



cutting through complexity™

Implications of Budget 2011 Tax Changes on Businesses

5 April 2011

Agenda

Part 1:

- **Role of tax concessions in economic development**
- **Overview of Singapore's tax and incentive regime**

Part 2:

- **Tax strategy for enhancing productivity**
- **Tax-efficient innovation management**
- **Tax planning for internationalisation**

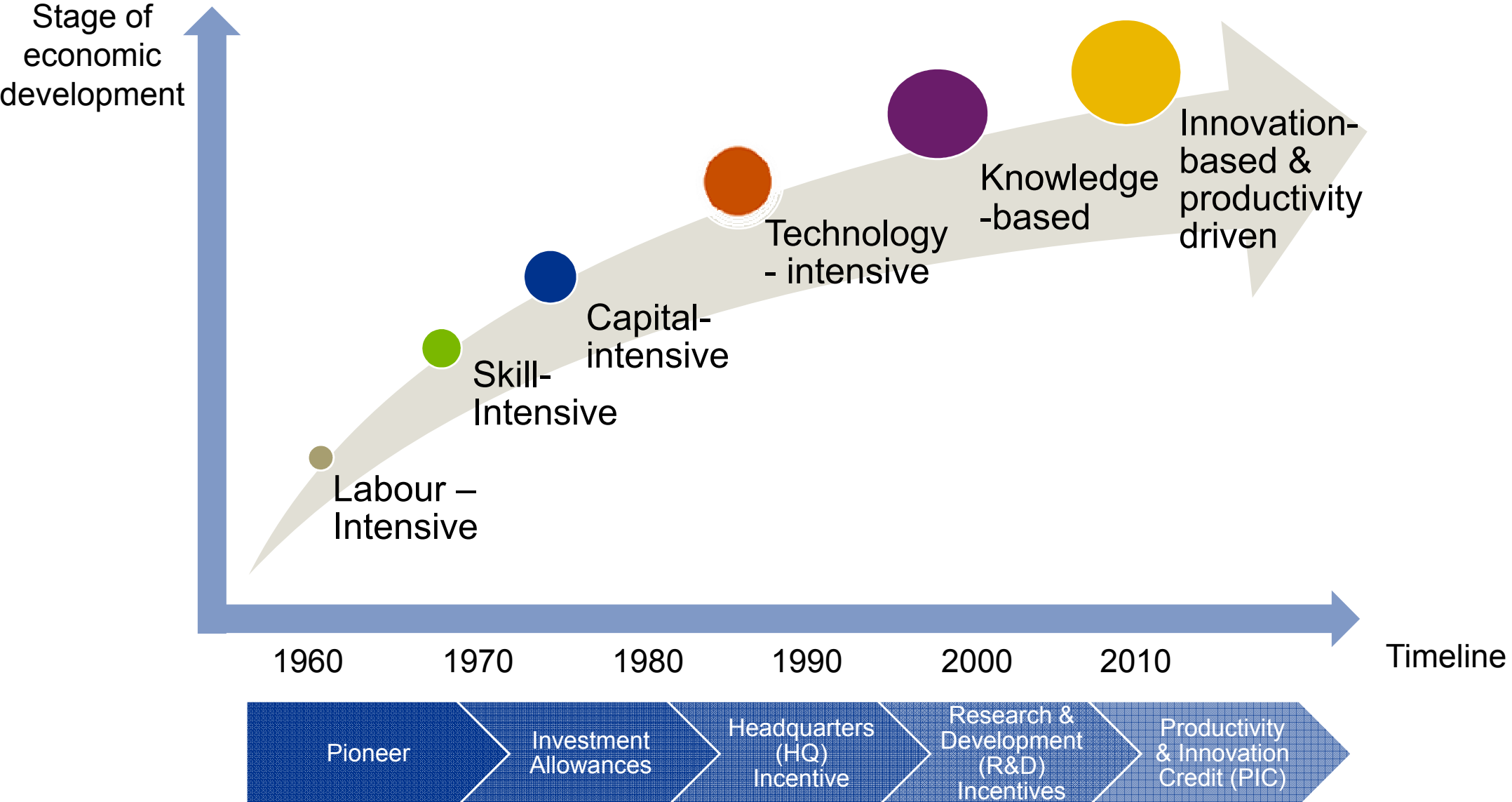
Part 3:

