Tapping Into The Enterprise Innovation Scheme

Engaging In R&D, Innovation And Capability Development Activities

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KEY TAKEAWAYS

- Businesses may claim enhanced deductions on the fees relating to qualifying R&D expenditure payable to R&D organisations that undertake qualifying R&D activities in Singapore on their behalf.
- The amount of qualifying IPR acquisition costs and qualifying IPR licensing expenditure eligible for the enhanced WDA and enhanced deduction is subject to a combined cap of $400,000 for each YA.
- For the purpose of the EIS, qualifying courses refer to courses that are eligible for SkillsFuture Singapore (SSG) funding and aligned with the Skills Framework.

The Enterprise Innovation Scheme (EIS) was introduced in Budget 2023 to encourage businesses to engage in research and development (R&D), innovation and capability development activities. Under the EIS, enhanced or new tax deductions and/or allowances (collectively referred to as "enhanced deductions") are granted on qualifying expenditure incurred on five qualifying activities in the innovation value chain:

Where the qualifying expenditure is subsidised, fully or partially, by a grant or subsidy from the government[1], only the amount of expenditure that is net of the grant or subsidy is eligible for an enhanced deduction or a cash payout under the EIS.

The EIS is available from Year of Assessment (YA) 2024 to YA 2028.

1. Local R&D Projects

With small and medium-sized enterprises (SMEs) making up the majority of R&D claims in Singapore, the EIS is expected to benefit many local SMEs embarking on their R&D journey.

Currently, businesses may claim a total of 250% tax deduction on qualifying R&D expenditure incurred on qualifying R&D activities undertaken in Singapore under Section 14C (100% base deduction) and Section 14D (150% additional deduction) of the Income Tax Act 1947 (ITA).

The EIS will grant a further 150% enhanced deduction on the first $400,000 of qualifying R&D expenditure (that is, staff costs excluding directors' fees, and consumables) incurred on qualifying R&D activities undertaken in Singapore.

[1] Includes any statutory board

CAN A BUSINESS CLAIM ENHANCED DEDUCTIONS UNDER THE EIS IF IT CONTRACTS WITH AN R&D ORGANISATION TO UNDERTAKE QUALIFYING R&D ACTIVITIES IN SINGAPORE ON ITS BEHALF?

Yes, the business may claim enhanced deductions on up to 60% of all fees payable to the R&D organisation that undertakes qualifying R&D activities in Singapore on its behalf. Where more than 60% of the fees relate to qualifying R&D expenditure, the business may claim enhanced deductions based on such qualifying R&D expenditure incurred to the extent that it is able to substantiate the claim.

2. Registration of IPs

Intellectual property (IP) registration plays a crucial role in the innovation value chain by ensuring that innovations and creations are protected. Currently, Section 14A of the ITA grants a tax deduction (100% base deduction) on qualifying IP registration costs incurred by any person carrying on a trade or business in registering patents, trademarks, designs and plant varieties (collectively referred to as "qualifying IPRs") for the purposes of that trade or business. An additional 100% tax deduction (100% enhanced deduction) is allowable on up to $100,000 of qualifying IP registration costs incurred).

Under the EIS, the tax deduction under Section 14A of the ITA will be increased to 400% (comprising 100% base deduction and 300% enhanced deduction) for the first $400,000 of qualifying IP registration costs from YA 2024 to YA 2028. Any qualifying IP registration costs in excess of $400,000 will continue to enjoy the 100% base deduction.

Businesses would be glad to note that the 300% enhanced deduction under the EIS is granted regardless of the outcome of the application of the registration of qualifying IPR. In other words, the qualifying IP registration costs incurred would still be eligible for the enhanced deduction even if the application for registration is subsequently rejected.

To avoid the clawback of deductions, businesses must own the related IPRs registered for a minimum period of one year.

3. Acquisition and Licensing of IPRs

At present, a 100% writing-down allowance (WDA) is granted on capital expenditure incurred by a company or partnership for the acquisition of qualifying IPRs under Section 19B of the ITA, and a 100% tax deduction on the first $100,000 of expenditure incurred by a business on the licensing of qualifying IPRs is allowed under Section 14U of the ITA.

