Deloitte.

Tax

Singapore corporate tax alert

3 April 2014

Contacts

Lee Tiong Heng
thlee@deloitte.com

Mael Garnier
magarnier@deloitte.com

Research & Development (R&D) Tax Incentives

R&D tax benefits have been under the spotlight as R&D is one of the 6 activities under the Productivity & Innovation Credit (PIC) scheme which has been extended for another 3 years to Year of Assessment ("YA") 2018. In addition, the 50% additional tax deduction for R&D activities conducted in Singapore has also been extended for another 10 years, while the further tax deduction for R&D projects approved by the EDB has been extended for another 5 years to 31 March 2020. These are the few measures relating to R&D announced by DPM Tharman in Budget 2014.

The PIC scheme provides for 400% tax deductions on up to $400,000 of qualifying R&D expenditure per YA. For Year of Assessment 2013 to 2015, the expenditure cap can be combined to make a total of $1.2m. For Year of Assessment 2016 to 2018, the total expenditure cap is $1.2m. Beyond the PIC cap, the R&D tax regime provides for 150% deduction on qualifying R&D expenditure for R&D activities conducted in Singapore. If your company meets the definition of SME, under the new PIC+ scheme, the R&D expenditure cap will be increased from $400,000 to $600,000 per YA for qualifying SMEs[1] with effect from YA 2015 (this means a combined cap of $1.4m for YA 2013 to 2015 and a combined cap of $1.8m for YA 2016 to 2018).

[1]An entity is a qualifying SME if (a) its annual turnover is not more than S$100 million or (b) its employment size is not more than 200 workers. This criterion will be applied at the group level if the entity is part of a group.

The IRAS has a specific evaluation process to review and approve R&D claims. Tax deductions on qualifying R&D expenditure must be claimed using the IRAS' prescribed R&D claim form and lodged along with the company's Form C in each YA. For the purpose of claiming the R&D tax benefits, taxpayers are required to maintain detailed project descriptions and must maintain records of their R&D projects in the likely event that the IRAS calls for supporting documents.

In order to streamline the assessment of the R&D tax incentives, the IRAS is introducing in 2014 three initiatives described below which are aimed at improving the administration of R&D claims:

- **Simplifying filing requirements**
  For this purpose, a new version of the R&D claim form has been published by the IRAS and should be used from YA 2014 onwards;

- **Expediting issue resolution**
  By conducting field visits at taxpayers' R&D facilities, engaging with taxpayers' R&D experts and tax advisors, and seeking advice from a panel of experts to assess if the project meets the R&D qualifying criteria;

- **Providing upfront certainty**
  By putting in place a structured process for submission of R&D projects to the IRAS before the commencement or during the conduct of the projects. A pilot scheme for large and complex projects is starting in 2014.

In addition, an updated e-Tax Guide on R&D Tax Measures is expected to be published by IRAS by June 2014.

Deloitte Singapore's R&D and Government Incentives team is actively engaged with IRAS with a view to provide industry feedback on possible improvements to the R&D regime.

Please feel free to approach us if you require advice or assistance on the application of your R&D claims or defending your R&D claims lodged with the IRAS.

Deloitte & Touche LLP
6 Shenton Way, OUE Downtown 2
#32-00
Singapore 068809