- **Opportunities to benefit from Budget 2011 tax changes**

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Part 1: Role of tax concessions in economic development

Role of tax concessions in economic development





Part 1: Overview of Singapore's tax and incentive regime

Overview of Singapore's tax and incentive regime

Headquarters

- International / Regional HQ Award
- Pioneer Incentive

Trading

- Global Trader Programme

Finance and treasury

- Finance & Treasury Centre (FTC) Incentive
- Financial Sector Incentive (FSI) Scheme

Philanthropic

- Institution of a Public Character (IPC) / Qualifying Grantmaking Organisation
- Tax exempt status under registered charity or non-profit organisation incentive

Productivity

- Enhanced deductions for training (under PIC)
- Enhanced deductions/allowances for automation equipment (under PIC)

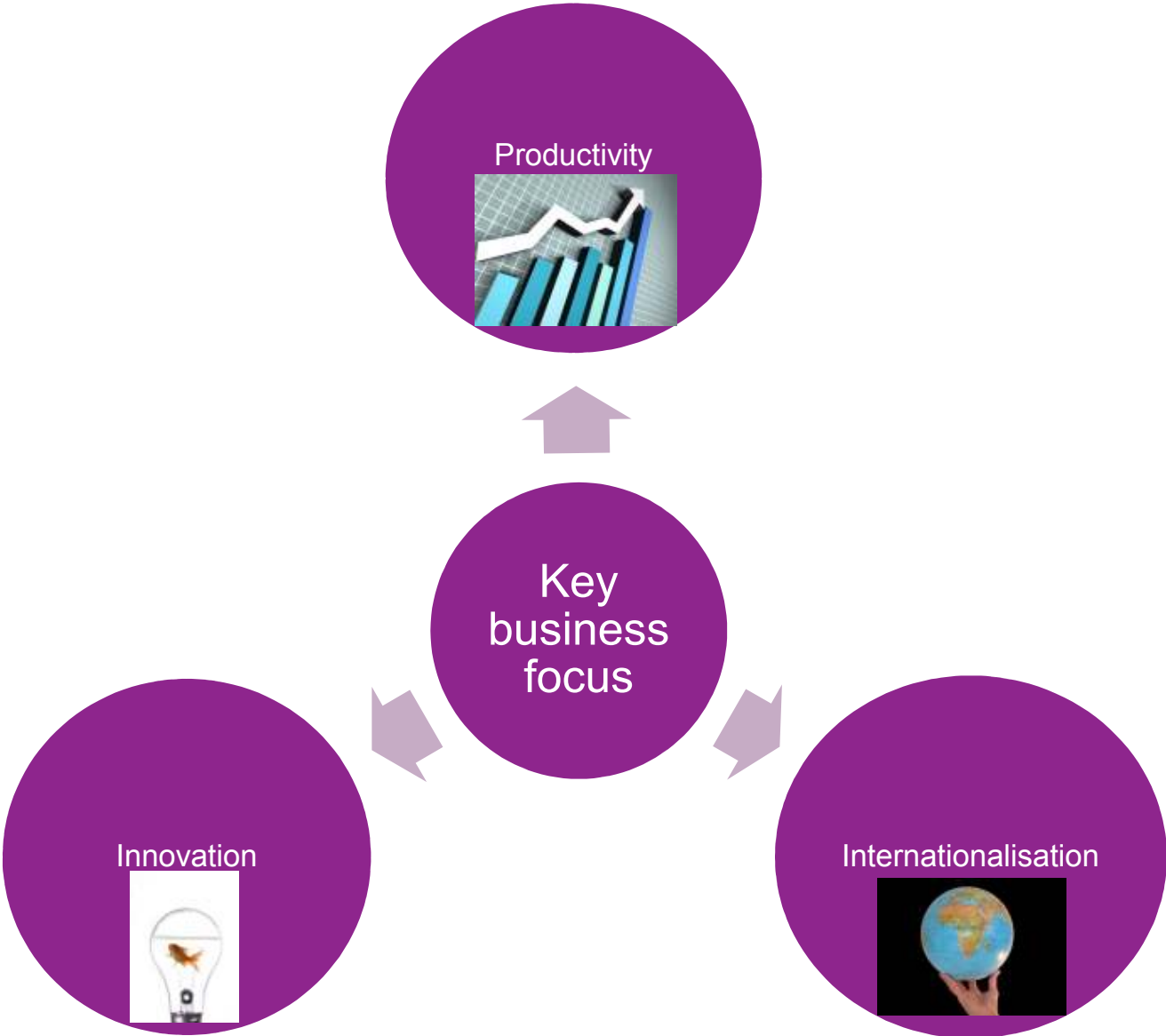
Innovation

- Tax deduction for approved R&D cost-sharing payments
- Enhanced deductions for R&D expenditure (under PIC)
- Enhanced allowances for intellectual property (IP) rights acquisition payments (under PIC)

