

# Research & Development Tax Measures



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INLAND REVENUE  
AUTHORITY  
OF SINGAPORE

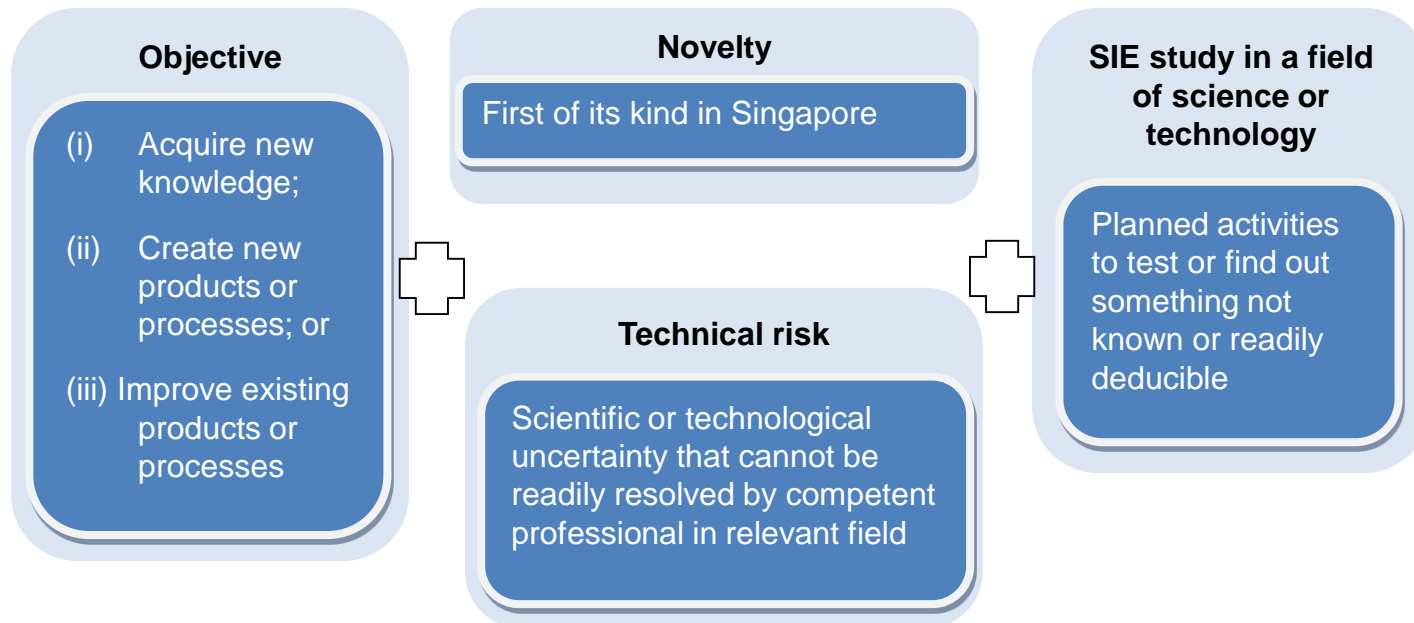
# Background and Feedback Received

- R&D tax incentives are meant to encourage pervasive R&D in Singapore and to build innovative capabilities of our people and businesses
- In 2010, R&D was included as one of the 6 categories in the PIC scheme
- We have received feedback that as compared to the other PIC categories, it is difficult for companies to meet the threshold for R&D
- SMEs especially, may find it more difficult to meet the R&D definition as they are just starting on their innovation journey
- Industry also gave feedback that the lack of technical knowledge could have resulted in a protracted R&D claim process for taxpayers
- This information deck outlines the current R&D claims review process

