PIC Cash Payout: Treatment for Straddled Items

A. <u>PIC IT and automation equipment constructed over 2 or more Years of Assessment (“YAs”)</u>

If you opt to convert the qualifying expenditure into a cash payout, the conversion must be done on a "**per equipment basis**" on the **full cost of the automation equipment**, provided that no claim for capital allowances had been made on the expenditure incurred in the prior YAs. Partial conversion is not allowed. In addition, from YA 2016 onwards, cash payout will only be granted if the equipment is used by your business at the point of electing for cash payout. All other conditions for the PIC cash payout claim will continue to apply.

The **expenditure cap** will be applied in the YA that the construction was fully completed. If the expenditure incurred is in excess of the conversion cap, the excess will be forfeited and not be available for capital allowance claims against the business income.

The PIC scheme will lapse after YA 2018. You can elect to claim for cash payout on the accumulated construction costs incurred up to YA 2018 only if the construction of the automated equipment is completed and the equipment is used by your business at the point of electing for cash payout.

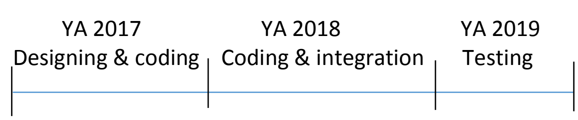
For development of software where different modules of the software can be separately completed in YA 2018 and can function on a standalone basis, you can elect to claim for cash payout on the development costs incurred for the completed modules. Cash payout will only be granted if the completed modules are used by your business at the point of electing for cash payout.

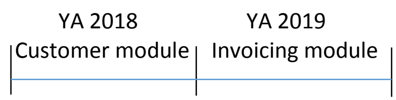
For construction of customised equipment or development of software/website where the equipment or software is only functional upon full completion, the cash payout option will only be granted if the construction/development is completed and in use by your business at the point of electing for cash payout. You can elect for cash payout for qualifying expenditures incurred up to YA 2018.

As for the remaining balance of the construction costs incurred after YA 2018, your business will be allowed 100% capital allowance on due claim. For the purpose for computing balancing allowance/ balancing charge upon disposal of the equipment, the sale proceeds, if any, will then be apportioned based on the aggregate of capital allowance available over the total qualifying expenditure for both cash payout and capital allowance.

Example on claiming PIC Cash Payout on PIC IT and automation equipment constructed over 2 or more YAs

Scenario	**Tax Treatment for Straddled Items**
Company (with a December year-end) constructed an automated equipment, Equipment C and the construction costs straddled from YAs 2016 to 2018 as follows: YA 2016 - $50,000 YA 2017 - $70,000 YA 2018 - $20,000	<u>Illustration: Cost incurred in Equipment C</u> YA 2016 Designing & coding | YA 2017 Coding & integration | YA 2018 Testing **Tax Treatment:** (i) The company will be allowed to opt for PIC cash payout on the total costs incurred on construction

Total $140,000 The construction was completed on 31 October 2017 (i.e. during the basis period for YA 2018). In addition, the company purchased an automation Equipment D of $50,000 on 30 August 2016 (i.e. during the basis period for YA 2017).	of automated equipment only when construction is completed **in YA 2018** provided the company has not made any capital allowance claim on the expenditure incurred in the prior YAs. (ii) The **expenditure cap** will be applied in the YA that the construction was fully completed, in this case, the basis period for the company for YA 2018 is 1 January 2017 to 31 December 2017. The total costs of $140,000 ($50,000 + $70,000 + $20,000) will be converted to cash in YA 2018 subject to the expenditure cap of $100,000 in YA 2018. The excess of $40,000 will be forfeited. The PIC cash payout is $40,000 (40%* x $100,000). (iii) For purposes of applying the 3-local employee condition, the relevant quarter / combined quarter(s) will be that in YA 2018. (iv) The cost incurred on Equipment D of $50,000 is available for conversion in YA 2017. The PIC cash payout for YA 2017 is $20,000 (40%* x $50,000). (v) For purposes of computing expenditure cap available for enhanced allowance for YA 2016 to YA 2018 (combined cap of $1.2m), the amount to be included will be $50,000 for Equipment D (YA 2017) and $140,000 for Equipment C (YA 2018). In other words, the expenditure cap for YA 2016 to 2018 that is available for enhanced allowance will be $1.01m ($1.2m - $50,000 - $140,000). * The PIC cash payout rate has been reduced from 60% to 40% for qualifying expenditure incurred on or after 1 August 2016.
Company (with a December year-end) constructed an automated equipment, Equipment E and the construction costs straddled from YAs 2017 to 2019 as follows: YA 2017 - $30,000 YA 2018 - $60,000 YA 2019 - $20,000 Total $110,000 The construction was completed on 30 September 2018 (i.e. during the basis period for YA 2019).	<u>Illustration: Cost incurred in Equipment E</u>  **Tax Treatment:** (i) The company will be allowed to opt for PIC cash payout on the accumulated costs incurred up to YA 2018 if it is able to show that <u>construction is completed and equipment is in use</u> at the point of electing for cash payout. This is provided that the