Internationalisation

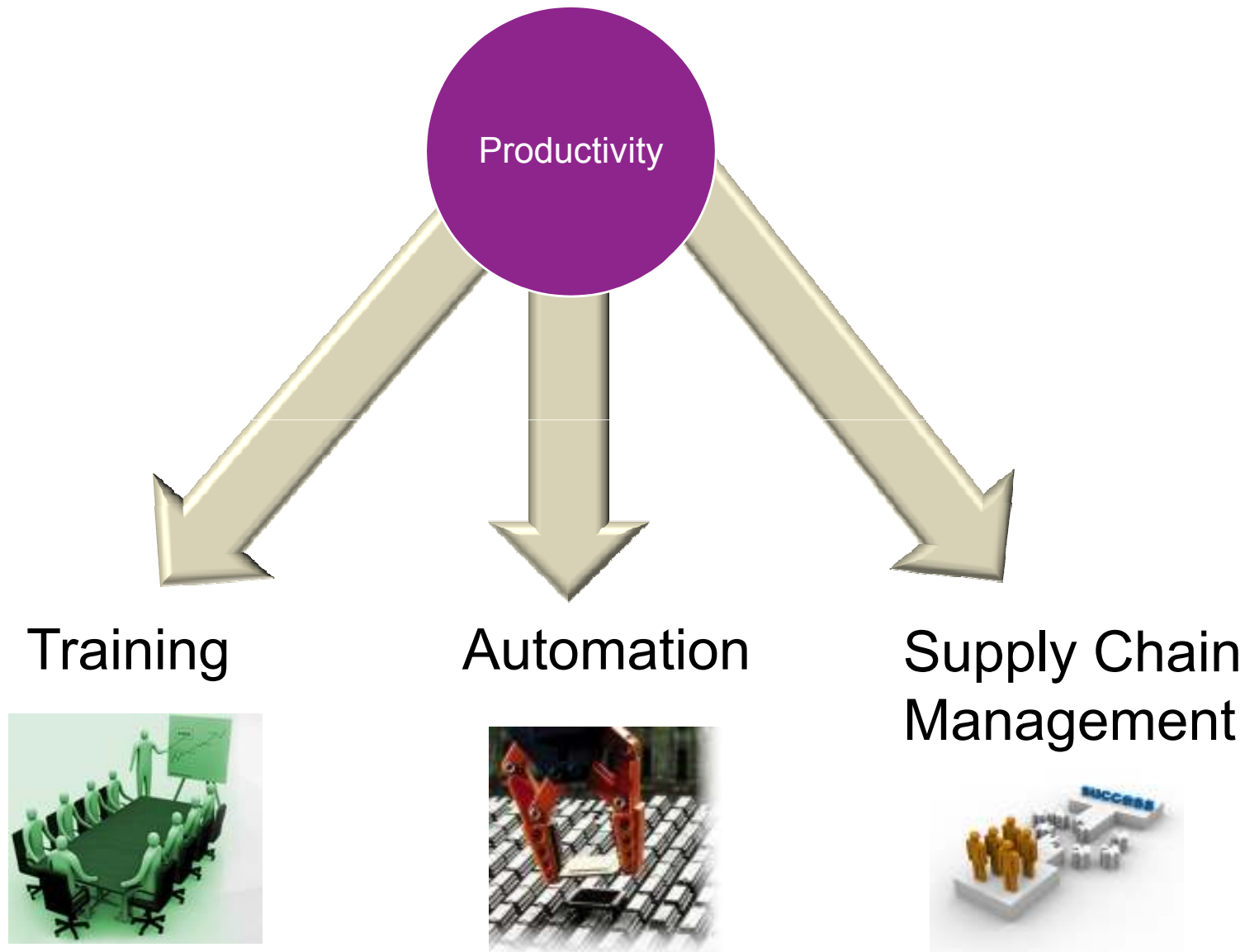
- Foreign tax credit pooling
- Double tax deductions for overseas marketing and investment activities

