Singapore

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

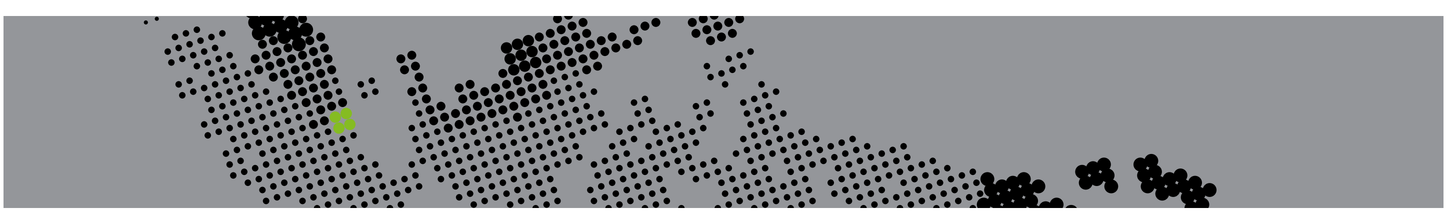
The Singapore government has announced five rounds of economic support measures amounting to more than SGD 100 billion over the course of six months in 2020 in response to the COVID-19 pandemic. Most are temporary in nature and focused on protecting jobs and livelihoods as well as assisting those affected by COVID-19.

A framework has been introduced to allow the transfer of existing tax incentive awards, in whole or in part, from one company to another company following a corporate amalgamation, merger, or restructuring. Incentives under this framework include the Pioneer Industry, Pioneer Service, and Development and Expansion Incentive.

Enhancements to existing tax incentives include the extension through 31 December 2026 of the Finance and Treasury Centre (FTC) incentive and the Global Trader Programme (GTP), with refinements made to augment the schemes' relevance to financing and trading activities.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Research Incentive Scheme for Companies (RISC) and enhanced R&D tax deductions	Cash grant and super deductions to encourage development of R&D capabilities and technologies in Singapore	Grant support at up to 50% of qualifying costs; super deductions capped at 250% of qualifying R&D expenses incurred for R&D undertaken in Singapore	Grant: employee costs; equipment, materials, consumables, and software; Singapore-based professional services; IP rights (e.g., licensing and royalties) and the acquisition of technology Super deduction: wages and salaries, materials, utilities, and consumables	R&D grant and super deductions are not mutually exclusive, and both may apply to the same R&D project/ activity
Development and Expansion Incentive (DEI)	Preferential tax rate of 5% or 10% on qualifying income derived from qualifying activities, with the support level depending largely on the investment plan	Up to 12% tax savings on taxable income	Not applicable	IP income is excluded for new awards or extensions to existing awards approved on or after 1 July 2018
Pioneer Certificate (PC)	Tax holiday/corporate tax exemption on income from qualifying activities for a specified period of time	17% tax savings on taxable income	Not applicable	None



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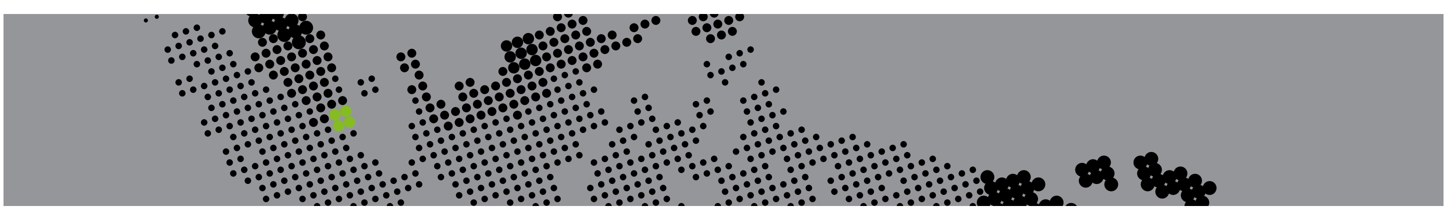
Industries most often affected by government incentives in country

