that contracts with a R&D organisation to undertake qualifying R&D activities in Singapore on its behalf may, in addition to the base deduction and additional deduction, also claim enhanced deduction on the fees payable to the R&D organisation to the extent the fees relate to qualifying R&D expenditure mentioned in paragraph 2.1. For this purpose, up to 60% of all fees payable to the R&D organisation may be claimed as qualifying R&D expenditure¹².

To illustrate, a company contracts with a R&D organisation to undertake qualifying R&D activities in Singapore on its behalf in the financial year ending 31 December 2023 for a fee of \$1,100,000. Assuming the company obtains a grant of \$100,000 from the Government to subsidise the fees paid to the R&D organisation and it does not have a breakdown of the expenditure items from the R&D organisation. The amount of additional and enhanced deductions which the company can claim in YA 2024 is determined as follows:

R&D expenditure net of Government grant	= \$1,100,000 – \$100,000 = \$1,000,000
Deemed qualifying R&D expenditure	= 60% x 1,000,000 = \$600,000
Additional deduction	= 150% x \$600,000 = \$900,000
Enhanced deduction	= 150% x \$400,000 (capped) = \$600,000

- 2.4. Similar to payments made to an R&D organisation, 60% of the payments made under a R&D cost-sharing agreement is deemed as qualifying R&D expenditure for the purpose of claiming the additional deduction and enhanced deduction.

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

- 2.5. Where a person concurrently derives income subject to tax at the prevailing tax rate (“normal income”) and the concessionary tax rate (“concessionary income”), deduction of any qualifying R&D expenditure that is 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 R&D expenditure is treated as normal unutilised loss and is available for offset against its concessionary income in accordance with section 37A of the ITA.

¹² Where more than 60% of the fees relates to qualifying R&D expenditure, the business may claim additional deduction and enhanced deduction based on such qualifying R&D expenditure incurred if it is able to substantiate the claim.

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

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

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

- 2.7. If the concessionary income subject to tax at the highest concessionary tax rate cannot fully absorb the qualifying R&D expenditure, the excess qualifying R&D expenditure is treated as unutilised loss for the trade for which the concessionary income is derived and is available for offset against other concessionary income in accordance with section 37A of the ITA.
- 2.8. For the purpose of the EIS, the expenditure cap of \$400,000 is applied on qualifying R&D expenditure before applying the adjustment factor (i.e., applied on "A" in the formula in paragraph 2.6 above).

To illustrate, a company enjoys a concessionary tax rate of 10% on its trade income. During the financial year ending 31 December 2023, it incurs \$500,000 of qualifying R&D expenditure in respect of qualifying R&D activities undertaken in Singapore that is not related to its existing trade. The amount of tax deduction against the company's concessionary income for YA 2024 is determined as follows:

	\$'000
Qualifying R&D expenditure	500
100% base deduction	500
150% additional deduction on qualifying R&D expenditure	750
150% enhanced deduction on qualifying R&D deduction	600 ^[1]
Total deductions claimable against normal income	1,850

Note: ^[1] \$600,000 = 150% x \$400,000 (capped)

Deductions against concessionary income = \$1,850,000 x (17% / 10%)
= \$3,145,000

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

- 3.1. The cash payout option is subject to the overall expenditure cap of \$100,000 across all the qualifying activities (excluding the qualifying activity for the adoption of AI) under the EIS for each YA.
- 3.2. For this purpose, the amount of qualifying R&D expenditure incurred for R&D activities undertaken in Singapore 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 2.6 above). If the company in the illustration in paragraph 2.8 above opts to receive the maximum cash payout of \$20,000 (i.e., to convert the maximum qualifying R&D expenditure of \$100,000 into cash at the rate of 20%), the revised amount of tax deduction against its concessionary income for YA 2024 is determined as follows:

	\$'000	
Qualifying R&D expenditure	500	
Qualifying R&D expenditure eligible for EIS benefits (capped)	400	
Less: Qualifying R&D expenditure converted into cash	(100)	
Qualifying R&D expenditure eligible for enhanced deduction	300	
100% base deduction	400	^[1]
150% additional deduction on qualifying R&D expenditure	600	^[2]
150% enhanced deduction on qualifying R&D deduction	450	^[3]
Total deductions claimable against normal income	1,450	

Notes:

^[1] \$400,000 = \$500,000 less \$100,000 converted into cash

^[2] \$600,000 = 150% x \$400,000 (i.e., base deduction)

^[3] \$450,000 = 150% x \$300,000

Deductions against concessionary income = \$1,450,000 x (17% / 10%)
= \$2,465,000

4. Relaxation of “Related to Trade or Business” Condition

- 4.1. R&D claims under section 14C of the ITA need not be related to the business' existing trade or business if the qualifying R&D activity is undertaken in Singapore. Prior to the introduction of the EIS, the relaxation of the “related to trade or business” condition is effective for YA 2009 to YA 2025.
- 4.2. To align with the EIS, the relaxation of this “related to trade or business” condition is extended to YA 2028.

Annex B – Enhanced Tax Deduction for Registration of Intellectual Property (“IPs”)

1. Introduction

- 1.1. Section 14A of the ITA grants a tax deduction (100% “base deduction”) on qualifying IP registration costs incurred by any person carrying on a trade or business in registering patents, trade marks, designs and plant varieties (collectively referred to as “qualifying IPRs”) for the purposes of that trade or business. Registration costs that qualify for tax deduction are official fees and professional fees¹³.
- 1.2. An additional 100% tax deduction (100% “enhanced deduction”) is allowable on up to \$100,000 of qualifying IP registration costs incurred. The deduction is available until YA 2025 and is allowed on the condition that the legal and economic ownership¹⁴ of the qualifying IPRs belongs to the business entity in Singapore.
- 1.3. The tax deduction under section 14A of the ITA is increased to 400% (comprising 100% base deduction and 300% enhanced deduction) for the first \$400,000 of qualifying IP registration costs. Any such costs in excess of \$400,000 incurred continue to enjoy the 100% base deduction.
- 1.4. The enhanced deduction is granted from YA 2024 to YA 2028. With this, the sunset clause currently applicable to section 14A of the ITA is also extended to YA 2028 to align with the EIS. All other prevailing conditions governing the deduction under section 14A of the ITA continue to apply.

