

Productivity and Innovation Credit (PIC) Scheme and 2017 Tax Changes for Companies

**Presentation by Inland Revenue Authority of Singapore
PIC seminars held from June 2017**



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Agenda

Overview of Corporate Tax

- Basis of Assessment
- Filing Obligations

Productivity and Innovation Credit (PIC) Scheme

- Overview and its tax benefits
- What Qualifies for PIC
- How and when to claim PIC benefits
- Two most commonly claimed PIC activities
 - Training
 - PIC IT and automation equipment
- Abusive PIC arrangements

2017 Tax Changes for Companies

- Enhancement of Corporate Income Tax Rebate
- Increase in revenue threshold for Form C-S and ECI waiver

Question & Answer

After this seminar, you will

Understand a company's annual tax filing obligations

Have an overview of PIC

Learn what are the top two PIC qualifying activities that are commonly claimed by businesses and some frequently asked questions

Learn how to search for information on PIC on IRAS' website



Basis of Assessment

Income is assessable on a preceding financial year basis

Year of Assessment (YA)

- + year in which income tax is charged
- + current YA is YA 2017

Basis Period for a YA

- + the period of income relevant to the YA
- + e.g. 1 Jan 2016 to 31 Dec 2016 (YA 2017)
1 Apr 2015 to 31 Mar 2016 (YA 2017)
1 Jul 2016 to 30 Jun 2017 (YA 2018)

Company's Filing Obligations

	Estimated Chargeable Income (ECI)	Income Tax Return (Form C-S/ C)
When to file	Within 3 months after end of financial year (e-Filing of ECI via myTax portal is strongly encouraged) Waiver of ECI filing: You <u>do not</u> need to file ECI for a particular financial year if: • annual revenue is not more than \$5 million*; and • ECI is nil <i>*For company with financial year ending in or before June 2017, the annual revenue threshold is \$1 million</i>	<u>If you are filing Form C</u> Submit a complete tax return comprising of the following: - Form C and appendix (Form IRIN 301) - audited/unaudited financial statements and detailed P/L - tax computation and supporting schedules e-File Form C by 15 Dec or submit paper Form C by 30 Nov of each year <u>If you are filing Form C-S</u> e-File Form C-S by 15 Dec or submit paper Form C by 30 Nov of each year
Notification of filing requirement	Company will receive a reminder letter to file the ECI in the last month of the financial year	A tax return filing package will be sent to the company's registered address by May of each year
Failure to file	Estimated assessment may be raised*	❖ Estimated assessment may be raised* ❖ Letter of Composition and/or Summons may be issued
If you are in a tax loss position	A NIL ECI (ECI = 0) is required unless the company has met the qualifying conditions for waiver of ECI filing	Submit an Income Tax Return (Form C-S/ C)



Please authorise yourself/third party as an "Approver" for Corporate Tax Matters via the e-Services Authorisation System (EASY)

* If you disagree with the estimated tax assessment, please lodge an objection within two months from the date of the Notice of Assessment with your reasons for not filing on time and grounds of objection

Business Records that Companies must keep & Accounting Software Register

- ✚ Companies are required to keep proper records and accounts of business transactions
- ✚ Using an accounting software **Recommended!** helps business improve record keeping and comply with tax obligations. Business can also use the information captured in the software to ensure that operations are effective and efficient
- ✚ IRAS' Accounting Software Register lists the accounting software that are able to meet IRAS' technical requirements
- ✚ The accounting software are also considered as qualifying equipment under the PIC scheme



Refer to IRAS' website at iras.gov.sg

[Businesses> Companies> Getting it right> IRAS Accounting Software Register](#)

Productivity and Innovation Credit (PIC) Scheme

- Introduced in Budget 2010; enhanced in Budgets 2011 to 2015
- To encourage businesses to invest in productivity and innovation activities. All businesses benefit, especially SMEs
- Lapse after YA 2018, in line with Govt's move towards more targeted measures under the Industry Transformation Programme



Overview of PIC Scheme (YA 2011 to YA 2018)

Invest in any of these 6 qualifying activities



1. Acquisition/Leasing of PIC IT and Automation Equipment
2. Training of Employees
3. Acquisition/Licensing of Intellectual Property
4. Registration of Patents, Trademarks, Designs and Plant Varieties
5. Research & Development Activities
6. Designed Projects Approved by DesignSingapore Council

} Commonly
claimed by
businesses

Tax Benefits under PIC

400% tax deductions/allowances

on up to \$400,000 expenditure per YA
in each of the 6 activities

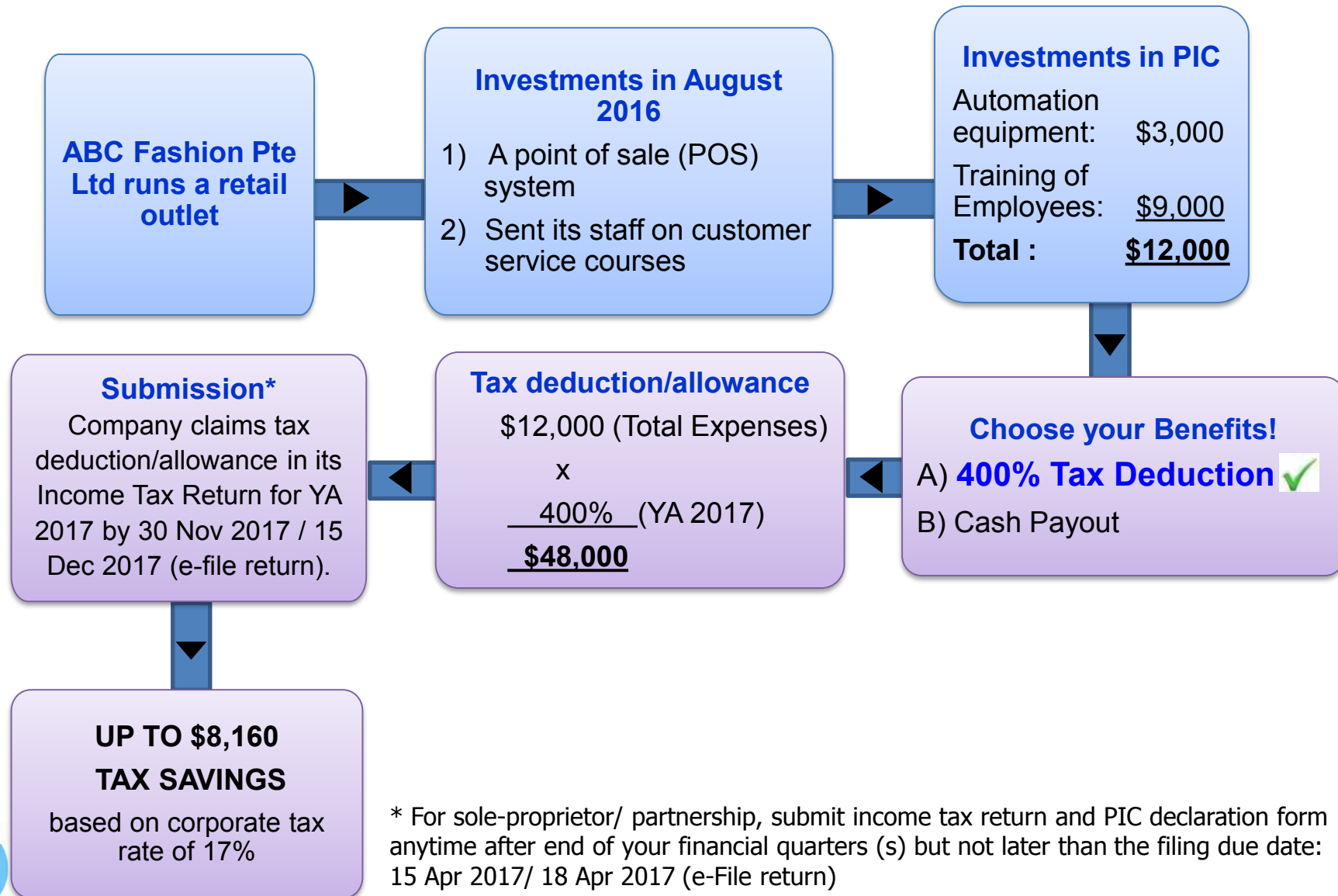
Opt for cash payout
in place of tax deductions/allowances
capped at \$100,000 expenditure per YA
across all 6 activities at a cash payout rate
of:

- 60% (expenditure incurred from YAs 2013 to 31 July 2016)
- 40% (expenditure incurred from 1 Aug 2016 to YA 2018)

Overview of PIC Scheme

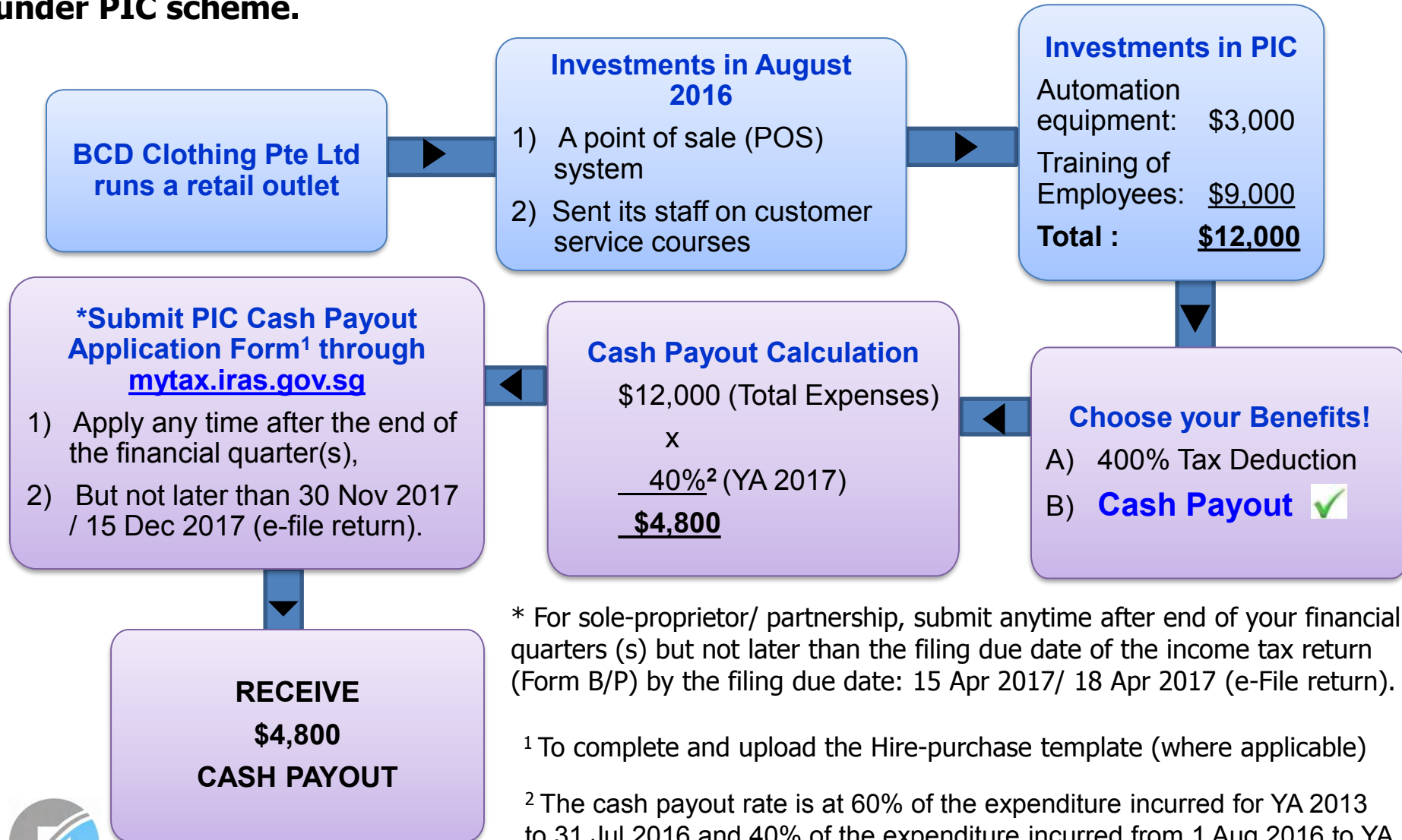
Case Study 1:

ABC Fashion Pte Ltd is claiming **400% tax deductions/allowance** under PIC scheme.



Case Study 2:

BCD Clothing Pte Ltd is opting for **cash payout in place of tax deductions/allowance** under PIC scheme.



* For sole-proprietor/ partnership, submit anytime after end of your financial quarters (s) but not later than the filing due date of the income tax return (Form B/P) by the filing due date: 15 Apr 2017/ 18 Apr 2017 (e-File return).

¹ To complete and upload the Hire-purchase template (where applicable)

² The cash payout rate is at 60% of the expenditure incurred for YA 2013 to 31 Jul 2016 and 40% of the expenditure incurred from 1 Aug 2016 to YA 2018.



