

IRAS e-Tax Guide

Productivity and Innovation Credit (Fifth Edition)



INLAND REVENUE
AUTHORITY
OF SINGAPORE

Published by
Inland Revenue Authority of Singapore

Published on 22 Nov 2016

Fourth edition on 19 Sep 2014

Third edition on 20 Sep 2013

Second edition on 17 Aug 2012

First edition on 15 Jul 2011

Disclaimers: IRAS shall not be responsible or held accountable in any way for any damage, loss or expense whatsoever, arising directly or indirectly from any inaccuracy or incompleteness in the Contents of this e-Tax Guide, or errors or omissions in the transmission of the Contents. IRAS shall not be responsible or held accountable in any way for any decision made or action taken by you or any third party in reliance upon the Contents in this e-Tax Guide. This information aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary our position accordingly.

© 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, PIC Bonus and PIC+	1
4. General Framework.....	3
5. Administrative Procedures.....	11
6. Enquiries	12
7. Updates and Amendments	13
Annex A.....	16
Enhanced Capital Allowance and Deduction for Qualifying Equipment	16
1. Introduction	16
2. Qualifying Equipment	16
3. Computation of Capital Allowance under PIC – Acquisition of Qualifying Equipment	18
4. Option to Convert Qualifying Expenditure into Cash – Acquisition of Qualifying Equipment	20
5. Minimum Ownership Period of Qualifying Equipment	22
6. Others	25
7. Computation of Deduction under PIC – Leasing of Qualifying Equipment.....	25
8. Option to Convert Qualifying Expenditure into Cash – Leasing of Qualifying Equipment	27
9. Cloud Computing	27
Annex A-1: Example illustrating the conversion of qualifying expenditure into cash and the computation of capital allowance.....	29
Annex A-2: Examples illustrating the application of the claw-back provisions.....	31
Annex B.....	35

Enhanced Writing-Down Allowance (“WDA”) and Deduction for Intellectual Property Rights (“IPRs”)	35
1. Introduction	35
2. Definition of IPR	35
3. Computation of WDA under PIC – Acquisition of IPRs	36
4. Option to Convert Qualifying Expenditure into Cash – Acquisition of IPRs.....	36
5. Minimum Ownership Period of IPR.....	37
6. IPRs Approved for Investment Allowance.....	39
7. IPRs in Respect of Software.....	39
8. Computation of Deduction under PIC – Licensing of IPRs	40
9. Option to Convert Qualifying Expenditure into Cash – Licensing of IPRs	42
Annex B-1: Examples illustrating the application of the claw-back provisions	43
Annex C	47
Enhanced Tax Deduction of Costs for Registering Patents, Trademarks, Designs and Plant Varieties	47
1. Introduction	47
2. Registration Costs	47
3. Computation of Enhanced Deduction under PIC.....	48
4. Option to Convert Registration Costs into Cash	48
5. Minimum Ownership Period.....	48
Annex D	50
Enhanced Tax Deduction of Qualifying Research & Development (“R&D”) Expenditure	50
1. Introduction	50
2. Computation of Enhanced Deduction under PIC.....	50
3. Option to Convert Qualifying R&D Expenditure into Cash	53
4. Cap on Amount of Deductions under Sections 14, 14D, 14DA and 14E of the ITA	54

Annex E	55
Enhanced Tax Deduction of Qualifying Training Expenditure	55
1. Introduction.....	55
2. Training of employees and prescribed classes of individuals	55
3. Qualifying Training Expenditure: In-house Training	56
4. Qualifying Training Expenditure: External Training	58
5. 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	60
Annex G.....	61
Productivity and Innovation Credit Plus Scheme (“PIC+”).....	61
1. Introduction.....	61
2. Combined Expenditure Cap	61
3. Qualifying Conditions.....	62
4. Reference Point for Determining Eligibility.....	63
5. Option to Convert Qualifying Expenditure into Cash	64
Annex H.....	66
Examples of Abusive PIC Arrangements	66

Productivity and Innovation Credit

1. Aim

- 1.1. This e-Tax Guide¹ explains the Productivity and Innovation Credit scheme (“PIC”).
- 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 for Year of Assessment (“YA”) 2011 to YA 2015 to encourage productivity and innovation activities in Singapore. The scheme was further extended for three years till YA 2018 in Budget 2014.
- 2.2. In Budget 2013, an additional cash bonus (known as PIC bonus) was announced as part of a 3-year transition support package under the Quality Growth Programme. Besides encouraging investments in productivity and innovation, PIC bonus seeks to defray rising operating costs faced by businesses. The PIC bonus has lapsed after YA2015.
- 2.3. In Budget 2014, a PIC+ scheme was introduced to provide support to small and medium enterprises (“SMEs”) that are making more substantial investments to transform their businesses.
- 2.4. The PIC scheme has benefited many businesses since its introduction and has been instrumental in kick-starting the productivity drive. As announced in Budget 2016, the PIC scheme will lapse after YA 2018. In addition, the cash payout rate has been reduced from 60% to 40% for qualifying expenditure incurred on or after 1 Aug 2016. These changes are in line with the Industry Transformation Programme to direct the Government’s assistance towards more targeted and sectoral-focused initiatives.

3. Overview of PIC, PIC Bonus and PIC+

PIC

- 3.1. PIC is available for YA 2011 to YA 2018 (“qualifying YAs”).
- 3.2. PIC grants businesses which invest in specified productivity and innovation activities, enhanced deductions and/ or allowances (“enhanced deductions”) on

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

up to \$400,000² of qualifying expenditure incurred for each activity. These are in addition to the deductions and/ or allowances allowable under current tax rules. The total deductions and/ or allowances are in effect 400% per dollar of qualifying expenditure.

- 3.3. In lieu of a deduction, businesses may opt to convert qualifying expenditure of up to \$100,000 for each YA into cash. The conversion rate is 30% (for YA 2011 and YA 2012), 60% (for YA 2013 to 31 Jul 2016) or 40% (for 1 Aug 2016 to YA 2018).
- 3.4. The six activities covered under PIC are:
 - a. Acquisition or leasing of PIC information technology (“IT”)³ and automation equipment (“qualifying equipment”);
 - b. Acquisition or licensing⁴ of intellectual property rights (“IPRs”);
 - c. Registration of certain IPRs;
 - d. Research and development (“R&D”);
 - e. Training; and
 - f. Design.
- 3.5. Each of the six activities is further explained in Annex A to Annex F.

PIC bonus

For the 3 years from YA 2013 to YA 2015, businesses which invest a minimum of \$5,000 per YA in qualifying PIC activities will receive a dollar-for-dollar matching cash bonus of up to \$15,000, subject to conditions.

PIC+

- 3.6. PIC+ is available to qualifying SMEs for YA 2015 to YA 2018.
- 3.7. Under PIC+, the expenditure cap for qualifying SMEs will be increased from \$400,000 to \$600,000 for each activity per YA. The expenditure cap for PIC cash payout remains at \$100,000 of qualifying expenditure for each YA. Apart from the increase in expenditure cap for enhanced deductions, all other conditions governing PIC also apply to PIC+.

² The expenditure cap aims to benefit the small and medium enterprises more.

³ For communication purposes, “PIC automation equipment” is renamed as “PIC IT and automation equipment” from YA 2013 to draw emphasis to the scheme’s support for investments in IT-related software and equipment. The term “PIC automation equipment” remains unchanged in legislation.

⁴ The inclusion of licensing of IPRs as a qualifying activity under PIC takes effect from YA 2013.

3.8. PIC+ is further explained in Annex G.

4. General Framework

Combined expenditure cap

4.1. To provide businesses greater flexibility in their investments, the expenditure cap for each activity is combined as follows⁵:

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)
YA 2016, YA 2017 and YA 2018	\$1,200,000 (i.e. \$400,000 x 3)

4.2. To enjoy the combined expenditure cap, a taxpayer must carry on a trade or business in the basis period for the relevant YAs. Otherwise, an annual or adjusted combined expenditure cap will be adopted.

4.3. For example, a company which commences 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. 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.

Benefits computed based on qualifying expenditure net of grant and subsidy

4.4. Where the qualifying expenditure is funded or subsidised, fully or partially, by the Government⁶, only the amount of expenditure net of grant or subsidy is eligible for an enhanced deduction or a cash payout under PIC and a cash bonus under PIC bonus. 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. the balance is funded by the Singapore

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.

Workforce Development Agency). In such a case, assuming all other conditions are met, only \$300 is eligible for PIC and PIC bonus.

Unutilised trade loss and/ or allowance arising from PIC

- 4.5. Enhanced deductions that cannot be fully offset against the income of a business are treated as unutilised trade loss or allowance.
- 4.6. Such unutilised trade loss or allowance may be:
 - a. Carried forward subject to the provisions of sections 23, 37 and 37B of the ITA;
 - b. 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 ITA⁷); or
 - c. Carried back to the immediate preceding YA to be offset against the prior year's income of the company, the individual or the individual's spouse subject to the provisions of sections 37E and 37F⁸ of the ITA.

Application of the expenditure cap for sole-proprietorships and partnerships

- 4.7. In the case of sole-proprietorships, the expenditure cap for each activity is applicable at the sole-proprietor level. The same expenditure cap for each activity is applied regardless of the number of businesses the sole-proprietor is engaged in.
- 4.8. In the case of partnerships, the expenditure cap is applicable at the partnership level regardless of the number of partners.
- 4.9. If a sole-proprietor is also a partner of one or more partnerships, the following rules apply:
 - a. An expenditure cap for each activity applies for all businesses carried on by him as a sole-proprietor; and
 - b. A separate expenditure cap for each activity applies for each partnership business in which he is a partner.

⁷ Only unutilised trade loss or allowances that arise in or before YA 2015 to an individual is allowed to be transferred to and offset against the income of the individual's spouse. No transfer or setoff of any unutilised trade loss or allowance will be allowed from YA 2018.

⁸ Unutilised trade loss or allowance that arise to an individual from YA 2016 onwards will no longer be allowed to be carried back to the immediate preceding YA to be offset against the prior year's income of the individual's spouse.

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. The application of the expenditure cap in such situations is explained graphically in the illustrations below.

