

Frequently Asked Questions

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A. Overview

1. What is the Productivity and Innovation Credit?

It was announced in Budget 2010 that a Productivity and Innovation Credit (thereafter referred to as "The Credit") will be available for five Years of Assessment (YA), i.e. from YA 2011 to YA 2015. The Credit will provide significant tax deductions for investments in a broad range of activities along the innovation value chain.

2. Who is eligible for the Credit?

All businesses will be eligible for the Credit, based on the investment expenditure in any of the activities covered by the Credit.

3. Does the Credit apply to branches?

Yes, if the branch has incurred qualifying expenditure during the basis periods for YA 2011 to YA 2015.

4. Does the Credit apply to subsidiaries with the parent or holding company being a foreign incorporated company?

Yes, if the subsidiary has incurred qualifying expenditure during the basis periods for YA 2011 to YA 2015.

5. Does the Credit apply to each company under the same Group?

Yes, each company is entitled to the Credit if it has incurred qualifying expenditure during the basis periods for YA 2011 to YA 2015.

6. If I am a newly set up company, can I enjoy both the credit and the full tax exemption?

Yes, if your company meets the conditions under the Credit and [Tax exemption scheme for new start-up companies](#) respectively.

7. What is the qualifying period for the Credit?

The Productivity & Innovation Credit will be available for five years from YA 2011 to YA 2015. To illustrate, if you incur a qualifying expenditure in May 2010 and your accounting year ends on 30 June 2010, you are eligible to claim the Credit in your tax return for YA 2011.

B. Activities covered under the Credit

8. What are the activities covered under the Credit?

The six activities covered under the Credit are:

- a. Research & Development (R&D) done in Singapore;
- b. Registration of Intellectual Property (IP) Rights;
- c. Acquisition of IP Rights;
- d. Investments in Automation;
- e. Training of Employees; and
- f. Investments in Design done in Singapore.

9. What are the tax deductions available under the Credit?

The tax deductions will be 250% of the eligible expenditures incurred on each of the activities, subject to:

- a) For YA 2011 and YA 2012 – a combined cap of \$ 600,000 of expenditures for each activity; and
- b) For YA 2013 to YA 2015 – a cap of \$300,000 of expenditures for each activity for each Year of Assessment.

A combined cap of \$600,000 is set for the first 2 Years of Assessment so as to help small and medium enterprises benefit from the Credit scheme without rushing the implementation of their investments.

10. If my qualifying costs were incurred before the commencement of my business, can I claim the Credit?

Pre-commencement expenses are generally not deductible. These expenses incurred prior to the date a business commences operation are not wholly and exclusively incurred in the production of income and are not allowable for income tax purposes.

However, a tax concession has been given to treat a business as having commenced operation on the first day of the accounting year in which it earns its first dollar of business receipt. Hence all expenses that are not capital in nature or are not prohibited under section 15 of the Income Tax Act, incurred in that accounting year, including those incurred prior to the date the business earns its first dollar of business receipt, will be deductible for income tax purposes. For more details of this concession, please refer to IRAS Circular "[Concession for Enterprise Development - Tax Deduction Allowable for Certain Expenses Incurred Prior to Commencement of Business](#)". Accordingly, qualifying expenditure incurred on training of employees and design costs incurred during the basis period in which business commences may qualify for the Credit.

For capital expenditure incurred on patenting, research and development, prescribed automation equipment and acquisition of intellectual property rights, Sections 14A(3), 14D(2), 19(1B) and 19B(3) respectively deem the relevant capital expenditure incurred prior to the commencement of the trade to be incurred on the first day on which the trade commences.

11. My business is currently handling a few projects. Is the cap amount imposed for each activity based on:

- 1. the total amount incurred by the business; or**
- 2. the amount incurred for each project handled by the business**

For YA 2011 and YA 2012, a combined cap of \$600,000 of expenditures is applied on each of the six activities for the combined period of YA 2011 and YA 2012. For YA 2013 to YA 2015, the cap is \$300,000 of expenditures on each of the six activities for each YA. The cap is on the total amount incurred by the business on each qualifying activity and is regardless of the number of projects handled by the business.

