




R&D Tax Measures



Agenda

- R&D Definition
- Overview of R&D Claim
- New R&D Tax Measures
 - Liberalised R&D Deductions
 - R&D Tax Allowance (RDA) Scheme
 - R&D Incentive for Start-up Enterprises (RISE)



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Reference

- IRAS Circular
 - Research And Development Tax Measures
 - Issued on 31 Oct 2008
- Income Tax (Amendment) Bill 2008
 - Passed on 18 Nov 2008



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Recap

- Objective
 - “... stepping up our focus on R&D and innovation on all fronts ... by incentivising R&D in our enterprises including SMEs and start-ups ... *make innovation more pervasive* in the economy...”



Current R&D Definition

... any systematic [or intensive](#) study carried out in the field of science or technology with the object of 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; or
- e) market research or sales promotion

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New R&D Definition

- With effect from YA 2009
- ... 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...

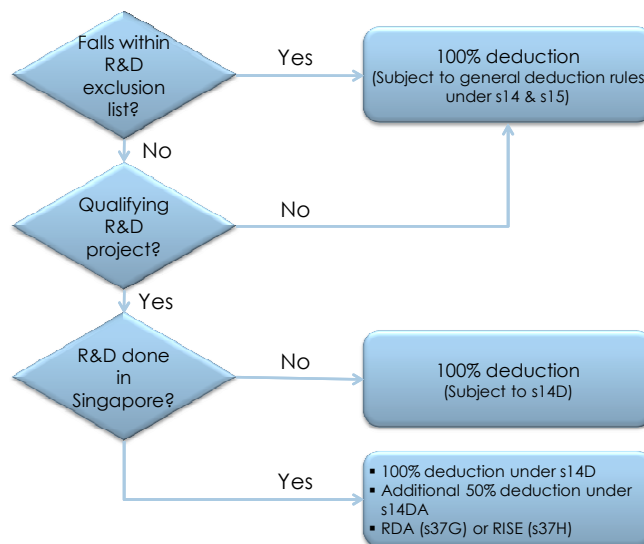
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New R&D Definition

- Technical risk
 - Issues cannot be readily resolved by a competent professional in a relevant field

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Overview of R&D Claim



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Liberalised R&D Deductions

- Enhancements to s14D & s14E
 - Relaxation of “trade or business” condition
 - Any trade or business would qualify for R&D deductions
 - With effect from YA 2009
 - Previously, only manufacturing trade or business, or trade or business for the provision of services
 - R&D deductions can be claimed even if it does not relate to the person’s trade or business on condition that R&D is performed [in Singapore](#)
 - Qualifying period: YA 2009 to YA 2013
 - Previously, R&D expenditures must be incurred in respect of the person’s trade or business

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Liberalised R&D Deductions

- Revisions to s19, s19A & s20
 - Mirror relaxation of “trade or business” condition under s14D and s14E
 - Claim capital allowance (“CA”) ([excluding](#) 100% write-off) on plant & machinery (“P&M”) used for R&D that is not related to the person’s existing trade or business on condition that R&D is performed [in Singapore](#)
 - Include P&M provided to an R&D organisation for R&D activities undertaken on behalf of the person [in Singapore](#)
 - Qualifying period: YA 2009 to YA 2013

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Liberalised R&D Deductions

- Balancing adjustments to be computed if P&M:
 - Ceases to belong to the person; or
 - Permanently ceases to be used for any R&D undertaken
 - by him directly in Singapore or
 - by a R&D organisation on his behalf in Singapore, and
 - is not used for the purpose of a trade, profession or business carried on by him

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Liberalised R&D Deductions

- Order of set-off
 - Expenses incurred on R&D activities not related to existing trade or business

Income derived	Order of Set-Off
Normal & concessionary Income	<ul style="list-style-type: none"> ■ Set off expenses against normal trade income ■ Excess treat as part of normal unutilised losses available for set off against concessionary income subject to s37B adjustment factor
Concessionary income only	<ul style="list-style-type: none"> ■ Set off <u>specified amount</u> against concessionary income taxed at the highest incentive rate ■ Excess treat as part of concessionary unutilised losses available for set off against other concessionary income subject to s37B adjustment factor