2. Computation of Enhanced Deduction under the EIS

- 2.1. The 300% enhanced deduction is granted on the first \$400,000 of qualifying IP registration costs. The enhanced deduction is granted regardless of the outcome of the application of the registration of qualifying IPR. This means that even if an application for registration is rejected, the related registration costs incurred are still eligible for the enhanced deduction.
- 2.2. Enhanced deduction for qualifying IP registration cost should be claimed on the full cost of a filing, provided that the total qualifying IP registration costs incurred does not exceed the annual expenditure cap of \$400,000. Partial costs of one IPR filing may be claimed only if this enables the enhanced deduction to be claimed up to the expenditure cap. Where the qualifying IP registration cost is

¹³ For more information, please refer to Registration Costs for Patents, Trademarks, Designs & Plant Varieties under “Tax Treatment of Business Expense” on IRAS’ website ([https://www.iras.gov.sg/taxes/corporate-income-tax/income-deductions-for-companies/business-expenses/tax-treatment-of-business-expenses-\(m-r\)](https://www.iras.gov.sg/taxes/corporate-income-tax/income-deductions-for-companies/business-expenses/tax-treatment-of-business-expenses-(m-r))).

¹⁴ Economic ownership means that the economic benefits from the exploitation of the IPR are accrued to the business entity.

a common expenditure, the base and enhanced deductions are determined first before allocating the deductions to each stream of income.

- 2.3. The amount of qualifying IP registration costs eligible for tax deduction under section 14A of the ITA excludes any cost subsidised by a grant or subsidy from the Government.

3. Option to Convert Qualifying IP Registration Costs into Cash

- 3.1. The cash payout option is allowed on a per registration basis, subject to the overall expenditure cap of \$100,000 across all the qualifying activities (excluding the qualifying activity for the adoption of AI) under the EIS for each YA.
- 3.2. A business must convert the total qualifying IP registration costs incurred in relation to a single application for registration of an IPR into cash, subject to the cap. Registration costs in excess of the cap will be forfeited and not be available for deduction against the income of the business.

Qualifying IPRs registered over two or more YAs

- 3.3. The registration process for an IPR may take more than one year to complete, depending on the complexity of the IPR, the amendments required to the registration and the search and examination process.
- 3.4. Where the IPR registration process straddles over the basis periods of two or more YAs, businesses will be allowed to convert the total qualifying IP registration costs in respect of the IPR registration into cash when the registration has been completed (either approved or rejected). To avail to the cash payout option, the business must not have made any base and enhanced deduction claim on any of the part of the qualifying IP registration costs incurred in the prior YAs.
- 3.5. The expenditure cap of \$100,000 for cash payout is determined in the YA that the IPR registration is completed.

Illustration

- 3.6. Company B incurred total qualifying IP registration costs of \$130,000 straddling from YA 2024 to YA 2026 in respect of a patent registration. The patent registration was completed in YA 2026.

YA	Qualifying IP registration costs incurred
2024	\$80,000
2025	\$10,000
2026	\$40,000
Total	\$130,000

Company B will be allowed to elect for the cash payout option on the qualifying IP registration costs incurred in respect of the patent registration when it files its income tax return for YA 2026, provided it has not claimed base and enhanced deductions on any part of the qualifying IP registration costs incurred in the prior YAs.

The total costs of \$130,000 will be converted into cash, subject to the overall expenditure cap of \$100,000 for YA 2026. The amount of cash payout which Company B can receive is \$20,000 (expenditure cap of \$100,000 x cash conversion rate of 20%). The excess of \$30,000 (\$130,000 - \$100,000) is forfeited and will not be available for deduction against the income of the company.

Company B will not be allowed to elect for cash payout on other qualifying expenditure for YA 2026 as the expenditure cap of \$100,000 has been met.

4. Minimum Ownership Period

- 4.1. 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.
- 4.2. The table below summarises the claw-back provision.

EIS benefits		IPR is disposed of within one year	IPR is 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 deduction	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

- 4.3. If the one-year ownership period is not met, claw-back of the enhanced deduction granted must be included in the tax computation for the basis period in which the qualifying IPR is disposed of. In addition, the business is required to complete the [Enterprise Innovation Scheme \(EIS\) – Disposal of Intellectual Property Rights Form](#) after submitting the income tax return. If the business has opted for cash payout in respect of qualifying IP registration costs relating to the qualifying IPR disposed of, it must notify IRAS via the [Enterprise Innovation Scheme \(EIS\) – Disposal of Intellectual Property Rights Form](#) within 30 days of the occurrence of such an event. Penalties may apply if the notification requirement is not complied with.

Annex C – Enhanced Writing-Down Allowance (“WDA”) and Tax Deduction for Acquisition and Licensing of Qualifying Intellectual Property Rights (“IPRs”)

1. Introduction

- 1.1. Businesses may either acquire or license IPRs to develop new products, services, or processes.
- 1.2. For acquisition of IPRs, section 19B of the ITA provides for WDA to be granted over a period of five, 10 or 15 years on capital expenditure incurred by any company or partnership in acquiring qualifying IPRs¹⁵ (“qualifying IPR acquisition costs”) for use in its trade or business. To qualify for the WDA, the capital expenditure must be incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2025.
- 1.3. For licensing of IPRs, section 14U of the ITA provides for a 100% tax deduction on the first \$100,000 of expenditure incurred on licensing¹⁶ of qualifying IPRs¹⁷ (“qualifying IPR licensing expenditure”) for each YA from YA 2019 to YA 2025. This is in addition to the deduction that would have already been allowed to the business under section 14 or 14C of the ITA.
- 1.4. To encourage more firms to engage in IP-related activities and use innovations to improve firm productivity and outcomes, the WDA under section 19B and tax deduction under section 14U granted to qualifying businesses are enhanced under the EIS as follows:

- a. Acquisition of qualifying IPRs under section 19B

A 400% WDA is granted on the first \$400,000 of qualifying IPR acquisition costs (i.e., comprising 100% “base WDA” and 300% “enhanced WDA”) for each YA, subject to certain conditions. Qualifying IPR acquisition costs exceeding \$400,000 continue to enjoy 100% base WDA.

