KPMG

Incentive Snippets

Issue 3 | Exclusion of Intellectual Property (IP) Income from Pioneer Certificate Incentive (PC) and Development and Expansion Incentive (DEI)

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Pursuant to Singapore's participation in the Inclusive Framework for the global implementation of measures against base erosion and profit shifting (BEPS), PC and DEI will exclude the coverage of IP income to achieve consistency with international standards.

This will affect all PC and DEI awards for activities other than production and manufacturing. These changes come alongside the announcement of a new Intellectual Property Development Incentive (IDI), which will incorporate the BEPS-compliant modified nexus approach, with roll-out date to be announced by the end of 2017.

In this issue, we highlight the key features and implications of the exclusion of IP income from PC and DEI.

The key features of the upcoming changes are as follows:

1. **Introduction timeline:** With effect from *1 July 2021*, IP income will be excluded from the scope of PC and DEI awards. This will apply to new and existing approved awards. The Singapore Economic Development Board (EDB) will announce a *cut-off date* by the end of 2017 for new entrants to PC and DEI, in relation to the exclusion of IP income.

2. **IP income to be excluded:** The definition of IP would likely follow that of section 19B of the Singapore Income Tax Act. After the cut-off date to be announced by EDB, the following IP income will be excluded from the scope of PC and DEI for new entrants:
   (a) IP income of both new and extension awards approved after the cut-off date;
   (b) IP income from new IP assets owned after the cut-off date for existing approved awards. IP income from IP assets acquired from a related party would be subject to certain

anti-avoidance requirements.

3. **PC and DEI awards to be affected:** The changes to exclude IP income will apply to PC and DEI for awards on activities other than production or manufacturing. Hence, companies which have been awarded a PC or DEI for production or manufacturing activities should not be affected by these changes

Implication for businesses

Existing companies which have been awarded a PC or DEI for non-production / manufacturing activities (e.g. services) could be affected by the upcoming changes. These companies should consider reviewing their incentive awards and compliance processes to determine the impact of the changes on their tax obligations, and to ensure that IP assets and the corresponding IP income can be tracked separately from qualifying income under PC or DEI.

Companies seeking for tax incentive support should evaluate the relevance of PC or DEI and the new IDI, and understand the compliance requirements of these changes. Companies with existing PC and DEI awards and new entrants (including those seeking extension of incentives) should also consider the implications before and after the cut-off date. For example, it is important to be able to identify and track IP assets and their corresponding IP income before and after the cut-off date.

Details of the IDI are still being considered by EDB and will be released by EDB at a later date.

We hope you find the information useful. If you need any further clarification, please contact us.

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