	Technology, Media & Telecom		**Financial Services**
●	Telecom, Media & Entertainment	●	Banking & Capital Markets
●	Technology	●	Insurance
	Consumer	●	Investment Management
●	Consumer Products		Real Estate
●	Retail, Wholesale & Distribution		**Life Sciences & Health Care**
●	Automotive	●	Health Care
●	Transportation, Hospitality & Services	●	Life Sciences
	Energy, Resources & Industrial		**Government & Public Services**
●	Power & Utilities	●	Health & Social Care
●	Mining & Metals		Defense, Security & Justice
●	Oil, Gas, & Chemicals		Civil Government
●	Industrial Products & Construction	●	International Donor Organizations
			Transport



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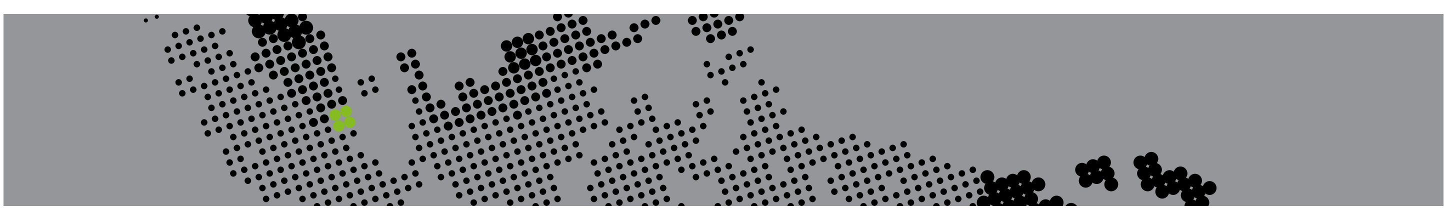
Type	National incentive?	Filing deadlines imposed?	Is the claim made in advance or arrears?[1]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation						
R&D super deduction	●	●	Arrears	Enhanced tax deductions for companies that undertake qualifying R&D activities	Total tax savings of up to 42.5% for local R&D and up to 17% for overseas R&D. The benefit on every SGD 100 spent on R&D is up to SGD 42.5 and SGD 17 respectively	Total tax savings of up to 42.5% for local R&D and up to 17% for overseas R&D. The benefit on every SGD 100 spent on R&D is up to SGD 42.5 and SGD 17 respectively
IP Development Incentive (IDI)	●	●	Advance	Reduced corporate tax rate for approved IDI companies on a percentage of qualifying IP income derived during the incentive period but no earlier than 1 July 2018	5% or 10% preferential tax rate	5% or 10% preferential tax rate
R&D grant: Research Incentive Scheme for Companies (RISC)	●	●	Advance	Cofunding to support development of R&D capabilities and technologies in areas of science and technology, and establishment of centers of competence in Singapore	Generally a cash grant of up to 50% of qualifying project costs for up to five years. Remaining costs not funded may qualify for the R&D super deduction	Generally a cash grant of up to 50% of qualifying project costs for up to five years. Remaining costs not funded may qualify for the R&D super deduction
Innovation Development Scheme (IDS)	●	●	Advance	Support for companies to engage in and develop capabilities in the innovation of products, processes, and applications	Generally a cash grant of up to 50% of qualifying project costs for three years. Remaining costs not funded may qualify for the R&D super deduction	Generally a cash grant of up to 50% of qualifying project costs for three years. Remaining costs not funded may qualify for the R&D super deduction

Key: ● = PERMANENT INCENTIVE ◍ = TEMPORARY INCENTIVE ◍ = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

1. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.



