Striking the right balance
PwC Budget Seminar
1 March 2013

- Productivity & Innovation Credit
- Research & Development
Introduction
What qualifies?

- Research and Development
- Training
- IT and Automation Equipment
- Acquisition and In-Licensing of IP
- Approved Design Projects
- Registration of IP
What are the benefits?

<table>
<thead>
<tr>
<th>Year of Assessment</th>
<th>Expenditure cap per activity</th>
<th>Tax deduction/allowance per activity</th>
<th>Tax savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>E.g. 2013</td>
<td>$400,000</td>
<td>$1,600,000</td>
<td>$272,000</td>
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<tr>
<td>2013 to 2015</td>
<td>$1,200,000</td>
<td>$4,800,000</td>
<td>$816,000</td>
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<td>(combined)</td>
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- Maximum tax savings of $1.632M per year of assessment for YAs 2013 to 2015 (for all six activities).
- Can elect to convert up to maximum cash payout of $60,000 per year of assessment for YAs 2013 to 2015 (for all six activities).
IT and Automation Equipment
Do you know...?
IT and automation equipment

Case-by-case approval of automation equipment for PIC has to be submitted at least 2 months before the income tax filing due date.

• A list of automation equipment qualifying for PIC by industry is available on the IRAS’ website.

• If PIC cash payout was claimed or allowances claimed in tax computation without prior approval, IRAS can impose penalties for incorrect return.
**Do you know...?**

**IT and automation equipment**

Bundled items with automation equipment do not qualify for PIC. Examples of bundled deals include:

- Cash discount/rebate or cash-back
- Cash vouchers
- Maintenance services
- Free prints
- Warranty fees
- Trade in of old asset
- Fees for early termination of previous lease
- Roll-over lease payments from previous lease

**Concession:** Treated as incidental if value of bundled non-qualifying items is:

- \( \leq 10\% \) of the total value of sales/lease package; and
- \( \leq 3,000 \)
**Do you know...?**

**IT and automation equipment**

IRAS is currently conducting a voluntary disclosure programme for payment claims on purchase or lease of photocopiers on or after 1 March 2012.

- IRAS conducted a briefing for sellers of photocopiers on 23 January 2013.
- Sellers are required to review all sale/lease agreements concluded on or after 1 March 2012 and identify sales with bundled items that do not qualify for PIC.
- Sellers are required to send a letter to affected customers attaching IRAS’ official letter explaining the need to disclose error.
- IRAS will request for list of notified customers from sellers and provide updates to IRAS.
Training
**Do you know...?**

**Training**

- How and where your external training courses are captured?
- It is possible to claim enhanced deduction for overseas training based on estimates if a detailed breakdown is not available, subject to the IRAS’s agreement on the basis in arriving at the estimates.
**Do you know...?**

*Enhanced deductions are available for domestic and foreign R&D – up to YA 2015*

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**Company**

- R&D carried out in Singapore
  - 400% tax deduction for the first S$400,000 of staff costs and consumables
  - 150% tax deduction for staff costs and consumables in excess of S$400,000
  - 100% tax deduction for remaining R&D expenditure

- R&D carried out overseas (if any)

  **R&D related to Company’s existing trade or business?**

  - Yes
    - 400% tax deduction for the first S$400,000 of staff costs and consumables
    - 100% tax deduction for remaining R&D expenditure
  
  - No
    - No claim
**Do you know...?**

**What is R&D?**

Has the object of acquiring new knowledge; or using the results to produce or improve products or processes

Involves novelty or technical risk

Any systematic, investigative and experimental study in the field of science or technology

Qualifying R&D project

**Excludes:**

(a) Quality control or routine testing;
(b) Research in the social sciences or humanities;
(c) Routine data collection;
(d) Efficiency surveys or management studies;
(e) Market research or sales promotion;
(f) Routine modifications or changes; or
(g) Cosmetic modifications or stylistic changes.
Do you know...?

Definition of R&D

Has the object of acquiring new knowledge; or using the results to produce or improve products or processes

The primary purpose must be one or more of the following:

• Acquire new knowledge
• Create new products or processes
• Improve existing products or processes
**Do you know...?**

**Definition of R&D**

Involves (a) novelty or (b) technical risk

a) Novelty is assessed with reference to what is available in the public domain in Singapore

- Product or process is first of its kind in Singapore

b) Activities generally involve technical risk if the issues cannot be readily resolved by a competent professional in the relevant field. This means:

i. the probability of obtaining the outcome of the activities cannot be known or determined in advance on the basis of current knowledge or experience of a competent professional in that field; and

ii. the uncertainty of obtaining the outcome can be removed only through testing multiple proposed alternatives
Do you know...?