Tax Deductions/ Allowances

400%
tax deductions/allowances
on up to \$400,000 expenditure
per YA in each of the 6 PIC
activities



Tax Deductions/ Allowances

- ✚ **400% tax deductions/allowances** on up to \$400,000* expenditure per year in each of the 6 activities

To allow max PIC benefits, the spending cap across YAs for each activity is as shown below:

Years of Assessment	Expenditure Cap* per Activity	Tax Deduction per Activity
2016 to 2018 (Combined)	\$1,200,000	\$4,800,000 (400% x \$1,200,000)

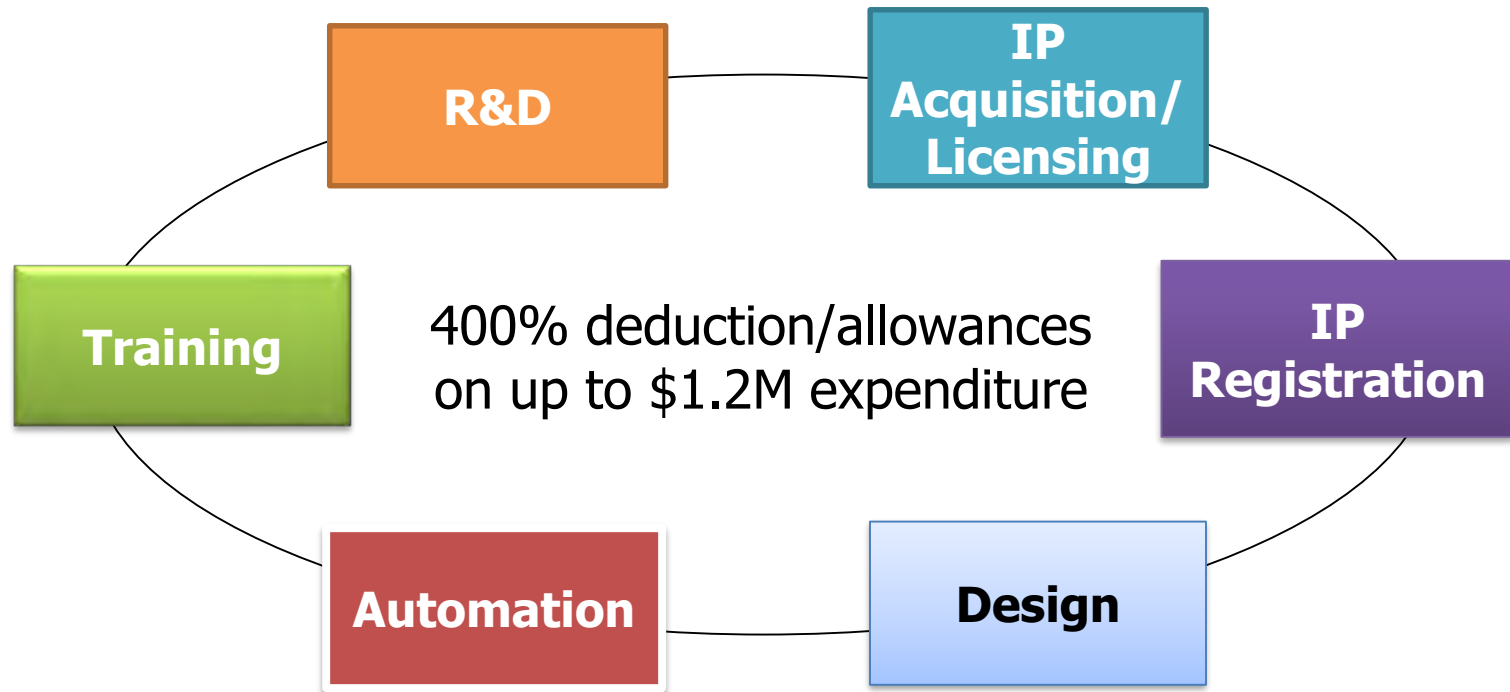
* Under the PIC+ scheme, the expenditure cap for **qualifying SMEs** will be increased from \$400,000 to \$600,000 per qualifying activity per YA. PIC+ takes effect from YA 2015 to YA 2018. The combined expenditure cap will be \$1.8 million for YA 2016 to YA 2018. The conversion cap for PIC cash payout will remain at \$100,000 per YA.

For more details on PIC+ and its qualifying conditions, please refer to [IRAS website - Schemes > Business > PIC benefits](https://www.iras.gov.sg/IRASHome/Schemes/Businesses/Productivity-and-Innovation-Credit-Scheme/PIC--Scheme/) (https://www.iras.gov.sg/IRASHome/Schemes/Businesses/Productivity-and-Innovation-Credit-Scheme/PIC--Scheme/)



Tax Deductions/ Allowances

Potential Maximum Benefits for YA 2016, YA 2017 & 2018 combined
Deduct up to \$28.8M (400% x \$1.2M* x 6 activities)



* Assuming that PIC+ is not applicable

400% Tax Deductions/Allowances

Expenditure cap per qualifying activity applies only if carrying on a trade or business for the relevant YAs. Otherwise, combined cap is reduced accordingly

For newly incorporated/registered businesses whose 1st YA is YA 2017, the combined expenditure cap for YAs 2017 to 2018 per activity is \$800,000

Expenditure is **net** of grant or subsidy by the government or statutory board

Expenditure exceeding the cap can still enjoy deduction based on existing rules

Unutilised tax deductions/ allowances can be:

- carried back to offset income of immediate preceding YA
- transferred under Group Relief System (companies)
- carried forward to offset income of future YAs

Cash Payout Option

Opt for cash payout in place of tax deductions/allowances

capped at \$100,000 expenditure per YA
across all 6 PIC activities at a
cash payout rate of:

- 60% (expenditure incurred from YA 2013 to 31 July 2016)
- 40% (expenditure incurred from 1 Aug 2016 to YA 2018)



- + Option to convert expenditure of up to \$100,000 in all 6 activities per YA
- + No pooling of expenditure cap across YAs
- + Expenditure is net of grant or subsidy by the government or statutory board
- + Cash payout is in lieu of a tax deduction – i.e. tax deductions/ allowances not granted on expenditure converted
- + Qualifying expenditure that is converted to cash payout will contribute towards the expenditure cap
- + Cash payout is non-taxable

Conditions for Cash Payout Option

For YAs 2016 to 2018

- Employed at least 3 local employees* (Singapore Citizens or PRs with CPF contributions) in the **last 3 months** of the quarter or combined quarters in the basis period for the relevant YA
- Carrying on business operations in Singapore.

* Employees exclude sole-proprietors, partners under contract for service, shareholders who are also directors of companies

Note: The 3-local-employee condition does not apply to 400% tax deductions/allowances



Application of Three-local-employee condition (Cash Payout) YAs 2016 to 2018

Example 1: Business X has a Dec financial year-end and it opts for cash payout at the end of each quarter.

Year of Assessment 2018: Quarters	Jan – Mar 2017	Apr – Jun 2017	Jul – Sep 2017	Oct – Dec 2017
Cash payout option exercised	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Relevant months for determining 3-local-employee condition	Jan – Mar 2017	Apr – Jun 2017	Jul – Sep 2017	Oct – Dec 2017
When to submit cash payout application	From Apr 2017	From Jul 2017	From Oct 2017	From Jan 2018
Deadline to submit cash payout application	By income tax return filing due date • 15 Apr 2018/ 18 Apr 2018 (e-File return) for sole-proprietor and partnership • 30 Nov 2018/ 15 Dec 2018 (e-File return) for company			



Application of Three-local-employee condition (Cash Payout) YAs 2016 to 2018

Example 2: Business Y has a Dec financial year-end and it opts for cash payout at the end of 1st, 3rd and 4th quarters.

Year of Assessment 2018: Quarters	Jan – Mar 2017	Apr – Jun 2017	Jul – Sep 2017	Oct – Dec 2017
Cash payout option exercised	Quarter 1	Quarters 2 & 3 combined		Quarter 4
Relevant months for determining 3-local-employee condition	Jan – Mar 2017	Jul – Sep 2017		Oct – Dec 2017
When to submit cash payout application	From Apr 2017	From Oct 2017		From Jan 2018
Deadline to submit cash payout application	By income tax return filing due date • 15 Apr 2018/ 18 Apr 2018 (e-File return) for sole-proprietor and partnership • 30 Nov 2018/ 15 Dec 2018 (e-File return) for company			



How and When to Claim PIC

	400% tax deductions/allowances	Cash payout
How	Claim tax deduction/allowances in income tax return	- With effect from 1 Aug 2016, it is mandatory to e-File PIC cash payout application form. - Submit PIC cash payout application form, hire-purchase template and Research and Development claim form (where applicable) Applying via myTax Portal - Step 1: Authorise an employee or a third party for "PIC Cash Payout Matters" via EASY. This is a one-off process - Step 2: Log in to mytax.iras.gov.sg to make an application <i>IRAS strives to distribute the Cash Payout within three months from the date of receipt of the application, provided all information is submitted. In most cases, IRAS processes the applications within six weeks. For cases selected for audit, IRAS will request further details and supporting documents for review. The processing time may take up to six months, depending on the complexity of each case.</i>

Applying for Cash Payout via myTax portal

Note: It is mandatory to e-File your PIC cash payout application form with effect from **1 Aug 2016**. Paper filing will not be accepted on or after **1 Aug 2016**

+ Benefits of using PIC Cash payout e-Services

i-Helps	In-built formulae	Save draft function	Instant acknowledgement
Conveniently located i-Helps for on-the-spot guidance with the application	In-built formulae to auto-compute certain fields	Save draft function that allows you to save your application and continue at a later time at your convenience	Instant acknowledgement when the application is successfully sent to IRAS

+ Assistance available for PIC cash payout e-Filing

- Comprehensive information and user guides available at IRAS website at www.iras.gov.sg:

[Schemes>Businesses>Productivity and Innovation Credit Scheme>PIC Cash Payout e-Services](#)



How and When to Claim PIC

	400% tax deductions/allowances	Cash payout
When	For company, submit income tax return by the filing due date: 30 Nov / 15 Dec (e-File income tax return) For sole-proprietor/ partnership, submit income tax return and PIC declaration form by the filing due date: 15 Apr / 18 Apr (e-File income tax return)	After the end of each quarter or combined quarters in the financial year but not later than the income tax filing due date



Determining the dates that expenditure is “incurred” for PIC purposes

- PIC benefits are given only when the qualifying expenditure has been incurred by the business
- An expense is incurred when the legal liability to pay has arisen, regardless of the date of actual payment of the money
- IRAS website provides guidance on when an expenditure is considered as “incurred”



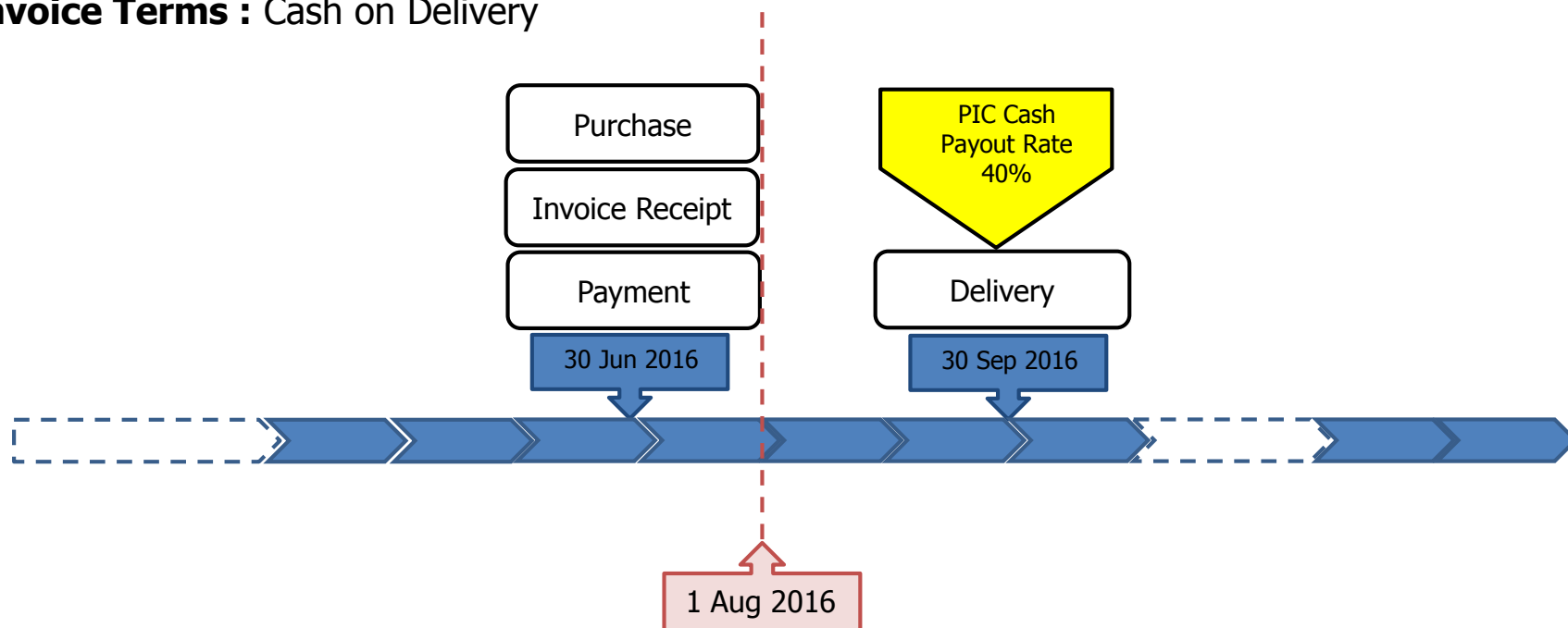
Common examples of when an expenditure is considered "incurred" for PIC Cash Payout

In all the examples, it is assumed that the business' financial year ends on 31 Dec unless otherwise stated, and the business operations have already commenced unless otherwise stated

Category : Equipment Purchase

Scenario : Payment made on purchase & invoice receipt date

Invoice Terms : Cash on Delivery



Rationale

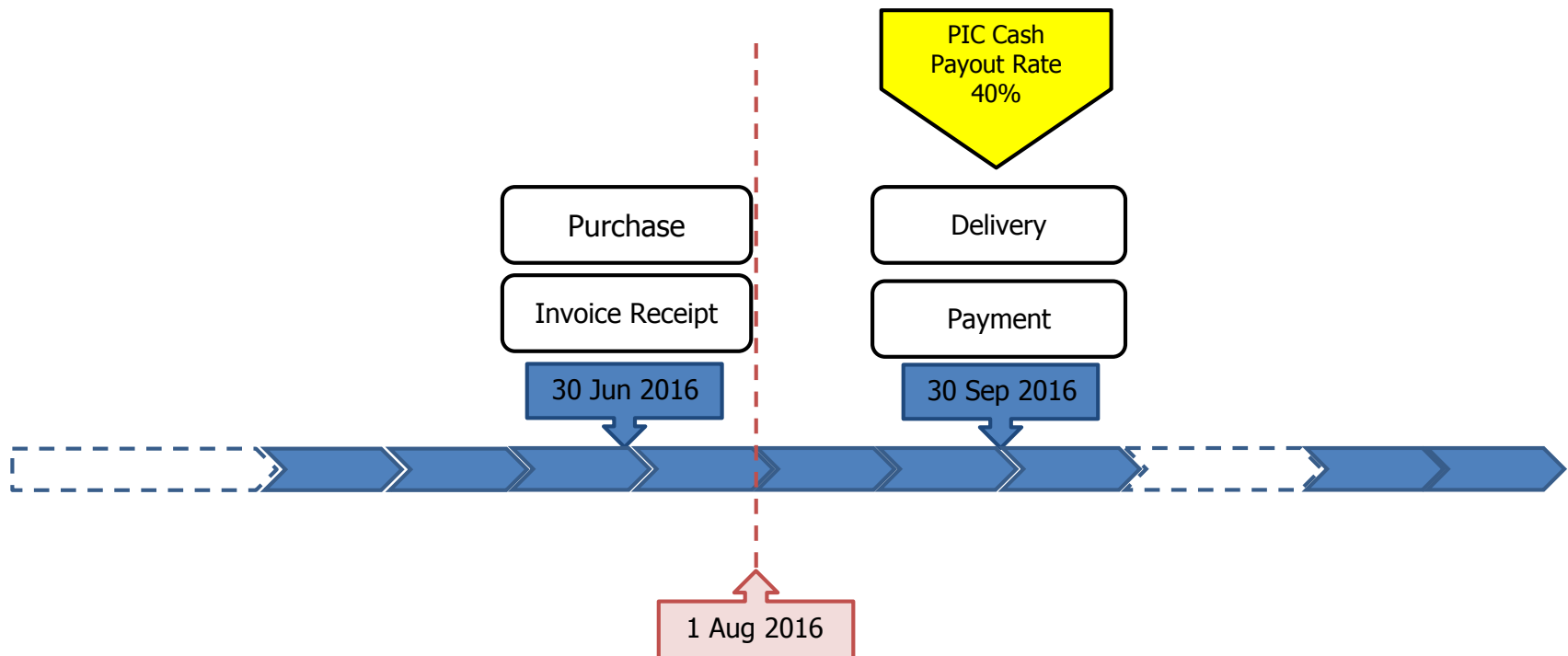
The amount paid on 30 Jun 2016 is considered prepayment. The expenditure is considered incurred only when the equipment is delivered (i.e. on 30 Sep 2016), upon which the legal liability to pay arises

