

The R&D-related income tax changes are:

(a) Enhanced Tax Deduction for Expenses Incurred on R&D

- An increase from 100% to 150% in tax deduction for R&D expenses on R&D done in Singapore
- For example, for every \$100,000 of qualifying expenses on R&D done in Singapore, \$150,000 can be claimed as a tax deduction against the business' taxable income.

(b) R&D in Areas Unrelated to Existing Business

- Tax deduction for R&D expenses can be claimed even if the R&D is not related to the taxpaying entity's existing trade or business.
- This will benefit businesses intending to do R&D in unrelated fields e.g. a manufacturing company doing R&D in order to venture into satellite business.

(c) R&D Tax Allowance (RDA) for Companies

- This is a tax concession meant to encourage companies to invest in R&D.
- Companies will be granted RDA amounting to 50% of the first \$300,000 of taxable income (i.e. amount of RDA granted each year of assessment is capped at \$150,000 per year).
- The allowance can be used to offset taxable income in a subsequent year of assessment if they spend more on R&D done in Singapore.

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

- A grant scheme for R&D intensive start-ups that incur losses in any of their first three years of assessment.
- The scheme enables loss making start-ups spending annually at least \$150,000 on R&D activities in Singapore to convert up to \$225,000 of tax losses arising from the R&D expenditure to cash grants. This conversion is done at a rate of 9%, which translates to a grant of up to \$20,250 from the government.
- Alternatively, start-ups can choose not to convert their tax losses into grants and instead, carry forward their losses to offset against future years' taxable profits.

These measures are effective from the year of assessment 2009 to year of assessment 2013 (both years inclusive)



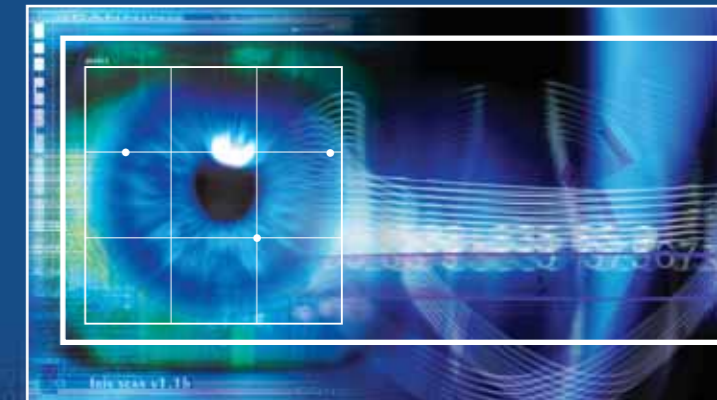
**ENCOURAGING
INNOVATION IN
ALL BUSINESSES,
BIG AND SMALL**

Where can I get more information?

More details of the various R&D tax concessions can be found in IRAS' circular "Research and Development Tax Measures" which can be found at www.iras.gov.sg (under the e-Tax Guides Quick link).

Tax concessions to encourage Research & Development (R&D)

R&D is a key driver for Singapore's economic development and is an important foundation for fostering our long-term competitiveness. The government has made a major boost to the tax system to encourage pervasive R&D in Singapore, among all businesses big and small. Significant enhancements to R&D tax incentives have been introduced.



Steps to determine if your R&D project can qualify for the new measures

STEP 1: Is your R&D done in Singapore?

To qualify for any of the new R&D measures, the R&D projects must be done in Singapore. The R&D can either be performed by the taxpaying entity or the project can be contracted to an R&D organization in Singapore. If your R&D is done in Singapore, proceed to Step 2.

STEP 2: Does your R&D fall outside the following exclusion list?

