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Singapore Refundable Investment Credit Aims to Attract Investors

- Crowe's Sivakumar Saravan explains Singapore's new RIC program
- It aims to maintain country's attractiveness to multinationals

Singapore will implement the income inclusion rule and a domestic top-up tax under Pillar Two of the OECD's BEPS 2.0 Initiative, imposing a minimum effective tax rate of 15% on qualifying enterprises' profits from financial years starting on or after Jan. 1, 2025.

However, the implementation of the global minimum corporate tax rate limits Singapore's ability to employ traditional tax incentives—usually in the form of tax holidays or concessionary tax rates—to attract new investments. This development may cause multinational enterprises concerned with the tax exposure to relocate their operations away from Singapore.

To address this challenge and remain competitive, in its Budget 2024 Singapore announced the Refundable Investment Credit, RIC, as part of its strategy to attract and retain international investment.

The RIC aims to reassure MNEs of Singapore's commitment to providing a stable business environment by offering a clear supportive framework. This appeals to companies strategizing to maintain competitiveness and innovation in a rapidly evolving global market.

Credit System

The RIC operates as a credit system—qualifying expenditures incurred by companies for approved projects during the qualifying period are granted credits that can be used to offset corporate income tax payable. Even if companies don't have sufficient corporate income tax payable to fully set off the credits, they can expect to receive a cash refund of the unused credits within four years of qualified investment.

Companies can benefit from the RIC for a qualifying period of up to 10 years. The level of support can be substantial, with companies eligible for up to 50% support on each qualifying expenditure category.

The Singapore Economic Development Board, the EDB, or Enterprise Singapore, EnterpriseSG, will determine the total amount of RIC for which a company will be eligible. This is based on the economic outcomes—or decarbonization outcomes for relevant projects—that the project is expected to bring.

The RIC supports a range of high-value and substantive economic activities, including:

- Investing in new productive capacity, such as the establishment of manufacturing plants or the production of low-carbon energy
- Expanding or establishing activities in digital services, professional services, and supply chain management
- Expanding or establishing headquarter activities and centers of excellence
- Setting up or expanding activities by commodity trading firms
- Carrying out research and development and innovation activities
- Implementing solutions with decarbonization objectives

From the range of activities outlined above, the RIC emerges as a pivotal component of Singapore's strategy to foster significant investment to establish meaningful economic activities in Singapore. This is especially crucial in key economic sectors and emerging growth areas.

Depending on project type, qualifying expenditure categories may include capital expenditure (such as building, civil and structural works, plant and machinery, software), manpower costs, training costs, professional fees, intangible asset costs, fees for work outsourced in Singapore, materials and consumables, and freight and logistics costs.

The EDB and EnterpriseSG haven't yet released the full details of the RIC, with the anticipated release scheduled for the third quarter of 2024.

Considerations for Multinationals

MNEs affected by the implementation of Pillar Two minimum tax rates are now encouraged to evaluate investment destinations based on factors beyond just tax advantages. Singapore is already an attractive location for global business operations. The introduction of the RIC is intended to amplify the country's appeal, offering MNEs tangible financial incentives to invest in a range of high-value activities in the country.

The RIC aligns with the Global Anti-Base Erosion Model Rules for Qualified Refundable Tax Credits, QRTCs. Aligning the RIC as QRTCs is crucial because it ensures that the RIC is treated as income for Pillar Two GloBE purposes rather than a reduction in covered taxes. The impact on the jurisdictional effective tax rate—and consequently, the amount of top-up taxes required—should be less than that of a non-qualified refundable tax credit.

The RIC specifically targets sectors and projects that are pivotal to future growth for both Singapore and MNEs, such as advanced manufacturing, digital innovation, green technologies, and research and development. These areas, which are crucial for long-term competitive advantage, often require significant upfront investment.

The RIC's structure, which includes refundable credits against tax liabilities and as cash refunds, can lower the financial barriers to entry for these strategic investments. This can attract MNEs looking to make substantial, future-focused investments.

In essence, the RIC complements Singapore's non-tax advantages and aims to position the country as a key player in the global effort to foster sustainable, innovative economic growth. MNEs investing in Singapore can leverage the benefits of Singapore's economy and the added value of the RIC to ensure their investments are profitable and aligned with global tax compliance standards.

Looking Ahead

The RIC program could adapt and grow alongside the shifting global economy and Singapore's evolving strategic goals, provided it continues to be aligned with QRTCs.

By continuously assessing and aligning the RIC with new economic priorities, Singapore can ensure the program remains relevant and supportive of innovative and sustainable economic activities.

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