

Tax alert

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Singapore's Refundable Investment Credit

In an ever-changing tax landscape, the Refundable Investment Credit (RIC) encourages new investments in strategic growth sectors underpinned by high-value and substantive economic activities.



Singapore: Joining the masses on Pillar 2

Multinational Enterprises (MNEs) globally would have started to feel the impact of the additional requirements that have come with the introduction of Base Erosion and Profit Shifting (BEPS) 2.0 Pillar Two Rules. With the implementation of the Domestic Minimum Top-up Tax (DMTT) and Income Inclusion Rule (IIR) with effect from 1 January 2025¹ in Singapore, we take a look at how Singapore's incentive programs are aligned with the underlying principles of the BEPS 2.0 Pillar Two Rules. The agreement was signed by more than 135 countries² of the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on 8 October 2021, representing more than 95% of global GDP. Since then, over 30 countries have already introduced BEPS 2.0 Pillar Two Rules in respect of minimum taxation in 2024, including the European Union (EU) Member States, Japan, Korea, Australia and the United Kingdom (UK) amongst others. Accordingly, it will apply to many companies for financial years commencing on or after 1 January 2024.

The vast majority of jurisdictions opted to implement from 2025, including Singapore and the majority of the ASEAN jurisdictions. Based on the current drafting of the Singapore's legislation, Singapore's DMTT is expected to be a 'qualified' DMTT for BEPS 2.0 Pillar Two purposes which meets the requirement of Qualified Domestic Minimum Top-up Tax (QDMTT) safe harbour.

It is also worthwhile noting that a number of G20 countries including United States (US), China, India had negotiated carve-outs and delayed implementation of the main BEPS 2.0 Pillar Two Rules. Notwithstanding that the US has recently announced its departure from the BEPS 2.0 Global Tax Deal, being a key player in the international tax landscape, they had previously implemented a similar minimum tax regime, known as the Global Intangible Low-Taxed Income (GILTI) rules in 2017.

1. On 10th June 2024, the Ministry of Finance released the proposed Multinational Enterprise (Minimum Tax) Bill and subsidiary legislation to implement a DMTT and IIR for BEPS 2.0 Pillar Two purposes.

2. The total number of countries that have joined the OECD/G20 Inclusive Framework as of May 2024 is 147.

It is no secret that the introduction of a global minimum taxation was intended, in part, to curb the race to the bottom on corporate tax rates provided by countries and ensure that multinational enterprises pay a fair share of tax wherever they operate and generate profits in today's digitalised and globalised world economy. While there is a general consensus that certain jurisdictions would be more impacted by top-up taxes under the BEPS Pillar Two Rules than others, **there is no doubt that jurisdictions can – and will – continue to use fiscal measures to attract investments which are aligned with key policy objectives.**

The concession from the minimum tax: Qualified Refundable Tax Credits

Examples of concessions which are written into the BEPS Pillar Two Rules include the Substance-based Income Exclusion (SBIE)³ and the Qualified Refundable Tax Credit (QRTC)⁴.

The SBIE in the BEPS Pillar Two Rules is an apt example of the OECD's recognition of the importance of economic substance in the assessment of non-harmful tax competition. On the other hand, the QRTC appears to acknowledge the important role that substance-based incentives play in any jurisdiction's fiscal policy, despite the concerns around reduced headline tax rates and outright exemptions.

The above aside, it should be noted that Singapore's existing incentive programs have always been based on the principles of substance and value creation/transfer of knowledge in Singapore. **In fact, during the execution of BEPS Action Plan 5 under BEPS 1.0, Singapore's tax incentives⁵ were assessed by the OECD's Forum on Harmful Tax Practices (FHTP)⁶ to be non-harmful⁷ and recognised that Singapore tax incentives meet international tax standards and anchor substantive economic activities in Singapore⁸.**

“Our incentives keep to robust principles and are administered in-line with international standards. Businesses are attracted to Singapore as a stable, trusted and innovative environment to implement growth strategies and substantive activities.” – Singapore Economic Development Board

Reduced tax rate incentives may have been perceived by the OECD to grant disproportionate benefits to taxpayers relative to the economic substance and value created. However, it would be interesting to assess the benefit of any QRTC regime where jurisdictions are unable to afford the upfront cost of QRTCs which may be relevant for large infrastructure projects in the developing world.

Treatment of QRTCs under the BEPS Pillar Two Rules

Under the BEPS Pillar Two Rules, QRTCs are treated as income and, hence, would not reduce the quantum of covered taxes in calculating any top-up tax in Singapore. Of course, there are specific principles that the QRTCs must meet, including that the refundable amount is not linked to any tax liability.



3. Article 5.3 of the BEPS Pillar Two Rules - The substance-based income exclusion is a carve-out for expenditure on tangible fixed assets and payroll costs.