Illustration 1

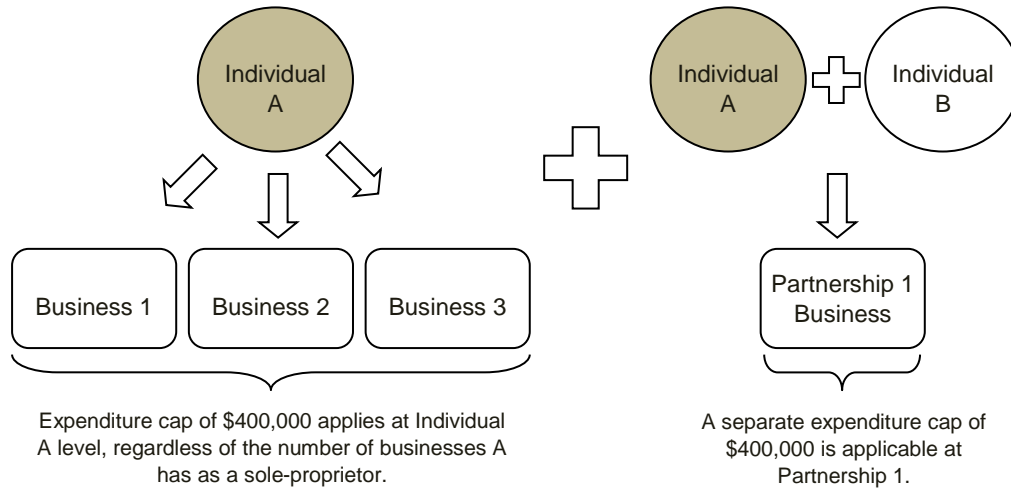
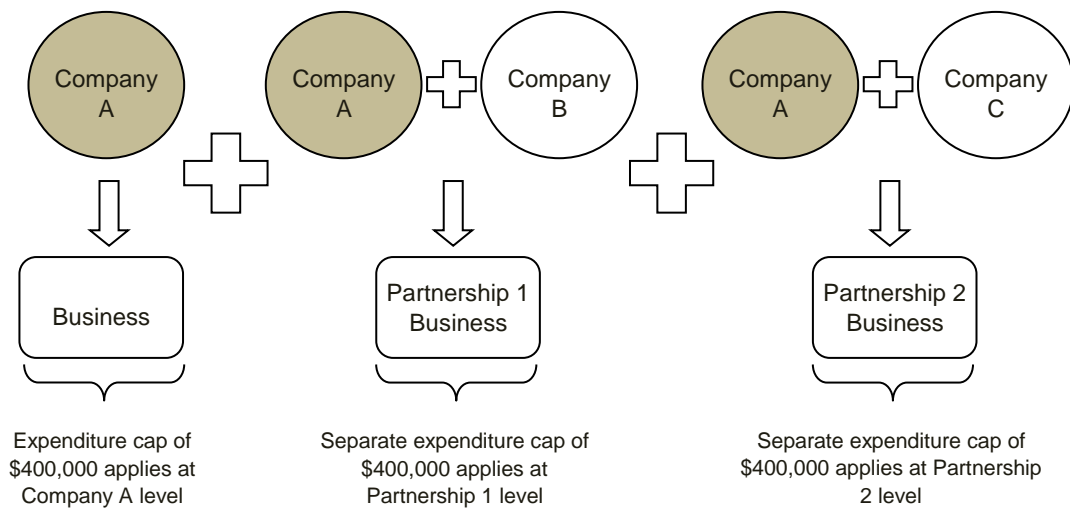


Illustration 2



PIC cash payout

- 4.10. In lieu of a tax deduction, a business may opt to convert qualifying expenditure of up to \$100,000 for each YA⁹ into cash as follows:

Expenditure incurred from:	Cash payout rate
YA 2011 and YA 2012	30%
YA 2013 to YA2015	60%
YA 2016 to 31 Jul 2016	60%
1 Aug 2016 to YA 2018	40%

Each cash payout application is subject to a minimum expenditure of \$400.

Illustration

Company A acquired a Point-of-Sale (POS) system for \$100,000 in the financial year 2016 (YA 2017). The term of purchase is cash-on-delivery. Company A has started using the equipment in its operations at the point of electing for PIC cash payout and has met the qualifying conditions for PIC.

Description	Date Incurred	Qualifying Cost	PIC Cash Payout
POS System	1 July 2016	\$100,000	\$100,000 x 60% = \$60,000

The PIC cash payout conversion rate is 60%; the expenditure is considered incurred before 1 August 2016 as the equipment was delivered and paid for before 1 August 2016. As Company A has claimed the full cash payout of \$100,000 for YA 2017, it will not be able to convert any additional qualifying expenditure into cash payout for YA 2017.

- 4.11. The cash payout option supports small but growing businesses with low taxable income that need cash to fund their investments in technology or upgrade their operations. The cash payout is not taxable.
- 4.12. The qualifying expenditure for cash payout may relate to one or more of the six qualifying activities. Once an amount of expenditure is converted into cash, the same amount is no longer available for tax deduction. The cash payout option is irrevocable once exercised.
- 4.13. Up to \$200,000 of the YA 2011 and YA 2012 qualifying expenditure for cash payout may be combined¹⁰. The business must carry on a trade or business in

⁹ The capping rules in paragraphs 4.7 to 4.9 for business entities similarly apply for determining the amount that may be converted into cash.

¹⁰ Businesses are not allowed to combine the cap for YA 2013 to YA 2018.

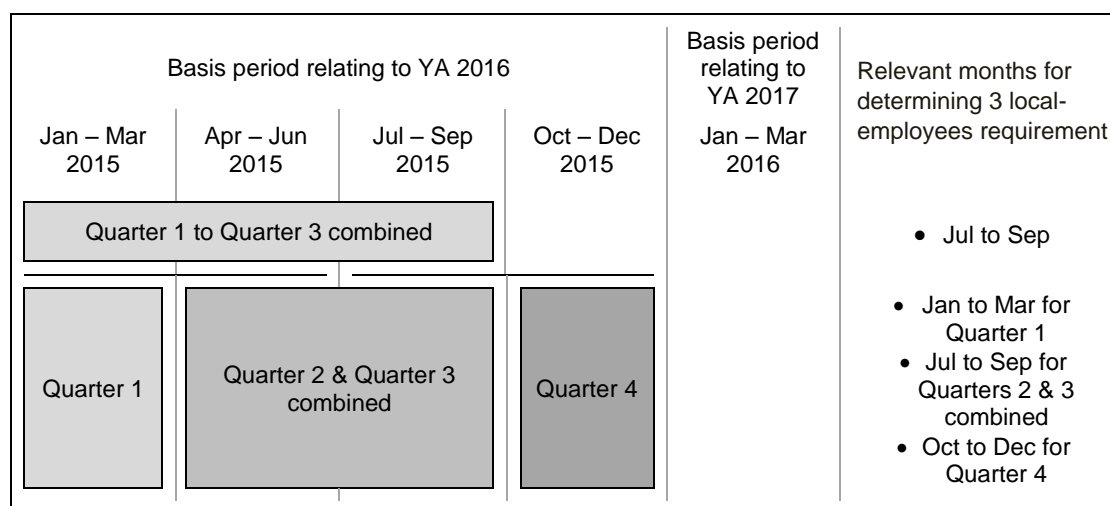
the basis periods relating to both qualifying YAs. For example, a company which commences its business in 2011 (i.e. basis period relating to YA 2012) can only convert up to \$100,000 of its qualifying expenditure into cash instead of the combined cap of \$200,000.

4.14. From YA 2013, the cash payout option may be exercised on a quarterly basis.

4.15. An eligible business means any sole-proprietorship, partnership or company¹¹ that carries on business operations in Singapore and employs at least 3 local employees (i.e. Singaporeans or Singapore permanent residents with Central Provident Fund (“CPF”) contributions). The table below sets out the conditions for the 3-local employees requirement:

YA	Contributes CPF on the payrolls of at least 3 local employees for
2011 and 2012	Last month of the basis period for the qualifying YA
2013 to 2015	Last month of the quarter or combined consecutive quarters for which the option is made
2016 to 2018	All <u>three</u> months of the quarter, or last <u>three</u> months of the combined consecutive quarter, for which the option is made ^{12,13}

4.16. The diagram below provides some permutations in which expenditure from different quarters in a financial year may be combined in a YA. The combined quarters cannot straddle across YAs.



¹¹ This includes a registered business trust.

¹² The revised requirement was announced in Budget 2014 to reinforce the condition that the payouts are made to businesses with active business operations.

¹³ The three employees in each of the last three months of the relevant quarter or combined consecutive quarters need not be the same.

- 4.17. For the purpose of the cash payout, “employees” exclude:
- a. Sole proprietors;
 - b. Partners of partnerships¹⁴;
 - c. Shareholders who are also directors of companies (as defined in section 4(1) of the Companies Act).
- 4.18. From YA 2014, for the purpose of the cash payout, “employees” may include individuals who are deployed to a business under a centralised hiring arrangement¹⁵ or secondment arrangement¹⁶. The individuals are regarded as “employees” of the business where they are deployed, subject to the following conditions:
- a. The claimant (Business B) is able to produce supporting documents on the recharging of employment costs by a related entity (Business A), in respect of employees 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 employees whose cost has been recharged will not contribute to the requisite headcount of the related entity (i.e. Business A) which borne the upfront manpower costs.
- 4.19. The cash payout may be used for any purpose and need not be offset against the related qualifying expenditure incurred for the purpose of determining the qualifying deductions.
- 4.20. Please also refer to Annex A (qualifying equipment), Annex B (IPRs) and Annex C (registration of certain IPRs) for conditions specific to the conversion of these categories of qualifying expenditure.

PIC cash payout for partners

- 4.21. Where a partnership opts for the cash payout, all partners, including those who have withdrawn from the partnership during the basis period, where applicable,

¹⁴ Non-equity salaried partners who are under contracts of services are considered employees for cash conversion purposes.

¹⁵ 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.

¹⁶ Refer to cases where employees of a business are seconded to work for a related entity. Once seconded, the staff costs are fully recharged to the related entity.

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”)

- 4.22. 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.
- 4.23. 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.

Measures to curb PIC abuses

- 4.24. While many businesses have utilised PIC and made genuine investments to improve their productivity, some businesses abused the PIC scheme by making claims that are not bona fide.
- 4.25. To curb such abuses, the following anti-abuse measures have been introduced:
- a. Strengthening of the Comptroller’s power to deny PIC benefits arising from abusive PIC arrangements; and
 - b. Imposition of penalties on intermediaries who promote abusive arrangements.
- 4.26. These measures do not affect businesses which make genuine investments to improve their productivity and meet the conditions for claiming PIC benefits.

Strengthening of Comptroller’s powers to deny PIC benefits arising from abusive PIC arrangements

- 4.27. IRAS will disallow or vary the PIC benefits for any PIC claim if there are reasonable grounds for IRAS to believe that the claim arises from an abusive PIC arrangement¹⁷.
- 4.28. An arrangement is an abusive PIC arrangement if:

¹⁷ An arrangement is a PIC arrangement if the purpose or one of the purposes of the arrangement is to obtain PIC benefits.

- a. It consists or makes use of one or more artificial, contrived or fraudulent steps to obtain PIC benefits;
- b. The arrangement results in the payment for the goods or services for an amount that exceeds their open market value¹⁸ for no bona fide commercial reason; or
- c. There is no bona fide commercial reason for entering into the arrangement, apart from getting the PIC benefits.

4.29. Where the PIC claim arises from an abusive PIC arrangement, the amount of PIC benefits that will be disallowed is as follows:

Where the arrangement is abusive because	Amount of PIC benefits disallowed
It consists or makes use of one or more artificial, contrived or fraudulent steps	That part of PIC benefits that arises from the use of the artificial, contrived or fraudulent step or steps
The amount paid for the goods or services exceeds their open market value for no bona fide commercial reason	PIC benefits computed based on the difference between the amount paid by the business and the open market value
There is no bona fide commercial reason for entering into the arrangement	The full amount of PIC benefits

4.30. Examples of abusive PIC arrangements and the corresponding amount of PIC benefits that will be disallowed are provided in Annex H.

Imposition of penalties on intermediaries who promote abusive PIC arrangements

4.31. Penalties will be imposed on intermediaries who know, or have reasonable grounds to believe, that the arrangements they are promoting are abusive PIC arrangements as defined in paragraph 4.28. Intermediaries include vendors and consultants.

4.32. An intermediary is considered to be promoting a PIC arrangement if he:

- a. Designs, facilitates, organises or manages the whole or any part of the arrangement; or
- b. Publishes, disseminates or communicates any information on the arrangement to another person, with the intent of inducing or encouraging

¹⁸ "Open market value" means the prevailing price at which the goods or services in question would have fetched if it is sold in the open market at the time the transaction took place. Where it is not practical to determine an open market value, IRAS may adopt such other value as appears to be reasonable.

(whether directly or indirectly) the person to enter into the arrangement or any transaction forming part of the arrangement.

5. Administrative Procedures

Enhanced deductions

- 5.1. Businesses may claim the enhanced deductions in their income tax returns¹⁹. Other than design projects, no prior approval is required. Businesses must maintain adequate records of their qualifying activities and expenditures and provide them to IRAS upon request.

Cash payout

- 5.2. The PIC Cash Payout Application Form and the relevant annexes may be submitted:
- a. For YA 2011 and YA 2012: anytime after the financial year end; and
 - b. For YA 2013 to YA 2018: anytime after the end of the relevant financial quarter.

In all cases, the option must be exercised not later than the income tax filing due date for the relevant YA (“specified timeframe”).

