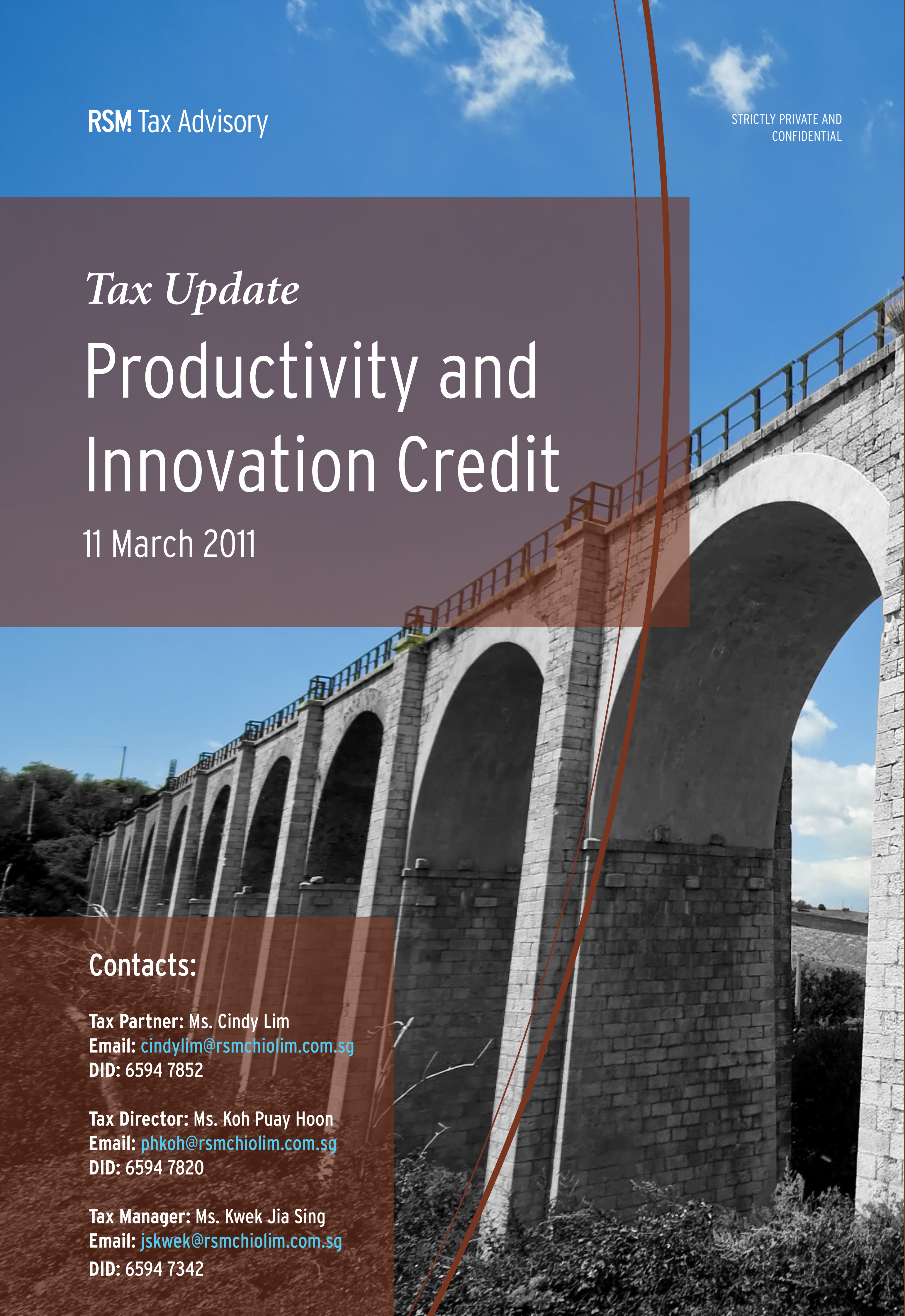

RSM! Tax Advisory

STRICTLY PRIVATE AND CONFIDENTIAL

Tax Update

Productivity and Innovation Credit

11 March 2011

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Productivity and Innovation Credit

The Productivity and Innovation Credit ("PIC") was first introduced during the 2010 Budget. It is available for the Year of Assessment ("YA") 2011 to YA2015.

The PIC is a broad-based tax scheme to encourage businesses to invest in productivity and innovation. It enhances the tax measures that existed before PIC was introduced and consolidates the various measures into one single PIC scheme.

Current legislative details before the 2011 Budget enhancements were announced on 18 February 2011

Qualifying Activities	Tax measures before PIC was introduced	Enhancements under PIC[1] For YA 2011 to YA 2015
1. Expenditure on acquisition or leasing of prescribed automation equipment	100% accelerated capital allowance claim over one year or 100% deduction as normal expenditure	• Additional 150%, making it a total of 250%, capital allowance or deduction, on the first $300,000 of qualifying expenditure incurred per qualifying YA • 100% capital allowance or deduction on qualifying expenditure incurred in excess of $300,000
2. Expenditure on acquisition of Intellectual Property Rights ("IPRs")[2]	Writing-down allowance over five years	• Scope expanded to include acquisition of plant variety • Additional 150%, making it a total of 250%, writing-down allowance on the first $300,000 of qualifying expenditure incurred per qualifying YA • 100% writing-down allowance on qualifying expenditure incurred in excess of $300,000
3. Expenditure on registration of certain IPRs[2]	100% deduction for patenting costs incurred	• Scope expanded to include registration costs incurred for trade mark, design and plant variety • Additional 150%, making it a total of 250%, deduction on the first $300,000 of qualifying expenditure incurred per qualifying YA • 100% deduction on qualifying expenditure incurred in excess of $300,000

[1] A combined expenditure cap of $600,000 for enhanced deductions under PIC applies for each category of activity for YA 2011 and YA 2012 only.
[2] To claim enhanced allowance or deduction under PIC, the Singapore company needs to acquire the legal and economic ownership of the IPR.