4. Article 3.2.4 of the BEPS Pillar Two Rules - QRTC is a credit that becomes refundable as cash or cash equivalent within four years from when the conditions under the laws of the jurisdiction granting the credit are met.

5. Development and Expansion Incentive – Services, Pioneer Service Company, Aircraft Leasing Scheme, Finance and Treasury Centre, Insurance Business Development, Financial Sector Incentive, Global Trader Programme, and Maritime Sector Incentive.

6. FHTP reviews preferential regimes that apply to income from geographically mobile activities, such as financial and other service activities. Preferential regimes designed to attract investment in plant, building and equipment are outside the scope of FHTP review. In its review, the FHTP considers whether a preferential regime is harmful.

7. <https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/harmful-tax-practices/harmful-tax-practices-consolidated-peer-review-results-on-preferential-regimes.pdf>

8. [https://www.mof.gov.sg/news-publications/press-releases/Singapore-s-Tax-Incentives-Meet-International-Standards-on-Countering-Base-Erosion-and-Profit-Shifting-\(BEPS\)-Activities](https://www.mof.gov.sg/news-publications/press-releases/Singapore-s-Tax-Incentives-Meet-International-Standards-on-Countering-Base-Erosion-and-Profit-Shifting-(BEPS)-Activities)



Are QRTCs really a new concept? The existing and developing credits

Many jurisdictions, including some of the G20 countries, have already adopted similar refundable tax credit schemes which are also closely aligned to the QRTC. For example:

- **UK** – The creative industry tax reliefs have been redesigned to become QRTCs from January 1, 2024 (previously operating as deductions against taxable profit). Note that the UK further enhanced the existing QRTC (R&D Expenditure Credit) by increasing the rate from 13 percent to 20 percent for expenditure from April 1, 2023.
- **Ireland** – amended its R&D tax credit to ensure that it is considered a QRTC for Pillar Two and US foreign tax credit purposes. Changes are that (i) companies now have the option to request payment without offsetting against other tax liabilities first and (ii) current limits on the payable element of the credit have been removed.
- **Belgium** – The Pillar Two law in Belgium includes changes to the Belgian Income Tax Act whereby the period within which the R&D tax credit become refundable is shortened to four years (previously five years), to align the regime with the criteria for a Qualified Refundable Tax Credit. As a result of these changes, R&D tax credit can be used in the current year and carried forward for three assessment years (instead of four assessment years) at the election of the taxpayer. Any non-deductible amount will be refunded after four assessment years (instead of five assessment years). The modified R&D tax credit is applicable as from assessment year 2025.
- **Switzerland** – Various cantons are considering introducing incentives regime aligned with Pillar Two. Some have already published draft law or have even passed parliamentary approval. Respective proposals have been published in the Cantons of Basel-Stadt, Grisons and Zug. These cantons are considering introducing either grants or QRTC – mostly related to environmental sustainability and research, development and innovation.
- **Norway** - The Pillar Two bill provides for a 19 percent tax refund for certain eligible expenses related to R&D projects. According to the bill, the regime should qualify as a QRTC.
- **Hungary** - The adopted Pillar Two implementation bill introduces a new R&D tax credit. The credit generally amounts to 10 percent of eligible R&D expenses (capped at a certain amount per taxpayer and per project, depending on the type of activity) and subject to variations in case of joint research projects with higher education institutions. Taxpayers are entitled to receive a cash refund where the credit has not been used against the corporate income tax liability within a period of four years. According to the bill, the credit will be considered a QRTC.



Singapore's pitch in the new tax landscape

The Refundable Investment Credit (RIC) encourages new investments in strategic and pioneering activities. It is a refundable tax credit which would be awarded on an approval basis for a period of up to 10 years, on up to 50% of qualifying expenditure. This formula of targeting investments in strategic growth sectors underpinned by high-value and substantive economic activities should be familiar to companies accustomed to operating in Singapore's pro-business environment. **In that regard, the RIC is granted to support qualifying project expenditure based on clear eligibility criteria, and is not related to any actual or expected tax liabilities arising in Singapore.**

The misperception that the RIC was introduced as a response to BEPS 2.0 Pillar Two should be dispelled as the RIC is open to all applicants that meet the qualifying conditions, irrespective of whether the applicants are impacted by BEPS 2.0 Pillar Two. Accordingly, as an expenditure-based concession, the RIC is a good fit for Singapore's marketing toolkit.

"Singapore offers competitive opportunities for companies in advancing new growth or expansion plans. We welcome discussions on potential areas of support for building capabilities and capacity in Singapore." – Singapore Economic Development Board

The shifting trend toward increased incentives and QRTCs is clear, and countries are encouraged to explore such opportunities which balance both the international commitment under BEPS Pillar Two and the interests of global taxpayers.