Common examples of when an expenditure is considered "incurred" for PIC Cash Payout

Category : Equipment Purchase

Scenario : Payment made on delivery date

Invoice Terms : Cash on Delivery



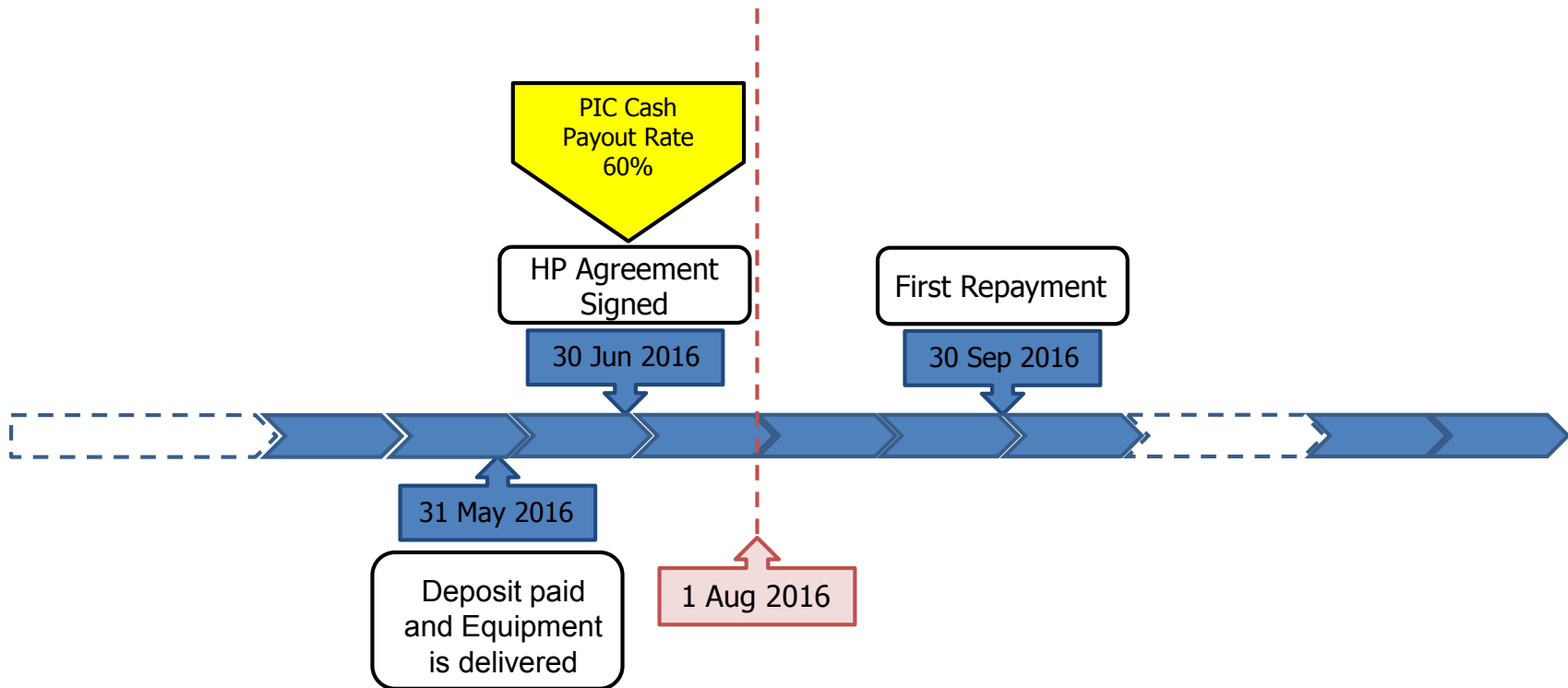
Rationale

As the full amount is due only when the equipment is delivered on 30 Sep 2016, the legal liability to pay crystallises only then. This applies regardless of whether the amount is paid at the point of delivery, or at a later date within the given credit period (if any)

Common examples of when an expenditure is considered "incurred" for PIC Cash Payout

Category : Equipment Purchase

Scenario : Hire Purchase



Rationale

The expenditure conversion cap and cash payout rate to be applied are determined based on the YA relating to the period in which the HP agreement is signed (i.e. on 30 Jun 2016)

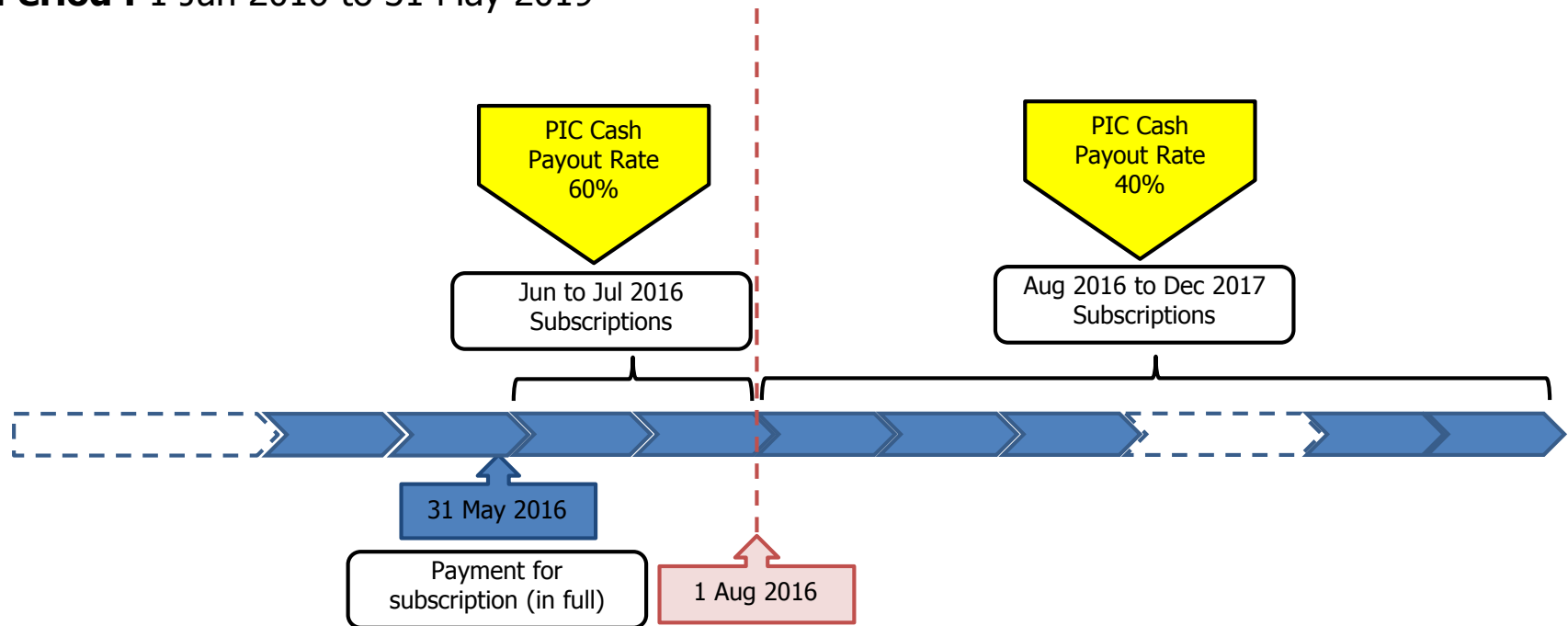


Common examples of when an expenditure is considered "incurred" for PIC Cash Payout

Category : Equipment Lease

Scenario : 3-Year Software License Subscription

Period : 1 Jun 2016 to 31 May 2019



Rationale

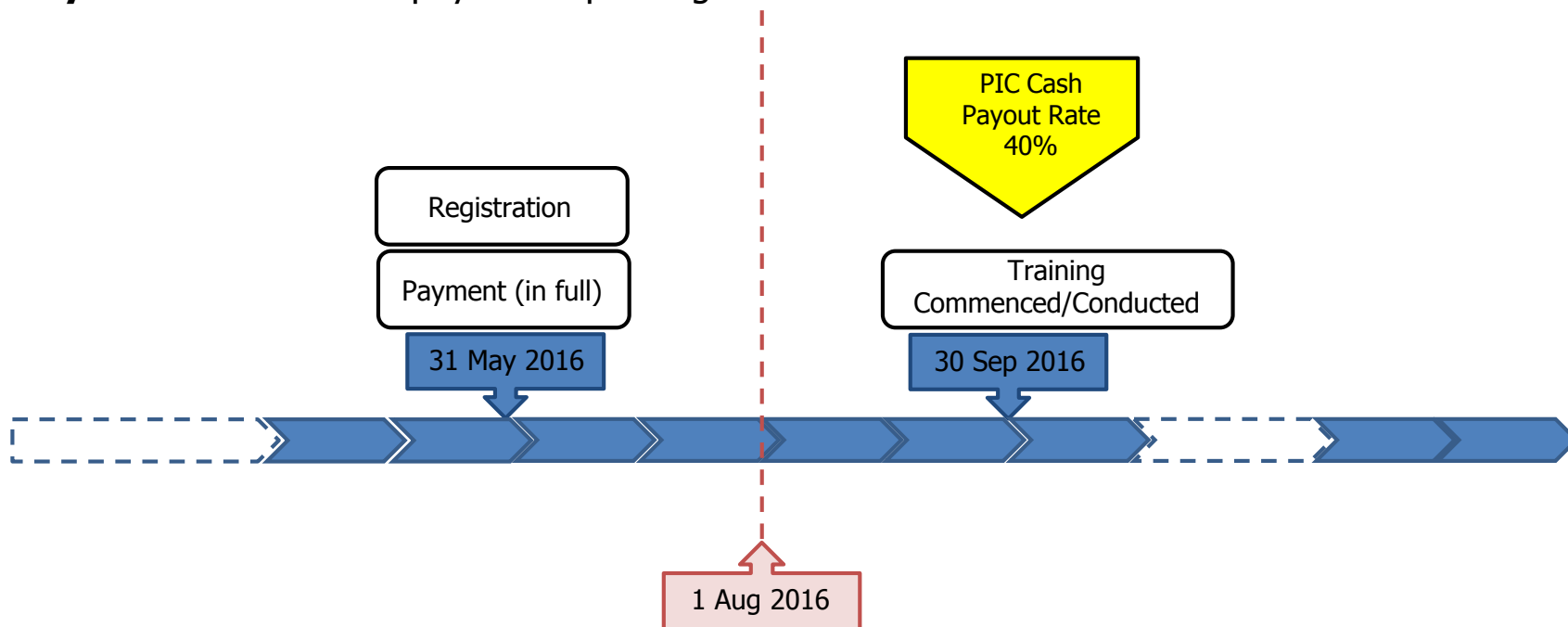
The amount paid on 31 May 2016 is considered prepayment. The expenditure is considered incurred in the month for which the software subscription is paid for, upon which the legal liability to pay arises.

The software subscription from Jan 2018 to May 2019 will not be eligible for PIC benefits as the PIC scheme is only available up to YA 2018.

Common examples of when an expenditure is considered "incurred" for PIC Cash Payout

Category : Training

Payment Terms : Full payment upon registration



Rationale

The amount paid on 31 May 2016 is considered prepayment. The PIC cash payout conversion rate is 40% as expenditure is considered incurred only when the employees attend the training on 30 Sep 2016.

For the purpose of claiming PIC benefits, the training course **must be attended by an employee of the company**, i.e. PIC benefits will not be granted if the employee(s) did not attend the training.

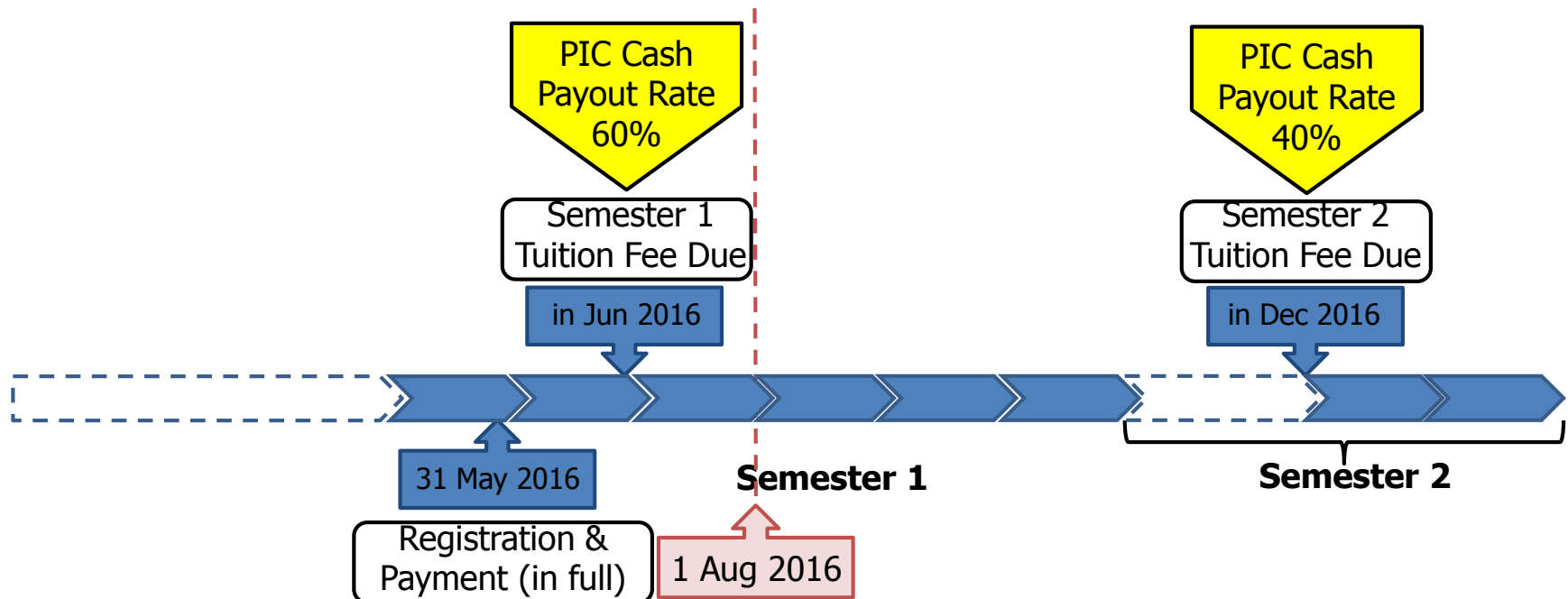
Common examples of when an expenditure is considered "incurred" for PIC Cash Payout

Category : Training

Scenario : 1-Year Diploma Course

Period : Semester 1 (1 Jun 2016 to 31 Oct 2016) & Semester 2 (1 Dec 2016 to 30 Apr 2017)

Payment Terms : Tuition Fee due in **June 2016** for Semester 1 & **December 2016** for Semester 2



Rationale

The amount paid on 31 May 2016 is considered prepayment. The expenditure is considered incurred upon payment due date for the respective semester tuition fees (i.e. in Jun 2016 and Dec 2016).