Key business focus – Productivity, Innovation and Internationalisation



Part 2: Tax strategy for enhancing productivity

Tax strategy for enhancing productivity



Tax strategy for enhancing productivity – Training

Internal	External
Confirm that internal courses qualify	All external training would qualify (e.g. tax seminar/workshop)
Understand what expenses are claimable	Centre of Excellence for training: <ul style="list-style-type: none">• PIC for training costs incurred by other related party entities• Training grants also available

Tax strategy for enhancing productivity – Automation

- Acquisition and/or leasing of:
 - prescribed automation equipment
 - software
- Automation equipment can be acquired by cash or hire purchase

Tax strategy for enhancing productivity – Automation

Key considerations when claiming the PIC for automation equipment:

1. Tax deferral option
 - Granted on election basis
 - Period to submit application (anytime after the PIC expenses is incurred but no later than the end of the financial year)
2. Irrevocable cash conversion option
 - Tax benefit of cash conversion vs. deductions
 - IRAS adjustments
3. Clawback of enhanced deduction / allowance or cash payout if disposed within 1 year
4. Timing of planned investments to benefit from the PIC combined annual cap
 - \$800,000 for YA 2011 & 2012
 - \$1,200,000 for YA 2013 to 2015

Tax strategy for enhancing productivity – Automation

Example:

* Assume company has planned capital expenditure of \$2 million for the YA 2011 to YA 2013

Year of Assessment	Qualifying PIC Expenditure	Additional Tax Deduction	Additional Tax Savings
(not utilising combined cap)			
2011	200,000	600,000	102,000
2012	400,000	1,200,000	204,000
2013	1,400,000	3,600,000	612,000
			918,000
(fully utilising combined cap)			
2011	200,000	600,000	102,000
2012	600,000	1,800,000	306,000
2013	1,200,000	3,600,000	612,000
			1,020,000

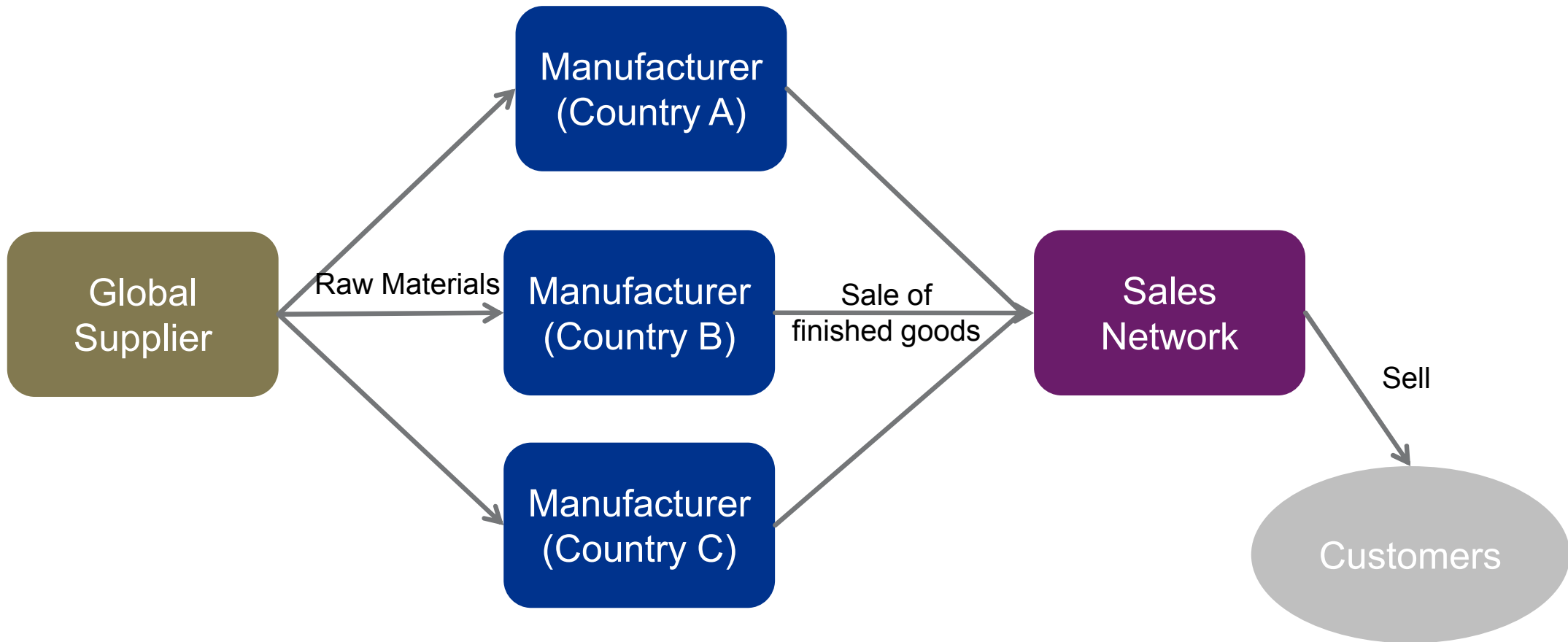
Additional tax deduction capped at \$3.6m (i.e. \$1.2m * 300%)