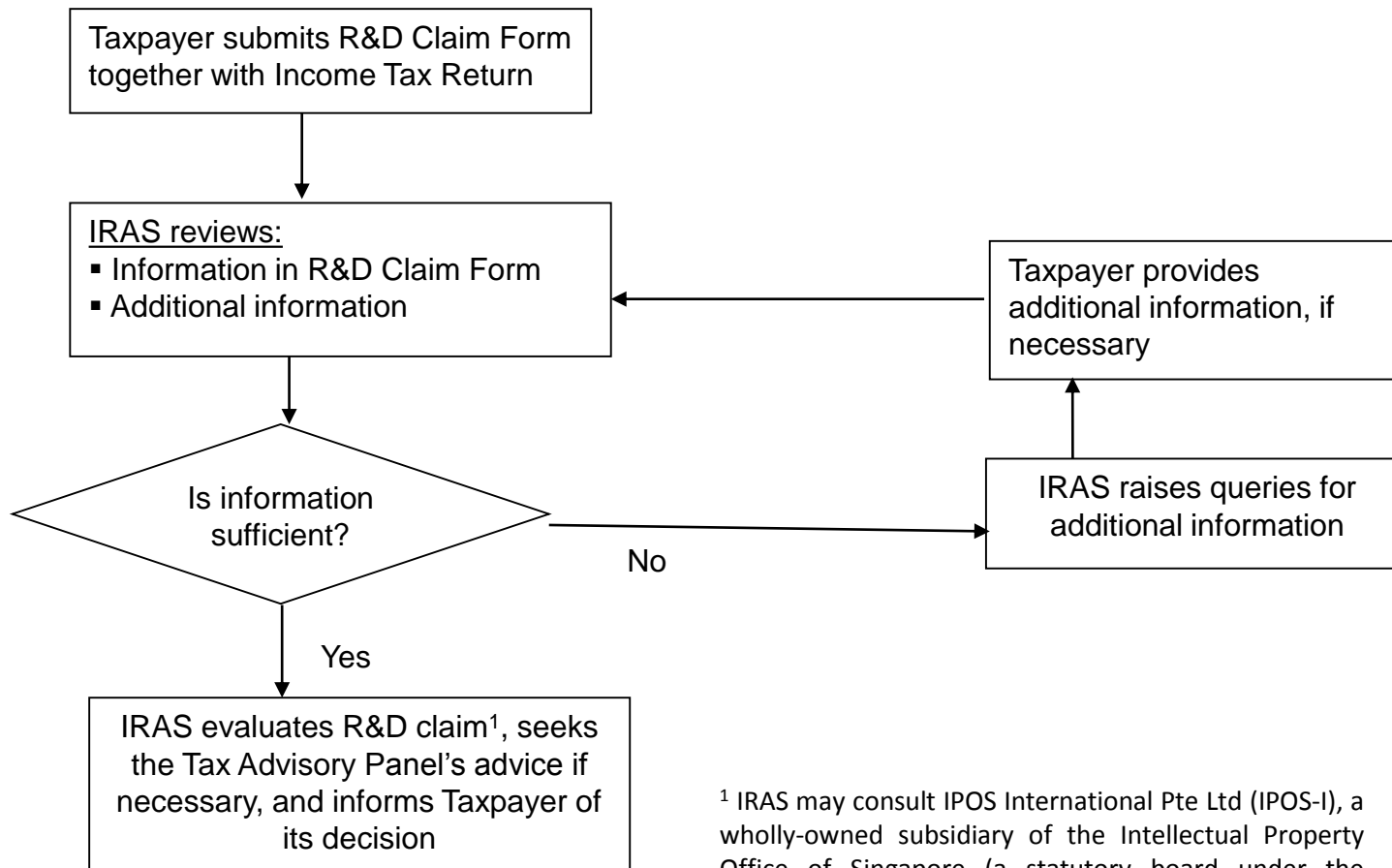


# Qualifying R&D

- Project must meet the following three requirements to be a qualifying R&D project



# R&D Claim Review Process



<sup>1</sup> IRAS may consult IPOS International Pte Ltd (IPOS-I), a wholly-owned subsidiary of the Intellectual Property Office of Singapore (a statutory board under the Ministry of Law), in its review of R&D applications.

# Technical Advisory Panel

- Referral to Technical Advisory Panel
  - R&D cases will be referred to the Technical Advisory Panel for independent review when:
    - Taxpayer requests for the referral specifically; or
    - IRAS rejects the R&D claim after two rounds of review and the taxpayer wishes to pursue the claim
  - A summary of the project, taxpayer's views, IRAS' evaluation, supporting documents provided by taxpayer and IRAS' correspondence with the taxpayer will be submitted to the Panel for review
  - With the technical advice from the Panel, IRAS makes the final decision on the taxpayer's claims for R&D tax benefits and PIC scheme



# R&D Claim Review Process

- Pre-claim scheme
  - Provide upfront certainty for R&D claims
  - Currently extended to large and complex projects with R&D projects above \$20 million. IRAS has invited some companies based on their past R&D claims record
  - 2-tier evaluation approach:
    - 1<sup>st</sup> tier
      - Taxpayer conduct internal review of proposed project
      - Taxpayer submits project details to IRAS before project starts and
      - IRAS evaluates whether proposed project is qualifying R&D project
    - 2<sup>nd</sup> tier

When IRAS agrees proposed project is qualifying R&D project, taxpayer is required to:

      - keep records of project expenses and
      - maintain documentations on project work done



# R&D Claim Review Process

- IRAS has taken steps to ensure most R&D applications are processed on a timely basis.
  - Revised e-tax guide in 2014 to provide more clarifications on the R&D qualifying criteria and highlight the documentation that companies can use to substantiate their claims. It also provides more industry-specific R&D examples.
  - Improved industry engagement. IRAS conducts field visits to companies' R&D facilities, and engaged taxpayers' R&D experts and tax advisors. IRAS set up the Technical Advisory Panel (TAP) made up of academia and industry experts to review more complex projects.
  - Upfront certainty through the pre-claim scheme for large and complex projects.
  - Enhanced internal processes, including consultation with technical experts for e.g. IT experts for software projects and IPOS-I for other specialized projects.



