



Singapore R&D Tax Concessions:

Benefits and Implications for SMEs

12 Feb 2008

Agenda

- **Introduction**

- Singapore's tax regime is highly conducive for entrepreneurs
- How can innovation help businesses?
- Tax benefits across the innovation cycle

- **How does the new R&D regime help you?**

- **Outsourced R&D**

- **What is R&D?**

- **Gaining access to the concessions**

Singapore's tax regime is highly conducive for entrepreneurs:

Singapore as the “best place to start and grow businesses”:

- Relatively low corporate tax rate (17% from Year of Assessment 2010)
- Tax exemption for start-ups (first \$100,000 of chargeable income exempt)
- Generous partial tax exemptions (first \$300,000 of chargeable income partially exempt), lowering effective tax rates to less than 10% for majority of incorporated SMEs

Singapore's tax regime is highly conducive for entrepreneurs:

- **Major revamp to R&D tax regime** in 2008 to create conducive environment “for companies to build sustainable competitiveness through innovation”

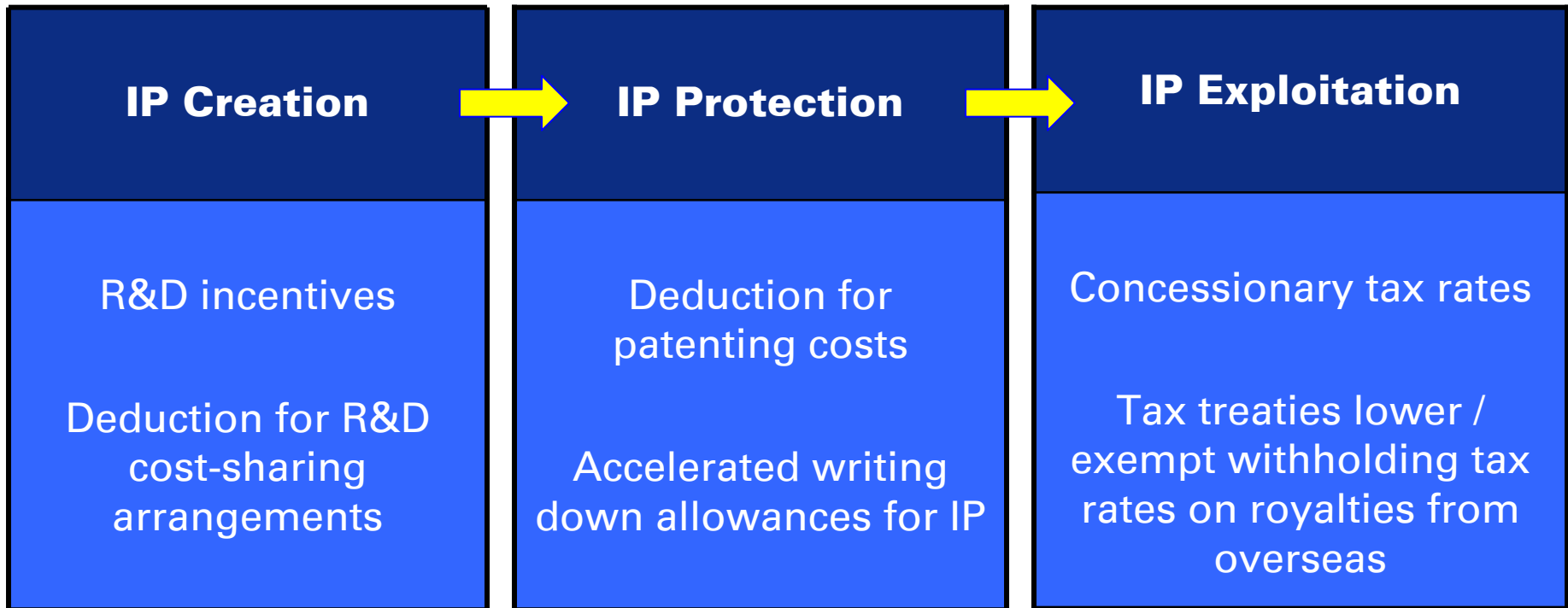
Significance of these changes:

In response to feedback, Government is moving away from incentives given to SMEs on case-by-case basis to one that is generally applicable to all

How can innovation help businesses?