- 5.3. With effect from 1 Aug 2016, e-Filing of PIC cash payout applications is compulsory for all PIC Cash Payout applicants (including companies, partnerships and sole-proprietors). Hardcopy applications for PIC Cash Payout are no longer accepted on or after 1 Aug 2016. Applicants can e-file their applications at [myTax Portal](#).
- 5.4. A sole-proprietor needs only to submit one application form for all qualifying expenditure incurred for all his businesses.
- 5.5. Generally, IRAS will disburse the cash payout within three months from the date of receipt of the PIC Cash Payout Application Form and relevant annexes, provided full information²⁰ is submitted at the time of application.

¹⁹ Sole-proprietors and partners have to submit a PIC Enhanced Allowances/ Deduction Declaration Form for Sole-Proprietors and Partnerships together with their income tax returns.

²⁰ Sole-proprietorships and partnerships opting for cash payout no longer need to submit certified statements of accounts together with their income tax returns from YA 2013 if the business revenue is less than \$500,000.

7. Updates and Amendments

	Date of amendment	Amendments made
1	17 Aug 2012	<p>The amendments reflect changes to PIC since the first edition of this guide was published on 15 Jul 2011. The major changes are:</p> <p><i>a. Cash payout option (see Main guide and relevant sections in each Annex)</i></p> <ul style="list-style-type: none"> • The extension of the cash payout option from YA 2013 to YA 2015; • The increase in cash payout rate from 30% to 60% from YA 2013; and • Cash payout option may be exercised on quarterly basis instead of an annual basis with effect from YA 2013. <p><i>b. PIC Automation Equipment (see Annex A)</i></p> <ul style="list-style-type: none"> • PIC benefits granted to equipment that are either <ul style="list-style-type: none"> ○ Prescribed under the Income Tax (PIC Automation Equipment) Rules 2012; or ○ Approved by the Minister or the Comptroller of Income Tax as a PIC automation equipment on a case-by-case basis; • Cash payout option extended to PIC automation equipment acquired on hire purchase with repayment schedule straddling two or more basis period. The new treatment only applies to equipment acquired on hire purchased agreements signed during or after the basis period relating to YA 2012;²³ and • PIC extended to include payments for cloud computing services. <p><i>c. R&D (see Annex D)</i></p> <ul style="list-style-type: none"> • Sections 14D and 14DA are expanded to include payments made under PIC extended to include payments R&D cost-sharing agreements with effect from YA 2012. Accordingly, these payments may qualify for PIC subject to conditions; and • R&D definition revised to remove the multiple sales condition for software development. <p><i>d. Training (see Annex E)</i></p> <ul style="list-style-type: none"> • Expansion of PIC from YA 2012 to include training expenditure on <ul style="list-style-type: none"> ○ Prescribed classes of individuals; and ○ In-house training programmes that are not certified, subject to a cap of \$10,000 for each YA.
2	20 Sep 2013	<p>The amendments reflect the introduction of PIC bonus as part of the 3-year transition support package under the Quality Growth Programme and enhancements to the PIC scheme as announced by the Minister for Finance in Budget 2013.</p>

²³ Though not discussed in this guide, the same treatment applies to IPRs acquired under instalment arrangements during or after the basis period relating to YA 2012.

	Date of amendment	Amendments made
		<p>With effect from YA 2013, the PIC scheme is enhanced as follows:</p> <p>a. <i>PIC IT & Automation Equipment (see Annex A)</i></p> <ul style="list-style-type: none"> • The criteria for approving automation equipment on a case-by-case basis are liberalised. Basic tools may also be approved for purposes of PIC if they meet the approval criteria. <p>b. <i>Licensing of qualifying IPRs (see Annex B)</i></p> <ul style="list-style-type: none"> • Licensing of qualifying IPRs is included as one of the qualifying activities under PIC.
3	19 Sep 2014	<p>The amendments reflect the extension of PIC for another 3 years and the introduction of the PIC+ scheme for qualifying SMEs as announced by the Minister for Finance in Budget 2014 (<i>see Main guide and relevant annexes</i>).</p> <p>Other amendments include the following enhancements to the PIC scheme:</p> <p>a. Cash payout option (<i>see Main guide</i>)</p> <ul style="list-style-type: none"> • Period for determining 3-local employee condition under the cash payout option extended from 1 month to 3 months with effect from YA 2016; and • Individuals employed under centralised hiring arrangements recognised as employees <p>b. Training (<i>see Annex E</i>)</p> <ul style="list-style-type: none"> • Expansion of PIC from YA 2014 to include training expenditure on individuals under centralised hiring arrangements. <p>c. Introduction of measures to curb PIC abuses (<i>see Main guide and Annex H</i>).</p>
4	22 Nov 2016	<p>The amendments incorporate the Budget 2016 changes:</p> <p>a. Expiry of the PIC Scheme in YA 2018,</p> <p>b. Reduction in the PIC cash payout rate from 60% to 40% for qualifying expenditure incurred on or after 1 Aug 2016, and</p> <p>c. Compulsory e-Filing of PIC cash payout applications with effect from 1 Aug 2016.</p> <p>Other amendments include the following:</p> <p>a. Remove information on PIC bonus which expired after YA 2015.</p> <p>b. The evaluation criteria for the case-by-case approval of automation equipment (<i>see Annex A</i>)</p> <ul style="list-style-type: none"> • Remove paragraph on the clarification of the basic tool criteria <p>c. Enhanced Writing-Down Allowance (“WDA”) and Deduction for Intellectual Property Rights (“IPRs”) (<i>see Annex B</i>)</p> <ul style="list-style-type: none"> • Enhancement to allow companies to make an irrevocable election to claim the WDA over a five, ten or fifteen-year

	Date of amendment	Amendments made
		period (on a straight line basis) on capital expenditure incurred in acquiring the IPR - with effect from YA 2017.

Annex A

Enhanced Capital Allowance and Deduction for Qualifying Equipment

1. Introduction

- 1.1. Currently, businesses may claim capital allowances on expenditure incurred on the acquisition of equipment. Table 1 below provides the writing-down period for such allowances. Businesses may also elect to defer their claim of the allowances.

Table 1

Writing-down period	Governing section of the ITA	Type of equipment
1	Section 19A(2)	Prescribed automation equipment ²⁴ only
3	Section 19A(1)	All (including prescribed automation equipment)
Tax working life per Sixth Schedule	Section 19	All (including prescribed automation equipment)

- 1.2. Under PIC, capital allowance of 400% is granted on the first \$400,000 of capital expenditure incurred on the acquisition of PIC IT and automation equipment²⁵ (“qualifying equipment”) for the YA. The 400% deduction comprises a 300% “enhanced allowance” and a 100% “base allowance”. Expenditure in excess of \$400,000 continues to enjoy the relevant 100% base allowance.
- 1.3. For businesses that lease qualifying equipment, tax deduction of 400% is granted on the first \$400,000²⁶ of the leasing expenditure incurred, subject to certain conditions. Expenditure in excess of \$400,000 continues to enjoy a 100% deduction under section 14 of the ITA.

2. Qualifying Equipment

- 2.1. A PIC IT and automation equipment refers to:
- any automation equipment²⁷ (i.e. any machinery or plant designed for the automation of functions or services) that is prescribed by the Minister; or

²⁴ Please refer to the Income Tax (Automation Equipment) Rules 2012 for the latest list of prescribed automation equipment which is available on IRAS’ website.

²⁵ See footnote 3.

²⁶ The total of acquisition and leasing expenditure is capped at \$400,000.

²⁷ From YA 2014, PIC benefits may be claimed on capital expenditure incurred in the provision of a website.

- b. any automation equipment approved by the Minister or the Comptroller of Income Tax (“CIT”) on a case-by-case basis.
- 2.2. For (b) above, prior to YA 2013, the Minister or CIT must be satisfied that the automation equipment:
- a. is or is intended to be put into use in the core processes of the applicant’s business;
 - b. enhances or will enhance the productivity of the applicant in carrying on his business such as reducing man-hours and increasing volume of outputs; and
 - c. is not a basic tool used in the applicant’s business. Otherwise, the applicant must demonstrate that:
 - i. the automation equipment adopts technology that is more advanced than or superior to the technology used in other automation equipment used in his business to perform similar function; or
 - ii. on the date of application for approval of the automation equipment, no other automation equipment performing a similar function to that automation equipment has been used by the applicant in that business.
- 2.3. The evaluation criteria for the case-by-case approval of automation equipment are further liberalised from YA 2013. With the removal of the “not a basic tool” criterion, an automation equipment that is not on the prescribed list may be approved for PIC purposes if it:
- a. is or is intended to be put into use in any of the work processes of the applicant’s business²⁸; and
 - b. enhances or will enhance the productivity of the applicant in carrying on his business²⁹.

²⁸ As a general rule, the automation equipment should automate or mechanise the work processes of the business that was previously done manually.

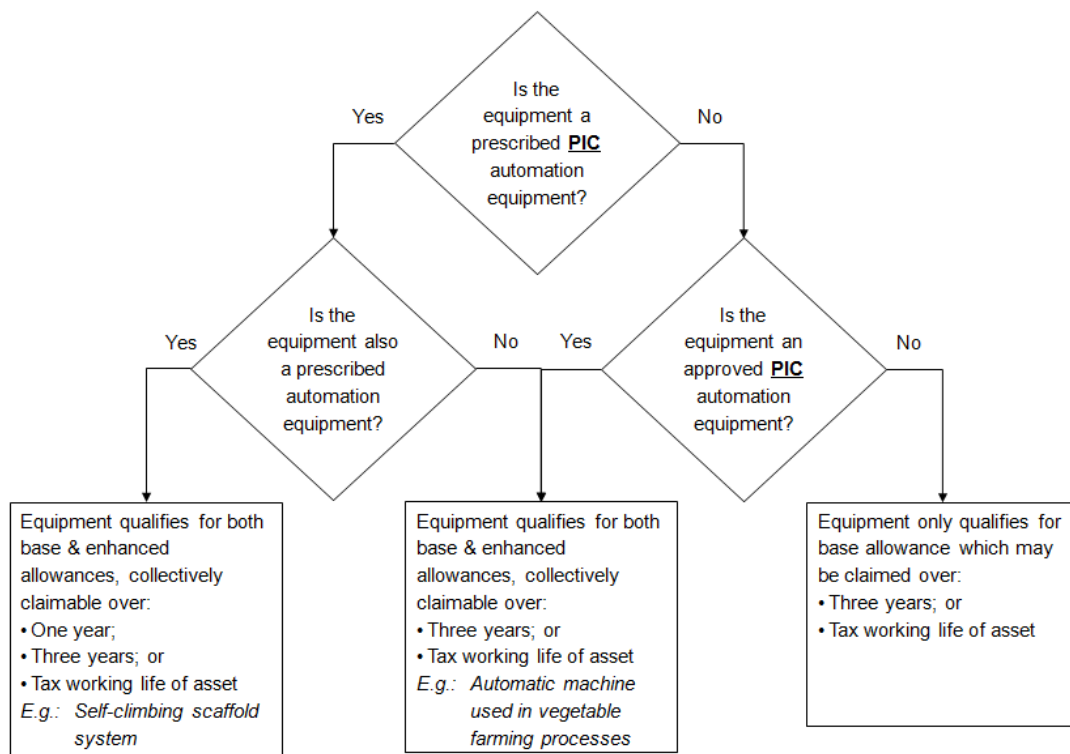
²⁹ To determine if this criterion is met for newly set-up businesses which do not have existing operations, the equipment will be compared with the standard basic equipment used by other businesses in the same industry that are of comparable size to the newly set-up business.

- 2.4. Businesses may submit their Application for Approval of Automation Equipment Form for case-by-case approval to IRAS any time not later than the income tax filing due date for the relevant YA. A copy of the application form is available on IRAS' website.
- 2.5. IRAS will process an application within three weeks from the date of receipt of the duly completed form³⁰, provided full information is submitted at the time of application.