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Type	National incentive?	Filing deadlines imposed?	Is the claim made in advance or arrears?[1]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation (continued)						
Financial Sector Technology Innovation (FSTI) Scheme	●	●	Advance	Cofunding support to financial institutions and FinTech companies in seven areas: proof of concept, innovation centers, institution-level projects, industry-wide technological or utility projects, artificial intelligence and data analytics, cybersecurity capability, and digital acceleration	Up to 80% cofunding for qualifying expenses such as manpower, professional services, equipment/technical software, intellectual property (IP) rights etc.	Up to 80% cofunding for qualifying expenses such as manpower, professional services, equipment/technical software, intellectual property (IP) rights etc.
Investment						
Pioneer Certificate (PC)	●	●	Advance	Tax holiday/exemption on qualifying pioneering activities, for companies who carry out manufacturing activities or services in Singapore	100% tax exemption on qualifying income for specified period	100% tax exemption on qualifying income for specified period
Development and Expansion Incentive (DEI)	●	●	Advance	Preferential tax rate on qualifying incremental income for companies who carry out manufacturing activities or services in Singapore	5% or 10% preferential tax rate on qualifying income	5% or 10% preferential tax rate on qualifying income
International Headquarters Award (IHQ)	●	●	Advance	Preferential tax rate on qualifying incremental income for companies who carry out regional/ global headquarter or shared services activities in Singapore	5% or 10% preferential tax rate on qualifying income	5% or 10% preferential tax rate on qualifying income
Global Trader Programme	●	●	Advance	Preferential tax rate on qualifying income for companies who carry out trading activities from Singapore	5% or 10% preferential tax rate on qualifying income	5% or 10% preferential tax rate on qualifying income
Finance and Treasury Centre (FTC) incentive	●	●	Advance	Preferential tax rate on qualifying income for companies who carry out finance and treasury activities from Singapore	8% preferential tax rate	8% preferential tax rate

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Investment (continued)						
Approved royalties incentive	●	●	Advance	Reduced or nil withholding tax rate on royalty payments to access advanced technology and know-how	Reduced or nil withholding tax rate on royalty payments	Reduced or nil withholding tax rate on royalty payments
Writing-down allowance for acquisition of IP	●	●	Varies	Writing-down allowances on capital expenditure incurred in acquiring IP	Writing-down allowances for 100% of the cost on a straight-line basis over a period of five, 10, or 15 years	Writing-down allowances for 100% of the cost on a straight-line basis over a period of five, 10, or 15 years
Investment allowance	●	●	Advance	Additional capital allowance on a percentage of approved fixed capital expenditure	Between 30% and 100% of approved fixed capital expenditure	Between 30% and 100% of approved fixed capital expenditure
Land intensification allowance	●	●	Advance	Allowances on qualifying capital expenditure to promote the intensification of industrial land use towards more land-efficient and higher value-added activities	Initial allowance of 25% plus annual allowance of 5% on qualifying capital expenditure	Initial allowance of 25% plus annual allowance of 5% on qualifying capital expenditure
Environmental sustainability						
Resource Efficiency Grant (REG)	●	●	Advance	Supports industrial facilities in the manufacturing sector to be more energy efficient and improve competitiveness	Grant of generally up to 50% of total qualifying costs for three years, depending on commitment to carbon abatement	Grant of generally up to 50% of total qualifying costs for three years, depending on commitment to carbon abatement
Energy Efficiency Fund (E2F)	●	●	Advance	Supports efforts by businesses in various areas to improve energy efficiency of industrial facilities	Grant of generally up to 50% of qualifying costs, capped at SGD 600,000	Grant of generally up to 50% of qualifying costs, capped at SGD 600,000
Other						
Enterprise Development Grant	●	●	Advance	Supports projects that help companies upgrade their business, innovate, or venture overseas	Cash grant generally up to 50% of qualifying costs. Increased to up to 60% of qualifying costs incurred from 1 April 2020 through 31 December 2020 (90% for enterprises severely affected by COVID-19).	Cash grant generally up to 50% of qualifying costs. Increased to up to 60% of qualifying costs incurred from 1 April 2020 through 31 December 2020 (90% for enterprises severely affected by COVID-19).

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Country background

Singapore's headline corporate tax rate for the year of assessment (YA) 2020 (income year 2019) is 17%, with a partial tax exemption granted for the first SGD 200,000 of taxable income.

Innovation Incentives

R&D tax deduction

Nature of incentives

Section 14D: 100% base deduction

Section 14D of the Singapore Income Tax Act (SITA) provides an exception to the general rule that R&D costs are capital in nature and, hence, not currently tax deductible. The section allows current deductions for R&D expenditure incurred by a taxpayer in the conduct of its trade or business (including payments made to R&D organizations, and payments made under an R&D cost sharing agreement (CSA)).

Eligible expenses include costs of: wages and salaries, materials, utilities, consumables, etc. incurred directly for R&D activities. Capital expenditure on plant, machinery, land, or buildings, or on alterations, additions, or extensions to buildings, or on the acquisition of rights arising in or outside of R&D are specifically excluded.