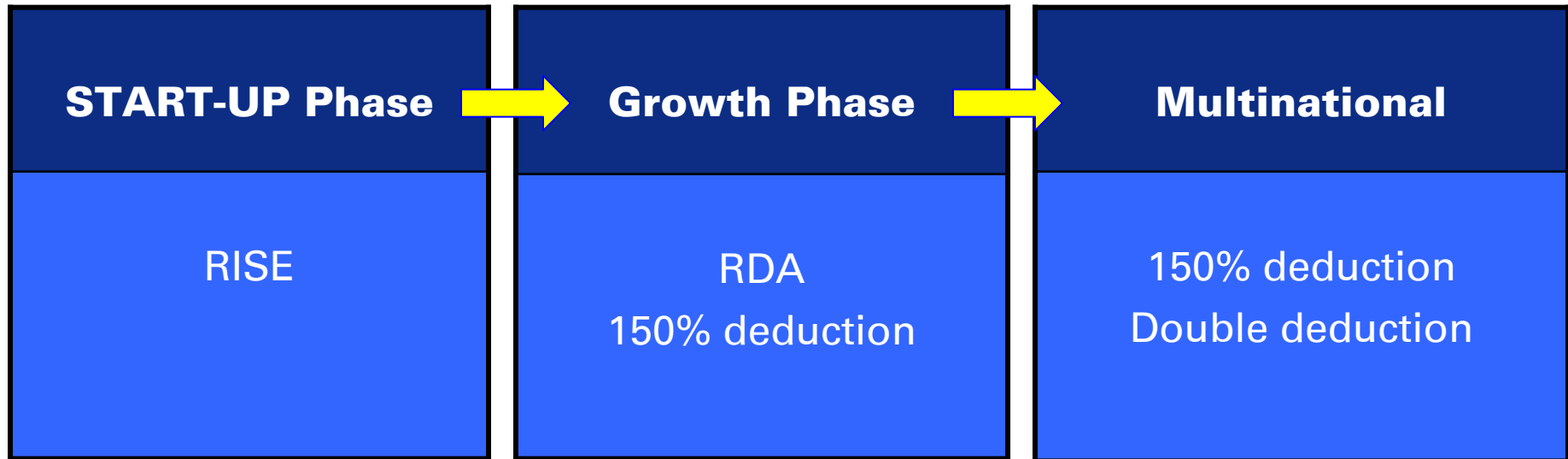
- Innovate to reduce costs of production
- Innovate to provide added value to customers
- Innovate to fulfill unmet customer needs
- Innovate to create new customer demands

Tax benefits across the innovation lifecycle



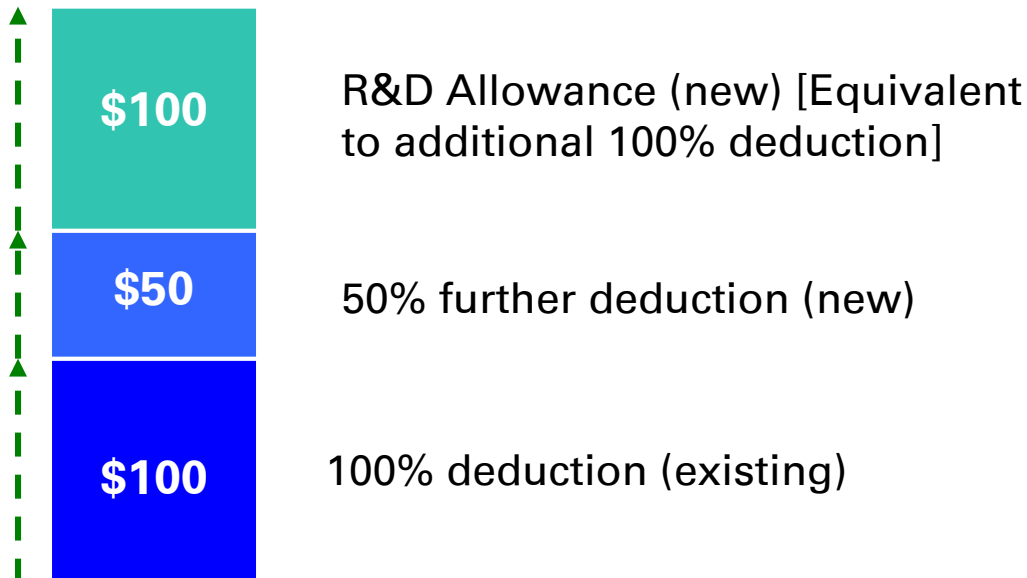
How does the new R&D regime help you?

Using the business lifecycle to illustrate:



How does the new R&D regime help you?