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

Qualifying equipment acquired on cash terms

- 3.1. The enhanced allowance on qualifying equipment is granted on top of the base allowance. The flowchart below guides a business in determining whether it can claim enhanced allowance on an equipment and if so, the period over which the base and enhanced allowances (if any) are to be written-down.



- 3.2. The determination of the allowances, i.e. initial allowance (“IA”) and annual allowance (“AA”) is summarised in Table 2 below:

³⁰ For timely processing, businesses should submit their applications at least two months before the income tax filing due date for the relevant YA. Pending IRAS' approval, businesses should not claim any PIC benefits in respect of the automation equipment in question.

Table 2

Type	Computation of IA and AA
Accelerated claim over one year	AA = 100% x (Base allowance + Enhanced allowance)
Accelerated claim over three years	AA = 33 $\frac{1}{3}$ % x (Base allowance + Enhanced allowance)
Claim over tax working life of asset	IA = 20% x (Base allowance + Enhanced allowance) AA = $\frac{80\% \times (\text{Base allowance} + \text{Enhanced allowance})}{\text{Tax working life}}$

- 3.3. As a general rule, enhanced allowance is claimed on the full cost of the equipment, subject to the annual expenditure cap of \$400,000. However, enhanced allowance may be claimed on the partial cost of only one equipment if this is to achieve the maximum expenditure cap in a qualifying YA.

Qualifying equipment acquired on hire purchase

- 3.4. Generally, the amount of capital allowance available for assets acquired on hire purchase in a YA is determined by reference to the principal sum repaid (i.e. capital expenditure incurred) during a basis period.
- 3.5. Under PIC, special provisions apply in determining the enhanced allowance available for qualifying equipment acquired on hire purchase. This is to align the tax benefits under PIC accorded to a business that acquires an asset with cash and another that acquires the same asset on hire purchase.
- 3.6. For qualifying equipment acquired on hire purchase, the enhanced allowance is determined based on the cost of the equipment for the purpose of applying the expenditure cap. Enhanced allowance is only allowed to the business concerned based on the principal repayment made during the year.
- 3.7. The determination of IA and AA allowable is summarised in Table 3 below:

Table 3

Type	Computation of IA and AA
Accelerated claim over one year	AA = 100% x Y/Z x (Base allowance + Enhanced allowance)
Accelerated claim over three years	AA = 33 $\frac{1}{3}$ % x Y/Z x (Base allowance + Enhanced allowance)
Claim over tax working life of asset	IA = 20% x Y/Z x (Base allowance + Enhanced allowance) AA = $\frac{80\% \times (\text{Base allowance} + \text{Enhanced allowance})}{\text{Tax working life}}$

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

3.8. Although the repayment schedules for certain hire purchase agreements may extend beyond the basis period for the last qualifying YA (i.e. YA 2018), 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 2018).

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

Qualifying equipment acquired on cash terms

4.1. The cash payout option is only available on a per equipment basis, subject to a cap of \$100,000³¹ on qualifying expenditure for any of the six qualifying activities for each YA.

4.2. Businesses must convert the full amount of expenditure incurred on a qualifying equipment into cash, subject to the expenditure conversion cap for each YA.

4.3. Where the qualifying expenditure incurred on an equipment is in excess of the 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.

4.4. From YA 2016, to qualify for the cash payouts, businesses will need to show that the equipment is in use by the business at the point when they elect for cash payout³². This condition is imposed to reinforce the objective of encouraging businesses to increase their productivity by using automation equipment in their businesses.

Qualifying equipment acquired on hire purchase

4.5. As expenditure incurred on equipment cannot be partially converted into cash, the cash payout option is not available to any equipment acquired on hire purchase with repayment schedule straddling over two or more years. In Budget 2012, this restriction is lifted and the cash payout option may be

³¹ A combined cap of \$200,000 for all six qualifying activities under PIC applies for YA 2011 and YA 2012.

³² For businesses with genuine cash-flow difficulties and are not able to secure the delivery of the equipment before payment is made, the Comptroller may waive the requirement on a case-by-case basis, subject to conditions.

exercised on equipment acquired under hire purchase agreements signed during or after the basis period relating to YA 2012.

4.6. The provisions in paragraph 4.1 to 4.4 applies to an asset acquired on hire purchase, with the following modifications:

a. 3 local-employees requirement – To qualify for the cash payouts, the business must contribute CPF on the payrolls of at least 3 local employees as follows:

Where the hire purchase agreement is signed during the basis period relating to YA	Contributes CPF on the payrolls of at least 3 local employees for
2012 to 2015	Last month of the quarter or combined consecutive quarters in which the hire purchase agreement is signed
2016 to 2018	All <u>three</u> months of the quarter, or last <u>three</u> months of the combined consecutive quarters, in which the hire purchase agreement is signed ^{33,34}

b. Cap on qualifying expenditure convertible into cash³⁵ - Only the cost of the qualifying equipment, excluding any finance charges, is to be taken into account. Cost in excess of the 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 business intends to exercise a cash payout option on a piece of equipment acquired under a hire purchase agreement signed during the year ended 31 Dec 2011. The equipment costs \$81,000 and will be repaid over 18 equal instalments, starting from Nov 2011. With \$65,000 remaining unutilised from the combined cash conversion cap of \$200,000 for YA 2011 and YA 2012, only \$65,000 of the equipment cost is convertible into cash. The balance of \$16,000 (i.e. \$81,000 - \$65,000) will be disregarded.

³³ The revised requirement was announced in Budget 2014 to reinforce the condition that the payouts are made to businesses with active business operations.

³⁴ The three employees in each of the last three months of the relevant quarter or combined consecutive quarters need not be the same.

³⁵ The expenditure conversion cap to be applied is determined based on the period in which the hire purchase agreement is signed.

Financial year	No. of instalments	Principal repayment (\$)	Amount to be disregarded (\$)	Amount convertible into cash (\$)
2011	2	9,000	-	9,000
2012	12	54,000	-	54,000
2013	4	18,000	16,000	2,000
Total	18	81,000	16,000	65,000

- c. Disbursement of cash payout – The timing of the disbursement is dependent on the actual principal sum repaid during each period³⁶. A business' eligibility to the cash payout is locked in as long as the hire purchase agreement is signed during any of the basis period relating to YA 2012 to YA 2018. The cash payout on principal sum repaid (subject to the qualifying expenditure cap) will be granted even beyond YA 2018.
- d. Cash payout rate – The rate to be applied is tied to the YA relating to the period in which the hire purchase agreement is signed. For example, the cash payout rate for a hire purchase agreement signed during the basis period relating to YA 2012 is 30%. For agreements signed during the basis period relating to YA 2013 and up to 31 Jul 2016, the applicable cash payout rate is 60%. For those agreements signed on or after 1 Aug 2016, the applicable cash payout rate is 40%.

4.7. Annex A-1 further illustrates the computation of cash payout and capital allowance.

5. Minimum Ownership Period of Qualifying Equipment

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

If the one-year ownership period is not met, the enhanced deduction or cash payout made may be clawed back or recovered. Similarly, any PIC bonus granted will be recovered. Table 4 below summarises the claw-back provisions.

Table 4

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 ³⁷	

³⁶ Businesses are required to inform IRAS of the actual amount of principal sum repaid during each quarter or combined consecutive quarters before IRAS could proceed with the disbursement of the cash payout. The requisite information is to be included in main form and Annex A1 of the PIC Cash Payout Application Form submitted at the end of each quarter or combined consecutive quarters, whichever the case maybe.

³⁷ Section 20 of the ITA.

	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 (Note 3)	No recovery of cash payout (Note 4)
PIC bonus		Recovery of PIC bonus	No recovery of PIC bonus

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

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

Note 3: For equipment that is acquired on hire purchase, cash payout granted prior to the disposal of the equipment will be recovered by IRAS. The remaining cash payout that has yet to be disbursed will not be available since the equipment is disposed of within one year.

Note 4: For equipment that is acquired on hire purchase, cash payout is granted on the underlying principal sums incurred up to the date of disposal.

5.2. 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. The return must be accompanied by a duly completed Disposal of Qualifying Assets Form which is available on IRAS' website.

5.3. If a business has:

- a. converted qualifying expenditure into cash; or
- b. received PIC bonus in respect of qualifying expenditure;

and the one-year ownership period is not met, it has to notify IRAS by submitting the Disposal of Qualifying Assets Form within 30 days from the date of disposal of the equipment. Penalties may apply if the notification is not given.

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

Waiver of the claw-back provisions for qualifying equipment

5.5. The claw-back provisions may be waived under certain circumstances³⁸. 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 \$1,400,000 worth of qualifying equipment in Dec 2015 and claimed enhanced allowance on \$1,200,000³⁹ of the cost incurred when it submitted its YA 2016 tax return in Jun 2016. In Oct 2016, 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 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 2015 is \$1,355,000 (i.e. \$1,400,000 less \$45,000), which is higher than the cap of \$1,200,000.

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.

5.6. Prior approval is not required for a waiver under Scenario 1 as described in paragraph 6.5 above. A business needs only to declare in its relevant tax return 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.

³⁸ The waiver of the claw-back provision is not extended to the acquisition of intellectual property rights (“IPRs”) and the registration of specific IPRs but it applies to PIC bonus granted on qualifying equipment.

³⁹ Enhanced allowance is claimed based on the combined expenditure cap of \$1,200,000 for YAs 2016 to 2018 assuming that PIC+ is not applicable.

- 5.7. For a business whose disposal of qualifying equipment falls under Scenario 2 described in paragraph 6.5, the commercial reasons for such disposal should be provided for IRAS' consideration.
- 5.8. IRAS may call for supporting documents for verification purposes.

6. Others

Qualifying equipment approved for Investment Allowance

- 6.1. 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 the equipment, it is not allowed to claim investment allowance on the same equipment. 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 equipment. For example, if a company incurs expenditure to purchase equipment which cost \$500,000, the company may claim enhanced allowance on the first \$400,000 of the expenditure and investment allowance on the balance of \$100,000.
- 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. 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.
- 6.3. All other prevailing conditions governing the investment allowance under Part X of the EEIA continue to apply.

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

- 6.4. If a business was previously granted allowance under section 19 or 19A of the ITA on a piece of equipment, the same equipment cannot qualify for enhanced allowance or deduction 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.

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

General framework

- 7.1. For tax purposes, leases can be categorised into 3 types: operating lease, finance lease and finance lease treated as sale agreement⁴⁰.
- 7.2. Enhanced deduction is also granted on leasing expenditure incurred on qualifying equipment. However, the benefit from enhanced deduction is granted only to the lessee, not the lessor, of the equipment. This is because the lessee is the person who puts the equipment into productive use. Table 5 below contrasts the existing tax treatment with that under PIC.

Table 5

Types of Leases	Existing Treatment (Before YA 2011)		Enhancements under PIC (YA 2011 to YA 2018)	
	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 ⁴¹)
Finance lease treated as sale agreement	N.A.	Allowance on 100% of cost of equipment	N.A.	Allowance on 400% of cost of equipment

- 7.3. The expenditure cap of \$400,000 applies to the total expenditure incurred on the acquisition and the leasing of qualifying equipment. To illustrate, if a business incurs \$300,000 to acquire a qualifying equipment and \$200,000 to lease another piece of equipment, 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).
- 7.4. A lessor is not entitled to claim enhanced allowance on qualifying equipment acquired for the purpose of leasing. He is also not allowed to convert expenditure on the equipment into cash.
- 7.5. However, just like any other businesses, the lessor may claim PIC benefits on equipment that is put to use for his business.

Leasing of software

⁴⁰ 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.

⁴¹ 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.