For tax years from 2009 to 2025, the R&D expenditure need not be related to the entity's existing trade or business to qualify for the tax deduction unless the R&D is performed outside Singapore (there is an exception for R&D undertaken under a CSA).

Section 14DA(1): 50% additional deduction

In addition to qualifying for the SITA section 14D base deduction, expenditure incurred with respect to R&D conducted in Singapore during tax years 2009 to 2025 may qualify for an additional deduction of 50% of qualifying expenditure.

Qualifying expenditure includes staff costs, consumables costs, and other expenses prescribed by the finance minister. Qualifying expenses are more narrowly defined than under section 14D. Expenditure incurred on R&D performed outside Singapore generally does not qualify for the additional 50% deduction.

Section 14DA(1): 150% additional deduction

For tax years 2019 to 2025, section 14DA(1) is enhanced to provide an additional tax deduction of 150% of qualifying R&D expenditure, a significant improvement from the previous additional 50%. This brings the total R&D deduction to 250% (including the 100% base deduction) of qualifying R&D expenditure.

Eligible industries and qualifying activities

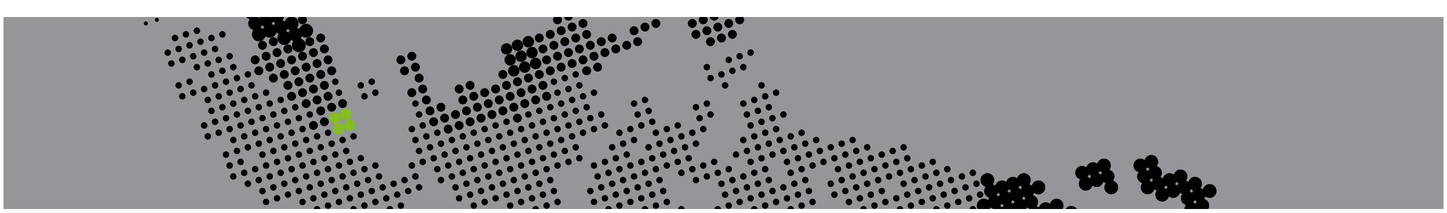
Research tax incentives are available to all industries. Advance approval is not required to claim tax deductions under SITA sections 14D, 14DA(1), or 14DA(2).

R&D for tax purposes means "any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, or processes," but does not include:

- 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 style changes to materials, devices, products, processes, or production methods.

IP and jurisdictional restrictions

The taxpayer must bear the financial risk of carrying out the R&D activities and have sufficient ownership rights in the research results to enable it to commercially exploit the know-how, IP, or other results of the R&D activities.



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Only R&D activities undertaken in Singapore qualify for the additional 150% deduction under section 14DA(1). As long as the R&D is performed in Singapore, the R&D expenditure need not be related to the entity's existing trade or business.

With respect to the section 14D base deduction, R&D may take place outside of Singapore but must relate to the taxpayer's existing trade or business (unless the R&D is undertaken under a R&D CSA).

Where R&D payments are made by a Singapore entity to a R&D organization for R&D performed outside Singapore, a deduction may be allowed to the Singapore entity provided the R&D expenditure is related to the entity's existing trade or business and any benefit attributable to the R&D accrues to the Singapore entity itself.

R&D CSAs

Enhancements have been made to the tax treatment for CSA payments in respect of section 14D (100% R&D base deduction) claims with effect from YA 2018, as follows:

- 100% deduction on CSA payments without the need to exclude expenditure not tax-deductible under SITA section 15; and
- Removal of the "related to trade" condition

Previously, taxpayers claiming R&D expenses incurred under an R&D CSA would be required to exclude nonqualifying costs or would be allowed to claim only up to 60% should a breakdown of costs be unavailable.

Other reliefs

When R&D expenses exceed taxable income, the excess may be carried forward and set off against future taxable profits provided the shareholders of the company are substantially (i.e., 50% or more) the same on the last day (i.e., 31 December) of the year of the loss and on the first day (i.e., 1 January) of the YA in which the loss is to be set off.