Definition of R&D

Any systematic, investigative and experimental study in the field of science or technology

a) Systematic progression of work based on scientific (incl. computer science) principles

b) Must comprise all the following:
   
   • Conducted by suitably qualified personnel;
   
   • To discover something unknown, to test a proposed solution to a technical problem, or to find something out (not simply to confirm something already known or demonstrate a known fact);
   
   • Collation of data or results from the testing; and
   
   • Report of conclusion reached (or not reached, in the case of aborted projects)
Example of what may qualify as R&D

Creation of new product

- A manufacturer created a new light but strong durable environmental-friendly material for making mountaineering boots.
- The activities involved identifying potential raw materials, systematically testing the materials using non-traditional methodologies and leveraging on new technology to assess the parameters and suitability of the new material for the production of the mountaineering boots.

The activities are R&D as they satisfy the following criteria:
- involve novelty
- systematic, investigative and experimental study in the field of science
- objective is to create a product
Example of what may qualify as R&D

Improvement of product

- A petroleum company investigated the potential for a chemical known as C23 to be added to petrol to reduce greenhouse gas emissions.

- C23 is widely available but normally used as a paint additive; that it can serve as a fuel additive to target greenhouse gas emissions would be new knowledge in Singapore.

- The company devises an R&D plan and systematically conducts documented experiments to investigate this idea, by measuring exhaust emissions produced from a range of engines by different amounts of the C23 fuel additive across a range of octane values. The test batches are consumed in these experiments.
Example of what may qualify as R&D

Improvement of process

- SG Co operates a factory manufacturing Russian dolls from wood.
- The production line produces doll halves in sets of bare forms, which it then paints, glazes, assembles in the nested form and packages.
- The speed of the production line is constrained by the need to allow the paint on the dolls to dry before the set of dolls can be coated in glaze, dried and nested inside each other, prior to moving to packaging stage of the production line.
- SG Co has learned of a new fast drying permeable polymer glaze that is used to protect leather from scratching while still allowing it to breathe.
- It is not known whether, in a production line context, using this glaze might allow the dolls to be glazed and nested before the paint has fully dried, such that the paint does not smudge and does finish drying in storage.
**Example of what may qualify as R&D**

**Improvement of process**

- Therefore, SG Co **conducts experiments** to test this.
- Because the glaze serves to protect the design painted on the dolls, the experiments will also investigate the maximum thickness of glaze that will be permeable enough to allow the paint beneath to dry.
- SG Co allows several sets of test dolls to be coated with the permeable glaze in various formulations and thicknesses in conjunction with a normal production run.
- The test dolls will not be sold as they will be inconsistent due to the range of glaze formulations and thicknesses being tested and because they will be subject to considerable handling during the inspections.
Example of what may qualify as R&D

Software

Software development is continuously evolving both in terms of the development process and functions performed.

• A software company wants to develop a new computer language that will simplify and streamline the coding of on-line software applications without impacting on functionality.

• As the proposed language differs significantly from those currently used, a series of development, evaluation and testing activities need to be systematically undertaken to ascertain whether this idea is workable, and if not, how it performs relative to existing software applications.
Do you know...?
Research and Development

Many companies have identified “hidden” pockets of R&D.

- Direct support and supervision activities
  - Technicians cleaning lab equipment
  - Personnel compiling research notes and documentation
  - Leaders evaluating early stage design concepts
- Contributions of personnel outside of R&D department
  - Sales, marketing, field services personnel
  - Quality
  - Operations and Program Management
  - Manufacturing Engineering
Do you know...?
Research and Development

Where a company’s R&D expenditure (including R&D cost sharing) is at least S$150,000 (net of government grant or subsidies) a detailed project plan is required for each project to be filed with tax return.

• Companies should create project plans on a contemporaneous basis so as to document the technical information while it is still fresh in their minds.

• Where possible, leverage upon documents already created during the course of business (e.g. milestone reports, business case).

• It is very important to address the element of novelty and/or technical risk in each project. Your technical team can assist with this.

• For projects covering multiple YA’s, follow-on project plans only need to be updated for the key developments.
Thank you

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