- 7.6. Enhanced deduction is extended to lease payments for software, regardless of whether the software is installed on a qualifying equipment. The restriction on enhanced capital allowance claims by lessor as explained in paragraphs 7.4 and 7.5 above also applies to a lessor of software.
- 7.7. The enhanced deduction for software leasing is limited to payments where the lessee or end-user only receives the right to use the software and 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

- 7.8. If a business was previously granted allowance under section 19 or 19A of the ITA on the equipment, it cannot claim enhanced deduction under PIC on any lease payments made subsequently on the same equipment. An example is the sale-and-leaseback of equipment that a business had previously owned.

Sublease of qualifying equipment

- 7.9. If the 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 applies even if the equipment has 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.

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

- 8.1. If the equipment is subleased to another person (i.e. sub-lessee), the lessee is not allowed to convert any part of the leasing charges incurred into cash.
- 8.2. Unlike the cash payout option for qualifying expenditure incurred on the acquisition of equipment, the cash payout on qualifying expenditure arising from the leasing of equipment need not be made on a per equipment basis.

9. Cloud Computing

- 9.1. Generally, cloud computing refers to the delivery of IT-enabled resources and capabilities via the internet. The three common modes of delivery under the cloud computing framework are:

- a. Software as a Service;
 - b. Infrastructure as a Service; and
 - c. Platform as a Service.
- 9.2. Payments for cloud computing are payments for services. In recognition that cloud computing promotes productivity through the adoption of information technology, without the need for heavy up-front investments by businesses, PIC benefits will be extended to such payments.
- 9.3. The PIC benefits on cloud computing payments is subject to the same expenditure cap of \$400,000 applicable to the acquisition and leasing of qualifying equipment for each YA. The cash payout option is available on qualifying cloud computing expenditure subject to the overall cap \$100,000 for each YA.

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

During the year ending 31 Dec 2014, 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 on cash terms. The cost and repayment schedule (where applicable) for each piece of equipment is as follows:

Equipment	Cost	Repayments in year ending 2014 (i.e. YA 2015)	Repayments in year ending 2015 (i.e. YA 2016)
	\$'000	\$'000	\$'000
W [HP]	200	100 ⁴²	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 payout

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.

Equipment	Eligibility for cash conversion
W [HP]	Eligible. Equipment W is acquired through an HP agreement signed during the basis period relating to YA 2015. Should an option be made on Equipment W, Company A can only convert up to the cap of \$100,000. The balance of \$100,000 (i.e. \$200,000 - \$100,000) will be forfeited

⁴² Excludes interests and other finance charges but includes deposits made during the basis period.

Equipment	Eligibility for cash conversion
	and no allowance can be claimed on it.
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) will be forfeited and no allowance can be claimed on it.
Y	Not eligible. 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 relation to a qualifying equipment). Since only a portion of the cost is eligible for PIC benefits, Equipment Y is not eligible for a cash conversion.

Company A exercises a cash payout option on Equipment X and receives \$60,000 (i.e. \$100,000 x 60%) 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 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 2015 and YA 2016

Equipment	W [HP]	X	Y	Z	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total capital allowance claimable	800	-	220	30	1,050
Less: YA 2015 AA	400 ⁴³	-	220	30	650
Tax written down value (“TWDV”) c/f	400	-	-	-	400
Less: YA 2016 AA	400 ⁴⁶	-	-	-	400
TWDV c/f	-	-	-	-	-

⁴³ AA for Equipment W is dependent on the principal sums repaid during the year i.e. \$100,000 / \$200,000 x \$800,000 = \$400,000.

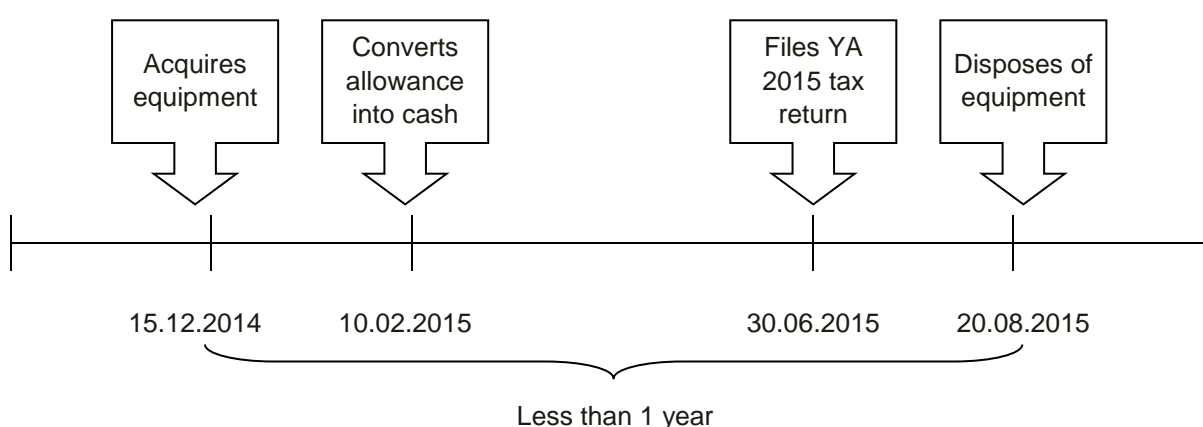
Annex A-2: Examples illustrating the application of the claw-back provisions

Scenario

Company B is a December year-end company. On 15 Dec 2014, Company B acquires a qualifying equipment for \$100,000 with cash. The equipment is disposed of on 20 Aug 2015 for \$60,000. Company B has not acquired any other qualifying equipment during the financial year ended 31 Dec 2014.

Example 1

Shortly after the year ended 31 Dec 2014, Company B elects to convert the qualifying expenditure of \$100,000 into a cash payout of \$60,000 (i.e. \$100,000 x 60%).



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 \$60,000 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 2015 and YA 2016 are as follows:

Tax computation for YA 2015

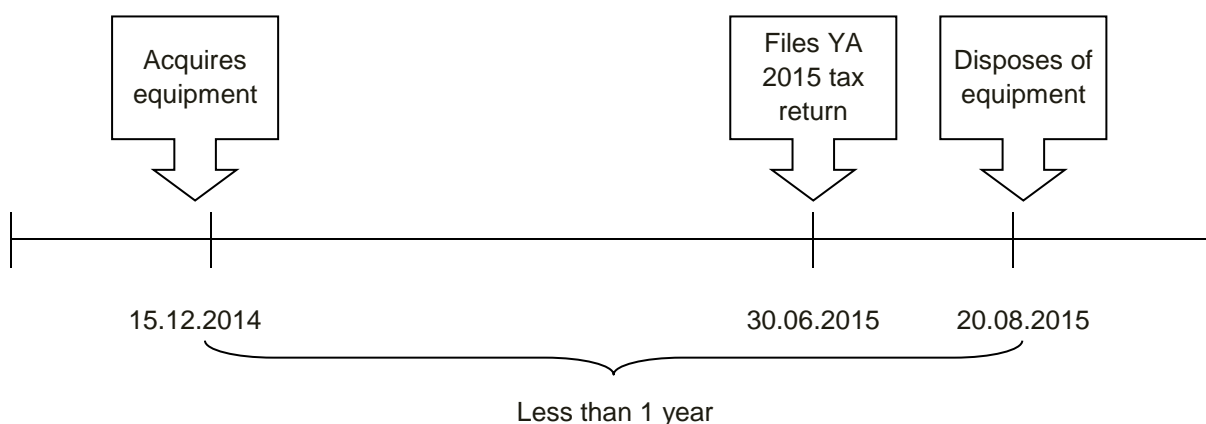
	\$'000
Adjusted profit/ (loss)	(24)
Unutilised losses c/f	(24)
Chargeable income	Nil

Tax computation for YA 2016

	\$'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 assessed at 17%	4.76
Less: Corporate income tax rebate (50% x \$4.76)	2.38
Tax payable after rebate	2.38

Example 2A

Company B elects to claim capital allowance over three years, starting from YA 2015. 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 2016 tax computation to claw-back any enhanced allowance granted previously.



Tax computation for YA 2015

	\$'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 = $33\frac{1}{3}\% \times (\text{Base} + \text{Enhanced allowances})$
= $33\frac{1}{3}\% \times (\$100,000 + \$300,000)$
= $\$33,000^* + \$100,000$

= \$133,000

* Rounded to the nearest thousand

Tax computation for YA 2016

	\$'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)
		<hr/>
Chargeable income (before exempt amount)		21
Less: Exempt amount		(13)
		<hr/>
Chargeable income (after exempt amount)		8
		<hr/> <hr/>
Tax assessed at 17%		1.36
Less: Corporate income tax rebate (50% x \$1.36)		0.68
		<hr/>
Tax payable after rebate		0.68
		<hr/> <hr/>

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 2015. In this instance, as Company B has met the one-year ownership period requirement, its tax computation for YA 2016 is as follows:

Tax computation for YA 2016 (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)
		<hr/>
Unutilised capital allowances c/f		(255)
		<hr/> <hr/>

Unutilised losses b/f & c/f

(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 2016.

Annex B

Enhanced Writing-Down Allowance (“WDA”) and Deduction for Intellectual Property Rights (“IPRs”)

1. Introduction

- 1.1. Prior to YA 2017, 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 business⁴⁴.
- 1.2. As announced in Budget 2016, with effect from YA 2017, to recognise the varying useful lives of IPRs and allow companies the flexibility to choose their writing-down period while maintaining a simple and certain tax regime, a company will be allowed to make an irrevocable election to claim the WDA over a five, ten or fifteen-year period (on a straight line basis) on capital expenditure incurred in acquiring the IPR. The irrevocable election applies to IPRs acquired during the basis periods for YA 2017 and after, and will have to be made via a declaration form at the time of lodgement of the income tax return in the first YA of the WDA claim.
- 1.3. From YA 2011 to YA 2018, a 400% WDA is granted on the first \$400,000 of the capital expenditure incurred to acquire IPRs (i.e. comprising 300% “enhanced WDA” and 100% “base WDA”) for each YA, subject to certain conditions. Expenditure exceeding \$400,000 continues to enjoy 100% base WDA.
- 1.4. Both the “enhanced WDA” and “base WDA” 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 do not qualify for enhanced WDA deduction.
- 1.5. All other conditions governing the allowance under section 19B of the ITA continue to apply.

2. Definition of IPR

- 2.1. For the purpose of section 19B of the ITA, IPR means:
 - a. Patent;

⁴⁴ To qualify for the WDA, the capital expenditure must be incurred in respect of IPRs acquired on or before the last day of the basis period for YA 2020.

- 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 variety⁴⁵.
- 2.2. The following two categories do not fall within the scope of “copyright” and “trade secret and information with commercial value:
- a. Customer information, including a list of those customers and requirements of those customers, gathered in the ordinary course of business; and
 - b. Information on work processes (including standard operating procedures), other than industrial information, or technique, that is likely to assist in the manufacture or processing of goods or materials.

3. Computation of WDA under PIC – Acquisition of IPRs

- 3.1. As a general rule, enhanced WDA for IPRs is applicable on the full cost of an IPR, subject to the expenditure cap of \$400,000 per YA. Partial cost of one IPR may be claimed only if this enables 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, ten or fifteen years) as follows:
- $AA = (\text{Base WDA} + \text{Enhanced WDA}) / 5 \text{ years}$
 - $AA = (\text{Base WDA} + \text{Enhanced WDA}) / 10 \text{ years}$
 - $AA = (\text{Base WDA} + \text{Enhanced WDA}) / 15 \text{ years}$

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

- 4.1. The qualifying expenditure may be converted into cash payout on a per IPR basis, subject to a cap of \$100,000 for all six qualifying activities for each YA.

⁴⁵ With effect from YA 2011, the definition of IPR is expanded to include plant variety. As defined in the website of the Intellectual Property Office of Singapore (www.ipos.gov.sg), a plant variety is a plant group within a single botanical taxon (i.e. plant group having natural relationship) of the lowest rank.

- 4.2. Where the qualifying expenditure incurred on an 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 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. This includes the recovery of PIC bonus granted in respect of the IPRs, if any.