Patent box regime

The IP Development Incentive (IDI), a "BEPS-compliant" patent box regime, applies as from 1 July 2018. The scheme is designed to encourage the use and commercialization of intellectual property (IP) rights arising from R&D activities. The IDI provides a concessionary tax rate of 5% or 10% on qualifying IP income aligned with the modified nexus approach recommended by the OECD. The Singapore Economic Development Board (EDB) is the government agency responsible for approving the incentive.

As from 1 July 2018, concessionary tax treatment for income derived from IP rights (IPRs) is removed from the scope of existing incentives, namely the Pioneer Service Companies Incentive (PC-S) and the Development and Expansion Incentive (DEI). Under a grandfathering provision, for PC-S and DEI awards approved before 1 July 2018, income from existing IPRs owned may continue to be covered under the scope of the incentives until 30 June 2021. However, the grandfathering provision does not apply to IPRs acquired from a related party during the period 17 October 2017 to 30 June 2018 (where one of the main purposes of the acquisition is the avoidance of tax) or IPRs acquired on or after 1 July 2018.

All relevant IP income is excluded for new or an extension of PC-S and DEI awards approved on or after 1 July 2018.

Research Incentive Scheme for Companies (RISC)

The RISC is a cash grant that encourages the development of R&D capabilities and technologies through the support of projects in the areas of science and technology. Generally, the scheme provides co-funding of up to 50% of qualifying project costs for five years. Supportable project costs include expenditure incurred on the following:

- Employee costs;
- Equipment, materials, consumables, and software;
- Singapore-based professional services; and
- IP rights (e.g., licensing and royalties) and the acquisition of technology.

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Innovation & Development Scheme (IDS)

The IDS is a cash grant that encourages innovative or developmental activities in Singapore. This may include the support of productive assets, open innovation labs, product development, new digital/productivity initiatives, or feasibility studies for early stage innovation. The scheme provides cofunding of up to 50% of qualifying project costs for three years in the following categories:

- Employee costs;
- Equipment, materials, consumables, and technical software;
- Singapore-based professional services; and
- IP rights (e.g., licensing and royalties) and the acquisition of technology.

Resource Efficiency Grant (REG)

The REG is a cash grant that encourages the reduction of carbon emissions or other non-CO2 greenhouse gases by industrial facilities, which can be achieved by improving energy efficiency. The grant supports up to 50% of total qualifying costs for three years, depending on the commitment to carbon abatement, in the following categories:

- Employee costs;
- Equipment or technology; and
- Professional services.

The REG is part of the Enhanced Industry Energy Efficiency package, with the Energy Market Authority, EDB, and the National Environment Agency each rolling out initiatives to extend stronger support to companies in their drive to become more energy efficient and reduce carbon emissions.

Energy Efficiency Fund (E2F)

The E2F supports efforts by businesses to improve the energy efficiency of industrial facilities via:

- Resource efficient design of new facilities and major expansions;
- Energy assessment of existing facilities;
- Adoption of energy efficient equipment technologies; and
- Implementation of an energy management information system.

Grants of up to 50% of the qualifying costs generally are available. The E2F is another initiative within the Enhanced Industry Energy Efficiency package.

Enterprise Development Grant

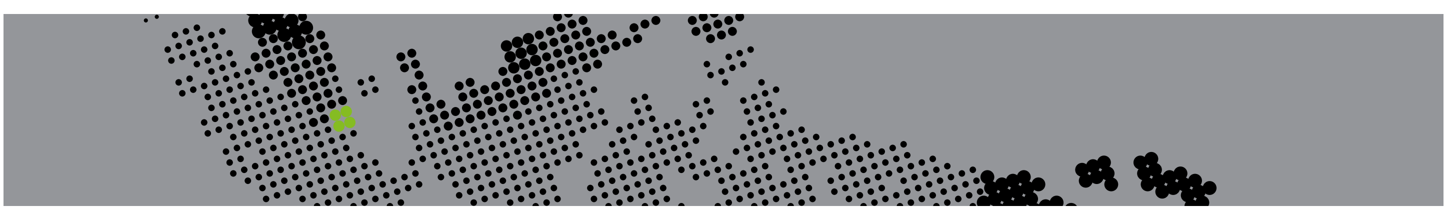
The grant is intended to help Singapore companies grow and transform by supporting projects that help companies to upgrade their business, innovate, or venture overseas. Grants are available of up to 90% of qualifying costs incurred from 1 April 2020 to 31 December 2020.

