R&D and Government Incentives

Singapore International Chamber of Commerce

August 2015
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Singapore R&D landscape
Singapore’s Economy
Transformation through the years

Source: Department of Statistics Singapore, National Research Foundation
Government aim to grow productivity by 2-3 percent a year on average until 2020.

From 2009 – 2014, labour productivity grew 2.6 percent per year on average; largely attributed to spike in 2010.

Labour Productivity from 2011 performed below target, and in some years slipped into negative.
Singapore R&D expenditure
More support from government

- Although overall R&D spending has steadily increased, private R&D spending is not growing as anticipated.
- Private R&D spending is stagnant, or even declining in recent years.
- Government recognises the challenges faced by businesses in undertaking R&D projects.
- Increasing support for innovation and R&D related activities.

Source: Department of Statistics Singapore
Singapore R&D expenditure
Doing more in R&D

% GDP at current market price versus R&D expenditure as a % of GDP

Source: Singapore Department of Statistics and Manpower Research & Statistics Department
Singapore’s Future
R&D is crucial to Singapore

“To make further progress, we will need good people, we will need good research programmes, and then we will be able to get good outcomes. The good people [part] is most critical because first you must have the talent. And to sustain a vibrant research community, it means we have to attract international talent, as well as to nurture local talent. We need to do both.”

Identifying R&D – reality versus tax definition
Common challenges faced by taxpayers
Common challenges faced by taxpayers

Gaps amongst the teams

i. Understanding the Project’s technical merits and criteria against the Income Tax Act.

ii. Defending the R&D tax claims from IRAS queries, and provision of additional information.

iii. Maximising tax benefits taking into consideration of PIC\(^1\) scheme, additional deduction, local and overseas expenditure per project.

iv. Loss in evidentiary documentation or technical knowledge due to improper project management practice and attrition of key R&D staff.

\(^1\)Productivity and Innovation Credit scheme.
Interpreting R&D definition from the Income Tax Act
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 object of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes”.

1 Section 2 of the Singapore Income Tax Act.
Technical assessment
Overview

**Objective of the project**
- Acquire new knowledge;
- Create new products\(^1\) or processes; or
- Improve existing products or processes.

**“SIE” Study**
- It is a systematic, investigative and experimental ("SIE") study in a field of science or technology
- Planned activities to test or find out something not known or readily deducible

**Novelty**
- First of its kind in Singapore

**Technical risk**
- Scientific or technological uncertainty that cannot be readily resolved by competent professional in relevant field

Except the following activities:
- 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 stylistic changes to materials, devices, products, processes or production methods.

\(^1\) “Products” encompass consumer products and product range, as well as other products used within the business such as manufacturing equipment. It also includes materials, devices and services.
Technically qualified project

What’s in it for me?

What is the tax benefit?

What are the qualifying expenditure?

Project done in SIE method

Qualified objective(s)

What should I claim and what should I not claim?

Project has Novelty or Technical Risks

What’s in for me?
Financial assessment

Qualifying R&D expenditure

R&D Organisation
Outsourced R&D organisation undertaking R&D activities on behalf of the taxpayer.

Staff Cost
Staff costs mean 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 R&D activities.

Consumables
“Consumables” means any material or item used in an R&D activity which upon such use, is consumed or transformed in such manner that it is no longer useable in its original form.

Non-qualifying R&D expenditure

Utilities
Electricity, water etc.

Equipment
Purchase of R&D equipment, such as spectrographic test machine.

Overhead
Ongoing business expenses such as rental.
R&D tax deduction

Benefits at a glance...

Benefits derived based on investments in eligible R&D (per S$1 spend)

- **Base**
  - Section 14D: $0.17

- **Local**
  - Section 14D: $0.17
  - Section 14DA: $0.085
  - Productivity and Innovation Credit: $0.425

- **Overseas**
  - Section 14D: $0.17
  - Productivity and Innovation Credit: $0.51

Maximum of $0.68

Note: The above illustration is based on standard corporate tax rate of 17%.
R&D tax deduction

Illustration through example

During the year ended 31.12.2015 (i.e. YA 2016), Company A undertakes a qualifying R&D project and incurred qualifying R&D expenditure of $600,000. Company A’s net profit before tax and before depreciation is $3,000,000.

<table>
<thead>
<tr>
<th>Qualifying R&amp;D expenditure</th>
<th>Without PIC scheme</th>
<th>PIC scheme</th>
<th>PIC+ scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>$600,000</td>
<td>$600,000</td>
<td>$600,000</td>
<td>$600,000</td>
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</table>

| 100% base allowance        | $600,000            | $600,000   | $600,000    |

| 300% enhanced deduction    | -                   | $1,200,000 | $1,800,000  |
|                            |                     | (300% x $400,000) | (300% x $600,000) |

| Potential tax effects      | $600,000 x 17%      | $1,800,000 x 17% | $2,400,000 x 17% |
|                           | $102,000            | $306,000         | $408,000      |
R&D tax deduction

Continuing the R&D journey

Taxpayers can opt to combine the PIC cap for the different YAs.