Cessation of IPR

- 5.2 Section 19B(4) of the ITA provides that where WDA has been made to a company or partnership for any IPRs⁴⁶ 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; or
- 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 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 during or after the basis period for YA 2011:

- 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, 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 IPRs:

Proceeds from disposal of IPR is greater than the tax written down value⁴⁷
(“TWDV”)

⁴⁶ 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.

⁴⁷ Refers to the amount of base allowance that has not been drawn down as writing-down allowance.

The difference between the sale price and the TWDV of the 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 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 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

Qualifying WDAs comprising	Specified event occurred within the 1 st year	Specified event occurred within the 2 nd to 5 th year [#] or before the end of the elected writing-down period*	Specified event occurred after the 5 th year [#] or 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 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.

[#] 5 years for capital expenditure incurred on acquiring the IPR during the basis periods for YA 2016 and before.

* 5/10/15 years for capital expenditure incurred on acquiring the IPR during the basis periods for YA 2017 and after, as elected in the declaration form.

Table 2: Cash payout/ PIC bonus

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/ PIC bonus in the year of disposal	Claw-back a proportionate amount of the cash payout/ PIC bonus in the year of disposal	No claw-back of cash payout/ PIC bonus

	(Note 1)	
--	----------	--

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

- 5.5 Where enhanced WDA on an 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 income tax return for the YA in which the specified event occurs. Where cash payout has been opted or PIC bonus granted, the Disposal of Qualifying Assets Form should be submitted to 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. If enhanced WDA is granted on partial cost of an IPR, the company or partnership may still enjoy investment allowance on the remaining cost of the IPR. For example, if a company incurs expenditure to purchase an IPR costing \$1,000,000, it 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 conditions governing the allowance under Part X of the EEIA continue to apply.

7. IPRs in Respect of Software

- 7.1 Consequent to the extension of PIC to lease payments (or license fees) incurred by end-users of software, a company or partnership that acquires IPRs in respect of software for purpose of licensing is not entitled to PIC benefits.

7.2 However, the company or partnership may claim PIC benefits on such IPRs if they are acquired for use in its own business (other than for licensing).

8. Computation of Deduction under PIC – Licensing of IPRs

General framework

8.1 From YA 2013, PIC benefits may be claimed on expenditure incurred on the licensing⁴⁸ of qualifying IPRs. This is in addition to the deduction that would have already been allowed to the business under section 14 or 14D of the ITA.

8.2 Qualifying IPRs refers to IPRs as listed in paragraph 2.1 but excludes:

- a. any trade mark⁴⁹; and
- b. any rights to the use of software⁵⁰

8.3 The expenditure cap of \$400,000 applies to the total of expenditure arising from the acquisition of IPRs and the licensing of qualifying IPRs. Such qualifying expenditure also qualifies for the cash payout under PIC. This applies to licensing expenditure on qualifying IPRs incurred for YA 2013 to YA 2018.

Anti-abuse provisions

Licensing of qualifying IPRs from related parties

8.4 Enhanced deductions will not be given if the qualifying IPR is licensed from a related party^{51,52}:

⁴⁸ Expenditure incurred on the licensing of qualifying IPRs means license fees and excludes expenditure for the transfer of ownership of any those rights and legal fees and other incidental costs arising from the licensing of such rights.

⁴⁹ Trademarks are mainly for the identification of products and services. The licensing of trade marks is therefore not in line with the policy objective of encouraging businesses to achieve productivity and innovation in their product development and service offering. In the same vein, payments made in respect of franchising, selling and distributorship will also not qualify as licensing expenditure for purposes of PIC.

⁵⁰ Payments for the use of software are covered under leasing of PIC automation equipment.

⁵¹ A 'related party', in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

⁵² The Minister may by order exempt a taxpayer from this rule.

- a. who carries on a trade or business in Singapore; and
- b. the qualifying IPR is acquired or developed (in whole or in part) by the related party during the basis period relating to YA 2011 or any subsequent YA.

8.5 The above does not affect the related party's entitlement to PIC benefits. In other words, subject to the prevailing rules, the related party will be able to claim:

- a. enhanced writing-down allowances on qualifying costs incurred on the acquisition of IPRs;
- b. enhanced deductions on qualifying research and development expenditure or qualifying IP registration costs incurred on the development and/ or registration of IPRs; or
- c. enhanced deduction on licensing expenditure on qualifying IPRs licensed from another person.

Adjustments to the transacted price of an IPR

8.6 To ensure that writing down allowances are granted based on transacted values that are reflective of the open market value ("OMV") of an IPR, the Comptroller is empowered to make the following adjustments to the transacted price of the IPR, if the IPR is not transacted at OMV:

- a) If the acquisition price of the IPR is higher than the OMV of the IPR, the Comptroller may substitute the acquisition price with the OMV of the IPR and restrict the writing-down allowance based on the OMV of the IPR; and
- b) If the disposal price of the IPR is lower than the OMV of the IPR, the Comptroller may substitute the disposal price with the OMV of the IPR for the purpose of computing balancing charge.

8.7 This change will apply to acquisitions, sales, transfers or assignments of IPRs that are made from 25 March 2016.

Qualifying IPRs for which writing-down allowance under section 19B had been previously granted to the same business

8.8 If a business had been granted a writing-down allowance under section 19B of the ITA on an IPR previously, it cannot claim any enhanced deduction under PIC for expenditure incurred on the licensing of the same IPR.

9. Option to Convert Qualifying Expenditure into Cash – Licensing of IPRs

- 9.1 The cash payout option is available for qualifying licensing expenditure, and this need not be made on a per IPR basis. The overall conversion cap of \$100,000 applies for each YA.

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

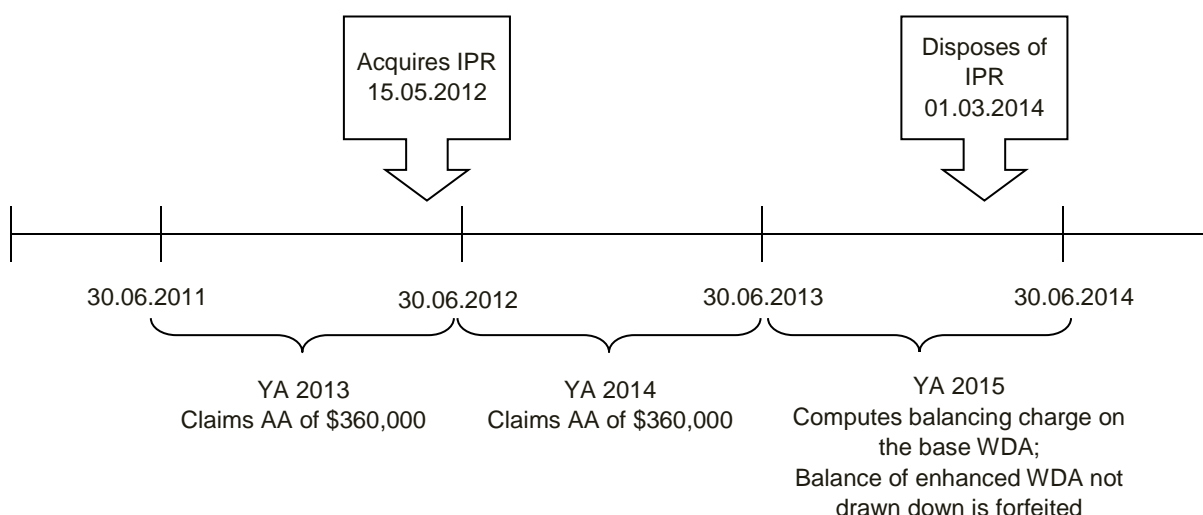
Example 1

Company C, whose financial year ends on 30 Jun, is in the business of providing logistics and freight forwarding service. On 15 May 2012, 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 2012.

With the combined expenditure cap of \$1,200,000 for each of the qualifying activities under PIC for YA 2013 to YA 2015, Company C can claim enhanced WDA on the full cost of the design of \$450,000 incurred during the basis period for YA 2013⁵³. 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 2014 (basis period for YA 2015). Accordingly, the adjustments to be made in its YA 2015 tax computation are as follows:



⁵³ Company C in this case is eligible to avail enhanced WDA on expenditure incurred to acquire IPR of up to \$750,000 (i.e. \$1,200,000 less \$450,000) in YA 2014 and YA 2015.

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 2015.

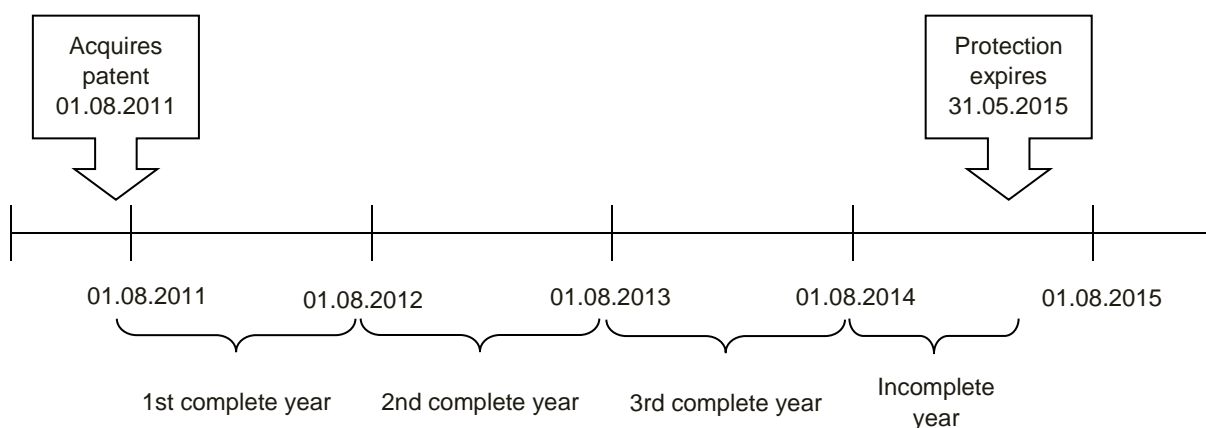
Enhanced allowance

Since Company C has met the one-year ownership period requirement, the enhanced WDA granted to Company C in YA 2013 and YA 2014 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 2011 and made an election to convert qualifying expenditure of \$230,000 into cash.

Protection for the patent expires on 31 May 2015, which is within the 5-year writing-down period. Claw-back of the cash payout is determined as follows:



YA 2012

$$\begin{aligned}\text{Cash payout} &= 30\% \times \$200,000^{54} \\ &= \$60,000\end{aligned}$$

YA 2016

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

Company D is required to inform IRAS of the expiration of the patent by 30 Jun 2015 (i.e. within 30 days from the expiration of the patent).

⁵⁴ 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 2009, 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 2013.

Date of sale	YA	Sale price
1 Sep 2013	2014	\$80,000
15 Jul 2014	2015	\$380,000
4 Jan 2015	2016	\$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 2010 to YA 2013)
TWDV	= \$90,000

YA	Sale price	TWDV (Note 1)	Sale price > TWDV?	Balancing charge (Note 2)
2014	\$80,000	\$90,000	No	N.A. (No balancing allowance or charge)
2015	\$380,000	\$10,000 (i.e. \$90,000 - \$80,000)	Yes	Lower of: <ul style="list-style-type: none"> • Sale price less TWDV= \$370,000; • WDA granted previously = \$360,000 Balancing charge = \$360,000
2016	\$40,000	\$0; since \$90,000 less previous sale price is negative	Yes	Lower of: <ul style="list-style-type: none"> • 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. Section 14A of the ITA grants a tax deduction on costs incurred by any person carrying on a trade or business in registering patents, trademarks, designs and plant varieties (“qualifying IPRs”). The deduction is available until YA 2020 and is allowed on the condition that the legal and economic ownership of the qualifying IPRs belongs to the business entity in Singapore.
- 1.2. 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 \$400,000 of the costs incurred to register the qualifying IPRs. Any such costs in excess of \$400,000 incurred continue to enjoy 100% base deduction.
- 1.3. The enhanced deduction is granted from YA 2011 to YA 2018.