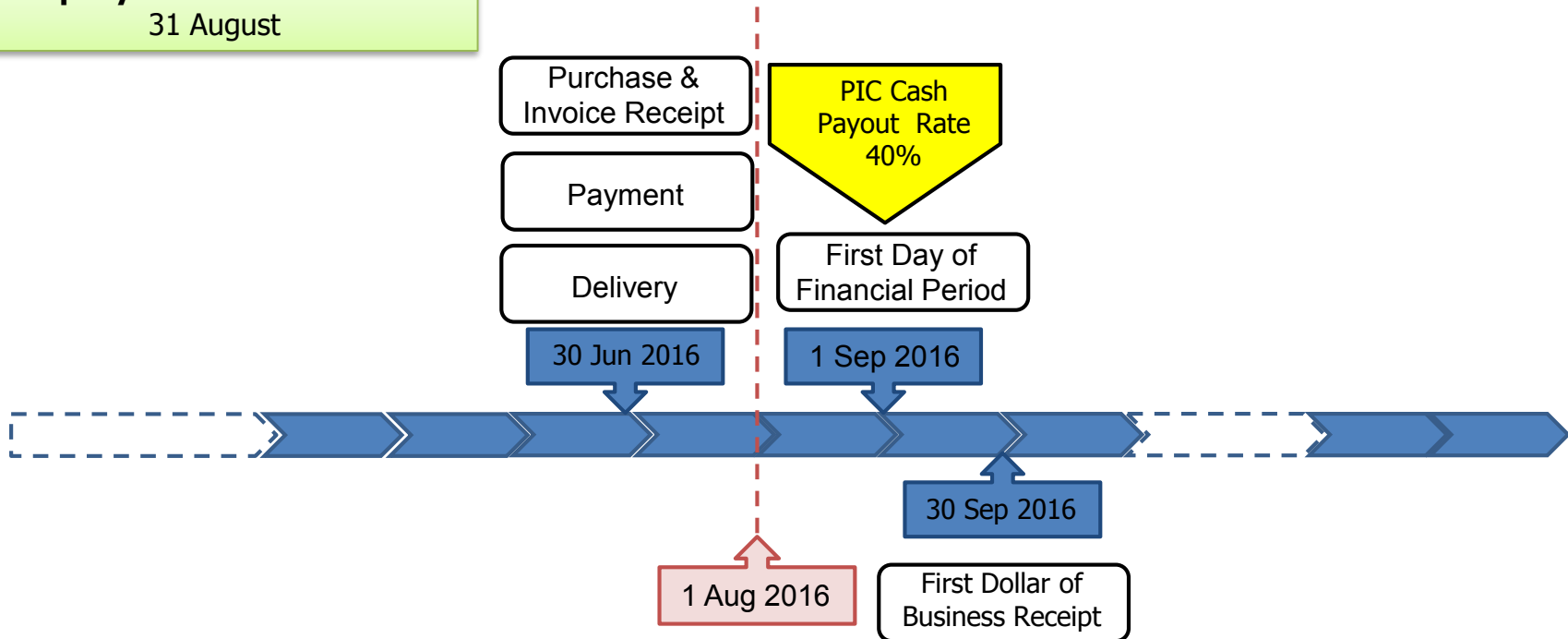
Common examples of when an expenditure is considered "incurred" for PIC Cash Payout

Category : New Business

Scenario : Equipment purchased, paid and delivered prior to commencement of business

Payment Terms : Cash on Delivery

Company Financial Year-End :
31 August



Rationale

The company is treated to have commenced business on 1 Sep 2016 as that was the first day of the financial period in which it earned the first dollar of business receipt.

The expenditure is deemed incurred on the first day of the financial period in which the first dollar of business receipt is earned i.e. 1 Sep 2016 (Financial Period: 1 Sep 2016 to 31 Aug 2017).

Common enquiries for PIC Cash Payout

Q1. How do I apply for PIC Cash Payout?

Q2. Has my PIC cash payout application been processed?

Q3. Could you send me a copy of the PIC cash payout notice?

With the PIC cash payout e-Services, you can now log in to mytax.iras.gov.sg to:

- "Apply for PIC Cash Payout"

- "View PIC Scheme Notices"

You can view the status of applications made for 2 future YAs, the current and the past YA. For example, if you log in on 8 Jan 2016, you can view the status of applications for YAs 2015 to 2018.

Please note that status is available for viewing within 3 days from date of submission

- "View PIC Scheme Notices"

Note:

- To apply for PIC cash payout and view the application status, you must be authorised for "PIC Cash Payout Matters"
- Business that are already authorised for "Corporate Tax Matters" can access View PIC Scheme Notices without being authorised for "PIC Cash Payout Matters"

Three-Local-Employee Condition – Unacceptable practices



Three-Local-Employee Condition

There must be an **employer-employee relationship**

A **contract of service** defines the employer-employee relationship

Employees exclude

- sole-proprietors
- partners under contract for service
- shareholders who are also directors of companies

Guiding principles to determine who an employee is

- Degree of control exercised by business over work done by individual
- Manner in which individual is reimbursed for services and
- Nature of relationship (e.g. Nature of agreement, engagement period etc)

Note: Final assessment of whether an individual is an employee is a matter of fact, borne out of facts and circumstances of the case. Refer to MOM's website (<http://www.mom.gov.sg/employment-practices/contract-of-service>) for more details on the difference between a contract of service and contract for service.



Genuine employer-employee relationship entered into for bona fide commercial reasons

IRAS would not treat the 3 local employee condition as met in the following circumstances:

- Low CPF contributions for persons (e.g., parents, siblings, friends or other persons) who perform minimal work. The mere contribution of CPF is insufficient for establishing the existence of a valid employer-employee relationship
- Individuals "employed" just for one or three months just to meet the headcount purpose for PIC cash payout, regardless of whether that individual is "employed" on a full-time or part-time basis



Examples of unacceptable practices

- Vendor, for a fee, helped a start-up to register a business with ACRA and contribute CPF for three persons
- Business owner did not know who his “employees” were and merely signed on the PIC cash payout claim form
- Claim was rejected after IRAS interviewed the claimant and uncovered the arrangement

- Vendor persuaded a real estate agent to set up a company and contribute CPF for three persons
- There was no genuine commercial reason for setting up a company and employing three persons
- Claim was rejected after IRAS uncovered the arrangement



Examples of unacceptable practices

- Consultant encouraged businesses who did not normally have three employees to contribute CPF to their family members or to one another so that they appear as employees to IRAS
- Upon IRAS checks', PIC claims were rejected and previously paid-out claims were recovered.

- Company claimed that it had employed three local employees, all of whom are family members and relatives of the company's director
- Claim was rejected after IRAS discovered that the director had falsely declared his relatives as "employee"
- The director's relatives were not involved in the operations of the company

Two most commonly claimed PIC activities

(1) Training of Employees



Training of Employees



External training

All external training qualify

Qualifying Expenditure Includes	Qualifying Expenditure Excludes
❖ Course fees to any external training service provider E.g. registration or enrolment fees, examination fees, tuition fees and aptitude test fees ❖ Rental of external training premises ❖ Meals and refreshments provided during the courses ❖ Training materials and stationery	❖ Accommodation, travelling and transport expenses of employees attending the training ❖ Overheads like imputed rental and utilities



Training of Employees

In-house training

Qualifying training programmes

Workforce Skills Qualification (WSQ) training courses accredited* and conducted by a WSQ in-house training provider

Courses approved by the Institute of Technical Education (ITE) under the ITE Approved Training Centre scheme

On-the-job training by an on-the-job training centre certified by ITE



*"Accredited" means accredited by Singapore Workforce Development Agency or by the newly set up SkillsFuture Singapore Agency depending on the relevant date

Training of Employees

In-house training

From YAs
2012 to 2018

- Non-certified in-house training courses, subject to an expenditure cap of \$10,000 per YA. The \$10,000 cap cannot be combined across YAs
- The total training expenditure cap remains unchanged

Examples of
non-certified
in-house training

- Training sessions conducted on operation of specialised equipment with the help of instruction manual
- Training on a business' operating processes and functions in a group setting, with prepared materials and handouts
- Exclude informal sessions such as spontaneous consultation, day-to-day problem solving and coaching sessions



Training of Employees

In-house training

Qualifying Expenditure Includes

- ❖ Salaries and other remuneration (excluding director fees) paid to in-house trainers for course delivery
- ❖ Rental of external training premises
- ❖ Meals and refreshments provided during the courses
- ❖ Training materials and stationery

Qualifying Expenditure Excludes

- ❖ Salaries and other remuneration paid to in-house trainers for other duties including preparation of training material
- ❖ Salaries and other remuneration paid to employees providing administrative support
- ❖ Absentee payroll
- ❖ Accommodation, travelling and transport expenses
- ❖ Overheads like imputed rental and utilities



Training of Employees

Prescribed classes of individuals (YA 2012 to 2018)

- Salespersons registered under the Estate Agent Act
- Representatives within the meaning of the Financial Advisers Act
- Representatives within the meaning of the Securities and Futures Act
- Insurance agents of insurers licensed under the Insurance Act
- Hirers of taxis from taxi service operators licensed under the Road Traffic Act

Qualifying conditions

- Regular working relationship between the business and the individual;
- Sharing of risks and rewards between the two



Training of Employees

E.g. Computation of a company claiming enhanced deduction and cash payout for training under PIC for YA 2017

Training Date	Training cost incurred	Cost Converted	Base deduction 100%	Enhanced deduction 300%	Total
11 Jan 16	\$5k		\$5k	\$5k x 300% = \$15k	\$20k
22 Mar 16	<u>100k</u>	100k	0	<u>0</u>	<u>0</u>
	<u>105K</u>			<u>15K</u>	<u>20K</u>

YA 2017 Tax Computation
(assuming no tax disallowable items)

Net Profit Before Tax	\$550K
Add: Expenditure converted into cash	100k
Less: Enhanced deduction for training costs	<u>(15k)</u>
Adjusted Profit Before Capital Allowances	<u>635k</u>

Cash payout = 60% x \$100k = \$60k

The cash payout rate is at 60% of the expenditure incurred for YA 2013 to 31 Jul 2016 and 40% of the expenditure incurred from 1 Aug 2016 to YA 2018.



Training of Employees (Summary)

	In-house	External
Without PIC	100% revenue deduction	
With PIC	400% tax deduction subject to expenditure cap ¹ , 100% deduction on balance exceeding the cap	
Qualifying Expenditure for Training of Employees including qualifying agents	- Remuneration for course delivery - Rental of external premises - Refreshments - Training materials	- Course fees paid - Rental of external premises - Refreshments - Training materials
Cash Payout Option	Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap²	

¹ Total expenditure cap for **YAs 2016 to 2018** - **\$1,200,000** for each of the six activities for the 3-year period. For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies

² Maximum expenditure for **YAs 2016 to 2018** - **\$100,000** per annum for all six activities taken together



Common enquiries on External Training

Q1. What does it mean by “external training”?

External training does not refer to the venue where training is conducted. External training refers to training **provided by external service providers**. E.g. An accounting firm sending an employee/ director for training conducted by ISCA on the topic of deferred taxation.

Q2. What type of external training qualifies for PIC?

There is no restriction on the type of training so long as it is provided to employees for the purposes of the trade and business.



Two most commonly claimed PIC activities

(2) PIC IT and Automation Equipment



PIC IT and Automation Equipment



Automation equipment that qualify for PIC are prescribed in the "PIC IT and Automation Equipment List"

Both purchase and lease (only for own use) of PIC IT and automation equipment qualify for PIC

One expenditure cap applies for both purchase cost and lease payments:

- \$1,200,000* for YAs 2016 to 2018 combined

*For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies



PIC IT and Automation Equipment

- Use our **PIC IT and Automation Equipment Search** function to find out whether your equipment qualifies for PIC benefits
 - Simply open the file, key in your equipment in the box and hit "Enter" to find out if your equipment qualifies for PIC
- [Schemes> Businesses> Productivity and Innovation Credit Scheme> Acquisition and Leasing of PIC IT and Automation Equipment](#)



PIC IT and Automation Equipment

Current Automation Equipment in "PIC IT and Automation Equipment List" includes:

- Facsimile
- Optical character reader
- Laser printer
- Mainframe/Computers
- Milling machines
- Office system software
- Automatic storage and retrieval system of warehouses
- Injection mould machines
- Automotive navigation systems
- Automated kitchen equipment for the purpose of food processing (for F&B industry only)
- Interactive shopping carts
- Automated housekeeping equipment
- Automated seating systems for convention or exhibition centre
- Self-climbing scaffold system
- Concrete pumps.

