

## ***Enhanced tax deduction to promote philanthropy and volunteerism***

The Business and Institution of a Public Character (IPC) Partnership Scheme (BIPS) was first introduced in the 2016 Budget and aims to encourage businesses to support philanthropic activities through employee volunteerism or secondments. It forms part of the Government's efforts to promote philanthropy and volunteerism. Broadly, businesses which support employees who volunteer with or provide services to IPCs will enjoy tax deduction of 250% of the wages and related expenses associated with those activities, subject to certain caps.

### ***The Business and IPC Partnership Scheme***

On 30 June 2016, the Ministry of Finance (MOF), Inland Revenue Authority of Singapore (IRAS) and Ministry of Culture, Community and Youth (MCCY) jointly issued a press release, BIPS Guidelines for IPCs, a BIPS Service Giving Declaration Form and BIPS Frequently Asked Questions (FAQs) for Business.<sup>1</sup> The IRAS website provides more details of the BIPS scheme, including the claim process for BIPS and FAQs.

### ***The scheme in a nutshell***

Qualifying businesses<sup>2</sup> will enjoy 250% tax deduction on wages<sup>3</sup> and related expenses when they send their employees<sup>4</sup> to volunteer and provide services (including secondments) to IPCs between 1 July 2016 and 31 December 2018.

The tax benefit each business can claim is subject to a cap of \$250,000 of qualifying expenditure per year of assessment. In order to claim the maximum enhanced deduction, the business must provide services to at least five different IPCs. This is because its claims are also subject to endorsement by the IPC, and each IPC can only endorse qualifying expenditure of up to \$50,000 in a calendar year.<sup>5</sup> Any unutilised cap for both the IPC and the business cannot be carried forward. The business may carry forward or back any unutilised tax deductions, or transfer them under the group relief system, subject to the relevant conditions being met.

For example, if a company provides professional services to three IPCs – IPC I, II and III - in 2017, and incurs total qualifying wage costs of \$100,000 in the ratio shown in the table below, it would be entitled to claim 250% tax deduction on

<sup>1</sup> These are available on the MOF and Charity Portal websites.

<sup>2</sup> This includes companies, sole proprietorships, partnerships (including limited partnerships and limited liability partnerships) and registered business trusts carrying on a business in Singapore, and bodies of persons (e.g. clubs and trade associations) that are deemed to be carrying on a business; but excludes investment holding companies, trusts and service companies which adopt a cost plus mark-up basis of assessment.

<sup>3</sup> Qualifying wages consist of basic wages, including monthly variable component, but excludes employer's contributions to the Central Provident Fund, bonus, benefits-in-kind, allowances and other components of wage costs. Only wages for the time spent volunteering during working hours, and at the IPC's premises or at the volunteering event (in the case of volunteering events held outside the IPC premises) will qualify for BIPS. Wages of owners of sole proprietorships and partnerships, and shareholders who are directors of companies are also excluded.

<sup>4</sup> Qualifying employees are full time staff who, at the time of provision of services, or during the secondment, is under a contract of service with the employer under which the employee is required to work for at least 35 hours each week.

<sup>5</sup> The cap for 2016 is \$25,000 since BIPS was introduced on 1 July 2016.

\$80,000, and could enjoy tax savings of up to \$34,000 ( $\$80,000 \times 250\% \times 17\%$ ) in Year of Assessment 2018.<sup>6</sup>

<b>IPC</b>	<b>Amount incurred (\$)</b>	<b>Qualifying expenditure endorsed by IPC (\$)</b>
<b>I</b>	70,000	50,000 (capped)
<b>II</b>	20,000	20,000
<b>III</b>	10,000	10,000
<b>Total</b>	<b>100,000</b>	<b>80,000</b>

There is no restriction on the types of services which may be provided under the scheme. It is for the IPC to decide its areas of need, identify suitable businesses to provide the desired services and agree on the type of service, duration and estimated qualifying expenditure. These may include professional services (e.g. legal, human resources and accounting) and general voluntary services.

Although there is no requirement for the service or activity to have been organised by the employer, it is clear that businesses must engage the beneficiary in the volunteered services in order to qualify for BIPS. The scheme is not intended to cover pure donations of cash<sup>7</sup> or goods. Examples given in the Guidelines clarify that IPCs should not endorse expenditure for pure donation of goods or rental of facilities; however, if a business mobilises its employees to put up an event with the IPC, the cost of goods consumed for the volunteering activity is allowable. In addition, qualifying expenditure must meet the following requirements:

- Unreimbursed by the IPC at any time;
- Necessary expenditure for the volunteer services;
- Not considered personal, living or family expenses; and
- Not capital expenditure.

### ***Claim process***

Both IPC and business should agree on the type of services and/or secondment to be provided, duration of services, and estimated qualifying expenditure. This information must be provided by the business in a prescribed form and endorsed by the IPC. After completion of the services, the business is to update the form with details of the actual expenditure for the IPC's endorsement. Both the business and IPC are required to declare that the qualifying expenditure would not result in their respective caps being exceeded.

<sup>6</sup> This calculation assumes that the corporate tax rate remains at 17%, and does not take into consideration the effect of the Tax Exemption Scheme for New Start-up Companies or the partial tax exemption scheme, which provide for partial tax exemption on the first \$300,000 of normal chargeable income.

<sup>7</sup> Cash donations to IPCs qualify for a 250% tax deduction under section 37(3) of the Income Tax Act.

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The guidelines for IPCs set out a five-step summary of IPCs' involvement with regard to BIPS:

1. Identify areas of needs and priorities
2. Select businesses with which to collaborate
3. Reach an agreement, before provision of services by the business
4. Evaluate the services received
5. Submit BIPS data to IRAS

IPCs appear to be given a fair amount of autonomy in their administration of the scheme; and the onus is on them to verify the business's expenditure claims. IPCs are encouraged to perform due diligence to ensure that the claims are reasonable and they have the right to refuse to endorse expenditure items if the business is unable to provide proof of the declared expenditure amount.

Businesses should also be aware that the IPC's endorsement of their claims does not guarantee that they will receive a corresponding tax deduction. Claims are still subject to the IRAS's verification, and it is the business, not the IPC, which will bear the consequences of any incorrect claims as it is the taxpayer claiming a deduction. The business/taxpayer will be denied the tax deduction and may have to bear penalties for wrongful claims. No penalties will be imposed on the IPC, although its expenditure cap for the year will not be reinstated in the event that the IRAS subsequently disallows tax deduction in the hands of the business/taxpayer.

### ***Conclusion***

Businesses and IPCs will stand to benefit from this scheme. Businesses which are planning corporate responsibility programmes for their employees should consider approaching their IPC partners for endorsement under the scheme. On the other hand, certain IPCs which may have enjoyed less support in the past may find it easier to access volunteer services. Lastly, individuals who volunteer with IPCs of their own accord may find their employers more supportive of their volunteer efforts.

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## ***Your PwC contacts***

If you would like to discuss any of the issues raised, please get in touch with your usual PwC Contact or any of the individuals listed below.

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