Tax alert

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Budget 2023: New scheme, enhanced incentives to boost R&D, innovation

Enterprise Innovation Scheme

In Singapore's Budget 2023, Deputy Prime Minister and Finance Minister Mr Lawrence Wong introduced a new Enterprise Innovation Scheme (EIS) to encourage businesses to engage in research and development (R&D), innovation and capability development activities.

Key features of the scheme include:

- significantly enhanced tax deductions for five key activities in the innovation value chain: 1) local R&D activities, 2) registration of intellectual property (IP), 3) acquisition and licensing of IP rights (for companies with less than S$500 million revenue), 4) innovation projects carried out with partner institutions, and 5) qualifying training courses aligned to the Skills Framework
- 400% tax deductions/ allowances on first S$400,000 of qualifying expenditure per year of assessment (YA) for each activity (except for item 4, which is capped at S$50,000)
- eligible companies may opt for a non-taxable cash payout at a conversion rate of 20% in lieu of tax deductions/allowances, capped at S$20,000 per YA across all five key activities

The new scheme will be valid from YA 2024 to YA 2028. Companies should take advantage of the new scheme to invest in innovation, and anchor R&D and intellectual properties in Singapore.

Enhancement of the R&D tax incentive

Under the EIS, the existing R&D tax incentive will be significantly enhanced.

Introduced by the Government in YA 2009, the R&D tax incentive encourages pervasive innovation across all industries in Singapore. It currently allows up to 250% tax deduction and was due to expire in YA 2025.

In the lead-up to the Budget, KPMG in Singapore submitted several recommendations to review and enhance the scheme to support businesses in their innovation journey.

Reaffirming the Government's commitment to encouraging R&D activities locally, the enhanced deduction rate will be increased from 250% to 400% with effect from YA 2024.

Under the enhanced scheme, the additional 300% tax deduction is applicable for the first S$400,000 of qualifying R&D expenditure per YA (as illustrated in the table below).

The R&D tax incentive scheme has also been extended till YA 2028.

Summary of tax treatments before and after the introduction of the EIS

Changes to enhanced tax deduction rates:

Amount of enhanced tax deductions granted before YA 2024	Amount of enhanced tax deductions granted from YA 2024 to YA 2028
• 250% tax deduction on qualifying expenditure	• 400% tax deduction on the first S$400,000 of qualifying R&D expenditure per YA • 250% tax deduction on the remaining qualifying R&D expenditure in excess of S$400,000

Sample calculation of tax benefits:

	Before YA 2024	From YA 2024 to YA 2028
Qualifying R&D expenditure	S$500,000	S$500,000
Calculation of incremental tax benefits (in addition to the 100% base deduction)	S$500,000 x 150% x 17%	S$400,000 x 300% x 17% + S$(500,000 − 400,000) x 150% x 17%
Potential incremental tax benefits (based on 17% tax rate)	S$127,500	S$229,500
Increase in tax benefits	S$229,500 − S$127,500 = S$102,000	

Submission of R&D claims

R&D tax claims are to be submitted on a yearly basis together with the Company's tax return before the tax filing deadline of 30 November for each YA. The qualifying R&D expenditure should be based on expenditure incurred in the prior Financial Year (FY).

Companies should note that it is important to provide sufficient information to help substantiate their R&D claims (i.e. how the project fulfils the definition of "R&D"). The provision of sufficient project information to substantiate the R&D project can potentially facilitate the Inland Revenue Authority of Singapore's (IRAS) assessment of the project's eligibility. Otherwise, IRAS may require further clarification which may demand additional time and resources from companies.

Key project information to be indicated in the R&D Claim Form includes elaboration and documentation on technical objectives, novelty or technical risk, and systematic, investigative and experimental (SIE) study in a field of science or technology.

The intention of the enhancement is to encourage businesses, especially small and medium-sized enterprises (SMEs) and large local enterprises (LLEs), to invest in R&D. Companies should take the opportunity to access the benefits of the R&D tax incentive if they are undertaking qualifying R&D activities.

