



Smart Business Solutions

Unlocking Innovation: Maximising Tax Deductions Through The Enterprise Innovation Scheme (EIS)

October 2024

Unlocking Innovation: Maximising Tax Deductions Through The Enterprise Innovation Scheme (EIS)

Eunice Hooi & Ade Teo from BoardRoom
Florent Delmotte from FI Group

Introduction

In today's fast-paced and dynamic business environment, organisations continually seek strategies to mitigate tax liabilities while fostering innovation. The Enterprise Innovation Scheme (**EIS**), effective from Year of Assessment (YA) 2024 to YA 2028, has been introduced to incentivise businesses in Singapore to engage in research and development (R&D), innovation, and capability development activities through enhanced tax deductions.

This report presents an overview of the EIS, highlighting its benefits and providing guidance on navigating the application process effectively.

What is the Enterprise Innovation Scheme (EIS)?

Prime Minister and Minister for Finance Lawrence Wong, in his Budget 2023 Statement, called for action: *“I encourage all our companies, big and small, to make full use of these measures to innovate and grow.”*

The Enterprise Innovation Scheme (**EIS**) was introduced during the 2023 Budget as a significant enhancement to the existing R&D Tax Measures. Under the EIS, businesses can claim an additional 150% tax deduction on the first \$400,000 of qualifying expenditure each year, substantially increasing the incentives for innovation.

From YA 2024 to YA 2028, the combined benefits of the EIS and the existing R&D Tax Measures yield an impressive 400% tax deduction on qualifying expenditures, which include:

- Staff costs: Salaries, wages, and other benefits for employees directly involved in innovation activities (excluding directors' fees).
- Consumables: Materials or items consumed during the innovation process that cannot be reused.
- Outsourced fees: Up to 60% of fees paid to service providers for outsourced innovation activities.

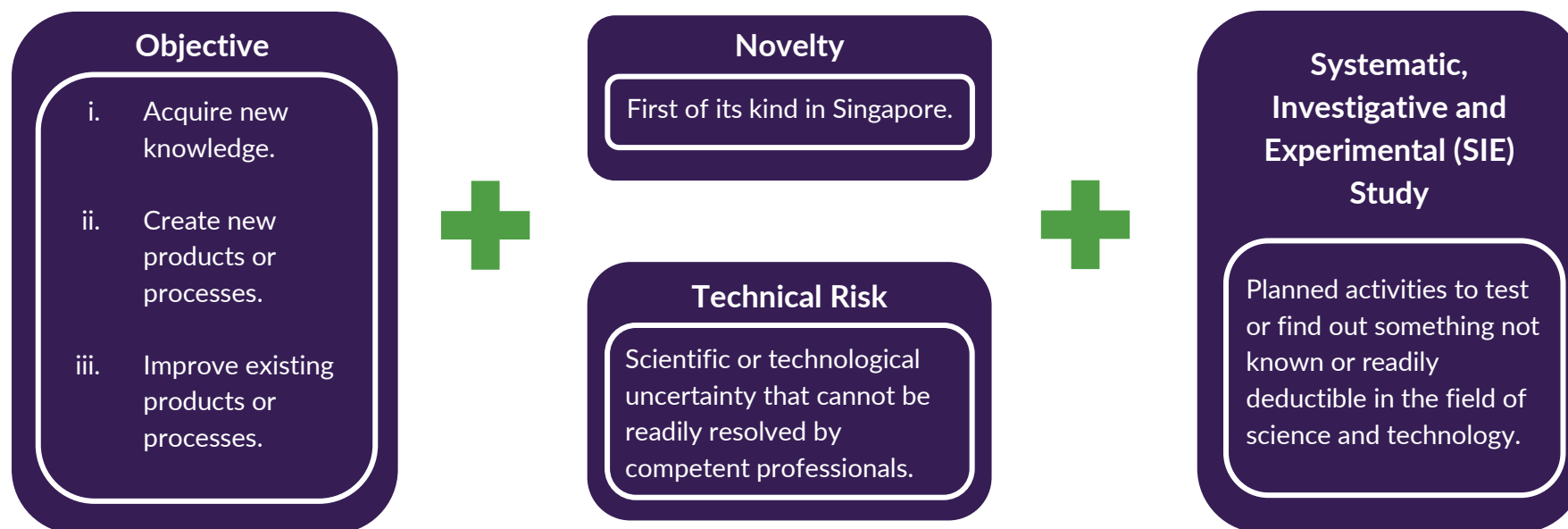
For expenditures beyond the initial \$400,000, businesses will continue to benefit from the traditional 250% tax deduction available under the existing R&D Tax Measures.

Clarity from the IRAS: E-Tax Guide

To provide clarity regarding the EIS, the Inland Revenue Authority of Singapore (IRAS) published an e-Tax Guide - “Enterprise Innovation Scheme” on June 30, 2023. This guide should be read in conjunction with the “Research and Development Tax Measures (Seventh Edition)” e-Tax Guide released on June 8, 2022, which outlines the eligibility criteria and scope of existing R&D incentives.

A qualifying R&D project must fall within the definition of “R&D” under Section 2 of the Income Tax Act, which stipulates three requirements:

1. The objective is to acquire new knowledge, create new products or processes, or improve existing products or processes.
2. The project involves an element of novelty or technical risk.
3. The project is a systematic, investigative, and experimental (SIE) study in a field of science or technology.



Key Benefits of the EIS

The EIS is designed to stimulate business innovation by providing substantial tax benefits. From YA 2024 to YA 2028, the key features include:

- 150% Additional Tax Deduction: On the first \$400,000 of qualifying expenditures.
- 400% Total Deduction: When combined with existing R&D Tax Measures.