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Liberalised R&D Deductions

- Order of set-off

- CA on P&M used for R&D activities not related to existing trade or business

Income derived	Order of Set-Off
Normal & concessionary Income	<ul style="list-style-type: none"> ■ Set off CA and BA against normal trade income ■ Excess treat as part of normal unutilised losses available for set off against concessionary income subject to s37B adjustment factor
Concessionary income only	<ul style="list-style-type: none"> ■ Set off specified amount against concessionary income taxed at the highest incentive rate ■ Excess treat as part of concessionary unutilised losses available for set off against other concessionary income subject to s37B adjustment factor

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Liberalised R&D Deductions

- Order of set-off

- Specified amount

$$A \times \frac{\text{Prevailing Corporate Tax Rate}}{\text{Highest Concess. Tax Rate}}$$

Where A is the:

- Total deduction allowed under s14D, s14DA & s14E; or
- Total allowance claimable under s19, s19A & s20 (i.e. CA + Balancing Allowance)

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Liberalised R&D Deductions

- Balancing charge arising from disposal of P&M used for R&D activities not related to existing trade or business
 - Treat as income chargeable to tax under the normal rate

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Liberalised R&D Deductions

- E.g. 1: Order of set-off

	Normal income (18%) \$'000	Concessionary income (10%) \$'000
Income	300	120
Less: Deductible trade expenses	(400)	(50)
Non-trade related R&D expenses	(50)	-
Adjusted profit/ (loss)	(150)	70
Add: BC on P&M used for non-trade R&D	5	-
Less: CA on P&M used for trade purposes	(40)	-
CA on P&M used for non-trade R&D	(20)	-
	(205)	70
S37B set-off [\$70,000 x 10%/18%]	39	(70)
Unutilised losses and CA c/f	(166)	-

Liberalised R&D Deductions

■ E.g. 2: Order of set-off

	Normal income (18%) \$'000	Concessional income (10%) \$'000	Concessional income (5%) \$'000
Income	-	300	120
Less: Deductible trade expenses	-	(400)	(50)
Non-trade related R&D expenses [\$50,000 x 18%/10%]	-	(90)	-
Adjusted profit/ (loss)	-	(190)	70
Add: BC on P&M used for non-trade R&D	5	-	-
Less: CA on P&M used for trade purposes	-	(40)	-
CA on P&M used for non-trade R&D [\$20,000 x 18%/10%]	-	(36)	-
	5	(266)	70
S37B set-off [((\$5,000 x 18%/10%) + (\$70,000 x 5%/10%)]	(5)	44	(70)
Unutilised losses and CA c/f	-	(222)	-

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Liberalised R&D Deductions

■ Enhanced deductions - s14DA (New!)

- In-house R&D performed in Singapore
 - Further deduction of 50% on [qualifying expenditure](#)
 - Staff costs
 - Consumables
 - Any expenses approved by Minister or such person appointed by him

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Liberalised R&D Deductions

- Enhanced deductions - s14DA (New!)
 - Outsourced R&D performed in Singapore
 - Specified percentage of payments made
 - Where more than 60% of all such payments made are [qualifying expenditure](#), a percentage ascertained in accordance with the formula
$$50\% \times D$$
where D is the percentage of all such payments made which are [qualifying expenditures](#); or
 - In all other cases, 30%

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Liberalised R&D Deductions

- Definition
 - Staff costs
 - Any salary, wages and other benefits paid or granted in respect of employment (excluding director's fees), whether in money or otherwise, to any employee for carrying out the R&D, and includes —
 - a) expenses incurred for training or certifying the employee for the purpose of carrying out the R&D; and
 - b) such other expenses as may be prescribed

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Liberalised R&D Deductions

■ Definition

– Consumables

- Any materials or items used in the R&D which, upon such use, are consumed or transformed in such a manner that they are no longer useable in their original form, but does not include utilities
- Examples include laboratory chemical and disposable gloves

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Liberalised R&D Deductions

- R&D expenditure will not qualify for s14DA deduction to the extent that it is subsidised by Govt. grants or subsidies
- Sum of deduction claimable under s14, s14D, s14DA & s14E is restricted to:
 - $200\% \times (s14 + s14D)$ expenditure incurred in respect of the approved R&D project in Singapore

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Liberalised R&D Deductions

■ E.g. 3: Further deductions under s14DA

Description	Expenses/ Grant \$'000		Amt claimable under s14D \$'000	Amt claimable under s14DA \$'000
R&D performed in-house in S'pore				
- Staff costs	17		17	6.5*
- Consumables	2		2	1
- Other R&D costs	1	20	1	-
Payment to R&D organisation for work in S'pore				
- Staff costs	1.5		1.5	1.5**
- Consumables	1		1	
- Other R&D costs	2.5	5	2.5	
R&D performed outside S'pore (trade-related)			2	-
Total			27	9
Government grant for in-house R&D staff costs		4	NA	NA