4. R&D expenditure	Up to 150% deduction for qualifying expenditure incurred on R&D in Singapore	• Additional 100%, making it a total of up to 250%, deduction for the first $300,000 qualifying expenditure incurred on R&D in Singapore per qualifying YA • Up to 150% deduction on qualifying expenditure in excess of $300,000 incurred on R&D in Singapore
	Deduction for incremental qualifying expenditure on R&D	• To be phased out with effect from YA 2011 • R&D tax allowance ceases to be credited to R&D tax allowance account from YA 2011 • R&D tax allowance credited to R&D tax allowance account for YA 2009 and YA 2010 may be drawn down up to YA 2016, subject to existing conditions • R&D tax allowance not utilized by YA 2016 is disregarded
	Cash grant for qualifying R&D expenditure for start-up companies	• To be consolidated under PIC from YA 2011 • Cash grant option remains available for YA 2009 and YA 2010
5. Training expenditure	100% deduction as normal expenditure	• Additional 150%, making it a total of 250%, deduction on the first $300,000 of qualifying expenditure incurred per qualifying YA • 100% deduction on qualifying expenditure incurred in excess of $300,000
6. Design expenditure – Require prior approval from DesignSingapore Council in order to claim enhanced deduction		

Enhancements and changes to the PIC scheme announced by the Minister of Finance in his 2011 Budget Speech on 18 February 2011 to further encourage pervasive innovation and raise productivity efforts. These changes are to take effect from YA 2011 to YA 2015

Qualifying activities	Qualifying expenditure	Total deductions or allowances	
		Pre-Budget announcement	Post- Budget announcement
1. Investments in automation	Cost incurred to acquire/ lease prescribed automation equipment (per IRAS listing of qualifying automation equipment)	250% - on first $300,000 100% - on balance	400% - on first $400,000 100% - on balance
2. Acquisition of Intellectual Property (“IP”)	Cost incurred to acquire any IP for use in trade or business	250% - on first $300,000 100% - on balance	400% - on first $400,000 100% - on balance
3. Registration of IP	Cost incurred to register patents, trademarks, design and plant variety	250% - on first $300,000 100% - on balance	400% - on first $400,000 100% - on balance
4. R&D expenditure	Staff costs and consumables for qualifying R&D activities	250% - on first $300,000 150% - on balance (for R&D done in Singapore only)	400% - on first $400,000 (R&D done in and out of Singapore) 150% - on balance (if R&D done in Singapore) 100% - on balance (if R&D done overseas)
5. Training	Costs of external training and accredited Workforce Development Agency (“WDA”) and Institute of Technical Education (“ITE”) in-house training	250% - on first $300,000 100% - on balance	400% - on first $400,000 100% - on balance
6. Investments in design	Cost incurred in Singapore to create new products and industrial designs	250% - on first $300,000 100% - on balance	400% - on first $400,000 100% - on balance

In addition, businesses will be allowed to combine the $400,000 expenditure cap for each qualifying activity into a new ceiling of $1,200,000 for YA 2013 to YA 2015. Combined expenditure caps for each qualifying activity are now:

- $800,000 for YA 2011 and YA 2012
- $1,200,000 for YA 2013 to YA 2015

Cash Conversion Option

Under the PIC scheme, a cash conversion option is also provided. This option is designed to benefit small businesses with low or no taxable income. For this group of taxpayers, the Government is also encouraging them to invest in innovation and productivity improvement.

Eligible businesses are allowed to convert their eligible deductions and allowances into cash subject to an overall cap.

In his Budget Speech on 18 February 2011, the Minister of Finance announced a simpler and enhanced cash conversion option which supersedes the cash option details announced last year. The enhanced cash conversion option rules are summarized in the Table below.

Eligibility	Businesses with at least three local employees (i.e. Singaporeans or Singapore permanent residents with Central Provident Fund contributions)
Applicable YA	YA 2011 to YA 2013
Cash conversion rate	May convert qualifying expenditure of up to $100,000 (minimum of $400) for each applicable YA into cash at 30%
Qualifying expenditure cap	$100,000 for each of the YA 2011 to YA 2013 for all the qualifying activities taken together For YA 2011 and 2012 only, may combine two YAs expenditure cap (i.e. $200,000)
Maximum cash payout	YA 2011 and 2012 (combined) - $60,000 ($200,000 x 30%) YA 2013 - $30,000 ($100,000 x 30%)
Taxability of the cash payout received	Not taxable
When to apply	Anytime after accounting year-end but not later than the tax return filing due date
Documents required	A completed PIC Cash Payout Application Form and the supporting schedules
Revocability of the option	Irrevocable once opted to receive cash
Minimum holding period if the qualifying expenditure relates to qualifying equipment / IP registration/IP acquisition	• One year for qualifying equipment and IP application/ registration fees • Five years for IP acquisition If the minimum holding period is not met, enhanced deductions and/or cash payout will be clawed back or recovered

Tax Deferral Allowed if PIC Expenditure Is Incurred

To ease cash flow for businesses, if they invest in productivity, the Inland Revenue Authority of Singapore allow the deferment of current year's tax payment to the following year. Details are reflected in the Table below.

Eligibility	All taxpayers		
Applicable YA	YA 2011 to YA 2014		
Tax that may be deferred	Lower of (a) and (b)		
	(a) Tax for YA	(b) Qualifying PIC expenditure incurred in financial year	Tax Deferred and payable in YA
	2011	2011	2012
	2012	2012	2013
	2013	2013	2014
	2014	2014	2015
Maximum tax that may be deferred	$100,000		

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