Tax alert

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Refundable Investment Credit (RIC)

In Budget 2024, the Singapore government announced the introduction of the Refundable Investment Credit. The Budget announcement contains some key details of the scheme, with more details expected to be released by the 3rd quarter of 2024. Meanwhile, the draft Income Tax Amendment Bill 2024 released on 10 June 2024 for public consultation introduces draft legislative provisions for the implementation of the RIC by way of a new Section 93B. This Tax Alert provides an update on the RIC based on these draft legislative provisions.

Background on the RIC

With the implementation of the Base Erosion and Profit Shifting (BEPS) Pillar 2 rules in Singapore from financial years commencing on or after 1 January 2025, the RIC was introduced to enhance Singapore's competitiveness for investments and encourage businesses to invest in high value and substantive economic activities.

Prior to the announcement of the RIC, there were concerns raised by the business community in Singapore that Pillar 2 – which introduces a global minimum effective tax rate of 15% on in-scope MNE groups – would negate the benefits of Singapore's tax incentives. To address this, the 2024 Budget Statement stated that the RIC is intended to meet the requirements of a Qualified Refundable Tax Credit scheme in accordance with the Global Base Erosion (GloBE) rules under Pillar 2. This would mean that, when compared to other tax incentives, the RIC should be minimally or less impacted by the GloBE rules.

The RIC is a type of refundable tax credit scheme which grants businesses with tax credits based on qualifying spending to offset against corporate tax liabilities. These tax credits may be paid out in cash within 4 years from when the business satisfies the relevant conditions for the incentive.

The RIC also seeks to cover a wider range of activities, beyond just R&D, innovation and sustainability-related activities seen in similar tax credit schemes around the world.

Summary of RIC provisions and key observations

The following table provides our initial observation of the key features announced in the 2024 Singapore Budget Statement and draft legislative provisions of the RIC contained in the draft Income Tax Amendment Bill 2024.

Feature	Key details	Comments
Application process	The RIC will be given on an approval basis. Businesses will have to apply to EDB or Enterprise Singapore to avail of the scheme.	There will be substantive economic conditions attached to each RIC award. As these conditions will depend on type of industry the business is involved in and the type of activity to be covered under the incentive, we do not expect any guidelines to be released on the specific conditions for each activity or industry.
Supported activities	The scheme will be available to high value and substantive economic activities such as: i. Investing in new productive capacity (e.g., new manufacturing plant, production of low-carbon energy); ii. Expanding or establishing the scope of activities in digital services, professional services, and supply chain management; iii. Expanding or establishing headquarter activities, or Centres of Excellence; iv. Setting up or expansion of activities by commodity trading firms; v. Carrying out R&D and innovation activities; and vi. Implementing solutions with decarbonisation objectives.	At this time, we understand that the RIC is not available to certain regulated industries such as banking and insurance services. We hope that the government would consider including these industries in future. The list of qualifying activities will be set out in the Regulations that will be issued subsequently. As the business environment will change over time, we hope that the list of activities would be updated from time to time with new business activities that may arise in future.
Expenditure-based incentive	The RIC is awarded on qualifying expenditures incurred by the company in respect of a qualifying project, during the qualifying period that will be specified in the letter of award. Based on the Budget announcement, RIC can be granted on up to 50% of the qualifying expenditure. The letter of award will specify the support level for each category of expenditure.	The support level will depend on type of project and expenditure. As there are many different incentive schemes available, businesses should compare the benefits under the different schemes before deciding on which incentive to apply for.
Qualifying period	Each RIC award will have a qualifying period of up to 10 years Each award may cover multiple activities related to the same project Tenure may commence anytime from 1 July 2024	Tenure of awards will depend on the type of project and activities. As the tenure of the awards may commence from 1 July 2024, businesses that are interested in applying for the incentive should commence discussions with the EDB or Enterprise Singapore.