* 50% x (\$17,000 - \$4,000) = \$6,500

** Higher of (a) 50% x (\$1,500 + \$1,000) = \$1,250 or (b) 30% x \$5,000 = \$1,500

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Liberalised R&D Deductions

■ Anti-avoidance measure

- No writing allowance allowed if intellectual property ("IP") rights is acquired, directly or indirectly, from a related party:
 - to whom any deduction has been allowed under s14, s14D, s14DA or s14E for any outgoing, expense or payment incurred for any activity which resulted in the creation of the IP; [and](#)
 - whose proceeds from the sale, transfer or assignment of that IP rights are not subject to tax

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Liberalised R&D Deductions

- Administrative procedures
 - Make claim in Form C together with [R&D Claim Form](#)
 - Show breakdown of R&D expenditure in tax computation
 - Where applicable, submit invoices to support claim that more than 60% of payments made for outsourced R&D conducted in Singapore during the basis period relates to qualifying expenditure

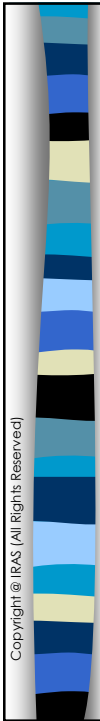
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Liberalised R&D Deductions

- Administrative procedures
 - Provide details of project if R&D expenditure \geq \$150,000 (excluding Govt. grant)
 - Project title
 - Project objective
 - Project description
 - Project schedule
 - Work done during the basis year (whether performed locally; whether undertaken by an R&D organisation)
 - Govt. grants or subsidies

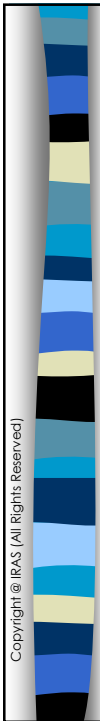
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RDA Scheme

- Company deriving chargeable income ("CI") in any YA falling within the period YA 2009 to YA 2013 will be granted RDA for the YA in which CI is derived
- Amount of RDA granted
 - Effectively, [50% of CI after tax exemption](#)
 - Capped at \$150,000 for each YA



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RDA Scheme

- RDA credited to an a/c known as the R&D a/c
 - Capped at \$450,000
- RDA granted in respect of concess. income have same dollar value as RDA granted in respect of norm. income
 - If co. is granted RDA in respect of both concess. and norm. income, the sum of the total RDA from both income streams will be credited to the same R&D a/c

RDA Scheme

■ E.g. 4: Computation of R&D tax allowance

	Normal income (18%)	Concessionary income (10%)	
Adjusted profit	679,950	530,000	
Less: Unabsorbed CA b/f	(5,500)	-	
Current year CA	(60,500)	(66,200)	
Unabsorbed losses b/f	(10,000)	-	
Unabsorbed donations b/f	-	-	
Current year donations	-	-	
	603,950	463,800	
Less: R&D tax allowance utilised	-	-	
Investment allowance	(55,200)	(125,000)	
Group relief transferred in	(100,000)	(85,000)	
Loss carry-back relief utilised	-	-	
Chargeable income before exempt amt.	448,750	253,800	
Less: Exempt amount	(152,500)	-	
Chargeable income after exempt amt.	296,250	253,800	(A)

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RDA Scheme

■ E.g. 4: Computation of R&D tax allowance

	Normal income (18%)	Concessionary income (10%)	
Chargeable income after exempt amt.	296,250	253,800	(A)
50% of A	148,125	126,900	275,025
Max. R&D tax allowance claimable			150,000

R&D Account	Scenario A	Scenario B	Scenario C
R&D tax allowance b/f	-	420,000	450,000
Less: R&D tax allowance utilised	-	-	-
Add: Current year R&D tax allowance	150,000	30,000	-
R&D tax allowance c/f	150,000	450,000	450,000

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RDA Scheme

- To note
 - When utilising RDA, source of income for which RDA was granted can be different from source of assessable income against which RDA is offset
 - Unutilised RDA cannot be transferred to another company under the Group Relief System

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RDA Scheme

- E.g. 5: Computation of incremental R&D

Qualifying R&D expenditure	Normal income (18%)	
Amt incurred in YA of utilisation	500,000	Trade A
Amt incurred in base year	(100,000)	Trade B
Incremental R&D	400,000	