Financial Sector Technology and Innovation (FSTI) scheme

The FSTI scheme provides cofunding to support the creation of a vibrant ecosystem for innovation and to develop financial technology (FinTech) to enhance Singapore's financial sector. Various levels of support of up to 80% are available for qualifying costs such as manpower, professional services, equipment/software, and IP rights, subject to various sub-caps.

The FSTI scheme consists of the following seven areas:

- **Proof of concept (POC):** To support experimentation, development, and dissemination of nascent innovation technologies in the financial sector;
- **Innovation centers:** To encourage financial institutions (FIs) to set up R&D and innovation labs in Singapore to test-bed innovative ideas and roll out market solutions;
- **Institution-level projects:** To encourage Singapore-based FIs to catalyze innovative solutions that have the potential to promote competitiveness of the financial sector;
- **Industry-wide technological or utility projects:** To support the building of industry-wide technology/utility infrastructure, and/or improve efficiency and productivity in the financial services sector;



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- **Artificial Intelligence and Data Analytics (AIDA):** To support the strengthening of the AIDA ecosystem within Singapore's financial sector
- **Cybersecurity capability grant:** To enhance cybersecurity capabilities and develop local cybersecurity talent in Singapore's financial services sector; and
- **Digital acceleration grant:** To support Singapore-based smaller FIs and FinTech firms in adopting digital solutions to improve productivity, strengthen operational resilience, better manage risks, and serve customers.

Investment Incentives

Pioneer Certificate (PC)

The PC provides a corporate tax exemption on income from qualifying activities for a specified period of time. Applications for pioneer status are based on whether an applicant introduces technology, skillsets, or know-how in an industry that are substantially more advanced than the average prevailing in Singapore. The applicant also should conduct new, pioneering activities that have not been undertaken by other companies on a scale that is substantive in economic contribution.

Development and Expansion Incentive (DEI) and International Headquarters Award (IHQ)

The DEI provides a preferential tax rate of 5% or 10% on qualifying income derived from qualifying activities, with the support level depending largely on the investment plan. The initial tax incentive period generally is from five to 10 years, which may be renewed with additional business commitments. The total incentive period may be up to 20 years and, for very strategic projects, up to 40 years. The DEI may be accompanied by the IHQ award status for companies that commit to anchor substantive HQ activities in Singapore to manage, coordinate, and control regional business operations.

Global Trader Programme (GTP)

The GTP aims to develop and promote Singapore as an international trading hub. The GTP provides a preferential tax rate of 5% or 10% on qualifying trade/transactions in qualifying commodities and products, futures, and derivatives, as well as structured commodity financing.

Finance and Treasury Centre (FTC) incentive

The FTC incentive offers a preferential tax rate of 8% on income derived from qualifying FTC services and activities, as well as a withholding tax exemption on interest payments made on loans from banks and approved network companies for FTC activities. The FTC incentive has been enhanced as from 19 February 2020 to expand the list of qualifying sources of funds (to include funds raised via convertible debt) and the range of qualifying FTC activities (to include transacting or investing in private equity or venture capital funds that are not structured as companies).

Approved royalties incentive

Under the approved royalties incentive, a reduced or nil withholding tax rate applies on royalty payments made to access advanced technology and know-how.

Writing-down allowance (WDA) for acquisition of qualifying IPRs

Eligible taxpayers are granted WDA on capital expenditure incurred in acquiring qualifying IPRs for use in their trade or business. The expenditure may be written down over five, 10, or 15 years on the basis of an irrevocable election by the taxpayer. The WDA is available automatically where both legal and economic ownership of IPR is acquired; the EDB's approval is needed where economic ownership of IPRs only is acquired.

Investment allowance

An additional capital allowance (tax depreciation) is available on a percentage of approved fixed capital expenditure. This is in addition to the base capital allowance of 100%.

Land intensification allowance

The land intensification allowance includes an initial allowance of 25% and an annual allowance of 5% on qualifying capital expenditure incurred for the construction or renovation/extension of a qualifying industrial building or structure.