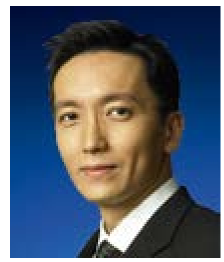
KPMG

Incentive Snippets

Issue 6 | Singapore Budget 2018: Enhancement of the R&D tax incentive



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The Research and Development (R&D) tax incentive was introduced by the Singapore government in the year of assessment (YA) 2009 to encourage pervasive innovation across all industries in Singapore. In Budget 2011, the Productivity and Innovation Credit (PIC) Scheme was introduced to provide enhanced tax deductions for certain qualifying activities, amongst which includes R&D activities.

The R&D Tax Incentive has been a successful scheme, with more than 1,500 companies successfully claiming benefits under the incentive.

With the expiry of the PIC scheme in YA2018, the R&D tax incentive would have reverted to 150% tax deduction.

KPMG has made several submissions to the Ministry of Finance to review and enhance the scheme to support businesses in their innovation journey. We are happy that Budget 2018 has announced to increase the enhanced R&D tax deduction to 250% with effect from YA2019.

Budget 2018 proposal

- With effect from YA2019, the R&D tax incentive for local R&D would be enhanced, from the existing 150% tax deduction to 250% tax deduction for qualifying R&D expenditure. This would be available till **YA 2025.**

  While KPMG had proposed enhancing the incentive to 300%, the 250% tax deduction is still significant - it translates to tax benefits of 42.5 cents to every dollar of R&D expenditure incurred by companies.

- The following table compares Singapore's R&D tax incentive with that of some other countries investing heavily in boosting innovation. With the enhanced R&D tax deduction, Singapore will have one of the **most competitive R&D regimes globally**.

Country	Type of Incentive	Benefits* (As a percentage of R&D Expenditure)		CIT rate
		Large Companies	SMEs	
Hong Kong	Enhanced tax deductions	Up to 49.5%	Up to 49.5%	16.50%
Singapore (with new enhanced R&D tax deduction scheme)	**Enhanced tax deductions**	**42.50%**	**42.50%**	**17%**
Australia	Tax Credit	38.50%	43.50%	27.5 to 30%
Ireland	Tax Credit and Enhanced tax deductions	37.50%	37.50%	12.50%
China	Enhanced tax deductions	37.50%	37.50%	25%

**Benefits include tax deduction for R&D expenditure, calculated based on standard corporate tax rate of the respective countries.*

- However, the enhanced R&D tax incentive does not provide for a cash grant support for businesses, which has been crucial for smaller companies to kick start their R&D journey.
- Overseas R&D expenditure is also not included in the enhanced R&D tax incentive from the YA 2019, which may hamper companies from tapping on expertise not readily available in Singapore, or where Singapore does not have the facilities to accommodate such R&D.

We will continue to provide representation to the Ministry of Finance to consider the above issues.

There are other measures to support more firms to innovate. Please visit the KPMG Budget 2018 website for more information.

How we can help

KPMG's Enterprise Incentives Advisory team is a multi-disciplinary team comprising of specialists from various industry backgrounds who can help evaluate whether your projects qualify for the R&D tax incentive and assist with the preparation of your R&D tax claim. If your company incurs R&D expenditure, it will be potentially beneficial to explore claiming the R&D tax incentives. Please contact us to discuss.

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