

ISCA-SIATP Annual Tax Forum

Practical Insights to Maximum Benefits for SMEs

9 July 2014, Wednesday



IRAS Assistant Commissioner Wilson Ong (2nd from left) was part of the high-level panel that provided greater clarity on the government schemes available for SMEs; with him at the Q&A session were (from left): Mazars LLP Senior Consultant Dominique Kon-Sun-Tack; EY Partners Chai Wai Fook and Tan Bin Eng, and moderator Prof Sum Yee Loong.

Small and medium-sized enterprises (SMEs) stood to gain the most at the recent tax forum jointly organised by ISCA and the Singapore Institute of Accredited Tax Professionals (SIATP).

The jam-packed half-day session mirrored an earlier fully-subscribed session which focused only on the Productivity and Innovation Credit (PIC) and PIC+ Schemes. Both sessions reflected the general market sentiments of business owners and proactive tax agents wanting to know how to further tap into benefits applicable to their (or their clients') businesses, especially in such a competitive business environment.

Maximise Benefits through R&D

One obvious scheme for SMEs to leverage is the PIC or PIC+ Scheme. While the bulk of the claims have been for the acquisition or leasing of IT and automation equipment and training of employees, businesses should consider tapping into the less popular categories such as R&D activities, acquisition or in-licensing of intellectual property rights (IPRs), registration of IPRs and design projects approved by DesignSingapore Council. These account for less than 3% of PIC claims in YA2012.

In addition to 400% tax deductions on qualifying expenditure incurred on R&D activities on the first \$400,000 or \$600,000 of qualifying expenditure under the PIC and PIC+ Schemes respectively, businesses will also be entitled to an additional 50% deduction on the balance expenditure under section 14DA of the Income Tax Act (ITA) for R&D that is conducted in Singapore. There is no cap on the maximum qualifying expenditure incurred by businesses on R&D activities eligible for the additional 50% deduction, and this tax incentive has been extended to YA2025.

Alternatively, R&D projects approved by the Singapore Economic Development Board will be eligible for 200% deduction on qualifying expenditure under section 14E of the ITA which has been extended to 31 March 2020. In general, businesses can only leverage on either one of the above given that the legislation currently limits the expenditure from a R&D project in Singapore to a maximum of 200% tax deduction. Typically, businesses will choose to go for the additional 50% deduction under section 14DA as it is on a self-assessment basis.

R&D is defined as any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the object of acquiring new knowledge or using

the results of the study for the production or improvement of materials, devices, products, produce or processes. The qualifying R&D project should also not fall under Inland Revenue Authority of Singapore's (IRAS) exclusion list.

Expenditures such as staff costs, employee training and certification (in respect to the R&D project) and consumables will be eligible for enhanced or additional deductions while capital allowance and overhead costs are not eligible expenditures.

Businesses should also consider claiming 400% allowances on the first \$400,000 or \$600,000 of PIC qualifying expenditure incurred on the acquisition of prescribed IPRs for use in its trade or business under section 19B of the ITA. There are eight categories of IPRs, namely patent, copyright, trademark, registered design, geographical indication, lay-out design of integrated circuit, trade secret or information with commercial value and plant variety. It is thus important that businesses determine that the IPR they are purchasing falls within the list.

Tips for SMEs Claiming PIC Benefits

As businesses need to self-assess their eligibility for the PIC+ Scheme, it is important for businesses to understand upfront the documentation requirements needed to verify their status as a qualifying SME.

A case in point are businesses which receive periodic invoices from their IT vendor for services rendered, where there may simply be a brief one-line description for the types of services rendered for a specific period. If, for example, the invoice is for the leasing of IT and automation equipment as well as IT support services, businesses should request vendors to provide a detailed breakdown in the invoice. This is because the leasing of IT and automation equipment will qualify for PIC benefits while the portion relating to IT support services will not. In addition, businesses need to be mindful of Singapore withholding tax requirements on such payments.

Secondly, businesses should also evaluate whether it is more beneficial to elect for the PIC cash payout through a basic comparison of which option provides a better outcome for them. It should be noted that businesses which elect for the PIC cash payout should not claim enhanced tax deductions or allowances on the same expenditure.

Thirdly, businesses should also be mindful of any deals which are "too good to be true", such as those that suggest that the government will "pay" the business vendors or where the terms of payment are only upon receipt of the PIC bonus from the government. In such cases, businesses should exercise caution, and professional advice should be sought.

There have been cases of abuse in PIC claims. IRAS has stepped up efforts to deter and detect PIC frauds with the set-up of a task force last August. Against such a backdrop, it is critical for taxpayers to engage the services of a professional tax agent (preferably an accredited one!) for professional advice and ensure that they are complying with Singapore's tax laws.

