

Revised e-Tax Guide on research and development tax measures

The Inland Revenue Authority of Singapore (IRAS) has released the e-Tax Guide *Research and Development Tax Measures (Seventh Edition)* on 8 June 2022.

The main amendments in the latest edition of the e-Tax Guide are:

- ▶ Replacement of the “pre-claim scheme” with the “R&D assurance framework”.
- ▶ Update of the review process on instances when research and development (R&D) claims may be referred to the IRAS’ Technical Advisory Panel.

This alert provides an overview of the amendments and the key considerations for businesses that wish to make R&D tax deduction claims.

R&D assurance framework

Previously, the IRAS adopted a pre-claim scheme that was available to large and complex projects with estimated R&D costs exceeding \$15m to provide upfront certainty for R&D claims. This is replaced with the "R&D assurance framework" (Framework) to provide qualifying taxpayers with greater upfront certainty on their R&D claims for up to 3 Years of Assessment (YA) should they meet these requirements:

- ▶ Good internal evaluation process and supporting documentation to prove that projects included in the R&D claims satisfy the requirements as set out in the e-Tax Guide *Research and Development Tax Measures (Seventh Edition)*.
- ▶ At least five R&D projects undertaken in-house in Singapore in the YA of application.
- ▶ Incurred qualifying R&D expenditure of at least \$500,000 for these projects in the YA of application.

The Framework was piloted by the IRAS for selected taxpayers previously and was officially launched on 8 June 2022 for all taxpayers. Qualifying taxpayers that are interested to apply for the Framework should note that the end-to-end process from application to completion of the IRAS' review will take at least nine months.

Technical Advisory Panel

The IRAS' Technical Advisory Panel's (Panel) role is to advise the IRAS and enhance its ability to review R&D applications for the purpose of R&D tax benefits. Prior to the update, the instances when R&D cases will be referred to the Panel for review are:

- ▶ The taxpayer requests for the referral specifically.
- Or
- ▶ The IRAS rejects the R&D claim after two rounds of review and the taxpayer wishes to pursue the claim.

The e-Tax Guide has been updated to indicate that going forward, the IRAS will refer R&D cases to the Panel for review where appropriate, including (but not limited to) the two instances mentioned above.

Key considerations

Application for R&D Assurance Framework

The Framework is an opportunity for taxpayers to streamline the process, time and efforts needed to benefit from R&D tax benefits. It rewards companies that have developed and maintained robust internal processes and controls in managing their R&D process and costs tracking.

Nonetheless, the award of the Framework is not automatic - it requires application by the taxpayer and a corresponding assessment by the IRAS. The onus is on taxpayers to ensure that only projects qualifying as R&D, as defined in the Income Tax Act, are identified and submitted as part of the application, and that the qualifying costs are appropriately identified and can be justified. This should be further complemented with a robust set of R&D management controls and processes applied across all R&D projects undertaken.

Lastly, taxpayers should note that the R&D Assurance Framework is separate from the Tax Governance Framework and Tax Risk Management and Control Framework for Corporate Income Tax that were recently rolled out by the IRAS to help companies strengthen their tax governance and tax risk management and hence, is subject to different requirements and requires a separate application.

Technical Advisory Panel

With the expanded scope of the Panel's purview, taxpayers may expect greater scrutiny to be placed on their R&D claims and increasing queries as the IRAS may tap on the Panel's expertise at any time during the R&D claim review process. Hence, taxpayers should carry out robust assessments of their R&D tax deduction claims and R&D management process, even if application for the R&D Assurance Framework may not be on their immediate horizon.

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