

**FACT SHEET
(Oct 2011)****INCLUSION OF CLOUD COMPUTING UNDER THE PRODUCTIVITY AND INNOVATION
CREDIT SCHEME****OBJECTIVE & BACKGROUND OF SCHEME**

The Productivity and Innovation Credit ("PIC") scheme was first introduced in Budget 2010 and significant enhancements to the scheme were announced in Budget 2011. The scheme provides tax benefits on investments made by businesses in a broad range of activities along the innovation value chain. The scheme is effective from Year of Assessment (YA) 2011 to YA 2015.

The six activities along the innovation value chain that qualify for PIC benefits are:

- a) Acquisition or leasing of PIC automation equipment ;
- b) Training of employees;
- c) Acquisition of intellectual property rights;
- d) Registration of patents, trademarks, designs and plant varieties;
- e) Research and development activities; and
- f) Investment in approved design projects.

In line with the objective of encouraging businesses to raise productivity and innovation through adoption of technologies, cloud computing (such as Software-as-a-service, Platform-as-a-service, Infrastructure-as-a-service) will be allowed under the PIC scheme. Specifically, payments for cloud computing services will count as investment in automation equipment that qualifies for PIC benefits.

BUSINESSES ADOPTING CLOUD COMPUTING TO BENEFIT FROM PIC

Businesses are encouraged to adopt cloud computing with the amount of flexibility it can offer. With cloud computing, companies do not have to pay up-front investment in IT as cloud computing enable companies to pay-as-they-use for software and hardware resources. The service is also available remotely and it is scalable based on demand. Companies no longer need to worry about upgrades and patches as these will be done automatically by service providers.

All businesses are eligible for PIC benefits if they have incurred expenditure in any of the six qualifying activities. This includes the acquisition of cloud computing services under the acquisition or leasing of PIC automation equipment category.

PIC BENEFITS & ADMINISTRATIVE PROCEDURE

Businesses can enjoy deduction/allowance at 400% or up to \$400,000 of qualifying expenditure incurred per year on each of the six qualifying activities.

Except for design projects, no prior approval is required to claim a deduction/allowance on expenditure incurred on the other five qualifying activities. Businesses can make the claim for deduction/allowance in their income tax returns for the relevant qualifying YA.

To support small and growing businesses which may be cash-constrained, to innovate and improve productivity, businesses can exercise an option to convert their qualifying expenditure into a non-taxable cash payout. They can convert up to \$100,000 of their total expenditure in all the six qualifying activities into a cash payout. The rate of conversion is 30% which means a maximum cash payout of \$30,000 per year. This PIC cash payout option is available from YA 2011 to YA 2013.

In addition, businesses can choose to defer payment of up to \$100,000 in tax for the current YA to the next YA, if they spend up to \$100,000 on any of the qualifying activities in each year.

For more information, please refer to the Inland Revenue Authority of Singapore's website: <http://www.iras.gov.sg/irashome/PIcredit.aspx>

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