Aside from in-house technology and product development, research projects undertaken in collaboration with universities (e.g. NUS, NTU) and research institutions (e.g. A*STAR), as well as technology development projects supported by other government grants, are also examples of potential qualifying R&D projects.

How we can help

KPMG in Singapore has a dedicated R&D and Incentives Advisory team with extensive experience in R&D tax incentives and grants. Our multidisciplinary team comprises professionals from various fields, including science, technology, finance and tax.

We can swiftly assess and evaluate your projects' potential qualification for the R&D tax incentive and assist with the preparation of your R&D tax claim according to IRAS requirements.

If your company incurs R&D expenditure, it will be potentially beneficial to explore claiming the R&D tax deductions. We welcome any opportunity to discuss the relevance of the above matters to your business. Please contact us to discuss them in more detail.

Authors

Harvey Koenig
Partner
R&D and Incentives Advisory
T: +65 6213 7383
E: harveykoenig@kpmg.com.sg

Lee Bo Han
Partner
R&D and Incentives Advisory
T: +65 6508 5801
E: bohanlee@kpmg.com.sg

Contact us

Ajay K Sanganeria
Partner
Head of Tax
T: +65 6213 2292
E: asanganeria@kpmg.com.sg

BANKING & INSURANCE

Alan Lau
Partner
Head of Financial Services, Tax
T: +65 6213 2027
E: alanlau@kpmg.com.sg

ENERGY & NATURAL RESOURCES, TELECOMMUNICATIONS, MEDIA & TECHNOLOGY

Gordon Lawson
Partner
Head of Energy & Natural Resources, Tax
T: +65 6213 2864
E: glawson1@kpmg.com.sg

Harvey Koenig
Partner
T: +65 6213 7383
E: harveykoenig@kpmg.com.sg

Mark Addy
Partner
T: +65 6508 5502
E: markaddy@kpmg.com.sg

INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

Chiu Wu Hong
Partner
Head of IGH & Manufacturing, Tax
T: +65 6213 2569
E: wchiu@kpmg.com.sg

Pauline Koh
Partner
T: +65 6213 2815
E: paulinekoh@kpmg.com.sg

Yong Jiahao
Partner
T: +65 6213 3777
E: jiahaoyong@kpmg.com.sg

REAL ESTATE & ASSET MANAGEMENT

Teo Wee Hwee
Partner
Head of Real Estate, Tax, Head of Asset Management & Family Office
T: +65 6213 2166
E: weehweeteo@kpmg.com.sg

Agnes Lo
Partner
T: +65 6213 2976
E: agneslo1@kpmg.com.sg

Anulekha Samant
Partner
T: +65 6213 3595
E: asamant@kpmg.com.sg

Andy Baik
Partner
T: +65 6213 3050
E: andybaik1@kpmg.com.sg

Pearlyn Chew
Partner
T: +65 6213 2282
E: pchew@kpmg.com.sg

Evangeline Hu
Partner
T: +65 6213 2597
E: evangelinehu@kpmg.com.sg

TRANSFER PRICING CONSULTING

Felicia Chia
Partner
Head of Transfer Pricing
T: +65 6213 2525
E: fchia@kpmg.com.sg

Lee Jingyi
Partner
T: +65 6213 3785
E: jingyilee@kpmg.com.sg

Denis Philippov
Partner
T: +65 6213 2866
E: denisphilippov@kpmg.com.sg

Yong Sing Yuan
Partner
T: +65 6213 2050
E: singyuanyong@kpmg.com.sg

Contact us

INDIRECT TAX

Elaine Koh
Partner
T: +65 6213 2212
E: elainekoh@kpmg.com.sg

Sharon Cheong
Principal Advisor
T: +65 6213 2599
E: sharoncheong@kpmg.com.sg

Gan Hwee Leng
Principal Consultant
T: +65 6213 2813
E: hweelenggan@kpmg.com.sg

CORPORATE TAX PLANNING & COMPLIANCE

Mak Oi Leng
Partner
Head of Corporate Tax
Planning & Compliance
T: +65 6213 7319
E: omak@kpmg.com.sg