Difference of \$102,000 in tax benefits

due to

Tax strategy for enhancing productivity – Supply Chain Management

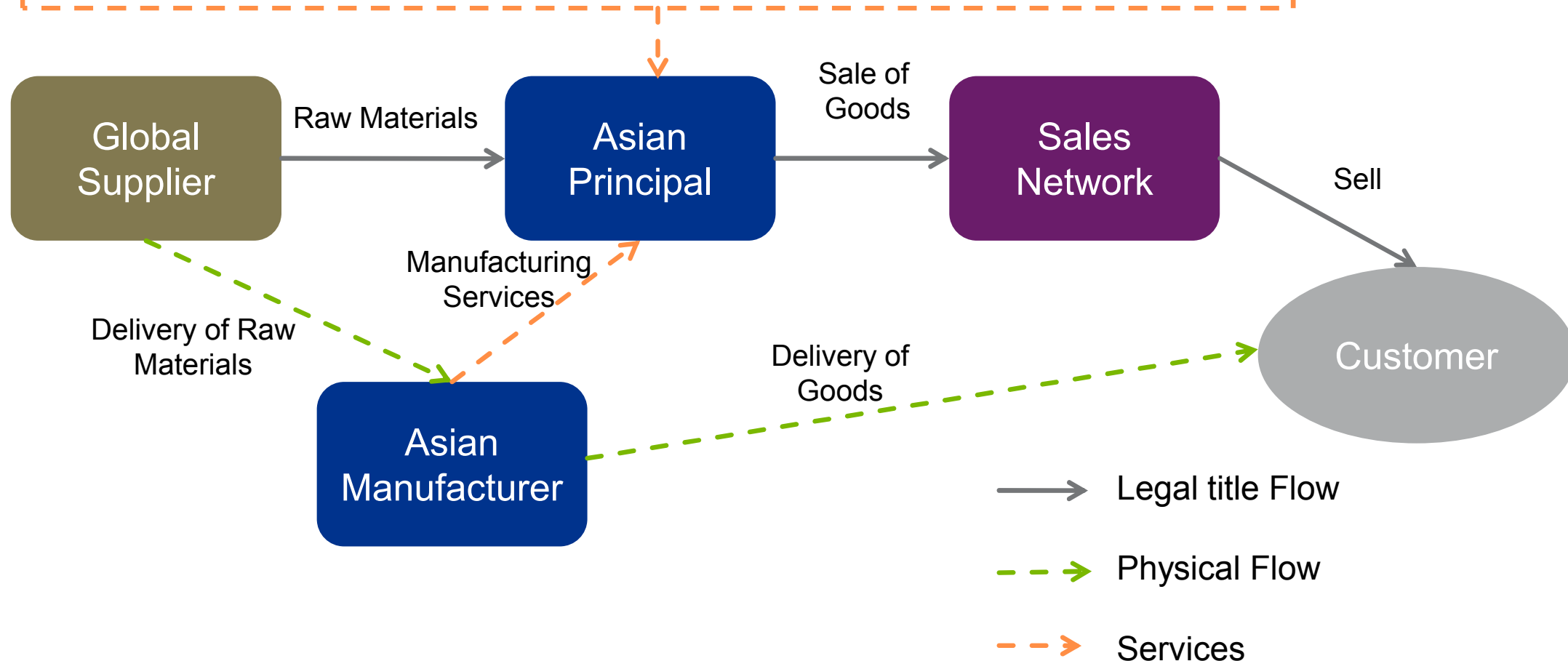
- Business model with decentralised supply chain functions