Both the base WDA and enhanced WDA are applicable only where the qualifying 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 do not qualify for the enhanced WDA.

¹⁵ The list of qualifying IPRs is defined under section 19B(11) of the ITA.

¹⁶ Expenditure incurred on the licensing of qualifying IPRs means license fees and excludes expenditure for the transfer of ownership of any of those rights and legal fees and other incidental costs arising from the licensing of such rights.

¹⁷ “Qualifying IPRs” is defined under section 14U(6) of the ITA. Please note that the qualifying IPRs excludes trade marks and rights to the use of software.

b. Licensing of qualifying IPRs under section 14U

A 300% tax deduction (“enhanced deduction”) is granted on the first \$400,000 of qualifying IPR licensing expenditure incurred for each YA. Together with the 100% base deduction allowed under section 14 or 14C, a total of 400% tax deduction is available on the first \$400,000 of qualifying IPR licensing expenditure.

- 1.5. The enhanced WDA and enhanced deduction are granted from YA 2024 to YA 2028.
- 1.6. With this, the sunset clauses currently applicable to sections 19B and 14U of the ITA are also extended to YA 2028 to align with the EIS¹⁸. All other prevailing conditions governing the WDA and tax deduction under sections 19B and 14U of the ITA continue to apply.

2. General Framework for Acquisition and Licensing of Qualifying IPRs

Persons qualifying for EIS benefits

- 2.1. The enhanced WDA and enhanced deduction under the EIS are only available to qualifying businesses that carry on a trade or business in the basis period for the relevant YA. Businesses that do not qualify for the EIS benefits can still claim the base WDA under section 19B and the 100% tax deduction on up to \$100,000 of qualifying IPR licensing expenditure under section 14U of the ITA.
- 2.2. A business is a qualifying business if it carries on a trade or business and meets the following condition:
 - If the business is not part of a group, it derives less than \$500 million in revenue¹⁹ in the basis period for the relevant YA²⁰;
 - If the business is part of a group, the group derives less than \$500 million in revenue in the basis period for the relevant YA.

¹⁸ In the case of section 19B, it means that the WDA is allowed for capital expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2028.

¹⁹ Revenue refers to income that arises from the ordinary activities of a business. It refers to the business' main source of income, excluding separate source income such as interest.

²⁰ The basis period need not be a 12-month period.

Definition of Group

- 2.3. A group refers to a parent and its subsidiaries as determined in accordance with the Financial Reporting Standard (“FRS”) 110²¹, including entities that are incorporated or registered outside Singapore. A parent refers to an entity that controls one or more entities, while a subsidiary refers to an entity that is controlled by another entity.
- 2.4. To determine whether a business is part of a group, reference is made to the last day of the relevant basis period. Once the business is determined to be part of a group, the revenue will be applied at the group level.

Application of EIS eligibility criteria for Singapore branches, sole-proprietorships and partnerships

Singapore branch

- 2.5. A head office together with all its branches forms a single legal entity. For a Singapore branch to qualify for the enhanced WDA and enhanced deduction, the combined revenue of the head office and all its branches must be less than \$500 million in the basis period for the relevant YA. The criterion will be applied at the group level if the head office is part of a group.

Sole-proprietorship

- 2.6. Where the owner of the sole-proprietorship is an individual, the determination of the revenue criterion will be applied at the sole-proprietor level by aggregating all businesses carried out by the individual.

Partnership

- 2.7. In the case where the controlling partner of the partnership is an individual or there is no single controlling partner, the revenue criterion will be applied at the partnership level.
- 2.8. In the case where the controlling partner of a partnership is a company, the revenue criterion will be applied at the group level, i.e., all entities in the group are included.

Combined expenditure cap

- 2.9. The amount of qualifying IPR acquisition costs and qualifying IPR licensing expenditure eligible for the enhanced WDA and enhanced deduction is subject to a combined cap of \$400,000 for each YA and is computed based on the amount of qualifying expenditure incurred by the business net of any

²¹ FRS 110 means the financial reporting standard known as Financial Reporting Standard 110 (Consolidated Financial Statements) that is treated as made by the Accounting Standards Committee under Part 3 of the Accounting Standards Act 2007, as amended from time to time.

Government grant or subsidy received by the business in respect of the acquisition and licensing of IPRs.

3. Computation of WDA and Tax Deductions under the EIS – Acquisition of Qualifying IPRs

WDA for acquisition of qualifying IPRs

Qualifying IPRs acquired via lump sum acquisition

- 3.1. Enhanced WDA for IPRs is applicable on the full cost of a qualifying IPR, subject to the expenditure cap of \$400,000 per YA. Partial cost of one qualifying IPR may be claimed only if this enables the enhanced WDA to be claimed up to the expenditure cap for the YA.
- 3.2. The base WDA and enhanced WDA (collectively, “qualifying WDAs”) is to be claimed on a straight-line basis over the elected period of claim (i.e., five, 10 or 15 years). Table 1 below summarises the amount of allowances allowable for each YA:

Table 1

Type	Computation of annual allowance
Claim over 5 years	20% x (Base WDA + Enhanced WDA)
Claim over 10 years	10% x (Base WDA + Enhanced WDA)
Claim over 15 years	$6\frac{2}{3}\%$ x (Base WDA + Enhanced WDA)

Qualifying IPRs acquired under instalment arrangements

- 3.3. Generally, the amount of WDA available for qualifying IPRs acquired under instalment arrangements in a YA is determined by reference to the principal sum repaid (i.e., capital expenditure²² incurred) during a basis period.
- 3.4. Under the EIS, special provisions apply in determining the enhanced WDA available for qualifying IPRs acquired under instalment arrangements. This is to align the tax benefits under the EIS accorded to a qualifying company or partnership that acquires a qualifying IPR via lump sum acquisition with another that acquires a qualifying IPR under instalment arrangements.
- 3.5. For qualifying IPRs acquired under instalment arrangements, the enhanced WDA is determined based on the cost of the qualifying IPR for the purpose of applying the expenditure cap. Enhanced WDA is only allowed to the qualifying company or partnership concerned based on the principal repayments made during the year.

