



Tax Updates in Singapore

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TAX



Singapore Budget 2008: R&D Incentives

- **Enhanced Tax Deduction for Expenses Incurred on R&D**
- **R&D Tax Allowance**
- **R&D Tax Incentive for Start-Up Enterprises (RISE)**

Singapore's Previous Tax Environment for IP

IP Creation

- R&D expenses (including outsourced expenses) relating to existing trade deductible (s14D)
- Double tax deduction for R&D (s14E, s14J)
- Deduction for R&D cost-sharing payments (s19D)

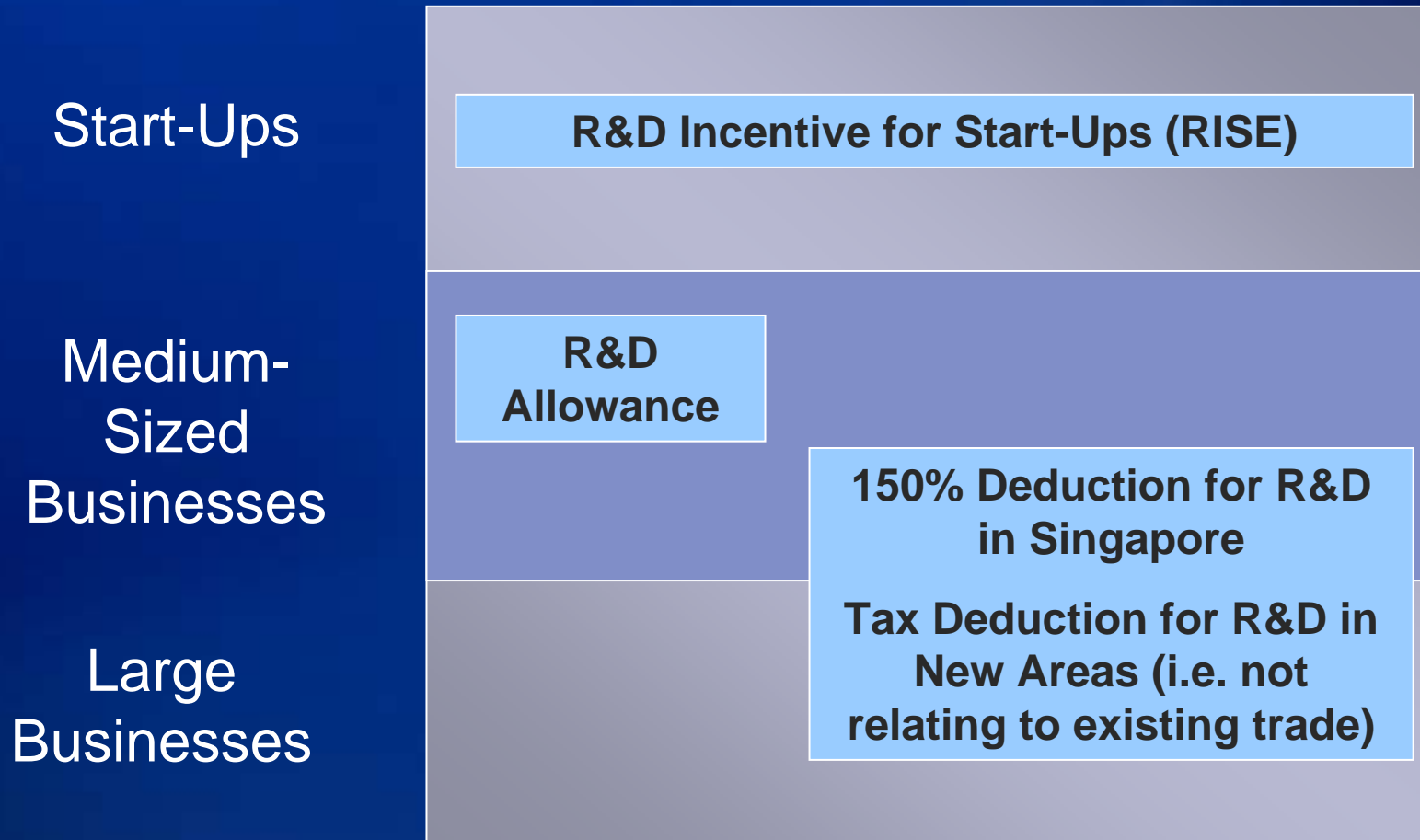
IP Protection & Acquisition

- Patenting costs tax deductible (s14A)
- 5-yr straight line amortisation of acquired IP