2. Registration Costs

- 2.1. Registration costs are broadly divided into two categories: official fees and professional fees.
- 2.2. Official fees refer to payments made to the Registry of Patents, Registry of Trade Marks, Registry of Designs or the Registry of Plant Varieties in Singapore or elsewhere for the –
 - a. Filing of an application for a patent, for registration of a trade mark or design, or for the grant of protection of a plant variety;
 - b. Search and examination report on the application for a patent;
 - c. Examination report on the application for grant of protection for a plant variety; or
 - 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 on the registration of qualifying IPRs. The enhanced deduction is granted regardless of the outcome of the application. This means that even if an application for registration is 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 does not exceed the annual expenditure cap of \$400,000. Partial cost of one IPR filing may be claimed only if this enables enhanced deduction to be claimed up to the expenditure cap. 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. Registration costs qualifying for PIC benefits exclude any cost subsidised by grants or subsidy from the Government.

4. Option to Convert Registration Costs into Cash

- 4.1. The cash payout option is allowed on a per registration basis, subject to the overall expenditure cap of \$100,000 for each YA. A business must convert the total registration costs incurred in relation to a single application for registration of an IPR into cash, subject to the cap.
- 4.2. The total registration costs in excess of the cap will be forfeited and 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. This includes the recovery of PIC bonus granted in respect of the IPRs, if any. 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
PIC bonus		Recovery of PIC bonus	No recovery of PIC bonus

- 5.2. If 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 for the basis period in which the IPR is disposed of. If the business has opted for cash payout or has received PIC bonus in respect of registration costs relating to the IPR disposed of, it must notify IRAS via the Disposal of Qualifying Assets Form within 30 days of the occurrence of such an event. Penalties may apply if the notification requirement is not complied with.

Annex D

Enhanced Tax Deduction of Qualifying Research & Development (“R&D”) Expenditure

1. Introduction

- 1.1. Businesses may claim 150% tax deduction on qualifying R&D expenditure incurred⁵⁵. The 150% tax deduction, allowable under sections 14D (100%) and 14DA (50%), is applicable from YA 2009 to YA 2025 for R&D activities carried out in Singapore, whether directly or outsourced by a taxpayer.
- 1.2. In addition to above, under PIC, the tax deduction of qualifying R&D expenditure is further enhanced.

R&D activities conducted in Singapore

A further 250% deduction (“enhanced deduction”) is granted on the first \$400,000 of qualifying local R&D expenditure. Together with the 100% “base deduction” and 50% “additional deduction”, the total of 400% tax deduction is available on the first \$400,000 of R&D expenditure incurred for each YA.

R&D activities conducted overseas

A further 300% deduction (“enhanced deduction”) is granted on the first \$400,000 of qualifying overseas R&D expenditure incurred. Together with the 100% base deduction, the total of 400% tax deduction is available on the first \$400,000 of the qualifying overseas R&D expenditure incurred for each YA.

- 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 YA.
- 1.4. The PIC enhanced deduction is granted from YA 2011 to YA 2018.

2. Computation of Enhanced Deduction under PIC

- 2.1. Similar to the additional deduction (50%) allowed under section 14DA of the ITA, qualifying R&D expenditure for the purpose of the PIC enhanced deduction (250% for local R&D expenditure and 300% for overseas R&D expenditure) is restricted to the following expenditure attributable to R&D:
 - a. staff costs (excluding directors’ fees);

⁵⁵ For details of the R&D tax measures, please refer to e-Tax Guide “Research and Development Tax Measures” that is available on IRAS’ website.

- b. consumables; or
- c. any other item of expenditure on qualifying R&D activities which the Minister for Finance may prescribe by regulations⁵⁶,

and should not include any expenditure that is subsidised by grants or subsidies from the Government. Table 2 below summarises the deduction claimable for R&D expenditure:

Table 2

	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%	

- 2.2. 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 2.1. For this purpose, up to 60% of all fees payable to the R&D organisation may be claimed as qualifying R&D expenditure⁵⁷. To illustrate, a company contracts with a R&D organisation to undertake R&D activities in Singapore on its behalf for a fee of \$500,000. Assuming the company obtains a grant of \$50,000 from the Government but does not have a breakdown of the expenditure items from the R&D organisation, the amount of additional and enhanced deductions claimable 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

⁵⁶ No further items of expenditure have been prescribed for this purpose.

⁵⁷ 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.

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

- 2.3. Similar to payments made to an R&D organisation, 60% of the payments made under a R&D CSA is deemed as qualifying R&D expenditure⁶⁰ for the purpose of claiming the additional deduction under section 14DA.
- 2.4. A person who conducts R&D activities both in Singapore and overseas is free to decide the order of his enhanced deduction claims. For instance, enhanced deduction may be claimed on qualifying overseas R&D expenditure first. Where such expenditure is below the expenditure cap of \$400,000, 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

- 2.5. 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.
- 2.6. 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.

- 2.7. 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.
- 2.8. For the purpose of PIC, the 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, a company enjoys a concessionary tax rate

of 10% on its trade income. During the year ending 30 Jun 2015, it 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 the company'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

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

3.1. The option to convert qualifying R&D expenditure (whether incurred locally or otherwise) into cash is subject to overall cap of \$100,000 for each YA.

3.2. 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 2.6 above). If the company in the illustration above opts to receive the maximum cash payout of \$60,000 (i.e. to convert a maximum qualifying local R&D expenditure of \$100,000 into cash at the rate of 60%), 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

$$\begin{aligned} \text{Deductions against concessionary income} &= \$1,350,000 \times (17\% / 10\%) \\ &= \$2,295,000 \end{aligned}$$

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

- 4.1. 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.
- 4.2. The above cap remains in place during the qualifying YAs of PIC. To illustrate, if a company 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. The company 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.

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 \$400,000 of qualifying training expenditure incurred 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 tax deduction rules under sections 14 and 15 of the ITA.
- 1.2. The enhanced deduction for qualifying training expenditure is available from YA 2011 to YA 2018.

2. Training of employees and prescribed classes of individuals

Prescribed classes of individuals

- 2.1. Prior to YA 2012, only training expenditure incurred in respect of employees qualifies for enhanced deduction under PIC. Recognising that a business may incur training expenditure on individuals who are not employees of the business but are, nevertheless, engaged by the business to carry on its trade⁵⁸, the scope of training is expanded to include qualifying training expenditure incurred on the following prescribed classes of individuals:
 - a. Salespersons registered under the Estate Agent Act;
 - b. Representatives within the meaning of the Financial Advisers Act;
 - c. Representatives within the meaning of the Securities and Futures Act; and
 - d. Insurance agents of insurers licensed under the Insurance Act.

The change is effective from YA 2012.

- 2.2. In addition to the above, individuals who lease assets from a business to provide a service to others may also be a prescribed class of individuals, such that the business can claim PIC benefits on qualifying expenditure incurred on these individuals. From YA 2012, hirers of taxis from taxi service operators licensed under the Road Traffic Act have been prescribed for this purpose.

⁵⁸ The engagement of an individual by a business for the furtherance of its trade reflects the need for a regular working relationship between the business and the individual as well as the sharing of risks and rewards between the two.

Individuals deployed under centralised hiring arrangement or secondment

- 2.3. Prior to YA 2014, businesses that incur training expenses on individuals deployed to their organisations under centralised hiring arrangements⁵⁹ or secondment arrangements⁶⁰ are not allowed to claim PIC benefits on the training expenses incurred, as they are not the legal employers of these individuals.
- 2.4. Recognising that the training of such individuals can improve the productivity of the businesses where they are deployed, the scope of training is expanded to include qualifying training expenditure incurred in respect of individuals hired under centralised hiring arrangements or secondment arrangements, subject to the following conditions:
- The claimant (Business B) is able to produce supporting documents on the recharging of employment costs by a related entity (Business A), in respect of employees working solely in the claimant entity (i.e. Business B);
 - The corporate structure and centralised hiring practices are adopted for bona fide commercial reasons; and
 - The related entity (Business A) does not claim deductions on the training expenses recharged to the claimant entity (Business B).

The change is effective from YA 2014.

3. Qualifying Training Expenditure: In-house Training

- 3.1. Before YA 2012, enhanced deduction for in-house training 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 provider⁶¹;
 - b. Structured Institute of Technical Education (“ITE”) courses by an Approved Training Centre (“ATC”)⁶²; and

⁵⁹ 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.

⁶⁰ Refer to cases where employees of a business are seconded to work for a related entity. Once seconded, the staff costs are fully recharged to the related entity.

⁶¹ 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).

- c. On-the job training by a Certified On-the-Job Training Centre (“COJTC”)⁶².
- 3.2. From YA 2012, businesses may claim enhanced deduction on qualifying training expenditure incurred on training programmes that are not WDA-accredited or ITE-approved, subject to a cap of \$10,000⁶³ and the overall cap on qualifying training expenditure.
- 3.3. Qualifying training expenditure comprises the following:
- a. Salary and other remuneration of in-house trainers for the delivery of the training courses (i.e. based on hours spent delivering the courses), excluding directors’ fees;
 - b. Rental of external training premises;
 - c. Costs of meals and refreshments provided during the courses⁶⁴; and
 - d. Costs of training materials and stationery⁶⁴.
- 3.4. 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.
- 3.5. Expenditure that do not qualify for enhanced deduction includes:
- 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.

⁶² 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).

⁶³ The cap of \$10,000 on non-WDA-accredited and non-ITE-approved in-house programmes cannot be combined across YAs.

⁶⁴ Excessive claims on meals, refreshments, training materials and stationery will be disallowed.

4. Qualifying Training Expenditure: External Training

- 4.1. 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.
- 4.2. 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. Businesses must ensure that such fees are charged on an arm's-length basis for external training conducted by related persons.
- 4.3. 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 and, in the case of training provided to prescribed classes of individuals, training expenditure recovered from such individuals⁶⁵.

5. Option to Convert Qualifying Training Expenditure into Cash

- 5.1. The option to convert qualifying training expenditure into cash is subject to the overall cap of \$100,000 for each YA.

⁶⁵ In general, for an individual who incurs training expenditure as a result of the recovery of costs, a course fee relief may be claimed subject to the conditions under section 39(2)(k) of the ITA.

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 \$400,000 of qualifying design expenditure incurred on approved product and industrial design projects conducted primarily in Singapore during each basis period. Any expenditure in excess of \$400,000 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 from YA 2011 to YA 2018. 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 product⁶⁶;
 - 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 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;

⁶⁶ Certain design categories (e.g. architecture, landscape design, multimedia design, etc.) are not covered under PIC. Please refer to Dsg’s website for details.

- 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 provider⁶⁷.
- 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.

3. Option to Convert Qualifying Design Expenditure into Cash

- 3.1. The option to convert qualifying design expenditure into cash is subject to the overall cap of \$100,000 for each YA.

⁶⁷ Where more than 60% of such fees payable 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.

Annex G

Productivity and Innovation Credit Plus Scheme (“PIC+”)

1. Introduction

- 1.1. Under PIC+, qualifying SMEs that invest in excess of the combined expenditure caps of \$1.2 million per activity for YA 2013 to YA 2015 and for YA 2016 to YA 2018 can enjoy a 300% “enhanced deduction” on an additional \$200,000 of qualifying expenditure for each qualifying activity per YA. This means that the expenditure cap for qualifying SMEs will be increased from \$400,000 to \$600,000 per qualifying activity per YA.
- 1.2. The expenditure cap for PIC cash payout remains at \$100,000 of qualifying expenditure per YA under PIC+.
- 1.3. All other conditions governing PIC continue to apply.