More examples are available at IRAS website

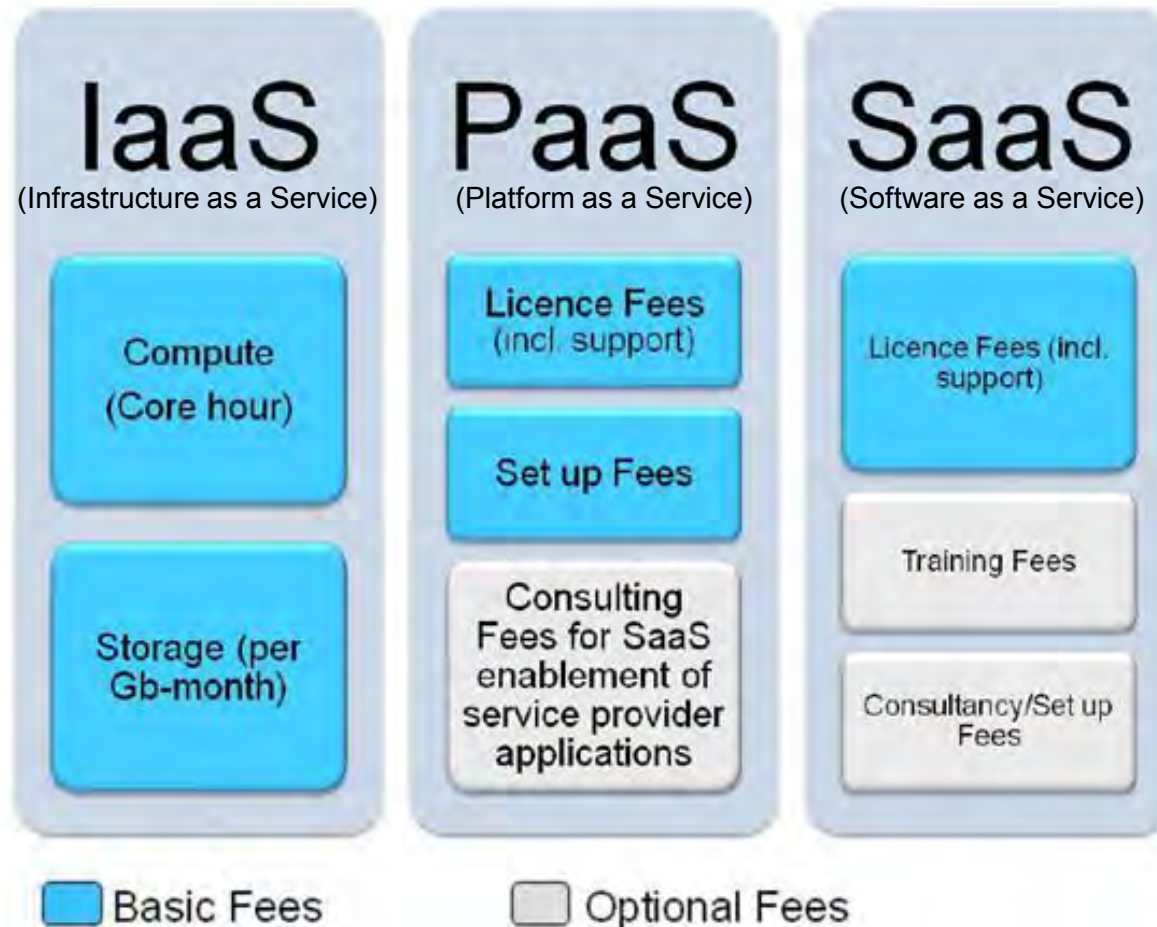


Website development costs

- ✚ 100% write-off will apply under S19A(10) instead of S19A(2)
- ✚ PIC benefits may be claimed with effect from YAs 2014 to 2018 on capital expenditure incurred on developing a website, including costs incurred for the one-time registration of a domain name for the website



Cloud Computing – Payments Qualifying for PIC Enhanced Deduction



Source: IDA



Case-by-case approval

For equipment not in the PIC IT and Automation Equipment List*, you can apply to IRAS to have the equipment approved on a case-by-case basis

From Year of Assessment (YA) 2013, IRAS will grant approval of IT and Automation Equipment on a case-by-case basis if all the following criteria are met:

- a) The equipment automates or mechanises the business' work process(es) and
- b) The equipment enhances productivity of the business (e.g. reduced man-hours, more output or improved work processes)

Generally, businesses can submit the Application for Approval of Equipment for PIC Form to IRAS two months before the return filing due date or earlier. It will be processed within 3 weeks of receipt of form, provided all information is submitted



Cut-off Date for Submitting Case-by-case approval

As PIC scheme will expire after YA 2018, businesses which wish to apply for case-by-case approval **prior** to incurring the expenditure for greater certainty that the equipment qualifies for PIC benefits, need to submit applications by following cut-off dates:

Financial year-end	Last date of receipt of case-by-case application	Estimated date on outcome of application
31 Jul	3 Jul 2017	24 Jul 2017
30 Sep	31 Aug 2017	22 Sep 2017
31 Dec	1 Dec 2017	22 Dec 2017



Note: The acquired equipment must be delivered by the last day of the business's financial year for the expenditure to qualify for PIC cash payout benefits

Claiming Capital Allowance (CA) on PIC IT and Automation Equipment

The table below shows the period over which the base (100%) and enhanced (300%) CA can be written down:

Cost per item of equipment	Type of equipment		
	Items 1 to 29 of the List *	Items 30 to 40 of the List *	Approved for PIC on case-by-case basis (i.e. not in the List)
Cost \$5,000 # or less per item	Write down over: • One year; • Three years; or • Tax working life	Write down over: • One year • Three years; or • Tax working life	Write down over: • One year • Three years; or • Tax working life
Cost more than \$5,000 per item		Write-down over: • Three years; or • Tax working life	Write-down over: • Three years; or • Tax working life

* Refer to the PIC IT and Automation Equipment List on IRAS' website at www.iras.gov.sg:

[Schemes>Businesses>Productivity and Innovation Credit Scheme](#)

Low-value assets can be written off in one year subject to a maximum cap of \$30,000 per YA. For details on how to claim CA on low-value assets, please refer to [Home>Businesses>Companies>Working out Corporate Income Taxes>Claiming Allowances>Capital Allowance>100% Write-off in One Year \(Section 19A\)](#).

Cash payout option

Election is on “**per equipment**” basis (cannot claim tax deduction and cash payout on the same equipment)

Expenditure in excess of expenditure conversion cap **forfeited**

From YA 2012, HP equipment with repayment covering 2 or more basis periods are eligible for cash payout

- i.e. for equipment acquired under HP agreement signed during the basis periods relating to YAs 2012 to 2018
- HP equipment acquired under HP agreement signed during the basis period relating to YA2011, and with repayment covering 2 or more basis periods, are not eligible for cash payout

From YA 2016, to qualify for cash payouts on qualifying equipment, businesses must show that the **equipment is in use** by the business at the point when they elect for cash payout



PIC IT and Automation Equipment

E.g. Computation of a company claiming enhanced allowance and cash payout for purchase of equipment under PIC for YA2017

Date of purchase	Equipment	Cost	Base CA 100%	Enhanced CA 300% on expenditure of up to \$1.2M	Total
1 March 16	A	\$110k*	0	0	0
9 March 16	B	1240k	1240k	1,090K x 300% = \$3270K	4510k
Total CA for YA 2017					<u>4510k</u>

***Cash payout = 60% x \$100k = \$60k**

The cash payout rate is at 60% of the expenditure incurred for YA 2013 to 31 Jul 2016 and 40% of the expenditure incurred from 1 Aug 2016 to YA 2018.

Election is on “per equipment” basis (cannot claim base and enhanced CA and cash payout on the same equipment). The expenditure in excess of \$100k conversion cap is forfeited.

Note: Equipment B that qualifies for enhanced allowance = \$1,090K (\$1,200k cap less cost of equipment A).



Cash payout option for HP equipment

- ✚ Expenditure conversion cap will be applied on the price of the PIC automation equipment (excluding finance charges)
- ✚ Actual amount of cash payout is based on the principal sum repaid during the year
- ✚ Election has to be done in year of acquisition and the cash payout rate is "locked-in" in the same year

HP agreement	Repayment of equipment costing \$100k				
entered in YA 2012*	YA 2012	YA 2013	YA 2014	YA 2015	YA 2016
	\$20k	\$20k	\$20k	\$20k	\$20k
Cash payout rate	30%	30%	30%	30%	30%
Cash payout	\$6k	\$6k	\$6k	\$6k	\$6k

* For HP agreement entered from YAs 2013 to 31 July 2016, the cash payout rate is 60%. For HP agreement dated 1 August 2016 to YA 2018, the cashpay out rate will be 40%.



Minimum ownership period

- Minimum 1-year holding for purchased equipment
- Claw-back may apply if equipment disposed of or leased out within 1 year from date of purchase

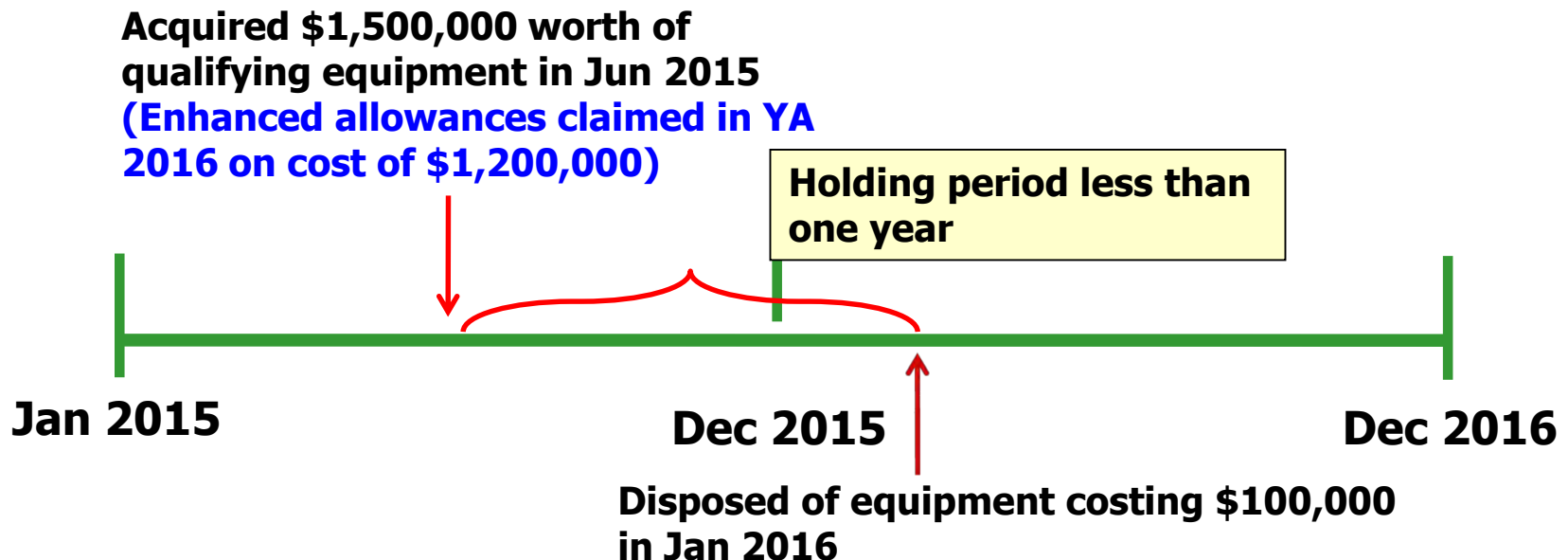
Waiver of claw-back provisions

- Automatic waiver
- Case-by-case basis: If IRAS is satisfied with the commercial reason(s) that led to the disposal



Example - Automatic waiver

If in the basis period when the equipment was acquired, the cost of qualifying equipment acquired (excluding the cost of equipment disposed of) is more than or equal to the expenditure cap applicable to that basis period, claw-back provisions automatically waived



Claw-back provisions automatically waived as cost of remaining qualifying equipment of \$1,400,000 (\$1,500,000 - \$100,000) is higher than expenditure cap of \$1,200,000



PIC IT and Automation Equipment (Summary)

	Purchase	Lease
Without PIC	100% CA	100% revenue deduction
With PIC	400% allowances/deductions subject to expenditure cap ¹ , 100% allowances/deductions on balance exceeding the cap	
Qualifying Expenditure	Cost of equipment	Lease payments
Minimum Ownership Period	1 year from the date of purchase	N.A. ²
Cash Payout Option	Per equipment basis Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap³	Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap³

¹ Total expenditure cap for **YAs 2016 to 2018 - \$1,200,000** for each of the six activities for the 3-year period . For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies

² Equipment cannot be sub-leased within the same basis period of the YA

³ Maximum expenditure for **YAs 2016 to 2018 - \$100,000** per annum for all six activities taken together



Common enquiries on PIC IT and Automation Equipment

Q1. Does my equipment qualify for PIC?

You can refer to the:

- ✓ Prescribed list of equipment on IRAS' website
- ✓ Use the equipment search function available on [IRAS' website](#). Simply open the file, key in your equipment in the box and hit "Enter".
[*Schemes>Businesses>Productivity and Innovation Credit Scheme>Acquisition and Leasing of PIC IT and Automation Equipment*](#)
- ✓ Specific examples of qualifying equipment (including those approved on a case-by-case basis) on our website



Common enquiries on PIC IT and Automation Equipment

Q2. Does website development cost qualify for PIC?

Website Development Costs from YA 2014 to YA 2018

It qualifies for PIC and you can claim it only when the website is functional i.e. accessible over internet.

The following are examples of non-qualifying website development costs:

- Renewal of domain name
- Online advertising / marketing services (e.g. providing Search Engine Optimization (SEO) services, Search Engine Marketing (SEM) services, etc);
- Routine updates; and
- Maintenance and support services.



Common enquiries on PIC IT and Automation Equipment

Q3. Does the cost to revamp a website qualify for PIC?

Qualifying - costs incurred for the provision of a new website, or for the addition of e-commerce functions to the website or any enhancement to make the website mobile responsive

Non-qualifying - cost incurred on subsequent changes or enhancements to the website (e.g. routine updating, re-writing of contents, maintenance and support)

Q4. Does web hosting fee qualify for PIC?

Fees paid for web hosting services do not qualify for PIC benefits.

However, if you are able to provide a breakdown of the web hosting fees, PIC benefits may be granted on costs incurred for the acquisition/ leasing of PIC IT and Automation Equipment such as software and server.

Common enquiries on PIC IT and Automation Equipment

Q5. Must my software development be completed before I can make PIC claims?

For PIC cash payout claims:

You cannot claim PIC cash payout if the software is under development. The claim can only be made when the software is fully developed .

However, if the development is by modules and the completed module can function independently, you can claim PIC cash payout after each module is completed.

From YA 2016, to qualify for cash payout on PIC IT and Automation equipment, you will need to show that the equipment is in use by your business at the point when you elect for cash payout.



Common Mistakes Made by Businesses when Claiming PIC Benefits



Top 2 Common Mistakes Made by Businesses



Double claim of PIC benefits

- Cannot claim both PIC Cash Payout and 100% / 400% tax deductions on the same dollar of expenditure
- E.g. A company that has claimed PIC Cash Payout on training costs of \$1,000 should not be claiming 400% tax deduction of the same training cost against its income, i.e. the training expense of \$1,000 should be added back in the tax computation.