	company has not made any capital allowance claim on the expenditure incurred in the prior YAs. (ii) The accumulated costs of \$90,000 (\$30,000 + \$60,000) up to YA 2018 will be converted to cash in YA 2018. The remaining \$20,000 incurred in YA 2019 will be 100% capital allowance on due claim. (iii) For purposes of applying the 3-local employee condition, the relevant quarter / combined quarter(s) will be that in YA 2018. * The PIC cash payout rate has been reduced from 60% to 40% for qualifying expenditure incurred on or after 1 August 2016.
Company (with a December year-end) constructed an integrated software, Equipment F and the construction costs straddled from YAs 2018 to 2019 as follows: YA 2018 - \$30,000 YA 2019 - \$5,000 Total \$35,000 The construction was scheduled as follows: (1) Jan to Oct 2017 – completion of customer relationship management module (i.e. during the basis period for YA 2018) and it was used at end of Oct 2017. (2) Nov 2017 to Jan 2018 – completion of invoicing module (i.e. during the basis period for YA 2019)	Illustration: Cost incurred in Equipment F  Tax Treatment: (i) The company will be allowed to opt for PIC cash payout on the cost incurred to construct the customer relationship management module if it is able to show that construction is completed and module is in use at the point of electing for cash payout. This is provided that the company has not made any capital allowance claim on the expenditure incurred in the prior YAs. (ii) The construction cost of \$30,000 will be converted to cash in YA 2018. The PIC cash payout is \$12,000 (40%* x \$30,000). (iii) For purposes of applying the 3-local employee condition, the relevant quarter will be the last quarter in YA 2018 as the construction is only completed in Oct 2017. (iv) The company will be allowed 100% capital allowance on due claim on the cost incurred to construct the invoicing module as construction is only completed **in YA 2019.** * The PIC cash payout rate has been reduced from 60% to 40% for qualifying expenditure incurred on or after 1 August 2016.

B. <u>Intellectual property registered over 2 or more YAs</u>

If you opt to convert the qualifying expenditure into a cash payout, the conversion must be done on a "**per IPR registration basis**" on the **full cost of the IPR registration**, provided that no claim for deduction had been made on the expenditure incurred in the prior YAs. Partial conversion is not allowed. All other conditions for the PIC cash payout claim will continue to apply.

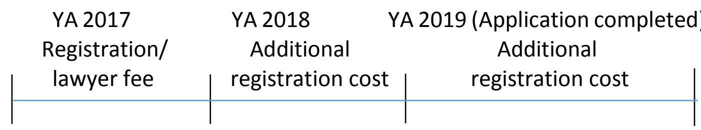
The **expenditure cap** will be applied in the YA that the registration was fully completed. If the expenditure incurred is in excess of the conversion cap, the excess will be forfeited and not be available for deduction against the business income.

The PIC scheme will lapse after YA 2018. For IPR registration with progressive payment straddling multiple YAs, businesses may elect for YA 2018 cash payout on accumulated costs incurred up to YA 2018.

For the remaining balance of costs incurred after YA 2018, your business will be allowed 100% deduction. For the purpose for computing taxable income upon disposal of the IPR, the sale proceeds, if any, will then be apportioned based on the deduction available over the total qualifying expenditure for both cash payout and deduction.

Example on claiming PIC Cash Payout on intellectual property registered over 2 or more YAs

Scenario	**Tax Treatment for Straddled Items**
Company (with a December year-end) incurred patenting costs straddling from YAs 2016 to 2018 as follows: YA 2016 - $40,000 YA 2017 - $50,000 YA 2018 - $60,000 Total $150,000	<u>Illustration: Patenting cost incurred on the filing of a patent</u> YA 2016 Registration/ lawyer fee | YA 2017 Additional registration cost | YA 2018 (Application completed) Additional registration cost **Tax Treatment:** (i) The company will be allowed to opt for PIC cash payout on the full costs only when the patent registration has been completed provided the company has not made any deduction claim on the expenditure incurred in the prior YAs. (ii) The **expenditure cap** will be applied in the YA that the patent registration is completed, in this case, the basis period for the company for YA 2018 is 1 January 2017 to 31 December 2017. The total costs of $150,000 ($40,000 + $50,000 + $60,000) will be converted to cash in YA 2018 subject to the expenditure cap of $100,000 in YA 2018. The excess of $50,000 will be forfeited. The PIC cash payout for YA 2018 is $40,000 (40%* x $100,000).

	(iii) For purposes of applying the 3-local employee condition, the relevant quarter/ combined quarter(s) will be that in YA 2018. (iv) For purposes of computing expenditure cap available for enhanced deduction for YA 2016 to YA 2018 (combined cap of $1.2m), the amount to be included will be $150,000. In other words, the expenditure cap for YA 2016 to 2018 that is available for enhanced allowance will be $1.05m ($1.2m - $150,000). * The PIC cash payout rate has been reduced from 60% to 40% for qualifying expenditure incurred on or after 1 August 2016.
Company (with a December year-end) incurred patenting costs straddling from YAs 2017 to 2019 as follows: YA 2017 - $80,000 YA 2018 - $30,000 YA 2019 - $40,000 Total $150,000	<u>Illustration: Patenting cost incurred on the filing of a single patent</u>  **Tax Treatment:** (i) The company will be allowed to opt for PIC cash payout on the accumulated costs incurred up to YA 2018 provided the company has not made any deduction claim on the expenditure incurred in YA 2017. (ii) If the company elects for PIC cash payout on the accumulated costs incurred up to YA 2018, the accumulated costs incurred of $110,000 ($80,000 + $30,000) will be converted to cash in YA 2018 subject to the expenditure cap of $100,000 in YA 2018. The excess of $10,000 will be forfeited. The PIC cash payout for YA 2018 is $40,000 (40% x $100,000). (iii) For purposes of applying the 3-local employee condition, the relevant quarter / combined quarter(s) will be that in YA 2018. (iv) The remaining $40,000 incurred will be allowed 100% deduction in YA 2019. (v) For purposes of computing expenditure cap available for enhanced deduction for YA 2016 to YA 2018 (combined cap of $1.2m), the amount to be included will be $110,000. In other words, the expenditure cap for YA 2016 to 2018 that is available for enhanced allowance will be $1.09m ($1.2m - $110,000).

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.

This information is correct as at 07 07 2017. 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.