Tax Strategy for enhancing productivity

- Supply Chain Management

- Business model with centralised supply chain functions



Part 2: Tax efficient innovation management

Incentives across the innovation chain

IP Creation

- Up to 400% deduction for R&D expenditure (under PIC)
- Up to 400% deduction for approved design expenditure (under PIC)
- Writing down allowance for Approved R&D Cost Sharing Agreement payments
- Financial grants for R&D

IP Protection

- Up to 400% deduction for IP Registration costs (under PIC)

IP Exploitation

- Tax incentives for IP management in Singapore
- Up to 400% enhanced writing down allowance for acquisition cost of IP (under PIC)
- Withholding tax exemption under Approved Royalties Incentive

Tax efficient innovation management – IP Creation

What is R&D?

Any systematic, investigative and experimental study carried out in the field of science or technology

AND

That involves novelty or technical risk

AND

To acquire new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes

Tax efficient innovation management – IP Creation

How do you recognise activities that are eligible for R&D tax incentives?

- Is money invested to develop better products, faster processes or new services?
- Are there projects that failed for technical reasons?
- Is the company extending the capabilities of an existing process or application beyond its intended use?
- Is new or existing technologies developed to deliver services in new ways?
- Is the company trying to integrate equipment or technology that was not meant to work together?
- Are the projects that attempted to duplicate the effect of an existing process in a new or improved manner?
- Is there an award of a patent for the product, process or information?

R&D Filing and Documentation Requirements

- **Where R&D expenditure exceeds \$150,000 (excluding government grants), detailed project descriptions must be submitted to IRAS together with tax returns:**
- **A typical project description would entail**
 - Circumstances leading to the project being undertaken
 - Current situation/practice
 - Drawback or problems to be overcome
 - Company's previous experience with the technology
 - Knowledge gap
 - Pervasiveness
 - Innovation
 - Uncertainty/technical risk

Tax efficient innovation management – IP Creation

Things you need to do:

- **Identify Qualifying R&D projects**
- **Identify Eligible Expenses:**
 - Salaries
 - Consumables (not including utilities etc)
 - Outsourced expenditure
- **Identify Overseas R&D**
- **Prepare R&D Claim Form**
- **Prepare R&D Documentation for Each Project**

Product Development

Scenario 1 - Paint Manufacturing

Product development to achieve new or improved functionalities; for e.g. increased resistance to rust or decay	
Core Activity	Design and development of a new marine coating with improved rust and decay resistance
Example of Supporting Activities	<ul style="list-style-type: none"> • Experiment with alternative chemicals to achieve improved functionalities • Testing of the new/improved product to ensure that it performs according to expectations. Includes laboratory tests and large-scale production testing.
Novelty / Technical Risk	<p>Novelty</p> <ul style="list-style-type: none"> • Design and development of functionalities which are first in Singapore • Use of existing technology in a new way; for e.g. experimenting with anti-fouling agents never before used in paint <p>Technical Risk</p> <ul style="list-style-type: none"> • Technical uncertainty in how to achieve the new functionalities i.e. what combination of materials and additives.

Product Development

Scenario 2 - Packaging Business

Design and development of a new packaging material with unique functionalities

Core Activity	Design and development of a new packaging material with improved functionalities such as oxygen-scavenging to extend shelf life of edible goods
Example of Supporting Activities	<ul style="list-style-type: none"> • Laboratory testing of different chemical additives and formulations to achieve the target performance; for e.g. ability of the oxygen-scavenging packaging film to effectively extend shelf life of edible products. • Large-scale production testing of the new packaging material to ensure that an efficient manufacturing throughput rate can be achieved.
Novelty / Technical Risk	<p>Novelty</p> <ul style="list-style-type: none"> • Research and development of a new packaging material with novel oxygen-scavenging functionality <p>Technical Risk</p> <ul style="list-style-type: none"> • Technical uncertainty in how to achieve the target functionality of a high rate of oxygen scavenging before reaching saturation point

Product Development

Scenario 3 - Financial Services

Design and development of a financial services product with novel features	
Core Activity	Mathematical modeling to design and develop a new financial services product
Example of Supporting Activities	<ul style="list-style-type: none"> • Rigorous testing and modification of the new mathematical model to ensure suitable parameters have been included • Integration with the existing IT systems
Novelty / Technical Risk	<p>Novelty</p> <ul style="list-style-type: none"> • Design and development of functionalities which are first in Singapore; for e.g. a unique financial services product that is able to measure small deviations in market prices <p>Technical Risk</p> <ul style="list-style-type: none"> • Technical uncertainty in how to achieve the new functionalities i.e. what combination of parameters.