Feature	Key details	Comments
How credits can be used	The credits can be offset against Corporate Income Tax, DTT and MTT* liabilities. Any unutilised credits will be refunded to the company in cash within four years from when the company satisfies the conditions for receiving the credits. Awardee companies may be allowed to use the tax credits to offset against taxes of other companies that are part of the same group, subject to approval. All companies within the group for this purpose must either be Singapore-incorporated companies or Singapore branches of companies incorporated overseas. Companies within the same group are defined similar to existing group relief provisions, that is, the transferor and claimant must: • have at least 75% of the total number of issued ordinary shares in one company beneficially held, directly or indirectly, by the other; or • have at least 75% of the total number of issued ordinary shares in each of the 2 companies beneficially held, directly or indirectly, by a third Singapore company Subsidiary legislation will be drafted to enable this.	It is very welcome that the government has decided that the credits can also be offset against any DTT and MTT liability. In addition, the tax credits can be offset against any corporate tax penalties, surcharges or interest payable. However, the credits cannot be used to offset withholding taxes as withholding taxes are considered the tax liability of the non-resident person. It is also welcome that the credits can also be used to offset against taxes of other companies within the same group, as DTT liability is based on GloBE income of all constituent entities in Singapore. However, it should be noted that the definition of constituent entities for DTT purposes is different from group relief purposes – for example, there is no need for a common Singapore parent to be a considered a constituent entity for DTT purposes, and ownership threshold for DTT purposes is less than 75%. * DTT: Domestic Top-Up Tax MTT: Multinational top-Up Tax (Singapore's Income Inclusion Rule)
Election for cash refunds	Awardee companies can elect to have the RIC paid out in cash fully or partially earlier than 4 years, but this will be subject to approval and conditions set out by EDB or Enterprise Singapore. The payable date will be specified in the letter of award and should be within 4 years after the date of the letter of confirmation is given. Election to be made no later than 90 days before the payment date.	The election for up front cash refunds is a welcomed feature as it will help to strengthen the foreign parent's (or if relevant the intermediary holding company's) foreign tax credit claims in the respective jurisdiction (e.g. the US).

<table>
<tr><th>Feature</th><th>Key details</th><th>Comments</th></tr>
<tr><td>Qualifying expenditure</td><td>The Budget 2024 announcement stated that depending on project type, qualifying expenditure categories may include:
i. Capital expenditure (e.g. building, civil and structural works, plant and machinery, software);
ii. Manpower costs;
iii. Training costs;
iv. Professional fees;
v. Intangible asset costs;
vi. Fees for work outsourced in Singapore;
vii. Materials and consumables; and
viii. Freight and logistics costs.</td><td>The amount of the qualifying expenditure equivalent to the RICs given is treated as expenditure subsidised by a grant from the Government. Accordingly, capital allowance and tax deduction claims will be adjusted to exclude the amount equivalent to the RIC amounts.

The R&D enhanced deductions under Section 14D (including under EIS) will be available on the amount not covered by the RIC. For example, if RIC support level is 30%, the remainder 70% not supported by RIC should be eligible for the enhanced R&D deductions under Enterprise Innovation Scheme and Section 14D.

It is unclear whether the RIC would be taxable. We would expect clarification on this matter in due course.

The draft legislation does not state what intangible asset costs may comprise, including whether it is limited to the Section 19B categories of intellectual property rights.</td></tr>
<tr><td>Administrative procedures</td><td>The draft Income Tax Amendment Bill sets out the procedures relating to the RIC claim. Subsequent to the issue of the award letter, to claim the RIC after incurring the qualifying expenditure, the following procedures will apply:
1. The awardee company will apply to EDB or Enterprise Singapore for an amount of RICs as stated in the letter of award corresponding to the amount and type of the expenditure incurred. The awardee company must apply within a period before the claim date as specified in the letter of award.
2. If the EDB / Enterprise Singapore is satisfied, a letter of confirmation will be issued specifying the amount of RICs to be claimed.
3. Based on the letter of confirmation, the RICs given will be credited to an RIC account.
4. If the awardee company did not make an election to receive RICs in cash, the Comptroller will use RICs in its RIC account to offset its corporate tax, MTT or DTT liability. It is unclear whether the awardee company will need to specify the order of set off.</td><td>This process is welcome as it will offer more certainty to companies on the amount of RIC to be allowed, especially as the RIC amount will be relevant for multiple tax filings, including for Singapore corporate tax, MTT and DTT purposes.

However, at this time, it is unclear if external auditors will be required to certify the expenditure - there may be additional costs involved if audit certification is required. It is also hoped that alternatives to audit certification could be considered, such as declaration from directors.

We expect that the EDB and Enterprise Singapore will provide more details subsequently on the administrative procedures.</td></tr>
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Other considerations

In considering the RIC, businesses would need to consider the accounting and BEPS Pillar 2 implications, including any impact on substance-based income exclusion. Businesses should undertake appropriate multi-year GloBE simulations to model the tax impact of any potential RIC award.

As the provisions of the draft Income Tax Amendment Bill are currently subject to public consultation, and the EDB and Enterprise Singapore is expected to issue further details in the 3rd quarter of 2024, the above comments will be updated in a subsequent Tax Alert.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

KPMG's R&D and Incentives Advisory team and BEPS specialists can support clients with undertaking strategic reviews of clients' current incentives, support discussions with government agencies on incentive applications and undertake multi-year GloBE impact analysis to model effects of existing and potential incentives.

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