IP Exploitation

- Approved Royalties Incentive (withholding tax exemption for outgoing royalties)
- Preferential tax rate for IP activities
- Extensive DTA network (> 50 countries)
- Minimal exit costs (absence of capital gains tax regime)

New incentives to encourage pervasive R&D



Enhanced Tax Deduction for Expenses Incurred on R&D

- **Proposed Changes**

- Removal of the requirement that R&D activities must be related to a company's existing business
- 100% deduction for R&D undertaken outside Singapore
- 150% deduction for R&D undertaken inside Singapore
- Given on due claim (no pre-approval application required), subject to agreement with the Inland Revenue

- **The Income Tax (Amendment) Bill**

Section 14D

- Acceptance of the removal of the above requirement
- 100% deduction for in-house non-trade-related R&D undertaken in Singapore
- 100% deduction for payment to R&D organisation for R&D undertaken in Singapore if such R&D is related or unrelated to trade or business
- 100% deduction for payment to R&D organisation for R&D undertaken outside Singapore if such R&D is related to trade or business

Enhanced Tax Deduction for Expenses Incurred on R&D (cont'd)

- **The Income Tax (Amendment) Bill** (cont'd)

Section 14DA

- Additional 50% deduction of the qualifying R&D expenses undertaken in Singapore
- A specified percentage of payment to R&D organisation in which provided that such activities are undertaken in Singapore

Section 14E

- Removal of the requirement that R&D activities must be related to a company's existing business
- Further deduction for in-house/outsourced non-trade-related R&D of an approved R&D project undertaken in Singapore
- The total deduction of an approved R&D project undertaken in Singapore is capped at max. 200% of such expenditure incurred

R&D Tax Allowance

● Proposed Changes

- Tax concession to encourage companies to invest in R&D
- Allowance amounting to 50% of the first \$300,000 of income chargeable to income tax
- Allowance can be used to offset taxable income in subsequent years of assessment if incur *incremental* expenditure on R&D carried out in Singapore
- Given on due claim, subject to agreement with Inland Revenue

● The Income Tax (Amendment) Bill

Section 37G

- R&D Tax Allowance capped at S\$450,000 per year is granted if the company derives chargeable income for any YA between YA 2009 and YA 2013
- Such allowance can be offset against company's chargeable income for any YA between YA 2010 and YA 2016

R&D Tax Incentive for Start-Up Enterprises (RISE)

● Proposed Changes

- For companies within the first three years of assessment, choice of
 - Conversion of up to S\$225,000 of tax losses into cash grants at 9% of tax losses (i.e. S\$20,250)
 - Carrying forward their losses to offset against future years' taxable profits (capped at S\$150,000 of qualifying R&D expenditure incurred)
- Given on due claim, subject to agreement with Inland Revenue

● The Income Tax (Amendment) Bill

Section 37H

- Cash grant up to S\$20,250 granted for qualifying start-up company which has incurred at least S\$150,000 of qualifying R&D expense undertaken in Singapore
- The scheme is applicable only to qualifying R&D expense incurred for any YA between YA 2009 and YA 2013

Summary of Incentives for R&D

Tax Incentives

- R&D Incentive for Start-ups
- R&D Allowance
- 150% deduction for R&D undertaken in Singapore
- 100% deduction for R&D undertaken outside Singapore
- Deduction for R&D unrelated to existing trade
- Double tax deduction for approved R&D projects (administered by EDB, MAS)

Financial Incentives

- Research Incentive Scheme for Companies (RISC)
 - Administered by EDB
 - Provides partial funding support (30-50%) for approved R&D projects

Transfer Pricing Issues in Singapore

- The IRAS released Transfer Pricing Guidelines (TPG) in February 2006
- Adopts the arm's-length principle as the standard for all related-party transactions (local and cross-border)
- Taxpayer should exert reasonable efforts to undertake a sound transfer pricing analysis
- TPG states that the extent of the documentation effort should be balanced between the need to show that the arm's-length principle has been complied with, and the costs of compliance

Transfer Pricing Issues in Singapore (cont'd)

- **The IRAS released Transfer Pricing Consultation in July 2008**
 - Assessing the level of compliance with TPG
 - Assisting and advising taxpayers on good transfer pricing practices
- **The IRAS released Supplementary Administrative Guidance on Advance Pricing Arrangement (APA)**
 - Facilitating acceptance and discussion of an APA application
 - Addressing the circumstances for “roll-back” years application
 - Setting out the circumstances for discontinuation of APA process



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