

## IP DEVELOPMENT INCENTIVE (IDI)

This circular provides an overview of the proposed parameters of the IDI.

The IDI is subject to the enactment of legislation. Interested companies may submit applications to the EDB.

### 1. Overview of the incentive

- 1.1 The IDI was introduced in the Singapore Budget 2017 to encourage the use and commercialisation of intellectual property (IP) rights arising from research and development (R&D) activities.
- 1.2 An approved IDI company is eligible for a reduced corporate tax rate of either 5% or 10% on a percentage of qualifying IP income derived by it during the incentive period, which shall be no earlier than 1 July 2018. The percentage is determined by the modified nexus approach<sup>1</sup>. The concessionary tax rate will also increase by 0.5% at regular intervals as prescribed in the Income Tax Act<sup>2</sup>.
- 1.3 Qualifying IP income refers to royalties or other income receivable by the approved IDI company as consideration for the commercial exploitation of qualifying IP rights (IPR) (i.e. patents and copyrights subsisting in software) elected into the IDI (referred to as elected qualifying IPR). Election of qualifying IPR into the IDI is irrevocable.
- 1.4 The incentive period is limited to an initial period not exceeding ten years, and may be further extended for a period or periods not exceeding ten years each.
- 1.5 The company is required to maintain a separate account in respect of any non-qualifying income. Non-qualifying income is not eligible for the incentive.
- 1.6 No IDI award may be approved after 31 December 2023.

### 2. Assessment Criteria

Application for the IDI is open to companies that are prepared to make significant investments in contribution to the Singapore economy or in advancement of capabilities towards globally leading industries. Applicants should have good track record and are required to carry out expansionary projects in Singapore. In addition, applicants have to meet the necessary economic commitments.

For a 5-year award, the following will be required (Updated Jan 2020):

	<b>IDI-5%</b>	<b>IDI-10%</b>
<b>Incremental fixed asset investment or total annual business expenditure</b>	S\$10.5 million	S\$6.5 million

<sup>1</sup> The modified nexus approach is an international standard set by the Organisation for Economic Co-operation and Development (OECD), which permits jurisdictions to provide benefits to the income arising out of an IPR, so long as there is a direct nexus between the income receiving benefits and the expenditures contributing to that income.

<sup>2</sup> Under Section 43ZI(6) of the Income Tax Act

<b>Incremental number of skilled jobs created</b>	20	15
---------------------------------------------------	----	----

- 2.1 Should the application for the IDI be approved, the award will be subject to the approved IDI company implementing its plans to grow and sustain substantive economic activities in Singapore.

### **3. Administration**

- 3.1 The IDI is subject to the relevant provisions of the Income Tax Act and its subsidiary legislation. An approved IDI company must submit regular progress reports to the EDB for the evaluation of performance. In the event of any breach of term or condition of the IDI, the company is subject to the potential revocation of the incentive and recovery of any associated benefits.
- 3.2 All business entities incorporated, registered or carrying on a business in Singapore must carry out any transaction with any related party at arm’s length and are subject to transfer pricing requirements under the Income Tax Act. The requirement includes the preparation and keeping of contemporaneous transfer pricing documentation, which has to be submitted to the Inland Revenue Authority of Singapore (IRAS) upon request.

### **4. Enquiries**

- 4.1 Any questions or requests for clarification can be submitted to EDB via [this form on the EDB website](#).