Lim Geok Fong
Principal Advisor
T: +65 6213 2799
E: geokfonglim@kpmg.com.sg

Audrey Wong
Principal Advisor
T: +65 6213 2863
E: audreywong@kpmg.com.sg

TAX GOVERNANCE

Pauline Koh
Partner
T: +65 6213 2815
E: paulinekoh@kpmg.com.sg

TAX TECHNOLOGY & TRANSFORMATION

Catherine Light
Partner
T: +65 6213 2913
E: catherinelight@kpmg.com.sg

GLOBAL COMPLIANCE MANAGEMENT SERVICES

Cristina Alvarez-Ossorio
Partner
T: +65 6213 2688
E: cristinaalvarez@kpmg.com.sg

PERSONAL TAX & GLOBAL MOBILITY SERVICES

Anna Low
Partner
Head of Personal Tax &
Global Mobility Services, Tax
T: +65 6213 2547
E: alow@kpmg.com.sg

Lee Yiew Hwa
Principal Advisor
T: +65 6213 2866
E: yiewhwalee@kpmg.com.sg

Garren Lam
Principal Advisor
T: +65 6213 3019
E: garrenlam@kpmg.com.sg

FAMILY OFFICE & PRIVATE CLIENTS

Teo Wee Hwee
Partner
Head of Asset Management
& Family Office
T: +65 6213 2166
E: weehweeteo@kpmg.com.sg

MANAGED SERVICES

Larry Sim
Partner
Head of Managed Services, Tax
T: +65 6213 2261
E: larrysim@kpmg.com.sg

PROPERTY TAX & DISPUTE RESOLUTION

See Wei Hwa
Partner
T: +65 6213 3845
E: wsee@kpmg.com.sg

Leung Yew Kwong
Principal Advisor
T: +65 6213 2877
E: yewkwongleung@kpmg.com.sg

R&D AND INCENTIVES ADVISORY

Harvey Koenig
Partner
T: +65 6213 7383
E: harveykoenig@kpmg.com.sg

Lee Bo Han
Partner
T: +65 6508 5801
E: bohanlee@kpmg.com.sg

TAX – DEALS, M&A

Adam Rees
Partner
T: +65 6213 2961
E: adamrees@kpmg.com.sg

Contact us

INDIA TAX SERVICES

Bipin Balakrishnan
Partner
T: +65 6213 2272
E: bipinbalakrishnan@kpmg.com.sg

US TAX SERVICES

Andy Baik
Partner
Head of US Tax Desk
T: +65 6213 3050
E: andybaik1@kpmg.com.sg

Curtis Ottley
Partner
T: +65 6213 3611
E: curtisottley@kpmg.com.sg

Joon Choi
Principal Advisor
T: +65 6508 5636
E: joonchoi1@kpmg.com.sg

Nicole Li
Principal Advisor
T: +65 6213 3388
E: nicoleli4@kpmg.com.sg

About our tax alerts

KPMG's tax alerts highlight the latest tax developments, impending change to laws or regulations, current practices and potential problem areas that may impact your company. As certain issues discussed herein are time-sensitive, it is advisable to make plans accordingly.

Tax alerts are issued exclusively for the information of clients and staff of KPMG Services Pte. Ltd. and should not be used or relied upon as a substitute for detailed advice or a basis for formulating business decisions. Read more of KPMG in Singapore's insights and perspectives here.

KPMG
12 Marina View, #15-01
Asia Square Tower 2
Singapore 018961
T: +65 6213 3388
F: +65 6225 0984
E: tax@kpmg.com.sg

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