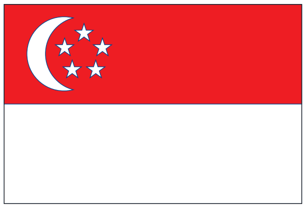
Singapore



Singapore offers super deductions under a complex multi-tiered system for R&D carried out both in Singapore and outside Singapore.

Background

The general corporate tax rate is 17% with partial tax exemption granted for the first SGD 300K of otherwise taxable income.

Nature of incentives

Section 14D—100% base deduction: Section 14D provides an exception to the general rule that new product and process development costs are capital in nature and hence not tax deductible by allowing current deductions for R&D expenditure incurred by a taxpayer in the conduct of its trade or business (including payments made to R&D organizations).

Eligible expenses include: wages and salaries, materials, and utilities incurred directly for R&D activity. Capital expenditure on plant, machinery, land, or buildings, or on alterations, additions, or extensions to buildings, or in the acquisition of rights arising in or arising out of R&D are specifically excluded. For the tax years from 2009 to 2025, the R&D expenditure need not be related to the entity's existing trade or business to qualify for the tax deduction, unless the R&D is performed outside Singapore.

Section 14DA(1)—50% additional deduction: Qualifying expenditure incurred with respect to R&D conducted in Singapore during tax years from 2009 to 2025 may, in addition to qualifying for the Section 14D base deduction, qualify for an additional deduction of 50% of qualifying expenditure.

Qualifying expenditure have been defined to include only staff costs, consumables, and any other expense prescribed by the Minister. This is a narrower definition of qualifying expenses than under Section 14D. Expenditure incurred on R&D performed outside of Singapore do not qualify for the additional deduction of 50%.

Section 14DA(2)—250%/300% enhanced deduction under the Productivity and Innovation Credit scheme (PIC): The enhanced deduction under the PIC scheme is granted for tax years 2011 to 2018. Under this scheme, the tax deduction of qualifying R&D expenditure on R&D carried out inside or outside of Singapore is enhanced as follows:

- A 250% (for Singapore-based R&D) or 300% (for non-Singapore-based R&D) enhanced deduction is granted on the first SGD 400K of qualifying R&D expenditure incurred per year or SGD 600K for qualifying SMEs (effective from tax year 2015). This is in addition to the 100% base deduction under Section 14D and 50% additional deduction under Section 14DA(1) (for Singapore R&D only). With this enhancement, there will be 400% tax deduction available on the first SGD 400K of such expenditure incurred or SGD 600K for qualifying SMEs.
- The base deduction and additional 50% deduction, under Sections 14D and 14DA(1), respectively, remain applicable to qualifying R&D expenditure exceeding the SGD 400K or SGD 600K (for qualifying SMEs) expenditure caps per year.
- For the tax years 2013 to 2015, the PIC enhanced deduction is granted under a combined expenditure cap of SGD 1.2M or SGD 1.4M (for qualifying SMEs) over the three-year period. For the tax years 2016 to 2018, the combined cap is SGD 1.2M or SGD 1.8M (for qualifying SMEs) over the three-year period.

In addition, there is the option (in lieu of the tax deduction) to convert up to SGD 100K of qualifying expenditure into a non-taxable cash grant at the conversion rate of 60% (i.e., SGD 60K) for each tax year 2013 to 2018. There is also a dollar-for-dollar matching cash bonus (PIC bonus) for tax years 2013 to 2015, subject to an overall cap of SGD 15K for all three years combined and a minimum spending requirement of SGD 5K for each tax year.

Section 14E additional deduction: This provision allows an additional super deduction for R&D projects carried out in Singapore and approved by the Singapore Economic Development Board (EDB) before 31 March 2020.

The combined total claims under Sections 14D, 14DA and 14E, with respect to the approved project, are capped at 200% of the taxpayer's actual R&D expenditure.

The Section 14E further deduction does not apply to expenditure for which the enhanced deduction under the PIC has been allowed.

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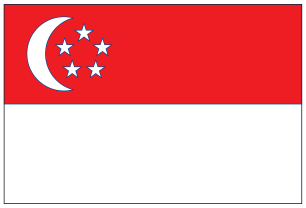

Eligible industries and qualifying costs

R&D means "any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, or processes" but does not include:

- Quality control or routine testing of materials, devices or products;
- Research in the social sciences or the humanities;
- Routine data collection;
- Efficiency surveys or management studies;
- Market research or sales promotion;
- Routine modifications or changes to materials, devices, products, processes or production methods; or
- Cosmetic modifications or stylist changes to materials, devices, products, processes or production methods.

IP and jurisdictional restrictions

The R&D expenditure need not be related to the entity's existing trade or business as long as the R&D is performed in Singapore.

If the R&D payments are made by an entity to a R&D organization for R&D performed outside Singapore, a claim for deduction will be allowed to such entity, provided the R&D expenditure is related to the entity's existing trade or business and that any benefit that arises from the R&D accrues to the entity itself. Moreover, qualifying R&D expenditure also includes payments made under any cost-sharing agreement.

With respect to the Section 14D base and Section 14DA(2) PIC enhanced deductions, R&D may take place outside of Singapore but must relate to taxpayer's existing trade or business. The taxpayer must bear the financial risk of carrying out the R&D activities and effectively own and be able to commercially exploit the know-how, IP or other results of the R&D activities. No prior approval is required to claim these deductions.

Only R&D activities undertaken in Singapore qualify for the section 14DA(1) additional 50% deduction. The taxpayer must bear the financial risk of carrying out the R&D activities and effectively own and be able to commercially exploit the know-how, IP or other results of the R&D activities. No prior approval is required to claim the deduction.

For the Section 14E further deduction, the R&D project must be carried out in Singapore and must receive special approval from the Minister (advance application with the Singapore Economic Development Board is required).

Other concerns

When R&D expenses exceed taxable income, the excess may be carried forward and set off against future taxable profits, provided the shareholders of the company are substantially (50% or more) the same on the last day (i.e., 31 December) of the year of loss and on the first day (i.e., 1 January) of the year of assessment in which the loss is to be set off. A loss carry back for one year is allowed, but is restricted to a cap of SGD 100K.

Singapore

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions	1. Base deduction for qualifying R&D expenses incurred. 2. Additional 50% deduction for certain R&D expenses incurred in Singapore. 3. Additional 250% or 300% enhanced deduction on the first SGD 400K of qualifying R&D expenditure incurred per year or SGD 600K for qualifying SMEs.	Government approval needed for 200% super deduction.	Unutilized R&D expenditure may be carried forward indefinitely, subject to substantial shareholders' test. They also may be carried back subject to certain restrictions. In lieu of tax deduction, there's an option to convert up to SGD 100K to cash grant at 60% for 2013-2018.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes—for 200% super and 14DA additional deductions. No—14D base and PIC enhanced deductions.	The combined total claims under Section 14E and Sections 14, 14D, 14DA and 14DF, with respect to the approved project, are capped at 200% of the taxpayer's actual expenditure. The 200% restriction does not apply to R&D expenditure that qualifies for the PIC enhanced deduction.	No	No