To continue encouraging knowledge based economy, Singapore Government is likely to extend the existing schemes or introduce new R&D schemes going forward.
Technical and Financial substantiation and requirements
**Technical and Financial substantiation**

Making correct claims from the start

**PROJECT TECHNICAL WRITE-UP**
Detailed technical report on the R&D project illustrating the project’s R&D activities, eligibility substantiation.

**R&D TAX SCHEDULE**
Preparation of the R&D Tax Schedule indicating breakdown of different expenditure categories per project. Additional supporting documents such as invoices might be required.

**R&D CLAIM FORM**
All taxpayers making R&D claims must fill up and declare the undertaking of R&D projects together with their tax filing to the IRAS.
Supporting documents
Examples...

Project objectives/background
- Business case
- Client contract details
- Presentation slides
- “Before” and “after” study
- Feasibility study
- Proof of concept

Systematic, Investigative and Experimental
- Project management lifecycle
- Test procedures
- Test reports/results
- Research papers or study
- R&D plans

Novelty or Technical risk
- Technological gap study
- Technical challenges faced
- Press release
- Industry benchmark study
- Comparison report

R&D expenditure
- Staff designation
- Roles and responsibilities
- Staff cost details
- Invoices/receipts
- P&L
- Timesheet

R&D Organisation
- R&D contract agreement
- Scope of work
- Invoice/receipts
- Purchase Order
Insights to Government Incentives
Overview of government incentives in Singapore

**Headquarters/Internationalisation**
- Regional / International Headquarters Award (RHQ/IHQ)
- Mergers & Acquisitions (M&A) scheme
- International Growth Scheme (IGS)
- Double Tax Deduction (DTD) for Internationalisation Scheme
- Market Readiness Assistance (MRA) grant

**Trading**
- Global Trader Programme (GTP)

**Research & Development/IP Management**
- Productivity and Innovation Credit (PIC)
- Research Incentive Scheme for Companies (RISC)
- Initiatives in New Technology (INTECH)
- Approved royalties incentive (ARI)
- Writing-down allowances for IP acquisition (S19B)

**Manufacturing & services**
- Pioneer Incentive
- Development & Expansion Incentive (DEI)
- Investment Allowance (IA)
- Integrated Investment Allowance (IIA)
- Land Intensification Allowance (LIA)
- Approved Foreign Loan Incentive (AFL)

**Finance & treasury**
- Finance & Treasury Centre (FTC)
- Financial Sector Incentive (FSI)

**Others (where relevant)**
Industry specific or certain projects that the government encourages
## Overview of administering agencies

<table>
<thead>
<tr>
<th>Incentives</th>
<th>Administering agency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headquarter/Internationalisation</strong></td>
<td></td>
</tr>
<tr>
<td>• Regional / International Headquarters Award (RHQ/ IHQ)</td>
<td>• Singapore Economic Development Board (EDB)</td>
</tr>
<tr>
<td>• Mergers &amp; Acquisitions (M&amp;A) scheme</td>
<td>• International Enterprise Singapore (IE Singapore)</td>
</tr>
<tr>
<td>• International Growth Scheme (IGS)</td>
<td>• IE Singapore</td>
</tr>
<tr>
<td>• Double Tax Deduction (DTD) for Internationalisation Scheme</td>
<td>• IE Singapore</td>
</tr>
<tr>
<td>• Market Readiness Assistance (MRA) grant *</td>
<td></td>
</tr>
<tr>
<td><strong>Manufacturing &amp; services</strong></td>
<td></td>
</tr>
<tr>
<td>• Development &amp; Expansion Incentive (DEI)</td>
<td>• EDB</td>
</tr>
<tr>
<td>• Pioneer Incentive</td>
<td>• EDB</td>
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<tr>
<td><strong>Trading</strong></td>
<td>• IE Singapore</td>
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<tr>
<td>• Global Trader Programme (GTP)</td>
<td></td>
</tr>
<tr>
<td><strong>R&amp;D / IP management</strong></td>
<td></td>
</tr>
<tr>
<td>• Productivity and Innovation Credit (PIC)</td>
<td>• Inland Revenue Authority of Singapore (IRAS)</td>
</tr>
<tr>
<td>• Research Incentive Scheme for Companies (RISC) *</td>
<td>• EDB</td>
</tr>
<tr>
<td>• Initiatives in New Technology (INTECH) *</td>
<td>• EDB</td>
</tr>
<tr>
<td>• Approved royalties incentive (ARI)</td>
<td>• EDB</td>
</tr>
<tr>
<td>• Writing-down allowances for IP acquisition (S19B)</td>
<td>• EDB</td>
</tr>
<tr>
<td>- approval required if only economic IP rights are acquired</td>
<td></td>
</tr>
<tr>
<td><strong>Finance &amp; treasury</strong></td>
<td></td>
</tr>
<tr>
<td>• Finance &amp; Treasury Centre (FTC)</td>
<td>• EDB</td>
</tr>
<tr>
<td>• Financial Sector Incentive (FSI)</td>
<td>• Monetary Authority of Singapore (MAS)</td>
</tr>
</tbody>
</table>