Illustrative Example



Expenditure:
\$600,000



Potential tax savings:
\$357,000 (59.5%)

Expenditure	\$600,000	
100% tax deduction under Section 14C	\$600,000	(\$600,000 x 100%)
Additional 150% tax deduction under Section 14D (1)	\$900,000	(\$600,000 x 150%)
Enhanced 150% tax deduction under Section 14D (1A) for the first \$400,000	\$600,000	(\$400,000 x 150%)
Total tax savings with CIT at 17%	\$357,000	(((\$600,000 + \$900,000 + \$600,000)) x 17%)

Cash Payout Option for Qualifying Expenses

Instead of tax deductions, businesses can opt for an EIS Cash Payout at a conversion rate of 20%:

- Conversion of up to \$100,000 in qualifying expenses (excluding any government grants).
- The maximum Cash Payout capped at \$20,000 (20% of \$100,000).
- The business must have an active operation in Singapore.
- The business must employ a minimum of three full-time local employees with CPF contributions for at least six months during the relevant YA.
- Once elected, the option to convert qualifying expenses to cash payout is irrevocable.

Eligibility Criteria: Does My Project Qualify?

Determining whether innovative activities qualify for the EIS can be challenging. Consider the following key questions to assess eligibility:

- Have you developed or improved a product or process?
- Is this product or process unique to the Singapore market?
- Does the development involve technical uncertainty that cannot be easily resolved by your engineering team?

Navigating the EIS Application Process

For many businesses, especially those unfamiliar with corporate tax filing, the EIS application process can be daunting. Understanding the qualifying conditions, timelines, and required documentation is essential.

To simplify this process, BoardRoom collaborates with FI Group, which has over 30 years of experience and a proven track record of assisting over 20,000 clients in achieving compliant and efficient claims. In the past year, FI Group has successfully helped clients secure a remarkable \$2.5 billion in savings.

How BoardRoom and FI Group Can Assist

Expert Guidance	Our team of dedicated tax professionals provides expert guidance to ensure that your application is accurate and compliant.
End-to-End Application Management	We handle everything from identifying eligible expenses to gathering necessary documentation and completing tax forms for submission within the stipulated timeline.
Resource Efficiency	Our streamlined approach reduces the burden on your internal resources, allowing your team to focus on business growth.
Maximising Tax Savings	We identify potential tax deductions to maximise your tax savings.

EIS Application Process

Documentation and Eligibility Assessment	<ul style="list-style-type: none"> • Prepare proper documentation of the R&D project from inception. Alternatively, apply for the R&D Assurance Framework for upfront certainty on R&D claims for up to three YAs. • Assess the eligibility of the R&D project. • Identify qualifying expenses recorded in the relevant financial year
Tax Computation and Form Preparation	<ul style="list-style-type: none"> • Prepare tax computations and returns, including tax deductions (base, additional, and enhanced) on qualifying expenses for the relevant YA. • Prepare relevant tax forms.
IRAS Review Process	<ul style="list-style-type: none"> • The IRAS may request and review additional supporting documents to substantiate R&D claims. • IRAS will evaluate the claims and may seek advice from the IRAS Technical Advisory Panel.
Outcome Notification	<ul style="list-style-type: none"> • Upon completion of the evaluation, IRAS will inform the company regarding the review of the R&D claims.

Conclusion

The Enterprise Innovation Scheme presents a valuable opportunity for businesses in Singapore to drive innovation while effectively reducing their tax liabilities. By understanding the scheme, identifying eligible projects, and navigating the application process, businesses can position themselves for growth and success in a competitive landscape.

For further information or assistance with your EIS application, please feel free to contact us. Together, let's unlock tax savings through the EIS.

Disclaimer

This report has been prepared for general informational purposes only. Whilst every effort has been made to ensure accuracy, Boardroom Group ("Boardroom") will accept no responsibility for errors and omissions howsoever caused. The information should not be relied on as professional advice and should not be regarded as a substitute for detailed advice in individual circumstances where the services of a competent professional adviser should be sought. No warranty, express or implied, is given as to the report's accuracy, completeness or fitness for a particular purpose. Legal restrictions may apply to the distribution of information regarding certain Boardroom services in some jurisdictions. This report is not intended for the use of persons located in those jurisdictions to which the abovementioned restrictions apply. It is the responsibility of those accessing this report to ensure that they are aware of all relevant restrictions that apply to them.

How we can help

Embracing a client-centric approach, our Regional Tax Team is committed to delivering strategic tax and transfer pricing solutions, ensuring compliance and maximising opportunities for our clients across diverse tax jurisdictions.

Contact us! We look forward to assisting you in navigating the complexities of taxation in today's dynamic business landscape, driving financial success and building lasting partnerships.

Meet our Regional Tax Team:



Eunice Hooi
Managing Director Asia



Ade Teo
BoardRoom Singapore



Victor Cheow
BoardRoom Malaysia



Candice Ng
BoardRoom Hong Kong

About BoardRoom

BoardRoom is Asia Pacific's leader in Corporate and Advisory Services with a strong and reputable 50-year track record. Headquartered in Singapore we are ranked amongst Forbes Asia's Top 200 Companies under a Billion. With our strong presence in the region, and a direct office presence in Singapore, Malaysia, Hong Kong, China and Australia, we are well positioned to support you.

Our smart business solution suite comprises of the following services:



Global Tax & Accounting



Regional Payroll



Corporate Secretarial



ESG Services



Share Registry



Employee Share Plans

Get in touch with us today to take your business further, faster.

Scan to learn more about our services.