Product Development

Scenario 4 – Textile Manufacturing

Product development to achieve new or improved functionalities; for e.g. increased fire and tear resistance.

Core Activity	Design and development of a new fabric with improved tear and fire resistance
Example of Supporting Activities	<ul style="list-style-type: none"> • Trialing of modifications to the manufacturing equipment to facilitate production of the new fabric using new additives and compounds • Experiment with alternative materials to achieve improved functionalities • Testing of the new/improved product to ensure that it performs according to expectations. Includes laboratory tests and large-scale production testing.
Novelty / Technical Risk	<p>Novelty</p> <ul style="list-style-type: none"> • Design and development of functionalities which are first in Singapore • Use of existing technology in a new way; for e.g. experimenting with fire-resistant compounds never before used on fabric <p>Technical Risk</p> <ul style="list-style-type: none"> • Technical uncertainty in how to achieve the new functionalities i.e. what combination of materials and additives.

IT and Software Development

Scenario 1 – Financial Services

Design and development of new products and services for the content and portal environment

Core Activity	Software development to create new or improved applications / tools for the customer-facing portal ; for e.g. a comparison tool for home loans
Example of Supporting Activities	<ul style="list-style-type: none"> • Integration of new applications / tools with social networking sites and mobile devices (iPhone) • Design and develop increased security to ensure that customer confidentiality is maintained
Novelty / Technical Risk	<p>Novelty</p> <ul style="list-style-type: none"> • Design and develop applications with features that are first in Singapore <p>Technical Risk</p> <ul style="list-style-type: none"> • Developing new products and services raises technical uncertainty that can only be overcome using rigorous testing methods
Multiple Sale	Where the purpose of this project is to design and develop applications and tools which may be accessed by users under the terms and conditions of an implied license, this condition may be satisfied.

IT and Software Development

Scenario 2 – Retail

Design and development of a new Customer Relationship Management (CRM) solution

Core Activity	Software development to modify the existing platform to enable it to integrate with the new CRM platform
Example of Supporting Activities	<ul style="list-style-type: none"> • Data Migration • Architecture – Design and develop processes to enable successful integration of the new CRM platform with existing IT infrastructure
Novelty / Technical Risk	<p>Novelty</p> <ul style="list-style-type: none"> • No off-the-shelf solution available. A customised solution must be created for the claimant's unique infrastructure and requirements <p>Technical Risk</p> <ul style="list-style-type: none"> • Working with a new platform brings inherent technical uncertainty that the system may not perform as expected • Handling and migration of customer data carries technical risk of loss of data integrity
Multiple Sale	Must have a customer access point. For e.g. if the customer inputs their details which then feeds into the CRM.

Tax Efficient Innovation Management – IP Identification and Protection

- Identifying all IP
- PIC benefit for registering IP
 - Including overseas IP registration costs
 - Clawback if disposed within one year
- Know what can be protected
 - Patents
 - Trademarks
 - Design
 - Plant Varieties

Tax Efficient Innovation Management – IP Exploitation

- Tax incentives available for IP management activities
- PIC benefits for IP acquisition
 - Legal and economic ownership
 - Clawback for early disposal of IP