# Majority of R&D Claims have been approved by IRAS

- Over the recent three years 2013-2015, more than 1,500 companies had claimed PIC and tax deductions on R&D expenditure amounting to more than \$3b
- Small and Medium Enterprises (SMEs) comprise the majority of R&D beneficiaries, making up 76% of R&D claims.
- Based on the R&D claims processed, 72% of the R&D benefits claimed by SMEs were granted in full, with another 7% of the claims adjusted by IRAS on the approved expenditure and the remaining 21% of the claims did not meet the R&D criteria





# Outcomes from Technical Advisory Panel

- Number of cases that went up to TAP in 2015-2016: 20
- Thus far, TAP has agreed with IRAS' assessment the cases do not qualify as R&D within the meaning of Singapore ITA
- Generally most cases that go to TAP focus on whether there is technical risk in the project, to qualify for R&D
  - Next 2 slides provide examples on how IRAS assess technical risks



# Example – Meets Definition of Technical Risk

## Develop an integrated payment platform

Company Q's R&D objective is to develop an integrated payment platform for mobile application developers to easily monetise their digital goods and services within their applications. The existing solution to connect to the payment service providers available to the mobile application developers is inefficient. The company aims to develop a flexible platform with one connection point for the mobile application developers together with an unique secured fingerprint mechanism

- Technically challenging to develop an application software that can concurrently handle more than ten payment options, where each payment option has its own limitation and restriction, as some of these limitations and restrictions are incompatible with each other
- The platform cannot be integrated using routine methodologies and hence SIE studies are required to develop a technique to overcome the incompatibility of the various payment options and make them interoperate seamlessly as an integrated payment platform



# Example – Does Not Meet Definition of Technical Risk

## Improve existing database management

Company R experiences slow retrieval of information in its CRM software application. The root cause is due to poor indexing of the database. Company R undertakes re-indexing of the database to address the slow retrieval of information. There is no new indexing method developed. Company R claims that these activities are R&D

- No technical risk as there is no scientific or technological uncertainty to resolve
- Technical issue (slow retrieval) can readily be resolved by an experienced database administrator (DBA) through proper indexing of the database, using existing indexing methods



# Suggestions for Companies Claiming R&D

- Criteria: Objective
  - IRAS's experience: Additional time is required to review the claim when insufficient information was provided by taxpayer on **scientific or technological objectives** of project

## ***Suggestion:***

- In addition to commercial objectives, it is important to state and explain the **scientific or technological challenges**
- Taxpayers are encouraged to keep records of enquiries / research done on the current state of technology / knowledge and the results to demonstrate how R&D project goes beyond current state of technology and knowledge



# Suggestions for Companies Claiming R&D

- Criteria: Novelty
  - IRAS's experience: Projects involving the creation or improvement of product, process or knowledge appear to be minor or routine upgrading, for e.g. new variants of an existing product

## ***Suggestion:***

- What does not qualify for R&D:
  - Mere importation of that product, process or knowledge into Singapore, without undertaking a SIE study
  - Enhancement arises from taking existing science/technology and applying it to a new context with only minor/routine changes
  - Project simply brings taxpayer in line with current knowledge/capability in the industry



# Suggestions for Companies Claiming R&D

- Criteria: Technical risk
  - IRAS's experience: Businesses may not distinguish between business risk vs scientific/technological risk in a project, and therefore, fail to understand why a high-risk project may not qualify as R&D

## ***Suggestion:***

- Technical risk refers to scientific or technological uncertainty that cannot be readily resolved by competent professional in relevant field.
  - IRAS is looking for an explanation of the scientific or technological uncertainty involved while we recognize that each project may have its own project management/business risk.
  - The engagement of software firm/ external technical consultant does not automatically mean that the technical risk requirement is met



# Suggestions for Companies Claiming R&D

- Criteria: Systematic, investigative and experimental (SIE) study
  - IRAS's experience: Insufficient documentation

## ***Suggestion:***

- Relevant information include:
  - Iterative processes where alternative methods are evaluated, tested, modified and tested again repeatedly
  - Systematic approaches to test potential solutions
  - Evidence of unsuccessful attempts and steps undertaken to improve change of success for subsequent attempts
- We recognise that small businesses may not always formally document all steps of their R&D projects. For SMEs, IRAS is prepared to accept alternative documentations (such as working papers, email discussion, test result scripts, etc) to substantiate that an SIE study was undertaken



# Thank You

This information presented in the slides aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. This information is correct as at 17/10/2016. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary its position accordingly.