²² Excluding any finance charges.

- 3.6. The amount of base WDA and enhanced WDA allowable is summarised in Table 2 below:

Table 2

Type	Computation of annual allowance
Claim over 5 years	$20\% \times Y/Z \times (\text{Base WDA} + \text{Enhanced WDA})$
Claim over 10 years	$10\% \times Y/Z \times (\text{Base WDA} + \text{Enhanced WDA})$
Claim over 15 years	$6\frac{2}{3}\% \times Y/Z \times (\text{Base WDA} + \text{Enhanced WDA})$

Where Y = principal repayments during the year (including deposits if any)
Z = cost of the qualifying IPR.

- 3.7. Although the repayment schedules for certain instalment arrangements may extend beyond the basis period for the last qualifying YA (i.e., YA 2028), businesses may continue to claim enhanced WDA on their qualifying IPR based on their repayment schedules. The amount of enhanced WDA is locked in as long as the qualifying IPR is acquired during the basis periods relating to any qualifying YAs (i.e., YA 2024 to YA 2028).

Tax deductions for licensing of qualifying IPRs

- 3.8. Enhanced deductions will not be given if the qualifying IPR is licensed from a licensor which is a related party^{23,24}.
- 3.9. Subject to the prevailing rules, the licensor will be able to claim:
- enhanced WDA on qualifying costs incurred on the acquisition of qualifying IPRs;
 - enhanced deductions on qualifying R&D expenditure or qualifying IP registration costs incurred on the development and/ or registration of IPs; or
 - enhanced deduction on licensing expenditure on qualifying IPRs licensed from a third party.

Qualifying IPRs for which WDA under section 19B has been previously granted to the same business

- 3.10. If a business had been granted a WDA under section 19B of the ITA on a qualifying IPR previously, it cannot claim any enhanced deduction under the EIS for expenditure incurred on the licensing of the same IPR.

²³ Reference to the definition of "related party" under section 2 of the ITA.

²⁴ The Minister may by order exempt a taxpayer from this rule.

4. Option to Convert Qualifying Expenditure into Cash – Acquisition of Qualifying IPRs

Cash payout on acquisition of qualifying IPRs – Per IPR basis

Qualifying IPRs acquired via lump sum acquisition

- 4.1. The cash payout option is only available on a per IPR basis, subject to the overall cap of \$100,000 across all the qualifying activities (excluding the qualifying activity for the adoption of AI) under the EIS for each YA.
- 4.2. Qualifying companies and partnerships must convert the full amount of qualifying IPR acquisition costs incurred on a qualifying IPR into cash, subject to the expenditure cap for each YA.
- 4.3. Where the qualifying IPR acquisition costs incurred on a qualifying IPR is in excess of the cap of \$100,000, the excess is forfeited upon conversion. The excess is not available for deduction as WDA against the income of the qualifying company or partnership concerned.

Qualifying IPRs acquired under instalment arrangements

- 4.4. The provisions in paragraphs 4.1 to 4.3 apply to a qualifying IPR acquired under instalment arrangements, with the following modifications:
 - a. Three full-time local employee requirement – To qualify for the cash payout, the company or partnership must contribute CPF on the payrolls of at least three full-time local employees (each earning at least \$1,400 in gross monthly wages) for six months or more in the basis period in which the instalment agreement is signed.
 - b. Cap on qualifying expenditure convertible into cash – only the cost of the qualifying IPR, excluding any finance charges, is to be taken into account. Cost in excess of the \$100,000 expenditure cap which is to be forfeited will be matched against the last instalment of the principal sum to be paid, followed by the penultimate instalment and so on, until the amount to be forfeited is completely offset.

To illustrate, a company intends to claim full cash payout of \$20,000 (i.e., expenditure cap of \$100,000) on a qualifying IPR acquired under instalment agreement signed during the year ended 31 December 2023. The qualifying IPR costs \$120,000 and will be repaid over 3 equal annual instalments, starting from year 2023. Only \$100,000 of the qualifying IPR acquisition costs is convertible into cash. The balance of \$20,000 (i.e., \$120,000 - \$100,000) will be disregarded.

Financial year	No. of instalments	Principal repayment (\$)	Amount to be disregarded (\$)	Amount convertible into cash (\$)
2023	1	40,000	-	8,000
2024	1	40,000	-	8,000
2025	1	40,000	20,000	4,000
Total	3	120,000	20,000	20,000

- c. Disbursement of cash payout – The timing of the disbursement is dependent on the actual principal sum repaid during each YA²⁵. A company or partnership's eligibility to the cash payout is locked in as long as the instalment agreement is signed during any of the basis period relating to YA 2024 to YA 2028. The cash payout on the principal sum repaid (subject to the qualifying expenditure cap) will be granted even beyond YA 2028.

Cash payout on licensing of qualifying IPRs

- 4.5. The cash payout option is available for qualifying IPR licensing expenditure, and this need not be made on a per IPR basis. The overall cap of \$100,000 across all the qualifying activities (excluding the qualifying activity for the adoption of AI) under the EIS applies for each YA.

5. Minimum Ownership Period – Acquisition of Qualifying IPRs

- 5.1. The qualifying companies or partnerships must own the qualifying IPRs for a minimum period of one year ("one-year ownership period"), failing which, claw-back provisions apply.

