

Incentive Snippets



Issue 8 | Tap on the R&D PIC Scheme before it expires in 2018

In [Incentive Snippets Issue 6](#), we have touched on the enhancement of the Research and Development (R&D) tax incentive as announced in Budget 2018 from year of assessment (YA) 2019 onwards.

In this issue, we touch on why businesses are highly encouraged to tap on the Productivity and Innovation Credit (PIC) scheme that is set to expire in 2018.

Forfeiture of unused entitlement:

- The PIC Scheme expires in YA2018. Any unused amount under the PIC Scheme will be **forfeited**. Businesses should consider maximizing their entitlement under the PIC in YA2018 as it is more lucrative than the R&D tax incentive from YA2019 onwards.

See table for the key differences:

	YA 2018	YA2019 to YA2025
R&D Tax Deduction	Up to 400% (tax benefit of 68 cents to every dollar) on first \$1.2m over YA2016 to YA2018	Up to 250% (tax benefit of 42.5 cents to every dollar)
Cash Grant	Up to \$60,000 for \$100,000 of qualifying expenditure	No Cash Grant
Supports Overseas R&D Expenditure?	Yes (up to \$1.2m over YA2016 to YA2018)	No , only support local R&D expenditure



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See table for an illustration of their tax benefits:

R&D Qualifying Expenditure	Total R&D tax benefits (based on 17% tax rate)	
	YA2018	YA2019 to YA2025
\$100,000	\$68,000 (\$100,000 x 400% x 17%) Or Up to \$60,000 of Cash Grant (\$100,000 x 60%)	\$42,500 (\$100,000 x 250% x 17%)

- Businesses undertaking qualifying R&D activities are therefore **highly encouraged** to file R&D tax claims (must be filed together with the annual tax returns) for **YA2018**.

The following are some areas of claim that businesses often overlook:

- (a) R&D taken under cost-sharing arrangements;
- (b) Overseas R&D Costs;
- (c) Projects done for customers.

Further details of the R&D under the PIC Scheme:

For YAs 2016 to 2018, taxpayers are entitled to the following enhanced tax deductions for qualifying R&D expenditure:

- 400 percent tax deduction for the first \$400,000 or \$600,000 (PIC+ scheme) of qualifying expenditure per YA.
- 150 percent tax deduction for qualifying expenditure in excess of \$400,000 or \$600,000 (PIC+ Scheme), with no upper limit on the amount of qualifying expenditure.

As a concession, taxpayers are allowed to combine the annual expenditure cap of \$400,000 or \$600,000 (PIC+ Scheme) under the PIC R&D Scheme into a combined expenditure cap of \$1,200,000 or \$1,800,000 (PIC+ Scheme) for YAs 2016 to 2018.

The PIC+ Scheme is available to small and medium size enterprises (SMEs) with turnover of not more than \$100 million or employment size of not more than 200.

PIC Cash Payout (Cash Grant)

Companies may opt for a non-taxable cash payout of up to \$60,000 (for qualifying expenditure incurred before 1 August 2016) or up to \$40,000 (for qualifying expenditure incurred on or after 1 August 2016), for the first \$100,000 across all qualifying activities under the PIC Scheme per YA, in lieu of the enhanced tax deductions.

Do you qualify?

Below are some high level 'indicators' of R&D activities:

- Money invested in new systems to provide enhanced services to customers;
- Projects that did not get implemented for technical reasons;
- Applying technologies or systems used in one industry to another industry through R&D;
- Using technologies to deliver service in new ways.

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 to evaluate whether your projects qualify for the R&D tax incentive and assist with the preparation of your R&D tax claims.

If your company incurs R&D expenditure, it will be potentially beneficial to explore claiming the R&D tax incentives. Please feel free to contact us for further discussion.

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