To encourage more firms to engage in IP-related activities and use innovations to improve firm productivity and outcomes, the WDA under Section 19B and the tax deduction under Section 14U will be enhanced under the EIS.

A 400% WDA (comprising 100% base WDA and 300% enhanced WDA) will be granted on the first $400,000 of qualifying IPR acquisition costs for each YA. The qualifying IPRs must be legally and economically owned by a company or partnership in Singapore in order to qualify for the base WDA and enhanced WDA. Qualifying IPR acquisition costs exceeding $400,000 will continue to enjoy 100% base WDA.

A 300% enhanced deduction will also be granted on the first $400,000 of qualifying IPR licensing expenditure incurred for each YA under Section 14U of the ITA.

Together with the 100% base deduction allowed under Section 14 or 14C of the ITA, a total of 400% tax deduction will be available on the first $400,000 of qualifying IPR licensing expenditure.

Businesses should note that the amount of qualifying IPR acquisition costs and qualifying IPR licensing expenditure eligible for the enhanced WDA and enhanced deduction is subject to a combined cap of $400,000 for each YA.

In addition, the 300% enhanced WDA and enhanced deduction are only available to businesses with annual revenue of less than $500 million in the basis period for the relevant YA.

Similar to the registration of IPs, businesses claiming enhanced deductions for the acquisition of IPRs must also own the qualifying IPRs for at least one year, failing which, clawback provisions apply. Clawback provisions also apply if any of the events specified under Section 19B(4) of the ITA occurs.

4. Training

To further reinforce existing measures to encourage employers to invest in enterprise training and capabilities of their employees, businesses will be granted a 400% tax deduction (comprising 100% base deduction and 300% enhanced deduction) on the first $400,000 of qualifying training expenditure incurred on qualifying courses attended by their employees for each YA.

For the purpose of the EIS, qualifying courses refer to courses that are eligible for SkillsFuture Singapore (SSG) funding and aligned with the Skills Framework, while qualifying training expenditure refers to course fees, assessment fees and certification fees paid to training providers which are registered with the SSG.

All training expenditure, including qualifying training expenditure exceeding $400,000, incurred during the basis period, will continue to enjoy 100% base deduction, subject to general income tax deduction rules under Sections 14 and 15 of the ITA.

Can my company claim EIS benefits on qualifying training expenditure incurred on individuals who are deployed under centralised hiring arrangements or secondment arrangements?

Yes, businesses may claim EIS benefits on qualifying training expenditure incurred on individuals who are deployed under centralised hiring arrangements or secondment arrangements. This is on the basis that the training of such individuals can also improve the productivity of the businesses where they are deployed.

5. Collaborating With Partner Institutions For Innovation Projects

The EIS also seeks to encourage businesses to kickstart their innovation journey by tapping on existing technical and innovation capabilities within partner institutions[2].

Under the EIS, a tax deduction of 400% will be granted on the first $50,000 of qualifying innovation expenditure incurred by businesses for each YA on qualifying innovation projects carried out with partner institutions. The relevant partner institution will validate the project as a qualifying innovation project and issue the innovation project invoice.

[2] List of partner institutions: https://www.gobusiness.gov.sg/enterprise-innovation-scheme

Cash Payout Option

To help small, growing businesses defray the costs of their innovation activities, eligible businesses have the flexibility to convert up to $100,000 of their total qualifying expenditure (across all five qualifying activities) for each YA to a cash payout (at a conversion rate of 20%) in lieu of tax deductions/allowances. The cash conversion cap of $100,000 cannot be combined across YAs.

The cash payout, which is capped at $20,000 per YA, is not taxable and may be used for any purpose.

Once an amount of qualifying expenditure is converted into cash, the same amount is no longer available for tax deduction/allowance. The option to convert the qualifying expenditure into cash is irrevocable once exercised.

The government has taken the first steps to design and introduce a new scheme to encourage R&D, innovation and capability development activities. The ball is now in the businesses' court to take advantage of the scheme and embark on their innovation journey.

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This technical event commentary is written by SCTP's Tax Head, Accredited Tax Advisor (Income Tax) Felix Wong and Tax Manager, Joseph Tan. For more insights, please visit https://sctp.org.sg/Tax-Articles.