

Questions on Budget Changes Raised At Budget Seminar 2010 and IRAS' Response

S/N	Questions Raised	IRAS' Response
Productivity and Innovation Credit		
1	One of the budget changes is to expand the scope of intellectual property rights under section 19B of the Income Tax Act, to include plant variety. Please explain what "plant variety" is, and provide some examples.	A plant variety is a plant group within a single botanical taxon (i.e. plant group having natural relationship) of the lowest rank. Under the Plant Varieties Protection Act, new varieties of the 15 plant genera and species listed in the Schedule of that Act are eligible for protection. <i>Brassica chinensis</i> L. (commonly known as baicai) and <i>Phalaenopsis</i> Blume (a species of orchid) are two of the 15 plant genera and species listed. For further details, please refer to www.ipos.gov.sg
2	During the years of assessment (YAs) 2011 to 2015, companies will have the option of utilizing either the research and development tax allowance (RDA) or 250% deduction on the first \$300,000 of the qualifying research and development expenditure. Are the two therefore mutually exclusive?	Yes, they are mutually exclusive.
3	If my staff took up an overseas degree course and the company reimbursed him part of the course fee, will this course fee reimbursed to the staff be considered as qualifying training cost?	Yes, the course fee will be considered as qualifying training cost for the purpose of Productivity and Innovation Credit scheme, since the course fee is paid to an external training service provider.
4	If the staff took up MBA courses, will the course fee be considered as qualifying training cost?	Same as Question 3 above.
5	If the staff attends overseas conference/ seminar, will the expenses incurred be considered qualifying training costs?	Only the course/ seminar fees for overseas conferences/ seminars will be considered as qualifying training cost for the purpose of Productivity and Innovation Credit scheme. The costs of travelling and lodging will however not be considered as qualifying training cost.
6	Will the course fees paid to any external training service	Yes, the course fees paid to any external training service

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	provider qualify for enhanced deduction? Are there conditions or requirements such as types of courses?	provider will qualify for enhanced deduction under the Productivity and Innovation Credit scheme. There is no restriction on the type of course for this purpose.
7	<p>Would normal training courses unrelated to any R&D activities be eligible for the 250% qualifying training costs claim under the Productivity and Innovation Credit scheme?</p> <p>For example training/ orientation for first year recruits to the company, going for seminars at the Tax Academy, etc.</p>	<p>Fees for external training courses that are not related to any R&D activities are eligible for the 250% deduction under the Productivity and Innovation Credit scheme. This includes fees incurred for attending seminars conducted by the Tax Academy.</p> <p>As for in-house trainings like orientation for first year recruits, such courses must be WSQ certified courses* in order to qualify for the enhanced deduction.</p> <p>* Other in-house training programmes are being considered. Details to be released by IRAS by June 2010.</p>
8	For the productivity and innovation credit for training costs incurred on outsourced training, is there any restriction on the type of training e.g. soft skills?	Same as Question 6 above.
9	When will details on "other types of in-house training programmes being considered" be released?	Details will be released by June 2010.
10	One of the conditions for the cash option is the employment of at least 3 local employees. Is this condition applicable as at the date of applying the cash option or throughout the relevant basis period in which the expenditure was incurred?	The "3 local employees" condition is applicable at the end of the basis period for the relevant year of assessment for which an election for cash conversion is made. Further details will be released by June 2010.
11	<p>Must the cash grant be utilized for specific purposes?</p> <p>If cash grant is used to purchase fixed assets, would the gross cost or net cost be eligible for capital allowance?</p>	<p>Businesses have full discretion on the use of the cash payout.</p> <p>Unlike capital grants, cash payouts under the Productivity and Credit scheme are given in exchange for the surrendering of qualifying deductions under the scheme. Therefore where a payout under the scheme is used to acquire a plant and machinery, capital allowance will be given on the full cost of the plant and machinery if all other conditions for granting the</p>

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		allowance are met.
12	A claw-back provision applies upon disposal within 1 year from acquisition. Please confirm that "write-off" for accounting purposes does not equate "disposal". It is common for companies to write-off assets or expense-off assets below certain threshold.	If the write-offs are due to a company's accounting policies and the assets (whose cost being written off for accounting purpose) are still being used by the company, the write-offs will not be treated as disposals.
13	How does the Productivity credit necessarily ensure higher income for employees, especially the lower rung employees? Question is in the context of foreign workers laws. Will just increase in foreign worker levy work?	<p>Productivity is one of the factors affecting a worker's wage and tackling the issue of declining productivity would require a multi-faceted approach. While the various tax measures under the Productivity and Innovation Credit scheme are aimed at encouraging businesses to invest more in productivity enhancing activities, other forms of assistance are also available:</p> <ul style="list-style-type: none"> • Workfare Income Supplement & Workfare Training Scheme for low-wage workers • National Productivity Fund
Tax allowance for Mergers and Acquisitions (M&As)		
1	What is the rationale for support for M&As in the context that Singapore Government is committed to support SMEs. Would this not lead to creation of monopolies?	The tax allowance is targeted at SMEs and based on previous statistics, the \$100 million would cover most SMEs M&A deal size. We do not think that the M&A scheme will lead to creation of monopolies. In any case, we have the Competition Act to address anti-competitive mergers.
2	Will tax allowance for qualifying M&As apply to acquisition from individuals, where such individuals are also the majority/controlling shareholders in the acquiring company? [Note: Stamp duty relief is under existing rules, not available.] Such transfers are common in pre-IPO restructuring.	<p>The tax allowance can only be claimed by "companies" that meet the qualifying conditions and is not available for individuals.</p> <p>The acquiring company is eligible to claim the M&A allowance where it acquires shares from the individuals in the</p>

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		target company, where such individuals are also the majority/controlling shareholders in the acquiring company.
3	Is M&A allowance an adequate substitute for interest deduction? What about holding companies?	The M&A allowance is to help the acquiring company offset part of its costs of acquisitions, but without seeking to distinguish between interest cost and other costs. It is therefore neutral between debt and equity in financing transactions. The allowance is not meant to be a substitute for interest deduction. Instead, it is to encourage companies in Singapore to consider M&A as a strategy for growth and internationalisation.
Land Intensification Allowance (LIA)		
1	The LIA is supposedly meant to replace the industrial building allowance. Will a company which purchases a flatted factory unit from JTC etc. qualify for the new LIA?	The LIA scheme is <u>not</u> a replacement of the IBA regime as the objectives of the two schemes are different. As the LIA is to encourage more intensified use of industrial land, it is not applicable to the purchase cost of a building.
2	It was mentioned that Development Application (DA) submitted on or after 23 February 2010 will be considered. If approval is given, assuming on a building bought on 23 February 2010, LIA is effective from 23 February or 1 July 2010 (start of 5-year effective period)?	LIA is not applicable to the purchase cost of a building. Only construction or renovation costs incurred on or after 23 February 2010 will qualify for LIA if the construction or renovation project is approved for the LIA scheme.
3	What is the definition of "specialties" under the 9 industry clusters qualifying for LIA?	It refers to "chemical specialties". Some examples are manufacture of industrial gases, acids, alkalis, food chemicals.