* Grants to co-fund projects on a reimbursement basis
# Development and Expansion Incentive (DEI)

<table>
<thead>
<tr>
<th>Overview</th>
<th>Applicable to entities incorporated or registered in Singapore for new investments or expansion plans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>Concessionary tax rate of no less than 5% on income from qualifying activities (typically 15%, 10% or 5%)</td>
</tr>
</tbody>
</table>
| Incentive period | Up to 40 years  
- initial qualifying period of up to 10 years, extendable typically in tranches of 5 years each |
| Qualifying criteria/activities | Both new and existing activities can be covered. Covering existing activities will require a base income taxed at normal corporate tax rate  
- Base setting = average of last 3 years’ audited net profit before tax (NPBT) from qualifying activities  
- Qualifying activities  
  - Manufacturing or increased manufacturing of any product that would be of economic benefit to Singapore  
  - Specified services and activities |
# Regional / International Headquarters Award (RHQ / IHQ)

<table>
<thead>
<tr>
<th>Overview</th>
<th>Applicable to entities incorporated or registered in Singapore which provide corporate support and headquarters-related services and business expertise on a regional or global basis.</th>
</tr>
</thead>
</table>
| Qualifying criteria/activities | a) Belongs to a group that is well established in its respective business sector or industry and has attained a critical size in terms of equity, assets, employees, and business share  

b) Nerve center in terms of organization reporting structure at senior management levels for its principal activities with clear-cut management and control for the activities  

c) Personnel employed for headquarters operations should be based in Singapore, and would include management, professionals, technical personnel and other supporting staff  

d) Substantial level of headquarters activities in Singapore that may include:  
  • *Strategic Business Planning and Development*  
  • *General Management and Administration*  
  • *Marketing Control, Planning and Brand Management*  
  • *Intellectual Property Management*  
  • *Corporate Training and Personnel Management*  
  • *Research, Development and Test Bedding of New Concepts*  
  • *Shared Services*  
  • *Economic or Investment Research and Analysis*  
  • *Technical Support Services*  
  • *Sourcing, Procurement and Distribution*  
  • *Corporate Finance Advisory Services* |
# Regional / International Headquarters Award (RHQ / IHQ)

<table>
<thead>
<tr>
<th>Minimum requirements</th>
<th>RHQ 15% for 3+2 years</th>
<th>IHQ 0% - 10%, up to 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paid-up capital</strong></td>
<td></td>
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<tr>
<td></td>
<td>• S$0.2m by end of Year 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• S$0.5m by end of Year 3</td>
<td></td>
</tr>
<tr>
<td><strong>Strategic HQ services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 3 services to network entities in 3 countries outside Singapore by end of Year 3</td>
<td></td>
</tr>
<tr>
<td><strong>Annual total business spending</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Additional S$2 million in annual total business spending by the end of Year 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Additional S$3 million in total business spending cumulatively for the first 3 years of the incentive period</td>
<td></td>
</tr>
<tr>
<td><strong>Employment of Professionals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Additional 10 professionals based in Singapore by end of Year 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 75% skilled staff throughout incentive period</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Average remuneration per worker of S$100,000 per annum for the top 5 executives by end of Year 3</td>
<td></td>
</tr>
</tbody>
</table>

Subject to negotiation; for companies committed to exceed the minimum requirements of the RHQ award.
## International Growth Scheme (IGS)

<table>
<thead>
<tr>
<th><strong>Overview</strong></th>
<th>To support Singapore companies with high growth potential to expand overseas, while anchoring their key business activities and headquarters in Singapore.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
<td>Concessionary tax rate of 10% for a period not exceeding 5 years on their qualifying incremental income from approved qualifying activities, in excess of a base income.</td>
</tr>
<tr>
<td><strong>Incentive period</strong></td>
<td>5 years, open to applications from 1 April 2015 to 31 March 2020.</td>
</tr>
</tbody>
</table>
| **Qualifying criteria** | - The applicant must be incorporated in and have its global headquarters in Singapore  
- Have an established track record with international presence  
- Have a sound and ambitious internationalisation growth plan  
- Be able to create economic spin-offs for Singapore, such as creating job opportunities for Singaporeans to gain greater international exposure, and helping other non-related Singapore companies to secure projects overseas |


