Key Budget Tax Changes For Businesses

What To Look Out For And Plan Ahead

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KEY TAKEAWAYS

- The new EIS enhances the tax deductions/allowances for five qualifying activities in the innovation value chain, including R&D projects conducted in Singapore and registration of qualifying IPs.
- Businesses looking to acquire capital assets and/or rationalise their office space during this period may consider whether they can utilise the options to accelerate their CA claims and/or deductions for R&R expenditure.
- The DTDi scheme has expanded its scope to cover “e-commerce campaign”.

Described by Deputy Prime Minister and Finance Minister Lawrence Wong as a “Valentine’s Day present to all”, this year’s highly anticipated Budget delivered a slew of supporting measures designed to help Singaporeans cope with the immediate challenges of higher costs of living and, at the same time, it sets out key moves to enhance Singapore’s competitiveness amid a challenging economic climate and growing geopolitical tension.

High on the list of the government’s priorities is to enable more Singapore businesses to embark on their innovation and internationalisation journey despite economic headwinds and global uncertainties. Below is a lowdown on three Budget tax changes that local businesses can leverage on for the year of assessment (YA) 2024.

(1) Enterprise Innovation Scheme

While many businesses had benefited from the old Productivity and Innovation Credit (PIC) scheme, the scheme was lapsed after YA2018 with some critics faulting it for being too broad-based to be effective. Fast forward to 2023, Minister Lawrence Wong introduced a brand new Enterprise Innovation Scheme (EIS) to encourage businesses to engage in research and development (R&D), innovation, and capability development activities. EIS will be available to businesses from YA2024 to YA2028.

At first glance, EIS may resemble PIC, largely due to the overlap in the scope of activities covered by both schemes and the same expenditure cap of S$400,000 per qualifying activity.

However, if one can look past these obvious similarities, it would not be difficult to notice that EIS is in fact a much more targeted and refined incentive scheme which has been designed to enhance the tax deductions/allowances for five carefully curated qualifying activities in the innovation value chain:

(i) R&D projects conducted in Singapore;

(ii) Registration of qualifying intellectual property (IP), including patents, trademarks, designs, and plant varieties;

(iii) Acquisition and licensing of qualifying IP rights;

(iv) Training via courses eligible for SkillsFuture Singapore funding and aligned with the Skills Framework; and

(v) Innovation carried out with polytechnics and Institute of Technical Education (ITE).

Cash payout option

Businesses that do not have sufficient profits to benefit from the enhanced tax deductions under EIS can opt to convert up to S$100,000 of the total qualifying expenditure across all qualifying activities for each YA into a non-taxable cash payout (at a conversion rate of 20%). The maximum cash payout per YA is thus S$20,000.

Once an amount of qualifying expenditure is converted into cash, the same amount is no longer available for tax deductions and/or allowances. The option to convert the qualifying expenditure into cash is irrevocable once exercised.

QUESTIONS FOR BUSINESSES TO PONDER

- Can your business undertake its R&D projects in Singapore without compromising on the speed and the quality of research? If so, it may be worthwhile to consider moving some overseas R&D projects to Singapore to take advantage of the generous enhanced tax deductions under EIS.

- Are there any innovation projects[1] that your business would like to embark on but has been putting off due to cost pressures? EIS provides a unique chance for businesses to leverage on polytechnics or ITEs to undertake small-scale innovation projects.

- Does your business urgently need the cash payout at the modest 20% conversion rate, or can it wait till such time that it generates sufficient profits to utilise the enhanced tax deductions/allowances for greater tax savings instead?

[1] *Qualifying innovation projects refer to projects that predominantly involve one or more of the following innovation activities defined within the Oslo Manual 2018:*
(a) Research and experimental development activities;
(b) Engineering, design and other creative work activities;
(c) IP-related activities; and
(d) Software development and database activities.
(https://www.iras.gov.sg/schemes/disbursement-schemes/enterprise-innovation-scheme-(eis))

(2) Options to Accelerate Capital Allowance Claim and Deduction for Renovation and Refurbishment Expenditure

The option to accelerate capital allowance (CA) claims and the option to accelerate deductions for renovation and refurbishment (R&R) expenditure have been reintroduced for YA2024 after a one-year hiatus. Both options, if exercised, are irrevocable.

Businesses that incur capital expenditure on the acquisition of plant and machinery (P&M) in the basis period for YA2024 (that is, FY ending in 2023) will have an option to accelerate the write-off of the cost of acquiring such P&M over two years, with 75% of the cost incurred to be written off in the first year (YA2024) and the remaining 25% of the cost incurred to be written off in the second year (YA2025). Deferment of CA claims is not allowed under the accelerated write-off option.

Separately, businesses that incurred qualifying expenditure on R&R for the purposes of its trade, business, or profession in the basis period for YA2024 will have an option to claim their R&R deduction in one year (instead of over three years). That said, the R&R expenditure cap of S$300,000 for every relevant three-year period will continue to apply.

With the growing popularity of hybrid work arrangements and a rising rental market, it may be timely for businesses to plan ahead and consider whether they can utilise these two options to ease their cashflow if they are looking to acquire capital assets and/or rationalise their office space during this period.

Questions for Businesses to Ponder

- Is your business in a tax-paying position to benefit from the options to accelerate CA claims and/or deductions for R&R expenditure?
- In respect of the accelerated deduction for R&R expenditure, is YA2024 the first of the three-year cycle for your business? If not, has the business fully utilised the expenditure cap of S$300,000 in the earlier year(s)?

(3) Enhanced Double Tax Deduction for Internationalisation (DTDI) Scheme

While online marketplaces have been around since the 1990s, it was not until recent years that the world witnessed the explosion in e-commerce made possible by the widespread Internet and smartphone adoption and accelerated by the COVID-19 pandemic.

Recognising the growing importance and relevance of e-commerce as a way for local businesses to grow their reach overseas, Singapore has expanded the scope of the Enhanced Double Tax Deduction for Internationalisation (DTDi) scheme in this Budget to include a new qualifying activity: “e-commerce campaign”. The enhancement aims to support businesses in their efforts to overcome the initial challenges and to kickstart their e-commerce journey overseas.

The scope of qualifying expenses under the “e-commerce campaign” activity covers the following e-commerce campaign startup expenses paid to e-commerce platforms or service providers:

(i) Business advisory

(ii) Account creation

(iii) Content creation

(iv) Product listing and placement

It should be noted that all double tax deduction claims under the “e-commerce campaign” activity require prior approval from Enterprise Singapore (ESG). This approval is subject to a one-year time limit and will be applied on a per-country basis.

QUESTIONS FOR BUSINESSES TO PONDER

- Given that ESG's approval for "e-commerce campaign" is subject to a one-year time limit and applied on a per-country basis, to maximise the tax benefits, you may wish to consider whether it makes business sense to focus your resources on selected markets before moving on to other countries subsequently.
- Is your business looking to expand overseas and expecting to carry out other activities in addition to e-commerce campaigns? Do note that the DTDi scheme also supports various other qualifying activities (such as overseas trade fairs and overseas advertising and promotional campaigns).

Conclusion

The government has taken the first steps in this Budget to introduce new schemes and enhance existing schemes to support Singapore businesses. It is now up to individual businesses to plan ahead and leverage on the applicable schemes as they chart their paths ahead. business and public sector agencies.

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