Cessation of IPRs

- 5.2. Section 19B(4) of the ITA provides that where WDA has been made to a company or partnership for any qualifying IPRs²⁶ and, before the writing-down period ends, any of the following events (i.e., "specified events") occurs:
- the qualifying IPRs come to an end without being subsequently revived;
 - the company or partnership sells, transfers or assigns all or any part of the qualifying IPRs; or

²⁵ The qualifying companies and partnerships are required to inform IRAS of the actual amount of principal sum repaid during each YA before IRAS can proceed with the disbursement of the cash payout. The requisite information is to be included in the "[Instalment Arrangement Template for Acquisition of Intellectual Property Rights](#)" and be submitted via the "Apply for EIS Cash Payout" digital service after filing their income tax returns.

²⁶ Section 19B(4) is applicable to all qualifying IPRs, including those granted a waiver under section 19B(2B) or approved under section 19B(2C) of the ITA.

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

no WDA for the qualifying IPRs shall be made for the year in which the event occurs or any subsequent years.

5.3. Section 19B(4) of the ITA also provides for the following to apply if any of the specified events occurs:

- Where a qualifying IPR comes to an end without being subsequently revived, or a company or partnership owning the qualifying IPR permanently ceases to carry on the trade or business for which the qualifying IPR was acquired, any WDA granted previously will not be deemed as income in the year in which the event occurs.
- Where a company or partnership sells, transfers or assigns all or any part of the qualifying IPRs,

Proceeds from disposal of qualifying IPR is greater than the tax written down value²⁷ ("TWDV")

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

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

The difference between the sale price and the TWDV of the qualifying IPR is not available as balancing allowance in the year in which the disposal occurs.

5.4. Tables 1 and 2 below summarise the application of claw-back provisions under the EIS in light of section 19B(4) of the ITA (as explained in the paragraph above).

²⁷ Refers to the amount of base allowance that has not been drawn down as WDA.

Table 1: WDA has been claimed

Qualifying WDAs comprising	Specified event occurred within one year	Specified event occurred before end of the elected writing-down period	Specified event occurred after end of the elected writing-down period
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 <u>deemed as income in the year of disposal</u>. 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.

Table 2: Cash payout has been disbursed

Specified event occurred within the 1 st year	Specified event occurred within the 2 nd to 5 th year	Specified event occurred after the 5 th year
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 = $[(5 - \text{No. of completed years which the IPR was held}) / 5] \times \text{cash payout}$

- 5.5. Where enhanced WDA on a qualifying IPR has been claimed and the specified event occurs within one year of the acquisition of the IPR, claw-back adjustments should be made in the tax computation for the YA in which the specified event occurs. In addition, the business is required to complete the [Enterprise Innovation Scheme \(EIS\) – Disposal of Intellectual Property Rights Form](#) after submitting the income tax return. Where cash payout has been opted, the [Enterprise Innovation Scheme \(EIS\) – Disposal of Intellectual Property Rights Form](#) should be submitted to IRAS within 30 days from the date of the specified event. Penalties may be imposed if the notification requirement is not complied with.

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

6. Qualifying IPRs Approved for Investment Allowance

- 6.1. Qualifying IPRs approved for investment allowance under Part 8 of the Economic Expansion Incentives (Relief from Income Tax) Act 1967 ("EEIA") are not precluded from enhanced WDA available under the EIS. However, if a qualifying company or partnership elects to claim enhanced WDA on the full cost of a qualifying IPR, it is not allowed to claim investment allowance on the same IPR. If enhanced WDA is granted on partial cost of a qualifying IPR, the company or partnership may still enjoy investment allowance on the remaining cost of the IPR. For example, if a qualifying company incurs \$600,000 to purchase a qualifying IPR, it may claim enhanced WDA on the first \$400,000 of the expenditure incurred and investment allowance on the balance of \$200,000.
- 6.2. Generally, the investment allowance certificate specifies the maximum and minimum amount of capital expenditure required to be incurred and the maximum amount of investment allowance to be granted for each approved project. For the purpose of determining whether such capital expenditure requirements are met, the full cost of a qualifying IPR is taken into consideration even if investment allowance is computed on part of the cost. In the example above, the IPR acquisition costs of \$600,000 will be used to determine if the capital expenditure requirement has been met.
- 6.3. All other conditions governing the allowance under Part 8 of the EEIA continue to apply.

7. IPRs in Respect of Software

- 7.1. A qualifying company may claim EIS benefits on qualifying IPRs in respect of software acquired for use in its own business. It will not be entitled to EIS benefits if the IPRs in respect of software is acquired for the purpose of licensing.

Annex C-1: Examples Illustrating the Application of Claw-back Provisions

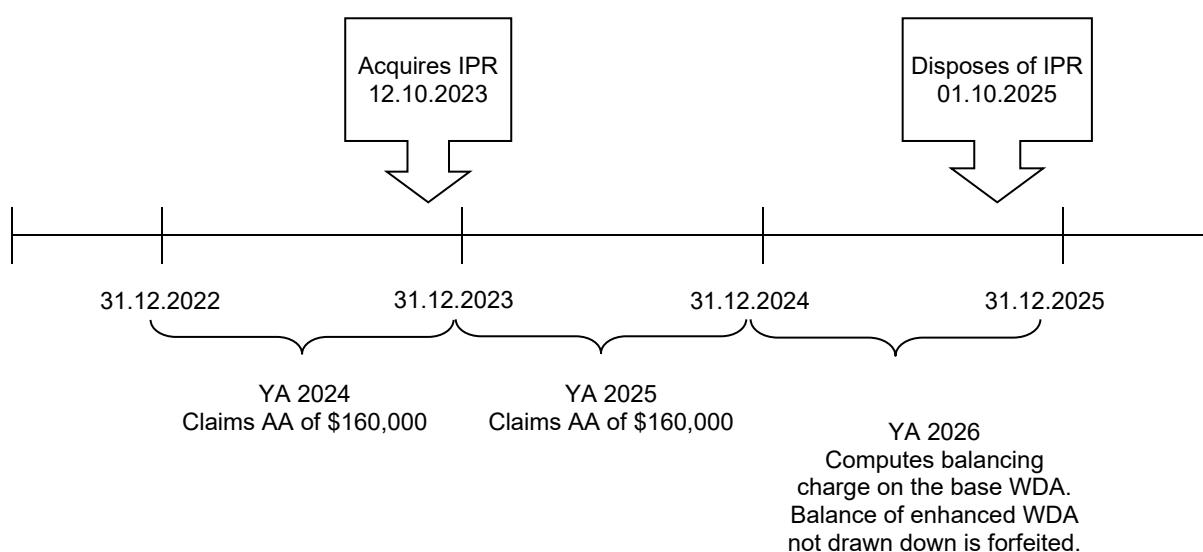
Example 1

Company C is a manufacturer whose financial year ends on 31 December. On 12 October 2023, it acquired a layout design of integrated circuit that is used in its manufacturing process for \$200,000 and elected to claim the WDA over 5 years. Company C did not acquire any other qualifying IPRs during the year. Annual revenue for Company C was \$300 million for the year.

