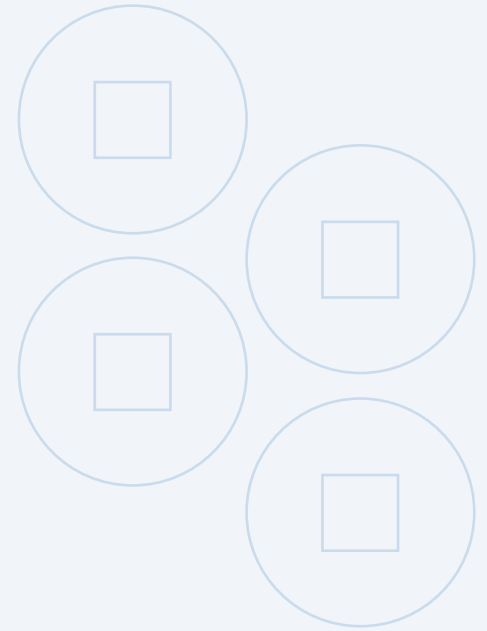


In this video, we will cover the following topics:



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1. Deductibility of Expenses
2. Pre-Commencement Expenses
3. Interest Expenses
4. Medical Expenses
5. Section 14N Expenses
6. Enterprise Innovation Scheme (EIS)





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Deductibility of Expenses

Deductions Against Income

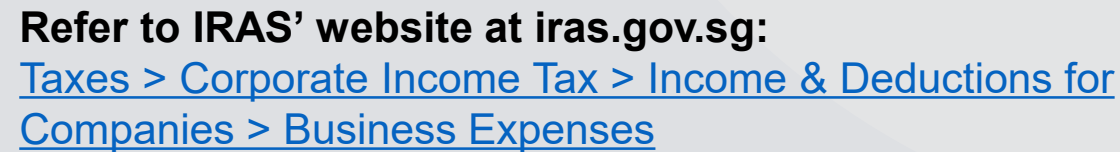
To qualify for tax deduction, **ALL** the conditions must be met:

- ✓ Expenses must be **wholly and exclusively incurred** in the production of income
- ✓ Expenses must be **revenue** in nature (e.g. normal day-to-day operating expenses)
- ✓ Expenses must be **incurred** (i.e. not contingent liability or estimated amount)
- ✓ Deduction **must not be prohibited under the Income Tax Act 1947** (e.g. private plated car expenses even if incurred for business purposes)

Non-deductible expenses include:

- Not incurred for business
- E.g. Directors' private expenses on entertainment or vacation

- E.g. Expenses incurred in acquiring capital assets or expenses to incorporate a company





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Deductibility of Expenses: Pre-Commencement Expenses

Expenses incurred before Commencement of Business (“Pre-Commencement Expenses”)

- Generally, pre-commencement expenses are not tax deductible as they are incurred prior to the production of income and generating revenue.
 - To assist businesses in enterprise development, a business* is deemed to have commenced business on the first day of the same financial year in which it earns its first dollar of business receipt (i.e. deemed date of commencement of business).
 - Revenue expenses incurred in the same financial year will be tax deductible.
 - Revenue expenses incurred 1 year before the deemed commencement date are also deductible.
- * Does not apply to Section 10D companies whose principal activity is that of carrying on a business of making investments (e.g. a business of letting immovable properties such as shopping malls or service apartments).



Refer to IRAS' website at [iras.gov.sg](https://www.iras.gov.sg):

[Taxes > Corporate Income Tax > Income & Deductions for Companies > Business Expenses > Tax Treatment of Business Expenses \(A – F\) > Expenses Incurred Before Commencement of Business](#)

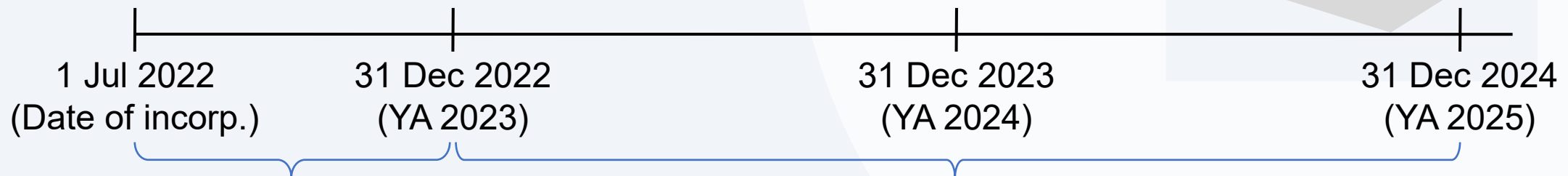
Watch our e-Learning video:
[Pre-Commencement Expenses](#)



Pre-Commencement Expenses

Example of company with financial year ending on 31 Dec:

Company earned its first dollar of business receipt on 1 Sep 2024.
Deemed date of commencement is 1 Jan 2024



Revenue expenses incurred from:

- **1 Jul 2022 to 31 Dec 2022 (YA 2023)** – **not** deductible

Revenue expenses incurred from:

- **1 Jan 2023 to 31 Dec 2023 (YA 2024)** – treated as incurred on 1 Jan 2024 and deductible in YA 2025, as expenses were incurred 1 year before the deemed date of commencement
- **1 Jan 2024 to 31 Dec 2024 (YA 2025)** – deductible as business is treated as having commenced on 1 Jan 2024



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Deductibility of Expenses: Interest Expenses

Overview of Interest Expense Deduction

- Interest expense is deductible if it is incurred on a loan to acquire income producing assets (e.g. loan is used to purchase trading stock, a manufacturer uses loan to purchase a factory to make goods for sale)
- If the company is unable to identify any specific purpose/ use for the loan, the part of interest relating to non-income producing assets is not tax deductible

Examples of non-deductible interest expenses to non-income producing assets such as:

- Vacant properties acquired for long-term investment
- Investments in shares/ securities which have not yielded dividends
- Interest free loan or amount owing by related companies or shareholders

Total Asset Method for Common Interest Expense

Total Asset Method (TAM)

- Common interest expense refers to interest expense other than those arising from loans taken to fund specific assets
- Use TAM as a proxy method to ascertain common interest attributable to non-income producing assets to be disallowed
- Common interest expense to be disallowed:

$$\frac{\text{Cost of non-income producing assets as at B/S date}^*}{\text{Cost of total assets}^{\wedge} \text{ as at B/S date}} \times \text{Common interest expense}$$

* B/S: Balance sheet as at the relevant financial year end

[^] Cost of total assets excludes cost of assets financed by specific interest bearing loans



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Deductibility of Expenses: Medical Expenses

Medical Expenses

Deduction is capped at:

- **1%** of total employee remuneration; **or**
- **2%** of total employee remuneration if the company meets any of these criteria:
 - Implemented and met qualifying conditions under Portable Medical Benefits Scheme (PMBS) or Transferable Medical Insurance Scheme (TMIS); or
 - Provided employees with inpatient medical insurance benefits in the form of portable medical shield plans



Refer to IRAS' website at [iras.gov.sg](https://www.iras.gov.sg):

[Taxes > Corporate Income Tax > Income & Deductions for Companies > Business Expenses > Tax Treatment of Businesses Expenses \(M – R\) > Medical Expenses](https://www.iras.gov.sg/CorporateIncomeTax/Income&DeductionsforCompanies/BusinessExpenses/TaxTreatmentofBusinessesExpenses(M-R)/MedicalExpenses)

Watch our e-Learning video:

[Tax Deductibility of Medical Expenses](https://www.iras.gov.sg/CorporateIncomeTax/Income&DeductionsforCompanies/BusinessExpenses/TaxTreatmentofBusinessesExpenses(M-R)/MedicalExpenses)



Medical Expenses

Total remuneration

- **Includes:**

- Employees' salaries, allowances & bonuses
- Directors' executive remuneration
- CPF contributions

- **Excludes:**

- Directors' fees
- Medical expenses
- Cash allowances in lieu of medical expenses benefits
- Benefits-in-kind (e.g. accommodation, home leave passage, employee stock options provided by the employer, actual income tax borne by the employer)
- Skills development levy (SDL)
- Foreign worker levy (FWL)
- Retrenchment payments made for the compensation of loss of employment



Medical Expenses - Example

Total employee remuneration	\$100,000
Medical expenses incurred	\$2,500

	If company did <u>not</u> implement portable medical benefits	If company implemented portable medical benefits
Medical expenses deduction cap	1% of total employee remuneration	2% of total employee remuneration
Amount of deductible medical expenses	$\$100,000 \times 1\% = \$1,000$	$\$100,000 \times 2\% = \$2,000$
Amount of non-deductible medical expenses/ to be added back	$\$1,500 (\$2,500 - \$1,000)$	$\$500 (\$2,500 - \$2,000)$

For more examples, refer to Example 2 of Medical Expenses on [IRAS' website](#).



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Deductibility of Expenses: Renovation or Refurbishment (R&R) Works (Section 14N Deduction)

Renovation or Refurbishment (R&R) Works (Section 14N Deduction)

Examples of qualifying expenditure (if they do not affect structure of the business premises):

- General electrical installation and lighting
- Kitchen and sanitary fittings
- Door and window
- Fixed partition
- Wall covering
- Flooring
- False ceiling and cornice



From YA 2025, companies can claim design and professional fees as R&R expenditure, **provided** these are not relating to structural works.