Incorrect claim on non-qualifying expenditure

- Do not claim PIC benefits for equipment not listed in the PIC IT and Automation Equipment List
- If the equipment is not in the list but it automates/mechanises the work process, businesses may apply for it to be approved, on a **case-by-case basis**
- Do not claim non-qualifying expenditure such as:
 - GST paid by a GST registered trader on an item qualifying for PIC (GST component is not claimable for income tax purpose as the GST trader can claim input tax in its GST return);
 - costs not applicable to the automation equipment such as warranty fees and service maintenance fees;
 - consulting fees unrelated to the development of the automation equipment

Note: Penalties may be imposed for incorrect claims



Other Common Mistakes Made by Businesses

- ✚ Do not claim 500% instead of 400% tax deductions/allowances under any of the six PIC activities
 - A company can receive a total of 400% tax deductions/allowances (comprising 100% normal deduction and 300% additional tax deduction) on the qualifying expenditure
 - Do not claim 400% additional tax deductions on the expenditure which has already been deducted as an expense (100% normal deduction) against the income



Other common Mistakes Made by Businesses



- Partial conversion into cash payout is not allowed for qualifying expenditure relating to purchase of PIC IT and Automation Equipment, registration and acquisition of IPRs
- Such expenditure can only be converted into cash payout on a “per equipment”, “per filing” or “per IPR” basis respectively subject to a cap of \$100,000 for each YA
 - The excess expenditure on the same equipment/ IPR exceeding the cap will be forfeited and will not qualify for tax allowances/ deductions
 - E.g. Equipment A is purchased at cost of \$150,000 in YA 2016. If cash payout is opted, it will be computed at 60% of the qualifying expenditure (i.e. $60\% \times \$150,000 = \$90,000$), subject to the cash payout cap of \$60,000 for YA 2016. It cannot apply for a cash payout on the \$100,000 expenditure and claim the remaining \$50,000 expenditure as capital allowance of \$200,000 ($400\% \times \$50,000$) because the remaining \$50,000 expenditure will be forfeited.



Other Common Mistakes Made by Businesses

- ✚ Do not claim PIC benefits if the company has not commenced business
- ✚ Do not submit the Cash Payout application form before the end of the financial quarters
- ✚ Do not submit more than one Cash Payout application form for each quarter or combined quarters



Abusive PIC arrangements

IRAS take a serious view of any non-compliance or abuse of the PIC scheme by claimants, vendors or consultants as it undermines the purpose of the PIC scheme which is meant for qualified businesses with real productivity-enhancing investments



Abusive PIC arrangements

Anti-abuse measures

Deny PIC benefits arising from abusive arrangements

Impose penalties on promoters of PIC arrangements (including vendors and consultants) who know, or have reasonable grounds to believe that the arrangements they are promoting are abusive PIC arrangements.

Convicted offenders will have to pay a fine of up to \$10,000 and/ or imprisonment of up to three years



Abusive PIC arrangements

Abusive arrangement

- Makes use of artificial, contrived or fraudulent step(s) to obtain PIC benefits
- Results in the payment of goods/ services for an amount that exceeds open market value without bona fide commercial reason or
- No bona fide commercial reason for entering into arrangement

Example

- Business A signs up for a training package of \$5,000 with Vendor G for its employees on how to use certain cleaning products
- As part of the training package, Business A is given credits of \$5,000 to redeem cleaning products sold by Vendor G
- Upon completion of a 30-minute training session, Business A fully redeems \$5,000 worth of cleaning products. It also makes a PIC cash payout claim on the purported training expenses of \$5,000
- Contract is an abusive PIC arrangement as it makes use of artificial steps to obtain PIC benefits



Offenders Convicted of PIC Abuse

12th case: Robotic Ice-Cream Machine Dealer Convicted of False PIC Claim

Facts

- Mr A is the director of ABC Pte Ltd, which supplies robotic ice-cream kiosks
- Mr A **falsely declared** in the PIC cash payout application that ABC Pte Ltd had met the minimum three-local-employee condition when it had not
- The amount of PIC cash payout which was wrongfully obtained was \$60,000

Outcome

- Mr A was ordered to pay a **fine of \$4,000 and penalty of \$120,000** for giving false information without reasonable excuse to assist ABC Pte Ltd to obtain the cash payout which it was not entitled
- The court also ordered ABC Pte Ltd to pay a **fine of \$60,000** for the offence

Advisory to the Public

- ✚ IRAS is aware that some third-party “consultants” have been targeting groups such as hawkers and property agents to advise and influence them to submit and make false PIC claims
- ✚ Businesses are advised to be careful about entering into agreements and transactions with other parties which may result in fraudulent PIC claims
- ✚ Businesses should also be mindful of advertisements, vendors, salespersons and consultants that misrepresent the intention of the scheme or fabricate documents and transactions to fraudulently secure PIC claims, such as:
 - Those which grossly over-exaggerate the benefits of the scheme
 - Promise that businesses can “profit” from PIC
 - Suggestion that the government will “pay” the business
- ✚ IRAS takes a serious view of any attempt by claimants, vendors or consultants to defraud the Government, and we will take appropriate actions against such cases.

Advisory to the Public

- ✚ Before you claim for PIC, do ask yourself if the productivity of your business will be improved if you buy the equipment or incur any training cost. It is also essential to ask if your business is able to finance the purchase cost of the equipment or training expenses that you are going to invest in
- ✚ PIC application process kept simple and easy such that businesses can readily complete and submit the applications on their own
- ✚ IRAS has not appointed or endorsed any private consultant to provide advice or assistance to businesses on PIC matters
- ✚ Businesses may still choose to engage consultants to help them with their claims. However, businesses are ultimately responsible for the accuracy of their claims

Advisory to the Public

- ✚ Businesses that wish to engage consultants should
 - Conduct checks to ensure that those engaged are competent and knowledgeable in their field
 - Obtain the consultant's advice in writing and
 - Verify the accuracy of the information on the application form before submitting it to IRAS

- ✚ Businesses that require help with their PIC cash payout applications can sign-up for PIC seminars or approach SME Centre Business Advisors or IRAS officers for help



More information on the PIC scheme and Frequently Asked Questions are available on IRAS website

The screenshot shows the IRAS website interface. At the top, the browser address bar displays <https://www.iras.gov.sg/irashome/default.aspx>. The IRAS logo and name are on the left, and the Singapore Government logo is on the right. A search bar is located in the top right corner. The main navigation menu includes links for Individuals, Businesses, GST, Property, Other Taxes, Schemes (highlighted with a red box), and e-Services. A LOGIN button is also present. Below the navigation menu, the 'Schemes' section is expanded, showing 'Top Schemes' and 'Other Schemes'. The 'Top Schemes' list includes 'Productivity and Innovation Credit Scheme (PIC)' (highlighted with a red box) and 'Wage Credit Scheme (WCS)'. The 'Other Schemes' list includes 'Individuals' (highlighted with a red box), 'Businesses' (highlighted with a red box), and 'GST'. A large banner at the bottom left promotes the GIRO service with the text 'Are you one of them? GIRO your tax, be on time!' and a 'Learn More' button. On the right side, a 'POPULAR' section lists various tax-related topics.

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Individuals Businesses GST Property Other Taxes **Schemes** e-Services LOGIN

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- Wage Credit Scheme (WCS)
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Other Schemes

- Individuals
- Businesses
- GST
- More...

Are you one of them?
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Learn More

POPULAR

- Income Tax Rates
Locals
- Individuals Required to File Tax
Locals
- Productivity and Innovation Credit Scheme
Schemes
- e-Filing Tax
Locals
- Deductions for Individuals

Budget 2017 Highlights for Businesses



Enhancing and Extending the Corporate Income Tax Rebate

Objective

- To help companies cope with economic uncertainty and continue restructuring

Budget Change

- CIT rebate cap raised from \$20,000 to \$25,000 for YA 2017 (rebate rate unchanged at 50% of corporate tax payable)
- CIT rebate extended to YA 2018, at reduced rate of 20% of tax payable and capped at \$10,000

Administratively:

- Companies need not factor in the CIT Rebate when filing the Estimated Chargeable Income and the Income Tax Return (Form C-S/ C) as IRAS will compute and allow it automatically. IRAS has started to revise the tax assessments of companies that filed their YAs 2017 and 2018 ECIs previously and received NOAs that did not take into account the CIT rebate change
- If the company is paying the tax on ECI by instalments, the revised plan, together with the revised NOA, will be issued to the company

Increase in revenue threshold for Form C-S Filing and ECI Waiver

Objective

- To reduce compliance costs for businesses

Budget Change

- As announced on 7 Mar 2017, IRAS will increase the annual revenue threshold for simplified filing from the current \$1 million to \$5 million:
- **Form C-S (simplified tax return):**
 - Effective YA 2017, companies with annual revenue of **\$5 million** and below may file Form C-S
 - All other conditions remain unchanged
- **Waiver to file ECI**
 - Coy's FYE in or before Jun 2017 – Annual revenue $\leq$ \$1 million and ECI NIL
 - Coy's FYE in or after Jul 2017 – Annual revenue $\leq$ **\$5 million** and ECI NIL



Refer to Annex for more information on qualifying conditions to file Form C-S

Assistance and Service Channels

Website
www.iras.gov.sg

[Schemes> Businesses> Productivity and Innovation Credit Scheme](#)

Email

- General tax matters: ctmail@iras.gov.sg
- Payment matters: ctpayment@iras.gov.sg
- Productivity and Innovation Credit
 - For company: picredit@iras.gov.sg
 - For self-employed/ partnership: se@iras.gov.sg

Helpline

- For companies: 1800-356-8622
- For self-employed/partnership: (+65) 6351 3534
- 8.00am to 5.00pm from Mondays to Fridays
 - Best time to call: 8.30am – 10.30am
 - Best day to call: Friday

Social Media



[Twitter.com/IRAS_SG](https://twitter.com/IRAS_SG)



[Facebook.com/irassg](https://facebook.com/irassg)



Please complete our online Feedback Form here after the seminar:
<https://www.iras.gov.sg/IRASHome/PIC/>

Your feedback will assist us in planning and organising our future seminars.

This information aims to provide a better general understanding of IRAS' practices and is not intended to comprehensively address all possible tax issues that may arise. This information is correct as at 31 May 2017. 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 our position accordingly.



Annex

- **Other Four PIC Qualifying Activities**
- **Common mistakes made by businesses when claiming PIC benefits**
- **Hire Purchase Example**
- **Offenders Convicted of PIC Abuse**
- **Qualifying conditions to file Form C-S**



Other four qualifying activities



(3) Acquisition/Licensing of Intellectual Property



(4) Registration of Intellectual Property



(5) Research & Development



(6) Approved Design Project



(3) Acquisition/Licensing of Intellectual Property





Acquisition of Intellectual Property

Qualifying expenditure

- Acquisition cost of patent, copyright, trademark, registered designs, geographical indication, layout design of integrated circuit, trade secret and information with commercial value[#], and plant variety*

Example

- Price paid to buy an overseas trademark to accelerate inroad into the offshore market

Others

- Legal and economic ownership of IPR
- Exclude EDB approved IPRs e.g. IPRs relating to media and digital entertainment contents approved for accelerated 2-year write-down[@]

[#]As clarified in Budget 2014, in line with the policy intent of Section 19B, customer-based intangibles and documentation of work processes do not fall within the scope of Intellectual Property Rights

*e.g. selected genera/species of orchids, vegetables, aquatic plants and ornamentals

[@] As announced in Budget 2017, the two-year write-down scheme for media and digital entertainment contents will be allowed to lapse after the last day of the basis period for YA 2018



Acquisition of Intellectual Property

Cash payout option

- Election on a “**per IPR**” basis
- Allowances in excess of the expenditure conversion cap will be forfeited

Minimum ownership period of acquired IPR

- Minimum 1-year holding
- Claw-back apply if any of the following events occur within 5 years from **date of acquisition**
 - IPRs come to an end without being subsequently revived
 - Company/partnership sells, transfers or assigns all or any part of those IPRs
 - Company/partnership permanently ceases to carry on the trade or business



Licensing of Intellectual Property

From YAs 2013 to 2018, scope of IPR acquisition widened to include IPR licensing

Qualifying IPR

- Per existing list of qualifying IPRs excluding trademarks and any rights to the use of software.
- Payments for the use of software are covered under leasing of PIC automation equipment.

Qualifying expenditure

- License fees
- Excludes expenditure for the transfer of ownership of any those rights and legal fees and other incidental costs arising from the licensing of such rights



Acquisition/Licensing of Intellectual Property (Summary)

	Acquisition	Licensing
Without PIC	Before YA 2017: 100% WDA over 5 years From YA 2017: irrevocable election to claim WDA over 5, 10 or 15 years	100% revenue deduction
With PIC	400% allowances/deductions subject to expenditure cap ¹ , 100% allowances/deductions on balance exceeding the cap	
Qualifying Expenditure	Cost of IPR	License fees
Minimum Ownership Period	1 year from the date of acquisition	N.A.
Cash Payout Option	Per IPR basis Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap²	Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap²



¹ Total expenditure cap for **YAs 2016 to 2018 - \$1,200,000** for each of the six activities for each 3-year period. For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies

² Maximum expenditure for **YAs 2016 to 2018 - \$100,000** per annum for all six activities taken together

(4) Registration of Intellectual Property (Patents, Trademarks, Designs and Plant Varieties)



Registration of Intellectual Property



Qualifying expenditure

- Official fees paid to respective Registry (e.g. for filing application/registration)
- Professional fees for registration of IPRs
- Regardless of application outcome

Example

- Fees to IPOS for registering trademark or patent

Others

- Legal and economic ownership of IP
- Partial claim on 1 IPR only so as to cap the total qualifying expenditure i.e.
 - \$800,000 for YAs 2011 and 2012 combined;
 - \$1,200,000* for YAs 2013 to 2015 combined; and
 - \$1,200,000* for YAs 2016 to 2018 combined

*For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies



Registration of Intellectual Property

Minimum ownership period of IPR

- Minimum 1-year ownership
- **Claw-back** applies if:
 - IPR; or
 - application for registration; or
 - grant of IPR;

disposed off within 1 year from **date of filing** of application



Registration of Intellectual Property (Summary)

Without PIC	100% deduction on patenting costs
With PIC	400% tax deduction subject to expenditure cap ¹ , 100% deduction for balance exceeding cap
Qualifying Expenditure	Official fees paid to Registry and professional fees
Minimum Ownership Period	1 year ² from the date of filing
Cash Payout Option	Per filing basis. Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap³

¹ Total expenditure cap for **YAs 2016 to 2018** - **\$1,200,000** for each of the six activities for each 3-year period. For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies

² Even if filing is unsuccessful, IPR is still subject to 1 year ownership period

³ Maximum expenditure for **YAs 2016 to 2018** - **\$100,000** per annum for all six activities taken together



(5) Research & Development Activities



Research & Development Activities



What is R&D?