As the annual revenue of Company C is less than \$500 million, Company C can claim enhanced WDA on the full cost of the layout design of integrated circuit of \$200,000 incurred during the basis period for YA 2024. The qualifying WDAs, comprising base WDA and enhanced WDA, is written down over 5 years. The annual allowance for each YA is determined as follows:

Base WDA (1)	= \$200,000
Enhanced WDA (2)	= \$200,000 x 300% = \$600,000
Qualifying WDAs (1) + (2)	= \$200,000 + \$600,000 = \$800,000
Annual allowance ("AA")	= 20% x (\$200,000 + \$600,000) = \$40,000 + \$120,000 = \$160,000

Company C sells the layout design of integrated circuit to another company for \$280,000 on 1 October 2025 (basis period for YA 2026). Accordingly, the adjustments to be made in its YA 2026 tax computations are as follows:



Computation of balancing charge in relation to base WDA

Base WDA granted previously	= \$80,000 (i.e., \$40,000 x 2) [a]
Tax written down value ("TWDV")	= \$200,000 – \$80,000 = \$120,000
Difference between sale price and TWDV	= \$280,000 - \$120,000 = \$160,000 [b]

Balancing charge is the lower of [a] or [b]. As such, the amount of \$80,000 is brought to tax in YA 2026.

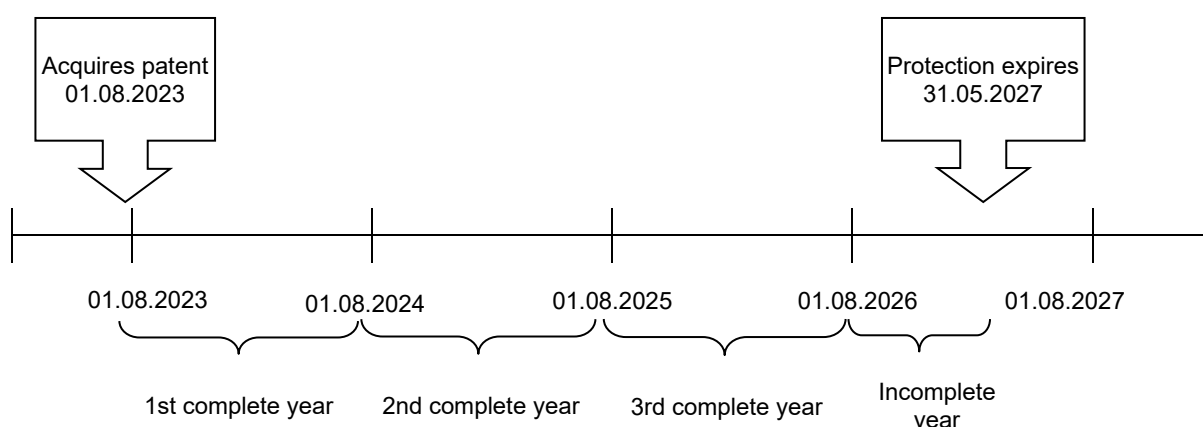
Enhanced WDA

Since Company C has met the one-year ownership period requirement, the enhanced WDA granted to Company C in YA 2024 and YA 2025 of \$240,000 (i.e., \$120,000 x 2) is not clawed back. However, the balance of enhanced WDA of \$360,000 (i.e., \$600,000 - \$240,000) that has not been drawn down is forfeited.

Example 2

Company D, whose financial year ends on 30 September, acquired a patent that is used in its products for \$110,000. The patent was acquired on 1 August 2023 and Company D made an election to convert the qualifying IPR acquisition costs of \$110,000 into cash.

Protection for the patent expires on 31 May 2027, which is within 5 years from the acquisition of the patent. Claw-back of the cash payout is determined as follows:

**YA 2024**

Cash payout = 20% x 100,000 (capped)
= \$20,000

YA 2028

Amount to claw-back = $[(5 - \text{No. of completed years IPR is held}) / 5] \times \text{cash payout}$
= $[(5 - 3) / 5] \times \$20,000$
= \$8,000

Company D is required to inform IRAS of the expiration of the patent by 30 June 2027 (i.e., within 30 days from the expiration of the patent).

Annex D – Enhanced Tax Deduction for Qualifying Training Expenditure

1. Introduction

- 1.1. To further reinforce existing measures to encourage employers to invest in enterprise training and capabilities of their employees, a tax deduction of 400% (comprising 100% “base deduction” and 300% “enhanced deduction”) is granted on the first \$400,000 of qualifying training expenditure incurred by businesses on qualifying courses attended by their employees for each 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 income tax deduction rules under sections 14 and 15 of the ITA.
- 1.2. The enhanced deduction for qualifying training expenditure is available from YA 2024 to YA 2028.

2. Individuals Deployed Under Centralised Hiring Arrangement or Secondment Arrangement

- 2.1. Recognising that the training of individuals who are deployed to businesses under centralised hiring arrangements²⁸ or secondment arrangements²⁹ can improve the productivity of the businesses where they are deployed, businesses may claim EIS benefits on qualifying training expenditure incurred on such individuals, subject to the following conditions:
 - a. The claimant (Business B) is able to produce supporting documents on the work arrangement and recharging of employment costs by a related entity (Business A), in respect of the employee working solely in the claimant entity (i.e., Business B);
 - b. The corporate structure and centralised hiring practices are adopted for bona fide commercial reasons; and
 - c. The employee whose cost has been recharged will not contribute to the requisite headcount of the related entity which borne the upfront manpower costs (i.e., Business A).