12. How are the tax deductions and allowances under the Credit computed?

Qualifying Activities	Total tax deductions or allowances under the Credit	Remarks
a) R&D done in Singapore	250% tax deduction on the first \$300,000* of qualifying expenditure; and 150% tax deduction on the balance expenditure.	See Questions 13 and 14 below.
b) Registration of IP Rights	250% tax deduction on the first \$300,000* of qualifying expenditure; and 100% tax deduction on the balance expenditure.	See Question 15 below.
c) Acquisition of Intellectual Property (IP) Rights	250% tax allowance on the first \$300,000* of qualifying expenditure; and 100% tax deduction on the balance expenditure.	See Questions 16 to 19 below.
d) Investments in Automation	250% tax allowance on the first \$300,000* of qualifying expenditure; and 100% tax allowance on the balance expenditure.	See Question 20 to 22 below.
e) Training of Employees	250% tax deduction on the first \$300,000* of qualifying expenditure; and 100% tax deduction on the balance expenditure.	See Questions 23 to 26 below.

f) Investments in Design done in Singapore	250% tax deduction on the first \$300,000* of qualifying expenditure; and 100% tax deduction on the balance expenditure.	See Question 27 below.
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* For YA 2011 and YA 2012 – a combined cap of \$ 600,000 of expenditures for each activity

Enhanced tax deduction for R&D done in Singapore

13. What is the definition of R&D?

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

- a. quality control or routine testing of materials, devices or products;
- b. research in the social sciences or the humanities;
- c. routine data collection;
- d. efficiency surveys or management studies;
- e. market research or sales promotion;
- f. routine modifications or changes to materials, devices, products,
- g. processes or production methods;
- h. cosmetic modifications or stylistic changes to materials, devices,
- i. products, processes or production methods; or
- j. development of a computer software that is not intended to be sold, rented, leased, licensed or hired to 2 or more persons who are not related parties to each other and to the person who develops the software or on whose behalf the development of the software is undertaken

14. What are the qualifying R&D expenditures for the purpose of claiming enhanced tax deduction under the Credit?

The qualifying R&D expenditures for the purpose of claiming enhanced tax deduction under the Credit are R&D expenditures which qualify for Section 14DA deduction.

You can find the definition of R&D expenditures qualifying for Section 14D / 14DA tax deduction in the e-Tax Guide "[Research And Development Tax Measures](#)".

Enhanced tax deduction for IP Rights Registration

15. What are the qualifying costs of IP rights registration for the purpose of claiming enhanced tax deduction under the Credit?

The qualifying costs of IP Rights Registration for the purpose of claiming enhanced tax deduction under the Credit are the patenting costs which qualify for Section 14A deduction in respect of registering patents. The scope of Section 14A will be expanded to include trademarks, designs and plant variety.

Enhanced tax allowance for IP Rights Acquisition

16. What is the scope of IP rights for the purpose of claiming enhanced tax allowance under the Credit?

The scope of IP Rights for the purpose of claiming enhanced tax allowance under the Credit is the scope of IP rights under Section 19B (patent, copyright, trademark, registered design, geographical indication, lay-out design of integrated circuits, trade secret or information that has commercial value) which will be expanded to include plant variety.

As taxpayer must acquire legal and economic ownership of the IP rights, EDB approved IP rights and IP rights relating to media and digital entertainment contents are excluded.

17. Does expenditure incurred on EDB approved IPRs and IPRs relating to media and digital entertainment contents qualify for the Credit?

Expenditure incurred on EDB approved IPRs and IPRs relating to media and digital entertainment contents do not qualify for the Credit.