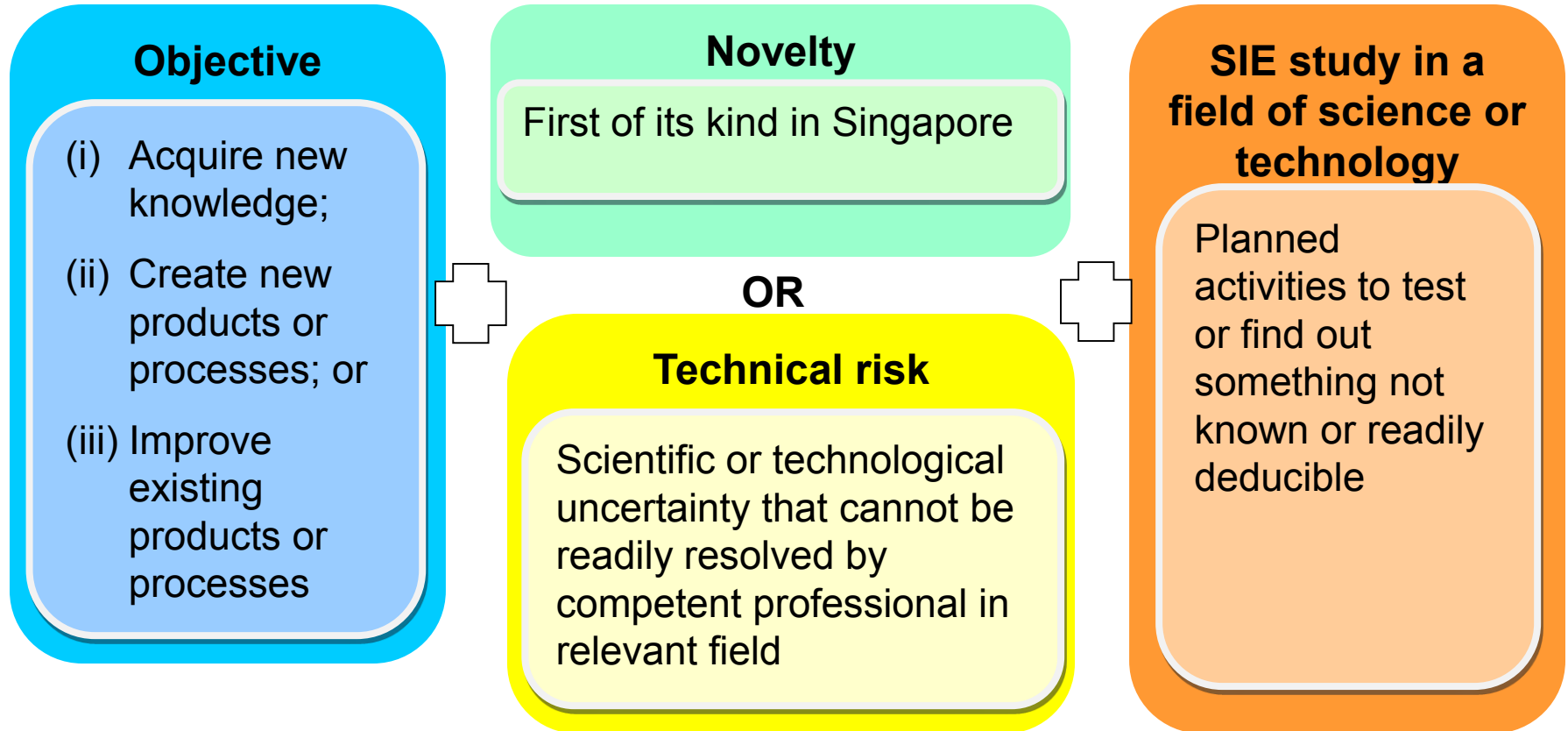
According to Section 2 of Income Tax Act, R&D refers to:

- 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

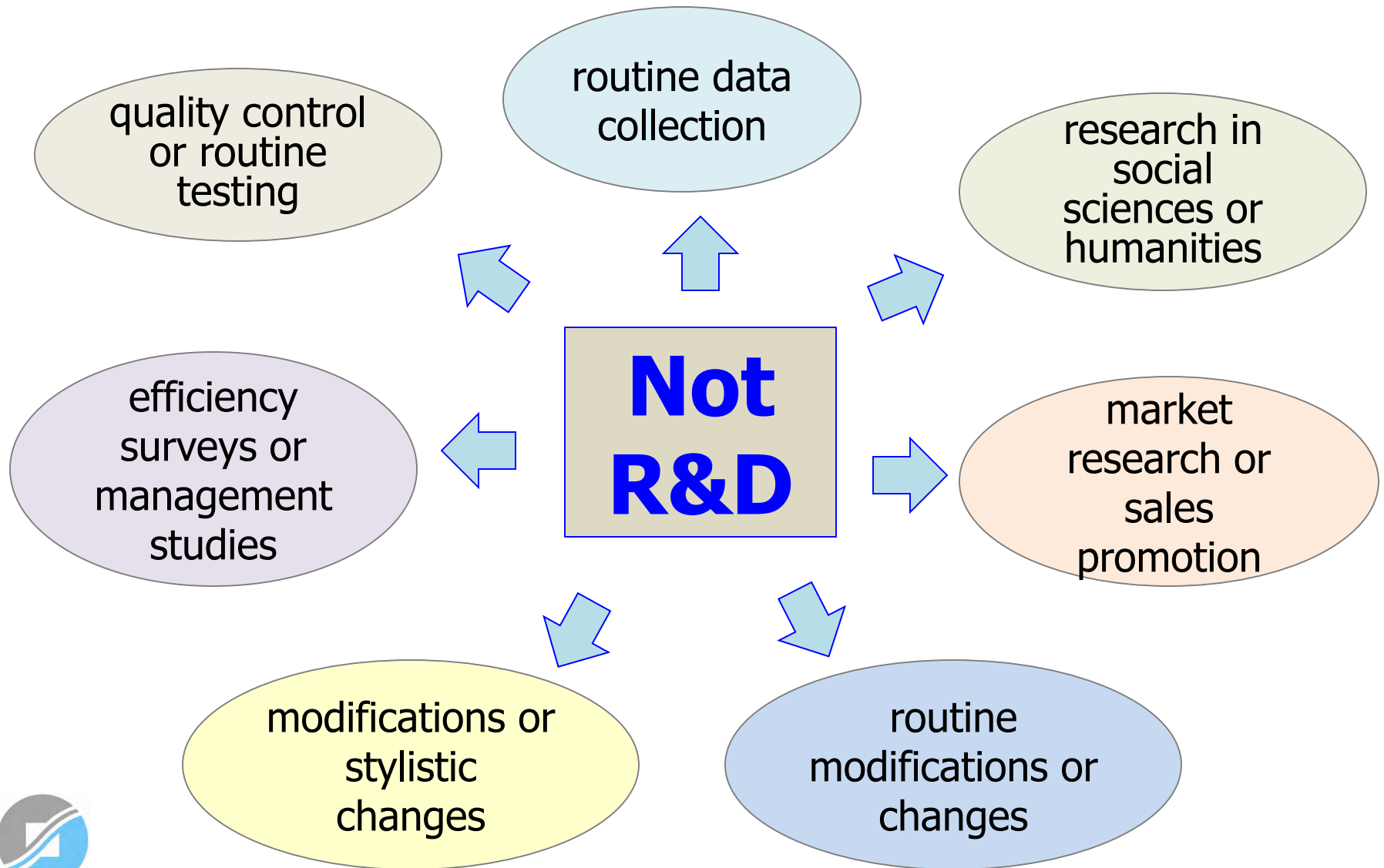


Research & Development Activities

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



Research & Development Activities



Research & Development Activities

R&D covered under PIC:

- conducted in Singapore
- conducted outside Singapore (must be related to trade/ business)
- conducted on cost sharing basis (YAs 2012 to 2018)

R&D Activity	R&D is conducted	
	In-House	Outsourced/ Cost-sharing agreement (CSA)*
Qualifying expenditure	◦ Staff costs (excluding directors' fees) ◦ Consumables <u>Example:</u> Salary of your R&D personnel engaged in R&D project	◦ 60% of fee paid; or ◦ Actual staff costs (excluding directors' fees) and consumables incurred if the amount is more than 60% of fee paid <u>Example:</u> 60% of fees paid to a R&D institute in Singapore to do R&D

Above applies only where the R&D project is conducted wholly in Singapore or wholly overseas. Where it is a mixed R&D project i.e. the project is undertaken partly in Singapore and partly overseas, refer to the e-Tax Guide "[Research and Development Tax Measures](#)" for more information on the tax deduction rules.

* A safe-harbor rule for CSA was introduced in Budget 2017 to allow taxpayers to opt to claim tax deduction for **75%** of the payments made under a CSA for qualifying R&D projects instead of examining the cost breakdown to exclude disallowable amounts. More details will be provided in the revised R&D e-Tax Guide by Sep 2017.

Research & Development Activities (Summary)

Without PIC	100%/150% tax deduction
With PIC	400% tax deduction of qualifying expenditure subject to expenditure cap ¹ . For the balance exceeding the cap and all other R&D expenses, deduction will be 100%/150%
Qualifying Expenditure	Staff costs and consumables (if outsourced, 60% of invoiced costs)
Cash Payout Option	Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap²

¹ Total expenditure cap for **YAs 2016 to 2018 - \$1,200,000** for each of the six activities for each 3-year period . For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies

² Maximum expenditure for **YAs 2016 to 2018 - \$100,000** per annum for all six activities taken together



(6) Designed Projects Approved by DesignSingapore Council



Designed Projects Approved by DesignSingapore Council



Approving Agency

- DesignSingapore Council (DSg)
- Details and application procedure available at DSg's website www.designsingapore.org

Qualifying conditions

- Design activities done/ primarily done in Singapore
- Resultant IP (design or patent) registered with Intellectual Property Office of Singapore ("IPOS")
- Be the eventual owner of the registered design
- Project must be completed within 2 years (include registration of IP with IPOS)



Designed Projects Approved by DesignSingapore Council

Qualifying expenditure

- Approved design activities conducted **in-house**
 - Staff costs of qualified design professional
- **Outsourced** approved design activities
 - 60% of payments to approved design service provider deemed as cost of qualified designers
 - actual % if > 60% of payments substantiated

Example

- Fees to engage external designer to create new product design (approved by Design Singapore)



Designed Projects Approved by DesignSingapore Council (Summary)

Without PIC	100% revenue deduction
With PIC	400% tax deduction subject to expenditure cap ¹ , 100% deduction for balance exceeding cap
Qualifying Expenditure	Approved designer costs (if outsourced, 60% of invoiced costs)
Cash Payout Option	Convert expenditure at: • 60% (expenditure incurred from YA 2013 to 31 July 2016) • 40% (expenditure incurred from 1 Aug 2016 to YA 2018) • subject to cap²

¹ Total expenditure cap for **YAs 2016 to 2018 - \$1,200,000** for each of the six activities for each 3-year period. For qualifying SMEs under PIC+ scheme, a higher expenditure cap applies

² Maximum expenditure for **YAs 2016 to 2018 - \$100,000** per annum for all six activities taken together



Hire Purchase Example



Cash payout option for HP equipment

Example

- Business is GST-registered and has a Dec year end
- Business entered into a HP agreement:
 - Date of HP agreement: 29 Jul 2016 (i.e. YA 2017)
 - Cost of HP equipment : \$100,000 + GST \$7,000 = \$107,000
 - 24 instalments (1st and subsequent instalment: \$3,862; final instalment: \$3,874)
- Use IRAS' HP template to compute the qualifying cost to be converted to PIC cash payout

	YA 2017	YA 2018	YA 2019	Total
Qualifying cost	\$32,500	\$45,000	\$22,500	\$100,000
Cash payout @ 60%	\$19,500	\$27,000	\$13,500	\$60,000

Note:

- HP template will show the breakdown of the qualifying cost into each relevant quarter. The business can claim PIC cash payout on a quarterly basis/ combined quarterly basis/ yearly basis.
- For HP agreement entered from YAs 2013 to 31 July 2016, the cash payout rate is 60%. For HP agreement dated 1 August 2016 to YA 2018, the cash payout rate will be 40%



PIC IT and Automation Equipment

COMMON LAW 1 (FLAT/ FIXED RATE)
HP AGREEMENT NO.: HP-001-1-23456-1

THIS HIRE PURCHASE AGREEMENT

This Agreement is made on 29 July 2016 between [REDACTED] a company incorporated in Singapore and having its registered office at [REDACTED] Singapore [REDACTED] ("the Owner", which expression shall where the context so admits include its successors and assigns) of the one part; and [REDACTED] PTE LTD [REDACTED] (Name, NRIC No.) ("the Hirer") of the other part of [REDACTED] ROAD # [REDACTED] SINGAPORE [REDACTED] (Address).

THE SCHEDULE

Commencement Date : 29 Jul 2016
Description of Goods : AS PER ATTACHED APPENDIX 1
Location of Goods : AT OR IN THE VICINITY OF THE ABOVE ADDRESS

Price and Payments (inclusive of GST, if any):		Currency - SGD (\$)
(I)	Total cash price of the Goods (including the accessories and other related fees, expenses and charges)	<u>107,000.00</u>
(II)	Total Deposit (including cash, allowance/trade-in):	<u>17,000.00</u>
(III)	Total (I) less (II)	<u>90,000.00</u>
(IV)	Term charges at:	
	(a) *a rate of <u>1.50</u> % per annum flat (Effective Interest rate is <u>3.10</u> % per annum); or	<u>2,700.00</u>
	(b) *SPRING Singapore Rate: Provided that if SPRING Singapore/ and other competent authority ("the Authority") approves (whether before or after the date of this Agreement) the Hirer's application for financing of <u> </u> relating to this hire purchase transaction under the Local Enterprise Finance Scheme or any other Scheme(s) ("the Scheme"), the rate shall be <u> </u> % per annum on monthly rests, or such other rate as may be prescribed by the Authority as applicable to this hire purchase transaction, with effect from the date such approval ("the Authority's approval") is granted by the Authority or from such other date as agreed to between the parties hereto.	
(V)	Balance of Hire Purchase Price payable under this Agreement being the total of (III) and (IV)	<u>92,700.00</u>
(VI)	Total Hire Purchase Price payable	<u>109,700.00</u>

Mode of Payment:

Balance of Hire Purchase Price shall be paid by 23 monthly instalments of \$S3,862.00 each and a final instalment of \$S3,874.00, commencing the 29 day of JULY 2016 and thereafter on the same day of each succeeding month.