Qualifying R&D expenditure	Normal income (18%)	Concessionary income (10%)	Total
Amt incurred in YA of utilisation	500,000	-	500,000
Amt incurred in base year	-	(100,000)	(100,000)
Incremental R&D			400,000

Qualifying R&D expenditure	Normal income (18%)	Concessionary income (10%)	Total
Amt incurred in YA of utilisation	400,000	100,000	500,000
Amt incurred in base year	(40,000)	(60,000)	(100,000)
Incremental R&D			400,000

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RDA Scheme

■ E.g. 6: Utilisation of R&D tax allowance

Co. incurs incremental R&D expenditure of \$400,000 during the year	Normal income (18%)	Concessionary income (10%)	
Adjusted profit	204,000	816,000	
Less: Unabsorbed CA b/f	-	-	
Current year CA	(74,100)	(55,750)	
Unabsorbed losses b/f	-	-	
Unabsorbed donations b/f	-	-	
Current year donations	-	-	
	129,900	760,250	
Less: R&D tax allowance utilised*	(129,900)	(20,100)	
Investment allowance	-	(35,350)	
Group relief transferred in	-	(104,900)	
Loss carry-back relief utilised	-	-	
Chargeable income before exempt amt.	-	599,900	
Less: Exempt amount	-	-	
Chargeable income after exempt amt.	-	599,900	(A)

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RDA Scheme

■ E.g. 6: Utilisation of R&D tax allowance

	Normal income (18%)	Concessionary income (10%)	
Chargeable income after exempt amt.	-	599,900	(A)
Tax payable	-	59,990	
50% of A	-	299,950	299,950
Max. R&D tax allowance claimable			150,000
*Amount of R&D allowance utilised			
Lowest of:			
Credit balance in R&D account on 1 st day of basis period		150,000	
Incremental R&D expenditure		400,000	
Assessable income (i.e. \$129,900 + \$760,250)		890,150	
R&D Account			
R&D tax allowance b/f		150,000	
Less: R&D tax allowance utilised (i.e. \$129,900 + \$20,100)		(150,000)	
Add: Current year R&D tax allowance		150,000	
R&D tax allowance c/f		150,000	

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RISE

- R&D intensive start-up company given the option to convert tax losses incurred in its first 3 YAs into cash grants

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RISE

- For RISE, a qualifying start-up company refers to a company that:
 - is incorporated in Singapore;
 - is a tax resident of Singapore;
 - has at least 1 of its first 3 YAs falling within the period YA 2009 to YA 2013 (both YAs inclusive)
 - has total share capital which is beneficially held, directly by no more than 20 persons:-
 - all of whom are individuals, or
 - of which at least 1 is an individual shareholder holding at least 10% of the total no. of issued ordinary shares,throughout the basis period for the YA of claim.

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RISE

- For a company that has not commenced trade or business
 - A is the lower of
 - i. an amount equal to the deduction claimable under s14D and s14DA had the co. commenced business; or
 - ii. an amount of \$225,000
 - Upon conversion, pre-commencement R&D expenditure deemed to be incurred on the first day trade commences will be reduced by the amount of R&D expenditure utilised for conversion


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RISE

- For a company that has commenced trade or business
 - A is the lowest of
 - i. the amount of unutilised tax adjusted loss incurred in the basis period of the YA of claim;
 - ii. an amount equal to the deduction claimable under s14D and s14DA; or
 - iii. an amount of \$225,000
 - Upon conversion, tax losses available for carry forward will be reduced by the amount of tax losses converted


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RISE

- To note
 - Deduction claimable refers to qualifying R&D expenditure incurred in the basis period relating to the YA of claim
 - Election is optional. If no election is made:
 - R&D expenditure incurred by a co. that [has not](#) commenced trade or business, will be deemed to be incurred on the first day trade or business commences
 - Tax adjusted losses incurred by a co. that [has](#) commenced trade or business will be carried forward in the normal manner

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RISE

- To note
 - Partial conversion of available unutilised tax adjusted loss will not be allowed

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RISE

■ E.g. 7: Computation of cash grant

Qualifying start-up co. incurs \$250,000 in qualifying R&D expenditure		
Adjusted loss		(350,000)
Add: Interest income	15,500	
Less: Unutilised CA b/f	(5,000)	
Current year CA	(17,500)	
Unutilised CA c/f	(7,000)	
Add: Current year unutilised tax adjusted losses converted to cash grant*		225,000
		(125,000)
Less: Unutilised losses b/f		(18,600)
Unutilised losses c/f		143,600
Unutilised donations b/f		5,000
Current year donations		4,600
Unutilised donations c/f		9,600