## Double Tax Deduction for Internationalisation (DTDi)

<table>
<thead>
<tr>
<th>Overview</th>
<th>To provide greater support for businesses expanding overseas and create skilled jobs for Singaporeans.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
<td>Up to 200% tax deduction on qualifying expenditure incurred on a range of qualifying market expansion and investment development activities.</td>
</tr>
<tr>
<td></td>
<td>The scope of qualifying expenditure was enhanced to include qualifying salary expenses incurred for employees posted overseas in an overseas entity. Qualifying salary expenses will be capped at S$15,000 per month per employee, available on up to 5 employees’ salaries per year.</td>
</tr>
<tr>
<td><strong>Incentive period</strong></td>
<td>Enhancements apply to qualifying expenditure incurred from 1 July 2015 to 31 March 2020.</td>
</tr>
<tr>
<td><strong>Qualifying criteria</strong></td>
<td>• The employee is a Singaporean citizen or permanent resident</td>
</tr>
<tr>
<td></td>
<td>• The employee's posting lasts at least 1 year</td>
</tr>
<tr>
<td></td>
<td>• The employee is contractually employed by the applying business throughout the supported period, and the salary expense is incurred by the applying business</td>
</tr>
<tr>
<td></td>
<td>• The salary expenditure cannot be deducted against any income that may be liable to tax in the overseas jurisdiction</td>
</tr>
<tr>
<td></td>
<td>• The overseas entity was set up or acquired (including equity interests therein) by the applying business fewer than 3 years ago</td>
</tr>
</tbody>
</table>
### Overview
Encourages global trading companies to use Singapore as their regional or global base to conduct activities along the total trade value-add chain from procurement to distribution.

### Incentive period
5-year concessionary period, with provision for extension.

### Benefits
Concessionary tax rate of 10% or 5% on qualifying trade income. Income streams that are incentivised include:
- Profits from principal trades of physical goods
- Commissions earned from brokering physical trades
- Profits from trading derivatives

### Possible GTP Models

<table>
<thead>
<tr>
<th>Procurement</th>
<th>Trading</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third-party supplier</td>
<td>Third-party supplier</td>
<td>Related company</td>
</tr>
<tr>
<td>GTP applicant</td>
<td>GTP applicant</td>
<td>GTP applicant</td>
</tr>
<tr>
<td>Related company</td>
<td>Third-party customer</td>
<td>Third-party customer</td>
</tr>
</tbody>
</table>
## Capability development grants

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Research Incentive Scheme for Companies (RISC)</th>
<th>Initiatives in New Technology (INTECH)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Co-funding to support the development of strategic technologies, capabilities and the establishment of centres of competence in Singapore.</td>
<td>Co-funding to support manpower development in the application of new technologies, industrial R&amp;D and professional know-how.</td>
</tr>
<tr>
<td>Incentive period</td>
<td>3 years, with possibility of a 2nd tranche of 3 years but at a lower support rate (both tranches could be requested for upfront)</td>
<td>Capped at 3 years</td>
</tr>
<tr>
<td>Support level</td>
<td>Capped at 30% of total qualifying local project costs.</td>
<td>Generally 30% support for qualifying cost items.</td>
</tr>
<tr>
<td>Remarks</td>
<td>Project should develop strategic technologies or capabilities.</td>
<td>Trainees should be Singaporeans or PRs earning a basic salary of at least $1,500/month.</td>
</tr>
</tbody>
</table>
Incentives life cycle and Deloitte’s assistance

- Support re-negotiations with the relevant authority for amendment of existing conditions or renewal of incentive package
- Upon incentive expiry, review future plans and identify new incentives the company may be eligible for

- Review of investment plans and identify appropriate incentives
- Advise on appropriate approach to initiate discussions with the relevant authorities

- Provide insights and strategy in preparation for incentives discussions
- Arrange and facilitate discussions with the relevant authorities, including attendance together with the company

- Assist in the review of milestone conditions and progress report submissions to relevant authorities

- Assist to prepare and review incentive application forms and supporting documents
- Review, and advise the company on negotiating, incentive conditions imposed by the authorities
## Deloitte Singapore
### R&D and Government Incentives (RDGI)

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Contact Information</th>
</tr>
</thead>
<tbody>
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<td>Email: <a href="mailto:MAGARNIER@deloitte.com">MAGARNIER@deloitte.com</a>, DID: +65 6216 3358</td>
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</table>
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