ICV Scheme

Another scheme that is most apt for SMEs is the Innovation & Capability Voucher (ICV) Scheme. For SMEs embarking on their next phase of growth, the ICV Scheme facilitates SMEs in upgrading and strengthening of their core business operations by providing consultancy resources in the areas of innovation, productivity, human resources and financial management.

Since 22 July 2014, the scope of supportable productivity solutions under the ICV Scheme has been updated. SMEs are encouraged to take up Integrated Solutions, which are easy-to-adopt packaged solutions that combine hardware and equipment, software and/or training components.

By tapping into schemes that aid businesses in developing their capabilities in the core areas of their operations as well as schemes that boost the supporting functions such as training, R&D and capitalising on technology, SMEs are one step closer to their next phase of growth.

A word of caution: Do seek professional advice to put you on a sure footing.

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About the Speakers/Panellists:

Ms Tan Bin Eng

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Bin Eng leads a team that is dedicated to assisting clients on their R&D claims and incentive negotiations with authorities in Singapore and the region. She has helped numerous multinational companies in their business incentive assessment, business plan presentation, incentive application and negotiations with the Singapore or Asean authorities.

Her team has helped companies from various industries to negotiate and secure multiple-years tax incentives and cash grants to improve the returns of their investments in Singapore.

Tapping into her past experience with the Singapore Economic Development Board, Bin Eng has, in her current capacity, assisted clients and been involved in a range of projects, which include headquarters, financial and treasury, manufacturing, procurement hub, international trading and R&D.

Mr Chai Wai Fook

Partner, Tax Services, Ernst & Young Solutions LLP

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Wai Fook specialises in corporate and international tax and is actively involved in negotiations with the Inland Revenue Authority of Singapore for tax rulings and advising clients on international and corporate tax planning for outbound and inbound investments. Wai Fook has worked with clients across different sectors including food and beverage, media and entertainment, technology, construction and commodity trading. His practical experience extends beyond advising clients and he also lectures at the Tax Academy of Singapore and speaks at external seminars.

A first-class honours graduate of the Nanyang Technological University's Accountancy degree coupled with in-depth practical experience, Wai Fook is the chief examiner for the Singapore Taxation subject of the Institute of Chartered Secretaries and Administrators International Qualifying Scheme.

Mr Wilson Ong

Assistant Commissioner, Inland Revenue Authority of Singapore

Wilson started his career in the then Inland Revenue Department and has progressed to being a key member of the management team within the tax authority. He currently heads the Corporate Tax Division.

Over the years, Wilson has worked in various departments within IRAS, including Individual Income Tax Division, Enforcement Division, Accounting and Processing Division, Goods and Services Tax Division, Tax Policy and International Tax Division, Corporate Development Division, Compliance Strategy and Risk Division, Investigation and Forensics Division and InfoComm Division.

Ms Julia Chew

Manager, Inland Revenue Authority of Singapore

Julia has worked for the Inland Revenue Authority of Singapore for 14 years. She began her career in IRAS at the Taxpayer Services Division, handling queries on tax clearance and charities before moving on to the Corporate Tax Division.

She currently leads the team in Corporate Tax Division that organises PIC seminars and provides advice to companies, particularly the small and medium-sized enterprises, on how they can benefit from the PIC scheme.

Mr Dominique Kon-Sun-Tack
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From process improvement to internal investment projects; from Singapore to China, Dominique has led and implemented a myriad of consultancy projects. Most notably, he is an established consultant for process improvement.

With experience in leading and implementing multi-faceted operational improvement programmes in the areas of stock planning, debt recovery and reducing working capital, Dominique has also acquired experience in project analysis for infrastructure projects which include technology review and calculation of investment rate of return. In addition, Dominique has implemented various management systems for organisations to boost business efficiencies in various key areas such as quality, health and safety and enterprise risk management.

Professor Sum Yee Loong

Professor of Accounting, Singapore Management University

Accredited Tax Advisor (Income Tax & GST)

Honorary Technical Advisor, Institute of Singapore Chartered Accountants

Prof Sum Yee Loong was Tax Partner in Deloitte Singapore from 1987 - until his retirement in May 2011. With more than 30 years of experience in Singapore and international taxation with multinationals and local companies across various industries, Yee Loong's expertise include devising strategies and leading tax review teams to create and identify tax saving opportunities; structuring and restructuring for IPOs; international tax planning and advising and negotiating tax incentives for corporate clients as well as structuring for legal firms.

Yee Loong is chairman of the examinations and curriculum committee of the Singapore Tax Academy and Learning and Assessment Committee of the Singapore Qualification Programme under the Singapore Accounting Commission as well as authored the Singapore Tax Workbook published by CCH.