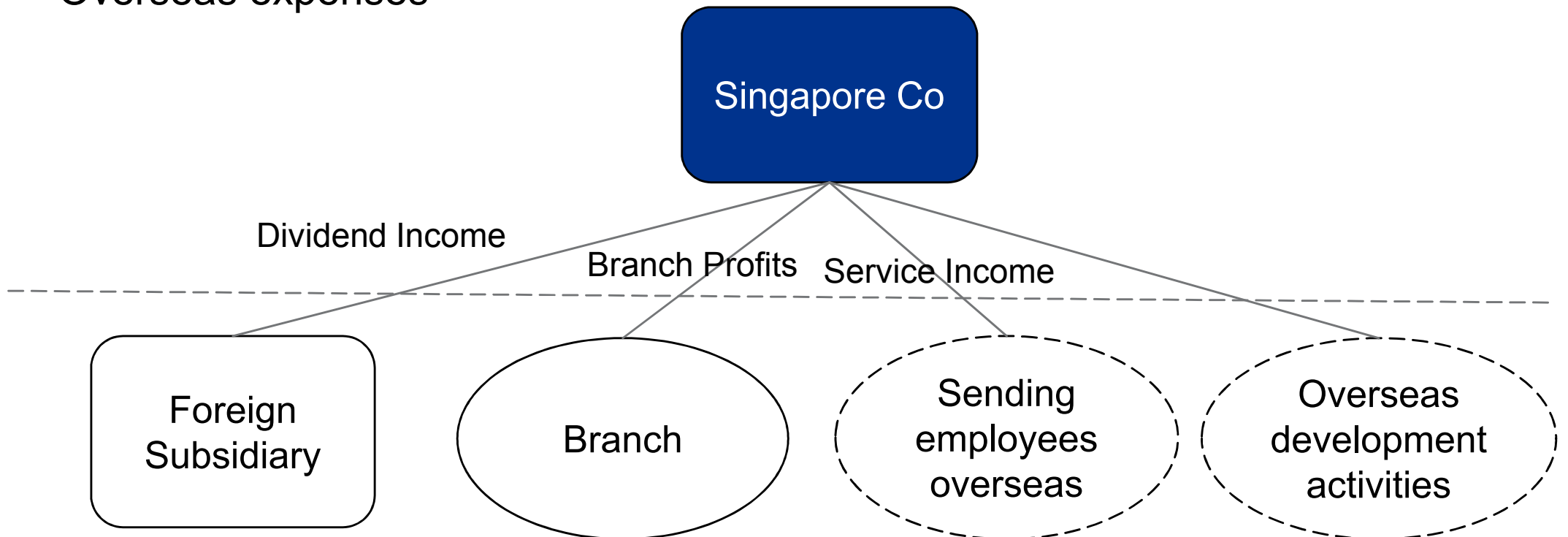


Part 2:
**Tax planning for
internationalisation**

Tax Planning for Internationalisation

Common issues faced when venturing overseas

- Withholding taxes
- Relief from double taxation
 - Exemption
 - Foreign tax credit
- Overseas expenses



Tax Planning for Internationalisation

- Foreign Tax Credit Pooling

- Analyse tax treatment under the exemption regime vs. the new foreign tax credit pooling regime (especially when foreign income received is significant)

	Dividend	Interest	Total
Gross foreign income (\$)	500	300	800
Withholding tax rate	20%	10%	
Foreign tax paid (\$)	100	30	130 (a)

Current FTC system (exemption)

	Dividend	Interest
Singapore tax payable @ 17%	Exempted *	51
Less: FTC	N/A	(30)
Net Singapore tax payable (\$)		21

Total tax paid: \$151 (\$130 + \$21)

* Exempted under foreign sourced income exemption scheme

Proposed FTC Pooling

	Total
Singapore tax payable @ 17%	136 (b) (\$800 X 17%)
Less: FTC (lower of a or b)	130
Net Singapore tax payable (\$)	6

Total tax paid: \$136 (\$130 + \$6)

Tax planning for internationalisation

- Overseas market and investment development activities

- Seek prior approval from the IE Singapore before embarking on overseas market and investment development activities
- Double deduction available for:
 - a) market development activities overseas
 - b) expenses incurred for overseas investment development



**Part 3: Opportunities to
benefit from Budget 2011
tax changes**

What can business do

- Undertake activities that increase productivity
- Plan or increase innovation related activities
- Plan early to maximise PIC benefits
 - Maximise combined cap
 - Tax deduction vs. cash conversion
 - Tax deferral option
- Maintain robust documentation and records
 - Productivity and innovation related activities
 - Qualifying expenditure
 - Transaction dates for acquisition and disposal of automated equipment and IP rights
- Understand the tax implications and benefits available before venturing overseas

Be Productive

Go Innovative

Think Global





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Thank you

Chiu Wu Hong

Partner, Tax

KPMG Advisory LLP

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