Enterprise Innovation Scheme

31 August 2023

In brief

The Inland Revenue Authority of Singapore (IRAS) has published a circular on the Enterprise Innovation Scheme (EIS) on 30 June 2023 to provide further details of the scheme first introduced in Budget 2023. The EIS aims to encourage businesses to engage in research and development ("R&D"), innovation and capability development activities by providing enhanced deductions or allowances for qualifying expenditure. There is also the option to substitute the deduction claims for a cash payout. Legislation giving effect to the EIS is expected to be introduced in Parliament shortly.

In detail

The enhanced and new deductions/allowances (collectively referred to as "enhanced deductions/ allowances") are granted for qualifying expenditure incurred on the following activities:

a) Qualifying R&D activities undertaken in Singapore;
b) Registration of intellectual property ("IPs");
c) Acquisition and licensing of IP rights ("IPRs");
d) Training; and
e) Innovation projects carried out with polytechnics, the Institute of Technical Education ("ITE") or other qualified partners.

Businesses engaging in these activities can enjoy up to 400% tax deductions for the first $400,000 of qualifying expenditure incurred for each of the four categories (a) to (d), and on the first $50,000 for the last activity category (e). In addition, eligible businesses may opt to convert, for each YA, up to $100,000 of the total qualifying expenditure incurred on qualifying activities into cash at a conversion rate of 20%[1].

Key points to note on the EIS circular are:

- The expenditure cap mentioned above is applied for each YA.
- The EIS deductions or allowances are net of any Government grant or subsidy.
- Any excess EIS deductions or allowances can be carried forward, carried back and set off under group relief, subject to conditions under the relevant sections of the Income Tax Act 1947 ("ITA").

[1] A minimum expenditure of $400 is required to elect for cash payout.

- The cash payout may be claimed on one or more activities and once an amount of qualifying expenditure is converted, the same expenditure is no longer available for tax deduction or allowance. The decision to convert the expenditure into cash is irrevocable. In addition, taxpayers must meet certain conditions, such as carrying on an eligible business and having at least three full-time local employees for at least six months in the basis period.

  - Additional conditions are also imposed on activities relating to registration of IPs and acquisition and licensing of IPRs such that where the IP registration process straddles over two or more basis periods the total cost should only be converted to cash when the registration is completed.

  - For IPRs acquired under instalment arrangements, taxpayers can claim enhanced deductions on repayments extending beyond the basis period for the last qualifying YA 2028, so long as the qualifying IPR is acquired during the qualifying period from YAs 2024 to 2028.

  - There is a minimum ownership period of one year for enhanced deductions claimed for registered or acquired IPRs, failing which claw-back provisions apply. Taxpayers are required to submit the Enterprise Innovation Scheme (EIS) – Disposal of Intellectual Property Rights Form together with their tax returns. Where cash payout has been opted, they should notify the IRAS using the same form within 30 days of the disposal.

- There are certain administrative matters to be observed:

  - For enhanced deductions to be made, the claim procedures for companies versus sole-proprietors and partners is different. Companies can make the claim when filing their tax returns, but sole-proprietors and partners in a partnership are required to submit their claims through the IRAS portal, after they have filed their tax returns, but before the relevant tax filing due date for the relevant YA.

  - When opting for the cash payout, eligible taxpayers are required to make the election in the IRAS portal after they have filed their tax returns but before the tax filing due date for the relevant YA. As the online application service for the cash payout will be made available to taxpayers only after their filing status is successfully updated in the IRAS system, sole-proprietors and partners that file paper tax returns are advised to submit their returns early to avoid missing the deadline for the submission of the payout application.

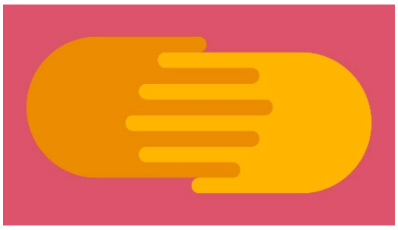
- The IRAS may select the taxpayers for audit review subsequently. Taxpayers should ensure adequate records of the qualifying activities and expenditure are maintained.

PwC's comments

While it is perhaps inevitable that a comparison will be drawn against the erstwhile PIC Scheme, it is important to note that the EIS is a more targeted programme.

With the EIS, the amount of tax deduction or allowance is increased to 400% of the qualifying expenditure up to the relevant threshold depending on the nature of the activity. Taxpayers may be encouraged to undertake R&D activities in Singapore given the more generous deductions under the EIS, albeit there being an expenditure cap of S$400,000. Nevertheless, one should note that the issue of whether an item of expenditure constitutes a qualifying R&D expense remains an area of contention between taxpayers and the IRAS. Taxpayers who want to avail of the EIS benefit should ensure that they are able to explain that their R&D activities can fall within the section 14C definition and the documentation to support their claims can meet the standards set by the IRAS.

Businesses that do not have sufficient profits to benefit from the tax deductions should opt for cash payout. However, sole-proprietors and partnerships who file paper returns will find their tax filing deadline is effectively brought forward as the IRAS requires time to update the taxpayers' filing status before the online application service for the cash payout can be made available to them.



Contact us

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