2. Combined Expenditure Cap

- 2.1. The expenditure cap for each activity can be combined as follows:

YAs	Combined Expenditure Cap For Each Activity
YA 2013, YA 2014 and YA 2015	\$1,400,000 # [i.e. (\$400,000 x 2) + \$600,000]
YA 2016, YA 2017 and YA 2018	\$1,800,000 (i.e. \$600,000 x 3)

The higher combined expenditure cap of \$1.4 million is only applicable for YA 2015 as the additional expenditure cap of \$200,000 is not available for YA 2013 and YA 2014.

- 2.2. As with PIC, to enjoy the combined expenditure cap, a taxpayer must carry on a trade or business in the basis period for the relevant YAs. Otherwise, an annual or adjusted combined expenditure cap will be adopted. For example,
 - a. A qualifying SME which commenced business in 2013 (i.e. basis period relating to YA 2014) will enjoy combined expenditure cap of:
 - \$1,000,000 for YA 2014 to YA 2015 (\$400,000 for YA 2014 + \$600,000 for YA 2015); and
 - \$1,800,000 for YA 2016 to YA 2018.

- b. A qualifying SME that ceased business during the year 2016 (i.e. basis period relating to YA 2017) will enjoy combined expenditure cap of:
- \$1,400,000 for YA 2013 to YA 2015; and
 - \$1,200,000 for YA 2016 and YA 2017 (\$600,000 each for YA 2016 and YA 2017).

3. Qualifying Conditions

3.1. A business is a qualifying SME if it carries on a trade or business and meets the following conditions:

- If the business is not part of a group, it:
 - a. Derives not more than \$100 million in turnover in the basis period for the relevant YA⁶⁸; or
 - b. Employs not more than 200 employees as at the last day of that basis period;
- If the business is part of a group, the group:
 - a. Derives not more than \$100 million in turnover in the basis period for the relevant YA⁷¹; or
 - b. Employs not more than 200 employees as at the last day of that basis period.

Definition of Group

3.2. A group refers to a parent and its subsidiaries as determined in accordance with the Financial Reporting Standard (“FRS”) 110⁶⁹, 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.

3.3. 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 turnover and employment size will be applied at the group level.

⁶⁸ The basis period need not be a 12-month period.

⁶⁹ 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 Council under Part III of the Accounting Standards Act, as may be amended from time to time. For accounting periods before 1 Jan 2014, please refer to FRS 27.

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

Singapore branch

- 3.4. A head office together with all its branches forms a single legal entity. For a Singapore branch to qualify for PIC+, the combined turnover of the head office and all its branches must not exceed \$100 million in the basis period for the relevant YA, or the combined employment size must not exceed 200 employees as at the last day of the basis period. The criteria will be applied at the group level if the head office is part of a group.

Sole-proprietorship

- 3.5. Where the owner of the sole-proprietorship is an individual, the PIC+ eligibility criteria will be applied at the sole-proprietor level by aggregating all businesses carried on by the individual.

Partnership

- 3.6. In the case where the controlling partner of the partnership is an individual or there is no single controlling partner, the PIC+ eligibility criteria will be applied at the partnership level.
- 3.7. In the case where the controlling partner of the partnership is a company, the PIC+ eligibility criteria will be applied at the group level, i.e. all entities in the group are included.

4. Reference Point for Determining Eligibility

- 4.1. Businesses will self-assess their eligibility for PIC+. As the expenditure cap is combined for YA 2013 to YA 2015 and YA 2016 to YA 2018, the business will have to:
- Determine if it is a qualifying SME for YA 2015 to be eligible for PIC+ in YA 2015; and
 - Determine if it is a qualifying SME for YA 2016 to be eligible for PIC+ from YA 2016 onwards.
- 4.2. To provide certainty to businesses on their eligibility for PIC+ benefits at the point of making the investment, businesses are given the flexibility to choose the basis period used to determine whether they are qualifying SMEs in YA 2015 and 2016, as follows:

To be a qualifying SME in	A business can look at
YA 2015	Basis period for either YA 2014 or YA 2015
YA 2016	Basis period for either YA 2015 or YA 2016

- 4.3. A business that does not meet the PIC+ eligibility criteria for YA 2016 can still refer to the basis period for each subsequent YA (i.e. YA 2017 and YA 2018) to re-assess its eligibility. For avoidance of doubt, businesses that fail to meet the PIC+ eligibility criteria will still be able to claim PIC benefits under PIC.
- 4.4. For YA 2016 to YA 2018, once the business meets the criteria to be a qualifying SME in any of the YAs, it will be able to enjoy the benefits under PIC+ from that YA onwards. This is so even if it fails to meet the PIC+ eligibility criteria in the subsequent YAs.
- 4.5. For example, Company B is a qualifying SME in YA 2016, but does not meet the qualifying criteria in YA 2017 (i.e. its turnover exceeded \$100 million in the basis period relating to YA 2017, or its employments size has exceeded 200 employees as at the last day of the basis period relating to YA 2017). In this case, Company B can still continue to enjoy the benefits under PIC+ for YA 2017 and YA 2018.
- 4.6. The table below shows the expenditure caps that are available to businesses that meet the PIC+ eligibility criteria in different YAs:

First YA that Business meets PIC+ Eligibility Criteria	Annual Expenditure Cap ⁷⁰ per Qualifying Activity			Combined Expenditure Cap for each Qualifying Activity for YA 2016 to YA 2018
	YA 2016	YA 2017	YA 2018	
YA 2016	\$600,000	\$600,000	\$600,000	\$1,800,000
YA 2017	\$400,000	\$600,000	\$600,000	\$1,600,000
YA 2018	\$400,000	\$400,000	\$600,000	\$1,400,000

5. Option to Convert Qualifying Expenditure into Cash

- 5.1. Subject to the existing conditions of PIC cash payout, the additional qualifying expenditure under PIC+ can be converted into cash. For example, a company, being a qualifying SME, has already utilised its expenditure cap of \$1.2 million on employee training in YA 2013 and YA 2014. In YA 2015, the company incurred another \$200,000 on employee training. Under PIC+, the company can choose to:

⁷⁰ The expenditure cap is applied on the assumption that the business is carrying on a trade or business in the basis periods for all YAs.

- Claim an enhanced deduction on the entire amount of \$200,000; or
- Opt for cash payout on up to \$100,000 of the training expenses and claim an enhanced deduction on the balance.

5.2. The cash payout option may be exercised on a quarterly or combined quarterly basis. However, the business must be a qualifying SME at the point of election. Using the example in paragraph 5.1, assuming the company (whose financial year ends on 31 Dec) plans to opt for cash payout on the training expenses immediately after the end of its Jan to Mar 2014 financial quarter but it can only determine its eligibility for PIC+ at the end of the 2014 financial year⁷¹. In this regard, the company should exercise its cash payout option after the end of 2014, i.e. when it can be confirmed that the qualifying conditions for PIC+ have been met.

⁷¹ Assuming it does not meet the PIC+ eligibility criteria in YA 2014.

Annex H

Examples of Abusive PIC Arrangements

The following examples illustrate what are considered as abusive PIC arrangements and the corresponding amount of PIC benefits that will be disallowed by IRAS.

	Examples of PIC Arrangement	Reasons why the PIC arrangement is abusive	Amount of PIC benefits disallowed
1	<p>Company F signs up for a training package of \$5,000 with Vendor G for its employees on how to use certain cleaning products.</p> <p>As part of the training package, Company F is given redeemable credits of \$5,000 which can be used to redeem cleaning products sold by Vendor G.</p> <p>Upon completion of a 30-minute training session by its employees, Company F fully redeems \$5,000 worth of cleaning products from Vendor G. It also makes a claim for PIC cash payout on the purported training expenses of \$5,000. The amount of PIC cash payout claimed is \$3,000 (i.e. \$5,000 x 60%).</p>	<p>Company F would not have enjoyed PIC benefits if it had acquired the cleaning products from Vendor G directly as the cleaning products are non PIC-qualifying products.</p> <p>However, instead of an outright purchase, it enters into a contract for training with Vendor G so that it can:</p> <ul style="list-style-type: none"> (i) obtain the cleaning products; and (ii) claim PIC cash payout on the purported training expenses. <p>The arrangement is an abusive PIC arrangement as it makes use of artificial steps to obtain PIC benefits.</p>	<p>The full PIC cash payout of \$3,000 will be disallowed.</p>

	Examples of PIC Arrangement	Reasons why the PIC arrangement is abusive	Amount of PIC benefits disallowed
2	<p>Company H has a total staff strength of 5 employees. It enters into a transaction to purchase 20 sets of laptops for the employees' use in the office. Each set of laptop costs \$2,000.</p> <p>Five sets of the laptops are issued to the employees for use and the remaining 15 sets are kept unused in the storeroom.</p> <p>Company H claims PIC cash payout on the purchase of 20 sets of laptops. The amount of PIC cash payout claimed is \$24,000 (i.e. \$40,000 x 60%).</p> <p>Company H resells the 15 sets of laptops after the one-year ownership period.</p>	<p>Given that there are only five employees in the company, there is no bona fide commercial reason for Company H to buy so many sets of laptops. Furthermore, 15 sets of the laptops are kept unused and subsequently sold off after the minimum ownership period as required under the PIC cash payout option.</p> <p>The arrangement is an abusive PIC arrangement as Company H had purchased excessive laptops for no bona fide commercial reason, other than to obtain a higher PIC benefit.</p>	<p>The amount of PIC cash payout relating to the purchase of excessive laptops will be disallowed.</p> <p>Generally, the amount of PIC cash payout that will be disallowed is \$18,000 [(i.e. \$2,000 x 15) x 60%].</p> <p>However, if Company H is able to prove that there is genuine commercial reason to buy more than five sets of laptops (i.e. the actual number of excessive laptops purchased is less than 15 sets), IRAS will disallow a lower amount of PIC cash payout.</p>

	Examples of PIC Arrangement	Reasons why the PIC arrangement is abusive	Amount of PIC benefits disallowed
3	<p>Company J and Company K each owns a photocopier that is being used by their backroom office staff. The photocopiers have similar functionalities.</p> <p>In order to help each other obtain a PIC cash payout, the two companies agree to sell their photocopiers to each other at a price of \$12,000.</p> <p>Both Company J and Company K claim PIC cash payout on the cost paid for the photocopiers. The amount of PIC cash payout claimed by each company is \$7,200 (i.e. \$12,000 x 60%).</p>	<p>Before the transaction, Company J and Company K are already using the photocopiers in their business. The sale of photocopiers to each other does not improve their productivity as the photocopiers are of similar functionalities.</p> <p>The transaction is an abusive PIC arrangement as there is no bona fide commercial reason for Company J and Company K to enter into the transaction, other than to help each other obtain PIC benefits.</p>	<p>The full PIC cash payout of \$7,200 will be disallowed.</p>

	Examples of PIC Arrangement	Reasons why the PIC arrangement is abusive	Amount of PIC benefits disallowed
4	<p>Company M sends four of its employees for a 2-day training course on service excellence.</p> <p>The course fee for each course participant is \$1,500. Included in the price is the value of a watch that is given as a door gift to all participants. The retail price of the watch is \$300.</p> <p>In total, Company M incurs \$6,000 of training expenses.</p> <p>Company M claims PIC cash payout on the training expenses incurred. The amount of PIC cash payout claimed is \$3,600 (i.e. \$6,000 x 60%).</p>	<p>No PIC benefits can be claimed on the watch as it is not a PIC-qualifying product.</p> <p>To enable companies to be able to claim PIC benefits on the watch, the course provider had added the value of the watch to the course fee charged.</p> <p>This arrangement is an abusive PIC arrangement as the purpose for setting the price for the training course is to help the participants obtain a higher PIC benefit.</p>	<p>The amount of PIC cash payout relating to the value of the watches received by Company M's employees will be disallowed.</p> <p>Hence, the amount of PIC cash payout that will be disallowed is \$720 [(i.e. \$300 x 4) x 60%].</p>