PIC IT and Automation Equipment

TAX INVOICE

Invoice/ DO No : xxx
Invoice/ DO Date : 21/06/2016

Bill To: xxx

Ship To: xxx

xxx Pte Ltd
xxx Road #xx-xx
Singapore xxxxxx
Singapore

xxx Pte Ltd
xxx Road #xx-xx
Singapore xxxxxx
Singapore

Order Date: 21/06/2016
Remarks:

Purchase Order:
Credit Term:

Model Number	Description	Quantity	Price	Amount
BC-F4501K-P	SERVER S602C	1	100,000.00	100,000.00

SGD Total :	100,000.00
Discount :	0.00
Carriage :	0.00
Insurance :	0.00
Service :	0.00
GST 7% :	7,000.00
Total Amt Due :	107,000.00



PIC IT and Automation Equipment

Productivity and Innovation Credit (PIC) Hire Purchase (HP) Template for Years of Assessment (YAs) 2013 to 2018

- 1 This template computes the qualifying cost to be converted to PIC cash payout for PIC IT and automation equipment acquired under any HP agreement entered into during the basis period for YAs 2013 to 2018.
- 2 The qualifying cost for each relevant financial period is computed on a straight-line basis regardless of the actual principal sum repaid in each relevant financial period.
- 3 Please fill this form in soft-copy before printing. Do not print it out and fill in manually.
- 4 You are encouraged to submit this HP template together with the PIC Cash Payout Application Form. If you do so, you may retain your HP agreement(s), invoice(s) and payment schedule(s) and submit them only upon request.
- 5 You should start on a new template if:
 - i. you have more than 5 HP equipment; or
 - ii. you are claiming PIC cash payout on HP equipment acquired under agreement(s) entered into during a different basis period (i.e. different YA).
- 6 You should not use this template if your basis period is more than 12 months due to a change in accounting year end.
- 7 You are not required to submit this template if you are able to determine/compute the qualifying cost to be converted to PIC cash payout on your HP equipment based on the actual principal repaid in the relevant financial period.
- 8 If you are not using the HP template, please submit the HP agreement(s), invoice(s) and payment schedule(s) together with your PIC Cash Payout Application Form. Where the information furnished in your cash payout application is complete, we will process the claim. However, if the information is incomplete, we will request for further details to review your claim.
- 9 Do not print this page for submission.



PIC IT and Automation Equipment

Productivity and Innovation Credit (PIC)		 INLAND REVENUE AUTHORITY OF SINGAPORE
Hire Purchase (HP) Template for Years of Assessment (YAs) 2013 to 2018		
Instructions for HP Equipment 1		
1. Complete Parts (A) to (C) 2. Enter the qualifying cost computed in Part (C) in Annex A1 of your PIC Cash Payout Application Form 3. If you acquired other HP equipment in the same YA, complete the relevant tab(s) "HP Equipment 2" to "HP Equipment 5" in sequential order . Skipping a tab will result in computation errors 4. Print all pages of the HP template and submit it with your PIC Cash Payout Application Form 5. Save a softcopy of the HP template. For future claims on the same HP equipment, update the relevant financial period in Part (C) and repeat steps (2) and (4) above.		
(A) Business Particulars (As per PIC Cash Payout Application Form)		
(A1) Name of business	PTE LTD	
(A2) Tax reference number	XXXXXXXXXX	
(A3) Year End	31 Dec	
(A4) Is the business GST registered?	Y	
(B) HP Details (As per HP agreement)		
(B1) Description of asset	Servers 5602C	
(B2) Date of HP agreement (dd/mm/yyyy)	29/7/2016	
(B3) Date of first instalment (dd/mm/yyyy)	29/7/2016	
(B4) Number of instalments	24	
(B5) First instalment (\$)	\$3,862	
(B6) Subsequent instalments (\$)	\$3,862	
(B7) Final instalment (\$)	\$3,874	
(B8) Cash purchase price (exclude GST and HP interest)	\$100,000	
(B9) GST amount	\$7,000	
(B10) Total	\$107,000	
(B11) Downpayment	\$17,000	
(B12) Term charges / HP interest	\$2,700	
(B13) <u>Non-qualifying costs</u>	\$0	
(B14) Other qualifying activities in the YA	\$0	
(B15) Total qualifying cost for HP Equipment 1	\$100,000	
(C) Qualifying Cost for the Relevant Financial Period		
Relevant Financial Period (As Per PIC Cash Payout Application Form)		
(C1) From:	1/1/2016	
(C2) To:	31/12/2016	
(C3) YA	2017	
(C4) Qualifying Cost	\$32,500	(to be claimed in Annex A1)



v3.2.14

PIC IT and Automation Equipment

Productivity and Innovation Credit (PIC) Hire Purchase (HP) Template for Years of Assessment (YAs) 2013 to 2018 Explanatory Notes on Completing the Template

Item	Description	What to Complete
B2	Date of HP agreement (dd/mm/yyyy)	This refers to the date of HP agreement/ date of HP agreement signed/ date of commencement of HP, which can usually be found at the top of the HP agreement
B3	Date of first instalment	The information to complete these items can usually be found under the "Mode of Payment" section in the HP agreement
B4	Number of instalments	
B5	First instalment (\$)	
B6	Subsequent instalments (\$)	
B7	Final instalment (\$)	
B11	Downpayment	This is the deposit amount made for the equipment, which is inclusive of any payment made for GST. The amount paid can usually be found in the HP agreement.
B14	Other qualifying activities in the YA	Please include the qualifying costs for all other activities claimed for the YA (i.e. cash purchase of automation equipment, in-house and external training, IPR acquisition and registration, R&D, Approved design projects). Please exclude other HP equipment for the YA (if any) The YA refers to the YA in which the HP equipment is acquired.

Note The qualifying expenditure to be converted to PIC cash payout for all six PIC qualifying activities is capped at \$100,000 for each YA. For the purpose of determining whether the expenditure conversion cap of \$100,000 for a YA has been reached, the cost of the HP equipment acquired in that YA will be taken into account.

To illustrate, a HP equipment (Equipment A) costing \$110,000 was acquired in YA 2014 and the total qualifying expenditure (computed based on the capital repayment) for the YA was \$30,000. The company acquired another piece of equipment (Equipment B) in YA 2014 for \$50,000. As the expenditure conversion cap for cash payout cap of \$100,000 for YA 2014 has been reached, cash payout is allowed only on Equipment A, capped at \$100,000. No cash payout will be granted on Equipment B.



Offenders Convicted of PIC Abuse



Offenders Convicted of PIC Abuse

1st case: Company Director Jailed for Fraudulent PIC Claims

Facts

- Mr Y is a director of DEF Pte Ltd - a computer equipment and hardware wholesaler and computer memory modules distributor
- Mr Y **falsified invoices** in order to **claim PIC cash payout of \$58,143.60** when no such expenditure was incurred by the company
- The fraudulent claim was committed with the wilful intent to obtain a PIC cash payout

Outcome

- Mr Y was sentenced to **eight weeks' jail** and also ordered to pay **a penalty of \$232,574.40** for the wilful intent to assist a company in fraud
- The court also ordered DEF Pte Ltd to pay a **fine of \$10,000 and a penalty of \$232,574.40**, four times the amount of cash payout that it had fraudulently claimed



Offenders Convicted of PIC Abuse

2nd case: Company Penalised \$180,000 for False PIC Claims

Facts

- Mr Z, is director of GHI Pte Ltd which manufactures machine tool accessories
- Mr Z made a **false declaration** that GHI Pte Ltd had purchased PIC automation equipment for \$168,000 and that his company met the qualifying conditions **to obtain cash payout of \$60,000**
- GHI Pte Ltd did not incur such expenditure and did not employ or make CPF contributions for at least three local employees. In fact, the company had never been in active business operation

Outcome

- Mr Z was sentenced **to 5 weeks' jail** and also ordered to pay a **penalty of \$180,000** for the offence; in default, 18 weeks' jail
- The court ordered GHI Pte Ltd to pay a **fine of \$8,000 and a penalty of \$180,000**



Offenders Convicted of PIC Abuse

3rd case: Digital printing company to pay \$53,704 in fine and penalty for false PIC claim

Facts

- JKL Pte Ltd, a digital printing company, falsely claimed a total of \$27,058 on automation equipment in its PIC cash payout application
- JKL had in fact only paid \$21,150 for the purchase, but had used **fictitious tax invoice** to support a false PIC claim for an **inflated amount**

Outcome

- JKL Pte Ltd, was ordered by the court to pay a **fine of \$5,000 and a penalty of \$48,704** for abusing the PIC scheme to illegally obtain a higher PIC cash payout



Offenders Convicted of PIC Abuse

4th case: Managing Partner Convicted of PIC Fraud

Facts

- Mr X is the managing partner of ABC, which deals in email marketing solutions and software consultancy
- Mr X **falsely declared** in the PIC cash payout application that ABC met the qualifying conditions **for the cash payout**
- To make his claim appear legitimate, he made CPF contributions to two individuals one day before the date of the cash payout application, so as to represent them as ABC's local employees

Outcome

- Mr X was convicted for wilful intent to assist ABC to obtain a PIC cash payout which it was not entitled to by providing false information
- Mr X was ordered to pay the **maximum fine of \$10,000**, and a **penalty of \$18,000**, three times the amount of the cash payout that would have been wrongfully obtained

Offenders Convicted of PIC Abuse

(5th case): Computer Components Distributor Convicted of False PIC Claim

Facts

- Mr W is the director of MNO Pte Ltd, which is a distributor of computer memory products and hardware accessories
- Mr W **falsely declared** in the PIC cash payout application that MNO Pte Ltd had incurred \$77,202 in time costs for five employees for developing software systems
- In fact, there was no such development and the five employees did not spend any time on development

Outcome

- Mr W was ordered to pay **a fine of \$2,500 and penalty of \$46,321.20** for giving false information without reasonable excuse to assist MNO Pte Ltd to obtain the cash payout which it was not entitled
- The court also ordered MNO Pte Ltd to pay **a fine of \$2,500 and penalty of \$46,321.20** for the offence

Offenders Convicted of PIC Abuse

(6th case): Sole Proprietor Convicted of PIC Fraud

Facts

- Ms J, sole proprietor of JD, was a baker who worked on her own with no employees when she made an application for PIC cash payout
- Ms J **falsely declared** that JD had met the condition of having three local employees during the period of her claims
- Ms J had sought for permission from her acquaintances to use their names, even though they were not employees of JD

Outcome

- Ms J was ordered to pay **a fine of \$10,000 and penalty of \$27,000**, three times the amount of the cash payout that had been wrongfully obtained, for providing false information in the PIC cash payout application form

Offenders Convicted of PIC Abuse

(7th case): Two Companies and a Director Convicted for Making Fraudulent PIC Claim

Facts

- Mr B, director of A Pte Ltd, a retailer in computer hardware and software, instructed his staff to prepare a false sales invoice of \$27,167 to BCD Pte Ltd, in the business of repairing, when there was **no such sale transaction**
- BCD Pte Ltd then gave false information to IRAS to obtain the **PIC cash payout of \$16,300 which it was not entitled to**

Outcome

- BCD Pte Ltd was ordered to pay a **penalty of \$48,900** three times the amount of PIC cash payout, and a **fine of \$4,000**
- A Pte Ltd was convicted of wilful intent to assist BCD Pte Ltd to obtain PIC cash pay out by creating a false invoice. The coy was ordered to pay a **penalty of \$65,200**, four times the amount of PIC cash payout that BCD Pte Ltd had wrongly obtained, and a **fine of \$4,000**
- Mr B was convicted of wilful intent to assist BCD Pte Ltd by authorising the preparation of a false invoice. He was sentenced to **12 days in jail and a penalty of \$65,200**, four times the amount of PIC cash payout
- Four other companies linked to Mr B (C Pte Ltd, D Pte Ltd, E Pte Ltd and F Pte Ltd) have also been dealt with separately by IRAS for making false PIC claims. In the four cases, IRAS **imposed composition fees amounting to \$108,825**, two times the amount of false PIC claims



Offenders Convicted of PIC Abuse

(8th case): Plastic Packaging Manufacturing Co & its Director Convicted of False PIC Claim

Facts

- Mr A is the director of ABC Pte Ltd, which is a plastic packaging manufacturing company
- Mr A **falsely declared** in the PIC cash payout application that ABC Pte Ltd had incurred \$103,000 in YA 2014 for purchase of an automatic vacuum forming machine
- In fact, the machine was purchased in 1999

Outcome

- Mr A was ordered to pay **a penalty of \$120,000 and fine of \$4,000** for giving false information without reasonable excuse to assist ABC Pte Ltd to obtain the cash payout which it was not entitled
- The court also ordered ABC Pte Ltd to pay **a penalty of \$180,000 and fine of \$10,000** for the offence

Offenders Convicted of PIC Abuse

(9th case): Business and Management Consultancy Owner Convicted of PIC Fraud

Facts

- Mr A is the sole proprietor of ABC Consultancy
- Mr A made a **false** PIC cash payout claim by backdating the business commencement date and a software purchase invoice
- The business and expenditures were non-existent during the financial period for which the claim was made.
- To make his claim appear legitimate, Mr A also backdated CPF contributions for three individuals who were not in fact his employees

Outcome

- Mr A was ordered to pay a **penalty of \$118,665.60 and fine of \$4,500** for giving false information without reasonable excuse to obtain the cash payout which he was not entitled

Offenders Convicted of PIC Abuse

(10th case): Man Charged for Cheating in respect of PIC Fraud

Facts

- Mr A has been charged with 5 counts of Abetment by Conspiracy to Commit Cheating in respect of PIC Claims
- 28 companies are investigated for PIC group fraud

Outcome

- Case referred to Commercial Affairs Department
- If convicted, Mr A shall be punished with imprisonment for a term which may extend to 10 years, and is also liable to fine

Offenders Convicted of PIC Abuse

Latest (11th case): PIC Promoter charged in Court for role in PIC claims of over \$1 million

Facts

- Mr A, sole proprietor of consultancy firm acted as promoter of PIC Scheme
- Charged on 27 Jan 2017 with 58 charges of assisting 49 claimants to fraudulently obtain cash payouts and bonuses amounting to \$1,097,694
- 18 individuals charged for false claims

Outcome

- Anyone who commits PIC offences might be subject to penalties of up to four times the amount of PIC cash payout and PIC bonus fraudulently obtained (or which would have been obtained if the offence had not been detected), and a fine of up to \$50,000 or imprisonment of up to five years
- As at 2 Jun 2017, 14 individuals were ordered to pay a penalty of between \$24,606 and \$49,212 for making false PIC claims. Some were also ordered to pay the maximum fine of \$5,000 each.



Qualifying conditions to File Form C-S

From YA 2017, companies will qualify to file Form C-S if they meet all of the following conditions:

- The company must be incorporated in Singapore;
- The company must have an annual revenue of \$5 million or below
- The company only derives income taxable at the prevailing corporate tax rate of 17%; and
- The company is not claiming any of the following in the YA:
 - ❖ Carry-back of Current Year Capital Allowances/ Losses
 - ❖ Group Relief
 - ❖ Investment Allowance
 - ❖ Foreign Tax Credit and Tax Deducted at Source