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RISE

■ E.g. 7: Computation of cash grant

*Unutilised tax adjusted losses to be converted to cash grant	
Lowest of:	
Current year unutilised tax adjusted losses	350,000
Deductions claimable under s14D & s14DA [i.e. \$250,000 + (50% x \$250,000)]	375,000
Amount of \$225,000	225,000
Amount of R&D cash grant	
A x 9%	
= 225,000 x 9%	
= 20,250	

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RISE

■ E.g. 8: Computation of cash grant

Qualifying start-up co. incurs \$160,000 in qualifying R&D expenditure		
Adjusted loss		(156,000)
Add: Interest income	25,500	
Less: Unutilised CA b/f	(5,000)	
Current year CA	(2,600)	
	17,900	
Less: Unutilised losses b/f	(5,600)	
	12,300	
Unutilised donations b/f	(5,000)	
Current donations	(4,600)	2,700
		(153,300)
Add: Current year unutilised tax adjusted losses converted to cash grant*		153,300
Unutilised losses c/f		-

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RISE

■ E.g. 8: Computation of cash grant

*Unutilised tax adjusted losses to be converted to cash grant	
Lowest of:	
Current year unutilised tax adjusted losses	153,300
Deductions claimable under s14D & s14DA [i.e. \$160,000 + (50% x \$160,000)]	240,000
Amount of \$225,000	225,000
Amount of R&D cash grant	
A x 9%	
= 153,300 x 9%	
= 13,797	

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RISE

■ E.g. 9: Computation of cash grant

Newly incorporated qualifying co. Business commences on 8 Feb 09.		
Profit & loss account for period ended 31 Dec 2009	Date of incorporation – 31 Dec 08	1 Jan 09 – 31 Dec 09
	(YA 2009)	(YA 2010)
Turnover	-	1,450,000
Less: Cost of goods sold	-	(924,200)
Gross profit	-	525,800
Less: Qualifying R&D expenses	(300,000)	(200,000)
Administrative expenses	(60,200)	(150,800)
Net profit/ (loss)	(360,200)	175,000
	Pre-commencement	

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RISE

■ E.g. 9: Computation of cash grant

Amount to be converted to cash grant	YA 2009
Lower of:	
Deductions that would have been claimable under s14D & s14DA if co. had commenced business [i.e. \$300,000 + (50% x \$300,000)]	450,000
Amount of \$225,000 [i.e. \$150,000 ^a + (50% x \$150,000)]	225,000

Amount of R&D cash grant for YA 2009
A x 9%
= 225,000 x 9%
= 20,250

Amount of R&D expenses deemed to be incurred on 8 Feb 09	
Pre-commencement R&D expenditure	300,000
Less: R&D expenditure converted to cash grant	^a 150,000
Pre-commencement R&D expenditure deemed to be incurred on 8 Feb 09	150,000

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RISE

■ E.g. 9: Computation of cash grant

Tax computation	YA 2010
Net profit	175,000
Less: s14D deduction for pre-commencement R&D expenditure deemed to be incurred on 8 Feb 09	(150,000)
s14DA deduction for pre-commencement R&D expenditure deemed to be incurred on 8 Feb 09	(75,000)
s14DA deduction for current year R&D expenditure	(100,000)
Adjusted loss	(150,000)
Add: Current year unutilised tax adjusted losses converted to cash grant*	150,000
Unutilised losses c/f	-

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RISE

■ E.g. 9: Computation of cash grant

*Unutilised tax adjusted losses to be converted to cash grant	YA 2010
Lowest of:	
Current year unutilised tax adjusted losses	150,000
Deductions claimable under s14D & s14DA [i.e. \$200,000 + (50% x \$200,000)] <i>Only qualifying R&D expenditure incurred during the basis period relating YA 2010</i>	300,000
Amount of \$225,000	225,000
Amount of R&D cash grant for YA 2010	
A x 9%	
= 150,000 x 9%	
= 13,500	

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RISE

- Administrative procedures
 - Make claim in Form C together with
 - R&D Claim Form, which includes undertaking to repay any cash grant recoverable within 1 month
 - [Audited accounts](#)
 - Show breakdown of R&D expenditure & computation of cash grant in tax computation
 - Provide details of project

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The End

Thank You!

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