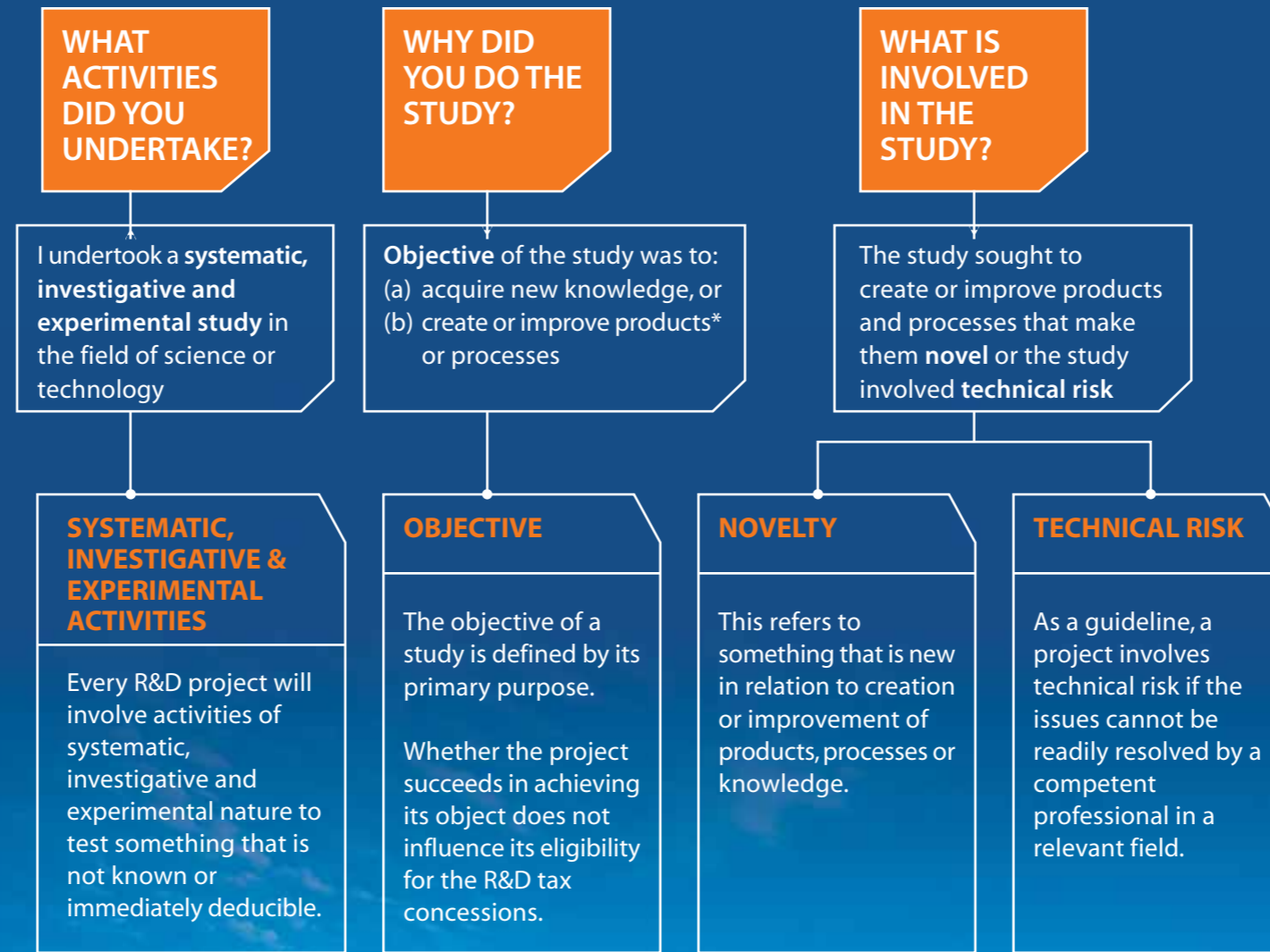
To qualify for any of the new R&D measures, the R&D must fall outside the list of specified excluded activities, as follows:

- (a) quality control or routine testing of materials, devices or products;
- (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 to materials, devices, products, processes or production methods;
- (g) cosmetic modifications or stylistic changes to materials, devices, products, processes or production methods; or
- (h) development of a computer software that is not intended to be sold, rented, leased, licensed or hired to 2 or more persons who are not related parties to each other¹, and to the person who develops the software or on whose behalf the development of the software is undertaken.

If your R&D falls outside the exclusion list, proceed to Step 3.

¹For this purpose, a person is a related party to another if he, directly or indirectly, controls the other person, or is controlled, directly or indirectly, by the other person, or where he and the other person, directly or indirectly, are under the control of a common person.

STEP 3: How do I know that my project is a qualifying R&D project?



Activities that support the R&D work may qualify for the R&D tax concessions if they are undertaken wholly or mainly for the purpose of the qualifying R&D project.

*"Products" includes materials, devices and services.

How do I claim for these R&D tax concessions?

You do not need to apply to any government agencies to qualify for the scheme. You can instead do a self-assessment of their eligibility for the schemes based on the guidelines issued by the Inland Revenue Authority of Singapore and make the relevant claims in their annual income tax returns.

Examples of what may qualify as R&D for the new R&D tax benefits

[Note: The examples in this section are simplified, and assume that no such products or process currently exist.]

i. Using new materials to improve functionality of existing products.

A manufacturer creates a new light-weight yet durable and environmentally-friendly material to produce mountaineering boots. The R&D involved identifying potential raw materials, systematically testing the materials using non-traditional methodologies and leveraging on new technology to assess the suitability of the new material for the production of the mountaineering boot.

ii. Patent awarded.

The business successfully developed a product, which is patented. Evidence of patenting gives strong evidence that the project involved novelty.

iii. Fundamentally changing the physical characteristics (beyond changes that are merely cosmetic) of products.

Creating an alternative process to develop yogurt on a stick - turning yogurt into frozen form that can be attached to a stick and produced commercially can involve technical risk if such a process for doing so is unknown. There will be a systematic, experimental and investigative process to arrive at the actual method of making yogurt freeze in a manner that preserves taste and nutrition, and yet suitable for export to overseas markets.