²⁸ In a centralised hiring arrangement, the hiring function of a group of companies is centralised in a single entity, with the staff costs (including training expenses) allocated to the respective entities.

²⁹ Refer to cases where employees of a business are seconded to work for a related entity. The staff costs of the seconded staff are fully recharged to the latter entity.

3. Qualifying Training Courses and Training Expenditure

- 3.1. Businesses may claim enhanced deduction on qualifying training expenditure incurred on courses that are eligible for Skills and Workforce Development Agency (“SWDA”) funding and aligned with the Skills Framework³⁰.
- 3.2. For the purpose of the EIS, qualifying training expenditure refers to course fees, assessment fees and certification fees paid by the employers (whether directly or in the form of reimbursement) to training providers which are registered with the SWDA.
- 3.3. The enhanced deduction is computed based on the amount of qualifying training expenditure incurred by a business, net of any Government grant or subsidy received by the business and/ or its employee in respect of the course. For example, a company reimburses \$1,000 to its employee for course fees paid on an SWDA-funded course and obtains a \$200 subsidy from SWDA. The employee had paid for the course via \$600 in cash and \$400 in SkillsFuture Credit. Assuming all other conditions are met, only \$400 (\$1,000 - \$200 - \$400) is eligible for EIS benefits.

4. Option to Convert Qualifying Training Expenditure into Cash

- 4.1. The option to convert qualifying training expenditure into cash is subject to the overall cap of \$100,000 across all the qualifying activities (excluding the qualifying activity for the adoption of AI) under the EIS for each YA.

³⁰ The list of eligible courses is available on go.gov.sg/eis-training. For expired EIS eligible courses, enhanced deduction may still be claimed on the qualifying training expenditure if the expenditure is incurred during the basis periods for YA 2024 to YA 2028, and before the course expiry date (i.e. Support End Date). The list of expired EIS eligible courses is available on go.gov.sg/expired-eis-courses.

Annex E – Tax Deduction for Innovation Projects Carried Out With Polytechnics, the Institute of Technical Education (“ITE”) or Other Qualified Partners

1. Introduction

- 1.1. To encourage businesses to kickstart their innovation journey by tapping on existing technical and innovation capabilities within polytechnics, the ITE or other qualified partners³¹ (collectively referred to as “partner institutions”)³², a tax deduction of 400% is granted on the first \$50,000 of qualifying innovation expenditure incurred by businesses for each YA on qualifying innovation projects carried out with the partner institutions. These expenses are currently not allowable as a deduction under section 14 of the ITA on the basis that they are capital in nature, or under 14C of the ITA if the projects do not meet the definition of R&D under section 2 of the ITA³³.
- 1.2. To qualify for the tax deduction, the business must collaborate directly with the partner institution on the qualifying innovation project and is the beneficiary of the project. For example, a business (Business B) that collaborates with a partner institution on behalf of another business (Business A) cannot claim the tax deduction as it (i.e., Business B) is a service provider for Business A and is not the beneficiary of the qualifying innovation project.
- 1.3. The tax deduction for qualifying innovation expenditure is available from YA 2024 to YA 2028.

2. General Framework

Qualifying innovation projects

- 2.1. Qualifying innovation projects refer to projects that predominantly involve one or more of the following innovation activities defined within the Oslo Manual 2018³⁴:

³¹ The list of qualified partners is expanded to include the Sectoral AI Centre of Excellence for Manufacturing for YA 2027 and YA 2028.

³² Please refer to Innovation Projects Carried out with Polytechnics, the ITE or other Qualified Partners under “Enterprise Innovation Scheme (EIS)” on IRAS website ([https://www.iras.gov.sg/schemes/disbursement-schemes/enterprise-innovation-scheme-\(eis\)](https://www.iras.gov.sg/schemes/disbursement-schemes/enterprise-innovation-scheme-(eis))) for the list of partner institutions. Businesses seeking to undertake qualifying innovation projects may contact the respective partner institutions for more information.

³³ Some of the innovation projects carried out with the partner institutions may meet the definition of R&D under section 2 of the ITA. Prior to the introduction of the EIS, such projects are considered as R&D projects and, accordingly, the expenses are allowed tax deductions under sections 14C and/ or 14D of the ITA.

³⁴ A copy of the Oslo Manual 2018 can be found at <https://www.oecd.org/science/oslo-manual-2018-9789264304604-en.htm>.

- a. Research and experimental development activities;
 - b. Engineering, design and other creative activities;
 - c. IP-related activities; and
 - d. Software development and database activities.
- 2.2. The relevant partner institutions will validate the project as a qualifying innovation project and issue the innovation project invoice.

Qualifying innovation expenditure

- 2.3. Qualifying innovation expenditure refers to expenditure charged by the partner institutions to the businesses in relation to the qualifying innovation projects. Expenditure incurred outside of the collaboration with the partner institutions will not qualify for this tax deduction. For example, a company is charged \$30,000 of expenditure by a partner institution on a qualifying innovation project. In addition, it also incurs \$5,000 of expenditure in relation to that qualifying innovation project. Assuming all other conditions are met, only \$30,000 is eligible for EIS benefits. No deduction will be granted on the \$5,000 as it is incurred outside of the collaboration with the partner institution.
- 2.4. The tax deduction is computed based on the amount of qualifying innovation expenditure incurred by a business, net of any Government grant or subsidy received by the business in respect of the qualifying innovation project.