Renovation or Refurbishment (R&R) Works (Section 14N Deduction)

- **Excludes expenditure** relating to structural works made to business premises and any:
 - Antique
 - Any type of fine art
 - Any works carried out in relation to a place of residence provided or to be provided to the company's employees
- Any **unutilised amount** forms part of adjusted loss
 - Available for [carry forward](#) and [carry back](#) relief, subject to the shareholding test
 - Available for transfer under the [group relief system](#), subject to qualifying conditions



Refer to IRAS' website at [iras.gov.sg](https://www.iras.gov.sg):

[Taxes > Corporate Income Tax > Income & Deductions for Companies
> Business Expenses > Tax Treatment of Businesses Expenses \(M – R\)
> Renovation & Refurbishment Works Expenditure \(Section 14N\)](#)



Renovation or Refurbishment (R&R) Works (Section 14N Deduction)

- Subject to an **expenditure cap of \$300,000** for every relevant 3 consecutive YAs
- Tax deduction is granted evenly over 3 consecutive YAs or the option to claim in one YA
- Qualifying expenditure must **not** affect structure of the business premises
- R&R expenditure does not qualify for capital allowances as it is not incurred for the provision of “plant or machinery”



As announced in Budget 2024, to ease businesses' compliance burden and improve the relevance of the R&R deduction scheme :

- the relevant 3-year period that is used to determine the R&R expenditure cap **will be fixed**, with the first fixed 3-year period being from YA 2025 to YA 2027.
- companies have the option to claim a **1-year write off** for the R&R expenditure incurred during the basis period from YA 2025 onwards.

Examples on Renovation or Refurbishment (R&R) Works (Section 14N Deduction)

Example: A company incurred R&R expenses in financial year ended 2024 (YA 2025) of \$120,000. The company is expected to incur \$150,000 and \$90,000 of R&R expenses in financial year ended 2025 (YA 2026) and financial year ended 2026 (YA 2027) respectively.

The company would like to take advantage of the **accelerated claim over 1 year instead of 3 years**:

	YA 2025	YA 2026	YA 2027
Total qualifying R&R costs incurred	\$120,000	\$150,000	\$90,000
Qualifying R&R costs	\$120,000	\$150,000	\$30,000*
R&R claim	\$120,000	\$150,000	\$30,000

*Qualifying R&R expenditure for YA 2027 will be capped at \$30,000 (i.e. \$300,000 - \$120,000 - \$150,000).



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Tax Deductions/Allowances: Enterprise Innovation Scheme (EIS)

Tax Deductions/ Allowances: Enterprise Innovation Scheme (EIS)

- Businesses engaging in research and development (“R&D”), innovation and capability development activities may benefit from the enhanced/new tax deductions and/or allowances on qualifying expenditure incurred during the basis period for **YA 2024 to YA 2028**
- **The five qualifying activities covered under the EIS:**
 - (a) Qualifying R&D activities undertaken in Singapore;
 - (b) Registration of intellectual property (“IPs”);
 - (c) Acquisition and licensing of IP rights (“IPRs”);
 - (d) Training courses that are eligible for SkillsFuture Singapore (SSG) funding and aligned with the Skills Framework; and
 - (e) Innovation projects carried out with polytechnics, the Institute of Technical Education (“ITE”) or other qualified partners.

Tax Deductions/ Allowances: Enterprise Innovation Scheme (EIS)

- **Benefits from YA 2024 to YA 2028**
 - 400% tax deductions/allowances on up to \$400,000* qualifying expenditure per year
 - Option to convert up to \$100,000* of qualifying expenditure into cash payout at a rate of 20%; i.e. max \$20,000 in cash payout per YA.

** Innovation projects is capped at \$50,000 qualifying expenditure per year*



Refer to IRAS' website at [iras.gov.sg](https://www.iras.gov.sg):

[Quick Links > Schemes > Disbursement Schemes > Enterprise Innovation Scheme \(EIS\)](https://www.iras.gov.sg/QuickLinks/Schemes/DisbursementSchemes/EnterpriseInnovationScheme(EIS))



Tax Deductions/ Allowances: Enterprise Innovation Scheme (EIS)

Qualifying Conditions and Claiming Procedures

Enhanced Tax Deductions/ Allowances	EIS Cash Payout
- Carry on active business operations in Singapore; - Incurred qualifying expenditure during the basis period of the qualifying YA - The qualifying expenditure for the EIS benefits is the amount incurred less any grant/ subsidy received from the Government/ Statutory Board - Companies claiming enhanced tax deductions/ allowances have to make the claim by the filing due date (i.e. 30 November) in their Income Tax Returns: - Form C (Additional information – Part G, Box 23 - 29) - Form C-S (Part C – Box 41 – 47) - Form C-S (Lite)(Part C – Box 27 -33)	- Carry on active business operations in Singapore; - Incurred qualifying expenditure during the basis period of the qualifying YA; - The qualifying expenditure for the EIS benefits is the amount incurred less any grant/ subsidy received from the Government/ Statutory Board - Meet the <u>3 full-time local employee condition</u> *; - An eligible business which wishes to convert its qualifying expenditure into cash will be required to make the irrevocable election by submitting its application via the Apply for EIS Cash Payout digital service after it has filed its Income Tax Return and before the filing due date (i.e. 30 November).

* A business meets the 3 full-time local employee condition if it makes Central Provident Fund (CPF) contributions for at least 3 local employees for at least 6 months during the basis period of the qualifying YA.