What's next?

Singapore, as a longstanding centre of governance with a proven track record of responsible tax policies, should continue to remain a prime location for MNE groups and investors.

Of course, this will not be the last shift in the international tax landscape. There also remains room to further encourage economic substance on the ground in Singapore and in other countries. As talks at the UN for a Framework Convention on International Tax Cooperation continue to develop, all countries should start looking into non-tax measures like developing advanced infrastructure and better government support on the facilitation of investments.

How we can help

In the meantime, companies may approach the KPMG Singapore team for a better understanding on the requirements of the RIC, and assistance with kickstarting conversations with the Economic Agencies in Singapore. Companies may also seek insights from the KPMG Singapore team on solutions for efficiency in tax processes, and how the BEPS 2.0 rules would apply to existing or future group operations.

Authors

Gordon Lawson

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

Mark Addy

Partner
Energy & Natural Resources and Telecommunications, Media & Technology, Tax
T: +65 6508 5502
E: markaddy@kpmg.com.sg

Denis Philippov

Partner
Transfer Pricing
T: +65 6213 2866
E: denisphilippov@kpmg.com.sg

Harvey Koenig

Partner
Energy & Natural Resources and Telecommunications, Media & Technology, Tax
T: +65 6213 7383
E: harveykoenig@kpmg.com.sg

Mohit Agarwal

Director
Energy & Natural Resources and Telecommunications, Media & Technology, Tax
T: +65 9780 2642
E: mohitagarwal1@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

Lum Kah Wai

Partner
T: +65 6213 2690
E: kahwailum@kpmg.com.sg

ENERGY & NATURAL RESOURCES AND 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 AND MANUFACTURING

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

Chris Roberts

Partner
T: +65 6411 8923
E: christopherroberts@kpmg.com.sg

Leo Yang

Partner
T: +65 6213 3721
E: leoyang5@kpmg.com.sg

Yong Jiahao

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

REAL ESTATE & ASSET MANAGEMENT

Teo Wee Hwee

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

Anulekha Samant

Partner
Co-Head of Real Estate & Asset Management, Tax
T: +65 6213 3595
E: asamant@kpmg.com.sg

Agnes Lo

Partner
T: +65 6213 2976
E: agneslo1@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

Contact us

TRANSFER PRICING

Felicia Chia

Partner
Head of Transfer Pricing, Tax
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

INDIRECT TAX

Elaine Koh

Partner
Head of Indirect Tax
T: +65 6213 2300
E: elainekoh@kpmg.com.sg

Sharon Cheong

Partner
T: +65 6213 2399
E: sharoncheong@kpmg.com.sg

CORPORATE TAX PLANNING & COMPLIANCE

Audrey Wong

Partner
Head of Corporate Tax Planning
& Compliance, Tax
T: +65 6213 2010
E: audreywong@kpmg.com.sg

Lim Geok Fong

Principal Advisor
T: +65 8118 1129
E: geokfonglim@kpmg.com.sg

TAX GOVERNANCE

Pauline Koh

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

TAX TECHNOLOGY & TRANSFORMATION

Lee Bo Han

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

TAX REIMAGINED

Catherine Light

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

Abad Dahbache

Partner
T: +65 6213 2034
E: abadullahdahbache@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

Murray Sarelius

Partner
Head of Personal Tax &
Global Mobility Services, Tax
T: +65 6213 2043
E: murraysarelius1@kpmg.com.sg

Barbara Kinle

Partner
T: +65 6213 2033
E: bkinle@kpmg.com.sg

Eugenia Tay

Partner
T: +65 6213 2039
E: eugeniatay@kpmg.com.sg

Garren Lam

Principal Advisor
T: +65 9728 1502
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

Pearlyn Chew

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

MANAGED SERVICES

Larry Sim

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

Contact us

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

Lee Bo Han

Partner

T: +65 6508 5801

E: bohanlee@kpmg.com.sg

TAX – DEALS, M&A

Julie Garside

Partner

T: +65 6213 2013

E: juliegarside@kpmg.com.sg

Adam Rees

Partner

T: +65 6213 2961

E: adamrees@kpmg.com.sg

BASE EROSION AND PROFIT SHIFTING (BEPS)

Andy Baik

Partner

Co-Head of BEPS COE

T: +65 6213 3050

E: andybaik1@kpmg.com.sg

Harvey Koenig

Partner

Co-Head of BEPS COE

T: +65 6213 7383

E: harveykoenig@kpmg.com.sg

TRADE AND CUSTOMS

Shafiqah Binte Abdul Samat

Principal Advisor

T: +65 8518 7867

E: shafiqahabdulsamat@kpmg.com.sg

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

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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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