Deductions not allowable

- 2.5. Businesses will not be allowed to claim tax deduction under this qualifying activity if they have already claimed tax deductions or allowances on the same amount of qualifying innovation expenditure under other sections of the ITA³⁵.
- 2.6. Where an innovation project that is certified by the partner institution as a qualifying innovation project also meets the definition of R&D under section 2 of the ITA and the business chooses to claim tax deduction under this qualifying activity, any qualifying innovation expenditure incurred in excess of the \$50,000 cap will not be eligible for R&D tax deduction under sections 14C and/ or 14D of the ITA.

3. Option to Convert Qualifying Innovation Expenditure into Cash

- 3.1. The option to convert qualifying innovation expenditure into cash is subject to the overall cap of \$100,000 across all the qualifying activities (excluding the qualifying activity for the adoption of AI) under the EIS for each YA.

³⁵ Sections 14, 14A, 14C, 14D, 14U, and 19B.

Annex F – Tax Deduction for Adoption of AI

1. Introduction

- 1.1. To support businesses in adopting AI, a tax deduction of 400% is granted on the first \$50,000 of qualifying AI expenditure incurred by businesses for each YA for the purpose of their trade or business. The 400% tax deduction comprises:
 - a. a 100% “base deduction” and 300% “enhanced deduction” for qualifying AI expenditure that is allowable as a deduction under section 14 of the ITA. Any such expenditure incurred in excess of \$50,000 continues to enjoy the 100% base deduction, subject to the general income tax deduction rules under sections 14 and 15 of the ITA; or
 - b. a 400% tax deduction for qualifying AI expenditure that is currently not allowable as a deduction under section 14 of the ITA.
- 1.2. The tax deduction for qualifying AI expenditure is available for YA 2027 and YA 2028.

2. General Framework

Qualifying AI expenditure

- 2.1. For the purpose of the EIS, qualifying AI expenditure refers to expenditure incurred on:
 - a. the subscription to, or licensing from another person of, an AI system; or
 - b. the subscription to, or acquisition or licensing from another person of, a qualifying AI business service,

but excludes any expenditure incurred on any physical infrastructure or hardware, such as servers, storage devices and computing equipment.

AI system

- 2.2. An AI system refers to a machine-based system that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations or decisions that can influence physical or virtual environments. An AI system includes (but is not limited to) a system that has one or more of the following capabilities:
 - a. content generation;
 - b. reasoning and problem solving;
 - c. knowledge retrieval and representation;

- d. natural language processing;
- e. automated planning and optimisation;
- f. multimodal processing, such as image or object recognition and audio-to-text processing.

2.3. Examples of AI systems include:

- a. Machine learning models, such as neural networks and deep learning systems;
- b. Conversational AI and generative language models;
- c. Computer vision applications, such as AI facial recognition and AI object detection systems;
- d. Natural language processing applications, such as AI machine translation and AI sentiment analysis.

Qualifying AI business service

2.4. A qualifying AI business service refers to any service that is provided to a business by a person for the purpose of supporting the adoption or development of AI in the business' trade or business. Such services must relate to the development, deployment, operation or maintenance of an AI system. A qualifying AI business service includes (but is not limited to) any of the following services when used in relation to the development, deployment, operation or maintenance of an AI system:

- a. provision of an online platform for the business' use;
- b. system development service;
- c. consultancy and strategy service;
- d. data and analytics service;
- e. research and development service;
- f. system engineering and compliance service; and
- g. system-related training service.

Illustration

Business A engages an external service provider X to implement an AI-enabled demand-forecasting solution for its business operations. The services include integrating the solution into the business' existing sales and inventory management systems and providing training to employees on the use of the solution. At the same time, Business A also engages another external service provider Y to provide general management consultancy services that are not undertaken as part of any activity to implement or integrate AI into its business operations.

As the services provided by service provider X in relation to the AI-enabled demand-forecasting solution are undertaken for the purpose of adopting AI within Business A's business operations, such services would be regarded as qualifying AI business services. In contrast, the services provided by service provider Y in respect of general management consultancy services would not be regarded as qualifying AI business services, as they do not relate to the development, deployment, operation, or maintenance of an AI system.

3. Computation of Tax Deduction under the EIS

- 3.1. The amount of qualifying AI expenditure qualifying for the 300% enhanced deduction or the 400% tax deduction excludes any expenditure subsidised by a grant or subsidy from the Government.

Single expenditure with mixed qualifying and non-qualifying AI expenditure

- 3.2. Where a business has incurred an expenditure that relates partly to qualifying AI expenditure and partly to other expenditure, only the portion relating to the qualifying AI expenditure will qualify for the 300% enhanced deduction or the 400% tax deduction. If a business is unable, despite reasonable efforts, to obtain evidence as to which part of the expenditure is qualifying AI expenditure, the business should apportion the expenditure between qualifying AI expenditure and other expenditure on a reasonable basis, and provide documentation to substantiate the basis adopted upon IRAS' request.

Illustration

Business B incurs an annual subscription fee of \$12,000 for a software package (Package W) that includes both standard software functionalities that support day-to-day business operations and built-in AI capabilities that can generate content, summarise and analyse data, and provide recommendations. Business B must therefore apportion the subscription fee between qualifying expenditure and other expenditure on a reasonable basis.

The annual subscription fee for the same package without the AI capabilities and with only the standard software functionalities (Package X) is \$8,000.

One reasonable basis for apportionment is to compare the subscription fee for Package W with the subscription fee for Package X. Under this basis, Business B may treat \$4,000 (\$12,000 - \$8,000) as qualifying AI expenditure.

Deductions not allowable

- 3.3. Businesses will not be allowed to claim tax deduction under this qualifying activity if they have already claimed tax deductions on the same amount of qualifying AI expenditure under other sections of the ITA³⁶.
- 3.4. Businesses that were previously granted allowances under section 19 or 19A of the ITA on an AI system, or have sub-licensed an AI system to another person, will also not be allowed to claim tax deduction on the same AI system.

4. Option to Convert Qualifying Innovation Expenditure into Cash

- 4.1. The option to convert qualifying AI expenditure into cash is not available for this qualifying activity.

³⁶ Sections 14A, 14C, 14D, 14EA, 14EB, 14U and 14ZG.