18. Do patents applications made out of Singapore qualify for the Credit?

Currently, costs of registering patents incurred by any person carrying on a trade or business are deductible under Section 14A of the Income Tax Act. The deduction is allowed on condition that the legal and economic ownership of the patent must belong to the business entity in Singapore. The patenting registration refers to fees paid to Registry of Patents in Singapore or elsewhere for the grant of patent. Hence whether the patent applications are made in or out of Singapore are irrelevant as long as the expense meets the condition that the legal and economic ownership of the patent belong to a business in Singapore.

19. Do renewal costs for trademarks qualify for enhanced deduction under the Credit?

No. Only the cost of registration allowable under Section 14A qualifies for enhanced deductions. Renewal cost for trademarks is an allowable deduction under Section 14(1) if it is wholly and exclusively incurred in the production of the income.

Enhanced allowance for Investment in Automation

20. What are the eligible investments in automation?

The eligible investments in automation are spending on Prescribed Automation Equipment based on the current list of automation equipment in the "[Income Tax \(Automation Equipment\) Rules 2004](#)". The list will be updated and expanded to include a wider range of equipment and software for automating processes.

21. When would the expanded automation equipment list be released?

Details on the expanded list of prescribed automation equipment will be released in June 2010. Pending the enactment of a revised list of prescribed automation equipment, the enhanced allowance will be granted to automation equipment prescribed in the Income Tax (Automation Equipment) Rules 2004.

22. How do I compute balancing adjustment if I dispose my prescribed automation equipment within 1 year?

If the business had opted for cash grant conversion and disposed the equipment within 1 year, the cash payout will be fully recovered. No balancing adjustment needs to be computed.

If the business had not opted for cash grant conversion and disposed the equipment within 1 year, balancing adjustments will be computed as per current tax rules on the base allowance of 100%, and the additional enhanced allowance of 150% granted will be deemed as income chargeable to tax in the year of disposal.

Enhanced tax deduction for Training of Employees

23. What is the scope of qualifying training expenditure for the purpose of claiming enhanced tax deduction under the Credit?

For the purpose of claiming enhanced tax deduction under the Credit, the scope of qualifying training expenditure will cover:

- a. For in-house training – qualifying costs incurred in providing accredited Workforce Skills Qualification (WSQ) training courses by a WSQ In-house Training Provider; and
- b. For outsourced training – course fees paid to the external training service provider.

The qualifying training costs are computed net of any Government grant or subsidy.

24. For outsourced training, must the external trainer be a certified trainer?

For the purpose of claiming the Credit, there is no specific requirement for the external trainer to be a certified trainer.

25. Do training costs pertain only to local employees or all employees?

For the purpose of claiming the Credit, qualifying training costs include training cost incurred for training of all employees i.e. both local and foreign employees.

26. Does training costs incurred in overseas training or seminars qualify for the Credit?

Yes, there is no restriction on the location in which the training is conducted.

Enhanced tax deduction for Design done in Singapore

27. What are the qualifying design costs for the purpose of claiming enhanced tax deduction under the Credit?

Details will be released by DesignSingapore Council by May 2010.

C. Overview of the Cash Grant

28. What is the cash grant?

To support small but growing businesses which are cash-constrained, businesses will have the option to convert up to \$300,000 (but not less than \$1,500) of their Productivity and Innovation Credit at a rate of 7% into a cash grant of up to **\$21,000** each year. For the Years of Assessment 2011 and 2012, businesses can convert up to a combined total of \$600,000 at a rate of 7% for the two Years of Assessment. This means businesses can opt for a total cash grant of up to \$42,000 (\$600,000 x 7%) for YA 2011 and YA2012. This will help businesses that are starting off with low taxable income, but want to grow by investing in technology or upgrading their operations.

29. What is the qualifying period for the cash grant?

The cash grant is available for three years from YA 2011 to YA 2013.

30. Who is eligible to apply for the cash grant?

Sole-proprietorships, partnerships, companies and registered business trusts that have:

- i. incurred the qualifying expenditures during the accounting period; and
- ii. employed at least 3 local employees (Singapore Citizens or Permanent Residents with CPF contributions)

are eligible to claim the cash grant after the end of the accounting period.