The following illustrates the benefits:



** Illustration assumes all R&D is incremental R&D, and expenses comprise manpower costs and consumables only*

Total benefits:

- **Up to 250% tax deduction.** Hence for \$100,000 of R&D expenditure, tax savings may amount to \$45,000 ($\$100,000 \times 250\% \times 18\%$), or 45% of R&D expenditure.
- If company has no profits, it may carry back up to \$100,000 in losses to effectively get a refund of the prior year of assessment's taxes

How does the new R&D regime help you?

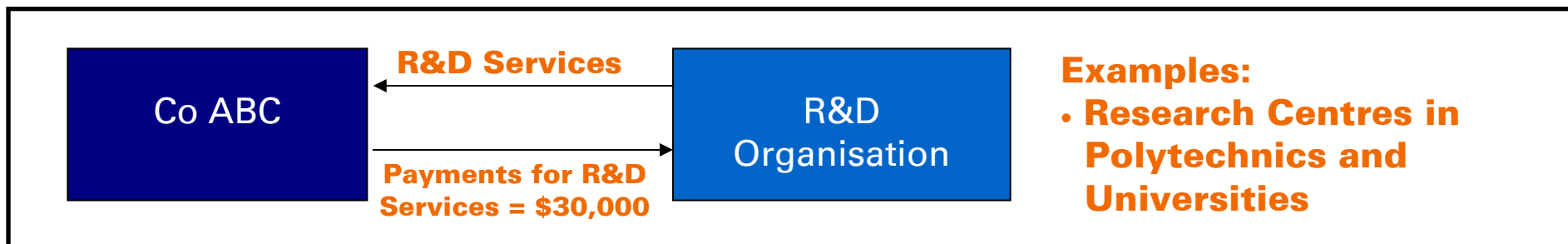
Examples :

- For small company with incremental R&D spending of \$150,000, effective tax rate falls from 9% to almost zero
- For medium sized company, effective tax rate falls from about 15% to 10%.

Source: 2008 Budget Statement

Outsourced R&D

The new incentives also apply in respect of R&D which is outsourced to an external R&D organisation, provided the R&D is still carried out in Singapore



- If possible, Co ABC should get the expense breakdown from the R&D organization
 - Only R&D manpower costs and consumables are eligible expenses
 - However, if breakdown cannot be obtained, then IRAS will allow 60% of these expenses to be eligible for the further 50% deduction and RDA.
 - In this case, assuming the project is a qualifying R&D project, expenses are incurred in financial year ended 31 Dec 2009, no breakdown of the \$30,000 is available, and all the R&D is incremental R&D, the total tax deductions are:

100% tax deduction = \$30,000
Further deduction = \$ 9,000 ($\$30,000 \times 60\% \times 50\%$)
R&D Allowance = \$30,000
Total deductions = \$69,000

What is R&D?

- **Innovate to reduce costs of production**
 - Improvements to manufacturing processes beyond merely fine-tuning or calibrating of systems to optimise performance
- **Innovate to provide added value to customers**
 - Create a new light but strong and durable environmentally-friendly material for mountaineering boots
 - Create new process for creating patterns on spectacle frames
- **Innovate to fulfill unmet customer needs**
 - Create an alternative process to develop yogurt on a stick in a manner that preserves taste and nutrition, yet ensures suitability for export
 - Create fat-free food products
- **Innovate to create new customer demands**
 - Create a new range of sauces or cuisines, which involves overcoming technical issues such as ensuring stability of the product, ensuring adequate shelf life or new packaging techniques

Access to the concessions

- No pre-application required, unlike many other incentives offered by government
- What you need to do:
 - ✓ “Self-assess” whether the projects qualify as R&D
 - ✓ Identify eligible expenditures related to the qualifying R&D projects (may need to put in place processes to capture such expenses)
 - ✓ Prepare R&D claim form
 - ✓ If business incurs R&D expenditure of \$150,000 or more per annum, project details required to be submitted to IRAS

About KPMG's R&D Tax Services

- KPMG has established a Global R&D Incentives Services practice to assist clients to benefit from the available R&D incentives and related benefits.
- The specific services that our experienced R&D incentive specialists in KPMG have provided to clients include:
 - Ascertaining entitlement to R&D incentives;
 - Identifying potential R&D expenditure;
 - Producing relevant reports to support the R&D claims;
 - Liaising with relevant authorities; and
 - Establishing procedures for ongoing review of R&D expenditure

Presenting team's contact details

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THANK YOU