

## Singapore Budget - Tax Changes

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### Productivity and Innovation Credit

#### About Productivity and Innovation Credit

The Productivity and Innovation Credit (referred hereafter as "the Credit") was introduced in the Singapore Budget 2010 to provide significant tax deductions, for investments in a broad range of activities along the innovation value chain.

Specifically, the Credit will cover spending on:

Research & Development;

Registration of Intellectual Property Rights – including patents, trademarks, and designs; and plant variety;

Acquisition of Intellectual Property Rights – for example, when a company buys a patent or copyright for use in its business;

Investments in Automation;

Training of employees; and

Investments in Design.

All businesses will be eligible for the Credit, from Year of Assessment ("YA") 2011 to 2015, based on the amount they invest in any of the above six activities. They can deduct 250% of their expenditures on each of these activities from their income, 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 two Years of Assessment so as to help small and medium enterprises benefit from the Credit scheme without rushing the implementation of their investments.

The amount of the Credit for each category of the qualifying activities is as follows:

Qualifying activities	Brief description of qualifying expenditures under the Credit	Total deductions/ allowances under the Credit (as a % of qualifying expenditure)	Examples of qualifying expenditures
Research & Development ("R&D")	Costs incurred in Singapore on staff costs and consumables for qualifying R&D activities under Section 14DA	250% tax deduction for the first *\$300,000 of qualifying expenditure, 150% deduction for the balance expenditure	Salaries for R&D personnel in Singapore and fees to R&D institute in Singapore for creating a novel product
Registration of Intellectual Property Rights ("IPRs")	Costs incurred to register patents, trademarks, designs and plant variety	250% tax deduction for the first *\$300,000 of qualifying expenditure, 100% deduction for the balance expenditure	Fees paid to Intellectual Property Office of Singapore ("IPOS") to register trademark
Acquisition of Intellectual Property Rights ("IPRs")	Costs incurred to acquire any IPRs for use in a trade or business (exclude EDB	250% allowance for the first *\$300,000 of qualifying expenditure, and	Payment to buy a patented technology for use in manufacturing

	approved IPRs and IPRs relating to media and digital entertainment contents)	100% allowance for the balance expenditure	process;  Price paid for overseas trademark
Investments in Automation	Costs incurred to acquire <a href="#">prescribed automation equipment</a>	250% allowance for the first *\$300,000 of qualifying expenditure, 100% allowance for the balance expenditure	Cost of IT equipment such as fax machine, laser printer, computer and lap-tops
Training of employees	Costs incurred on external training and Singapore Workforce Development Agency ("WDA") certified in-house training for employees	250% tax deduction for the first *\$300,000 of qualifying expenditure, 100% deduction for the balance expenditure	External course fees for staff; Costs incurred on internal Workforce Skills Qualification ("WSQ") courses for employees' skills upgrading
Investments in Design ( <b>New</b> )	Costs incurred in Singapore to create new products and industrial designs. More details will be released by Design Singapore Council by May 2010.	250% tax deduction for the first *\$300,000 of qualifying expenditure, 100% deduction for the balance expenditure	Fees to engage designer to create new product design

*\*For YA 2011 and YA 2012 - a combined cap of \$600,000 of expenditures for each activity.*

## Qualifying Period

The Productivity and Innovation Credit will be available for 5 years (from Years of Assessment 2011 to 2015). The qualifying expenditure must be incurred during the basis periods for Years of Assessment 2011 to 2015.

Basis period refers to the accounting year ending in the year preceding the Year of Assessment. For example, for a business with an accounting year ending on 30 Sep, the basis period for YA 2011 would be 1 Oct 2009 to 30 Sep 2010.

## Conversion to 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 YA 2011 and YA 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 YA 2012. This will help businesses that are starting off with low taxable income, but want to grow by investing in technology or upgrading their operations.

This cash conversion component of the Productivity and Innovation Credit will be available for 3 years (from Years of Assessment 2011 to 2013).

## Eligibility for Conversion to Cash Grant

Businesses that have:

- a) incurred qualifying expenditure and are entitled to the Credit during the basis period; and
- b) at least 3 local employees (Singapore citizens or PRs with CPF contributions)

are eligible for the cash grant after the end of the basis period.

## Illustration

The scenario is based on the following assumptions:

- Company A with accounting year-end as 30 Sep made CPF contributions for 25 employees;
- It incurs the following qualifying expenditure:
  - YA 2011 \$400,000 on prescribed automation equipment
  - YA 2012 \$350,000 on prescribed automation equipment
  - YA 2013 \$600,000 on research and development activities out of which \$500,000 qualifies for Section 14DA

Company A submitted its application to convert the total deductions/allowances under the Credit to cash grant for YA 2011, YA 2012 and YA 2013.

Company A's computation for each relevant YA is appended below:

	Prescribed Automation Equipment (YA 2011)	Prescribed Automation Equipment (YA 2012)	R&D Activities (YA 2013)
Qualifying expenditure incurred (\$)	400,000 (A)	350,000 (A)	Total costs = 600,000 S14DA = 500,000 (A)
**Cap on qualifying expenditure (\$Z)	Within cap of 600,000	200,000 (600,000 - 400,000)	300,000
Amount of deductions/allowances <sup>1</sup> (250% x A) <sup>2</sup> (250% x \$Z) <sup>3</sup> [100% x (A - \$Z)] <sup>4</sup> [150% x (A - \$Z)] <sup>5</sup> [100% x (600,000 - A)]	1,000,000 <sup>1</sup>	500,000 <sup>2</sup> + 150,000 <sup>3</sup> = 650,000	750,000 <sup>2</sup> + 300,000 <sup>4</sup> + 100,000 <sup>5</sup> = 1,150,000
Less: ***Amount converted to cash grant	450,000	150,000	300,000
Balance of deductions/allowances to be set-off against business income	550,000	500,000	850,000
Total cash grant Capped at \$42,000 (\$600,000 x 7%) for YA 2011 & YA 2012; capped at \$21,000 (\$300,000 x 7%) for YA 2013	450,000 x 7% = 31,500	150,000 x 7% = 10,500	300,000 x 7% = 21,000

\*\*For YA 2011 and YA 2012, the combined cap for the same qualifying activity is \$600,000. For YA 2013 to YA 2015, the cap for each qualifying activity is \$300,000 per year.

\*\*\* For YA 2011 & YA 2012, the combined overall cap for all qualifying activities for conversion to cash grant is \$600,000. For YA 2013, the overall cap is \$300,000.

IRAS will process Company A's application for conversion to cash grant and Company A will receive the sum of \$31,500, \$10,500 and \$21,000 for YA 2011, YA 2012 and YA 2013 respectively.

## Application Procedure

Businesses that wish to apply for the cash grant have to complete and submit an application to IRAS. They need to submit the application after the business' accounting year-end and before the respective filing deadline of the business' income tax return, for the basis period in which the qualifying expenditure is incurred.

This page will be updated with the details of the application procedure by June 2010.

## Frequently Asked Questions (FAQs)

For more details, please refer to our FAQs on Productivity and Innovation Credit and Cash Grant (75KB)

## Contact Us

Please contact us if you need assistance or clarification on Productivity and Innovation Credit and cash grant

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