31. How is the cap of \$300,000* on the amount of tax deductions and allowances available under the Credit that can be converted into a cash grant applied?

For sole-proprietorships, companies and registered business trusts, the cap is applied at the individual / company / trust level; for partnerships, the cap is applied at the partnership level.

* For YA 2011 and YA 2012 – a combined cap of \$ 600,000 of total tax deductions and allowances is available under the Credit

32. What is the maximum amount of cash grant that a taxpayer can receive?

The maximum amount of cash grant a taxpayer can receive is \$21,000 for each YA. This is 7% of the \$300,000 tax deductions and allowances under the Credit that a taxpayer can convert to a cash grant.

For the Years of Assessment 2011 and 2012, businesses can convert up to a combined total of \$600,000 at a rate of 7% for the 2 Years of Assessment. This would mean that businesses can opt for a total cash grant of up to \$42,000 for YA 2011 and YA 2012.

33. Is the cash grant taxable?

The cash grant is not taxable.

34. How is the cash grant computed, say on the purchase of the prescribed automation equipment?

Taxpayer has to decide whether to claim the enhanced capital allowance under the Credit or convert such capital allowance into a cash grant on a per equipment basis subject to the overall cap of \$300,000* for each YA.

Example:

Equipment A costs \$100,000

Capital Allowance under the Credit = 250% x \$100,000 = \$250,000

Taxpayer can either claim \$250,000 as capital allowance in its tax return or opt to convert such capital allowances in respect of Equipment A into a cash grant. The cash grant is computed at 7% of the capital allowance under the Credit.

Taxpayer is not allowed to make a partial conversion – it cannot apply for a cash grant based on say, \$50,000 and claim the remaining \$200,000 as capital allowance.

* For YA 2011 and YA 2012 – a combined cap of \$ 600,000 of total tax deductions and allowances is available under the Credit

35. Is there a minimum holding period for the automation equipment on which I have claimed the cash grant?

There is a minimum holding period of 1 year from date of acquisition of the automation equipment. If the automation equipment is disposed within the minimum 1 year holding period, claw-back provisions will set in. Details on the claw-back provisions will be made available on the IRAS website in June 2010.

36. Can I claim tax deduction or allowance in my income tax return after converting it to cash grant? / Can I change my mind to claim tax deductions or allowances after claiming the cash grant or vice versa?

No. Once you have elected to convert the tax deductions and allowances available under the Credit to a cash grant, you cannot claim tax deduction or allowance which you have elected for conversion, and vice versa. Thus you are advised to evaluate carefully before making the election to claim the cash grant.

D. Applying for the Cash Grant

37. How do I apply for the cash grant?

You can make a one-time submission of the claim for the cash grant after the end of the business' accounting year-end in which the qualifying expenditure is incurred and by the filing deadlines of the income tax return for that YA.

- a) For sole-proprietors and partnerships - submit the claim for cash grant by 15 April yearly;
- b) For companies and registered business trusts - submit the claim for cash grant by 30 November yearly;

More details of the application procedure for the Cash Grant will be made available in June 2010.

38. For businesses whose accounting periods for YA 2011 have already ended, when can businesses submit a claim for the cash grant?

Businesses can submit a claim for the cash grant in June 2010 when the claim form is made available on the IRAS website. Businesses are advised to keep all details and supporting documents of their qualifying expenditure incurred.

39. Can I apply for the cash grant before the end of the accounting period if I have already incurred the expenditure and have the supporting details?

For each qualifying YA, the earliest time for you to apply for the cash grant is after the end of the accounting period. With the amount of Credit determined, you will be able to decide whether you want to exercise the option to claim for the cash grant instead of the enhanced deduction or allowance.

40. Where can I get a copy of the claim form?

The claim form for the cash grant will be made available on IRAS' website, www.iras.gov.sg in June 2010.