Enhancing the Double Tax Deduction for Internationalisation Scheme

1. Background

The Double Tax Deduction (“DTD”) for Internationalisation scheme, administered by IE Singapore, helps businesses to manage the costs of entering a market. Under the DTD scheme, businesses that are not on any discretionary incentive¹ may claim up to 200% tax deduction on qualifying expenditure incurred on a range of qualifying market expansion and investment development activities under Sections 14B and 14K of the the Income Tax Act (Cap 134, 2014 Rev Ed).

2. Enhancements from Budget 2015

In Budget 2015, the Minister for Finance, Mr. Tharman Shanmugaratnam, introduced two enhancements to the DTD scheme to provide greater support for businesses expanding overseas and create skilled jobs for Singaporeans.

The DTD scheme will be enhanced to include qualifying salary expenses incurred for employees posted overseas in an overseas entity, subject to the following conditions:

- The employee is a Singaporean citizen or permanent resident of Singapore;
- The employee’s posting lasts at least one year, and is designed to further the applying business’s expansion plans and provide the employee with opportunities to gain new skillsets;
- The employee is contractually employed by the applying business throughout the supported period, and the salary expense is incurred by the applying business;
- The salary expenditure cannot be deducted against any income that may be liable to tax in the overseas jurisdiction; and
- The overseas entity was set up or acquired (including equity interests therein) by the applying business fewer than three years ago.

Applications are subject to IE Singapore’s approval. If granted, the tax deduction will be available on up to five employees’ salaries per year. Qualifying salary expenses will be capped at S$15,000 per month per employee.

¹ Discretionary incentives refer to those under, (a) Income Tax Act (ITA) - Sections 13A, 13F, 13S, 13V, 43C, 43E, 43G, 43I, 43P, 43Q, 43W, 43ZA, 43ZB, 43ZC or 43ZF, or (b) Economic Expansion Incentives (Relief from Income Tax) Act (EEIA) - Part II, III, IIIB or X.
To facilitate businesses to internationalise and expand overseas, businesses which are enjoying discretionary incentives (“incentivised firms”) will also be allowed to qualify for the DTD scheme on a case-by-case basis, subject to approval by IE Singapore.

3. Who can apply

Tax deductions for businesses on discretionary incentives
Businesses must have their global headquarters in Singapore with the primary purpose of trading in goods or providing services, and intend to internationalise.

Tax deductions on qualifying salary expenses
Businesses must be resident and carrying on business in Singapore, with the primary purpose of promoting the trading of goods or provision of services.

4. Effective date
Both enhancements apply to qualifying expenditure incurred from 1 July 2015 to 31 March 2020 (both dates inclusive). If granted, the tax deduction will be applicable for the first three years of establishment or acquisition (including of equity interests therein) of the overseas entity.

5. Submission of documents

Please use Singpass to submit applications to IE Singapore through the DTD Incentive Portal at www.iesingapore.com/dtd. Businesses are advised to plan and track their expenditure and seek approval early to avoid being denied approval for their expenses.

For qualifying expenditure approved by IE Singapore, businesses should submit the letter of support or letter of approval to IRAS when filing the business’s annual income tax return. The tax deduction allowed under the DTD scheme should be shown in the tax computation. Businesses must also maintain documentation to prove the purpose and quantum of expenditure\(^2\), and make them available to IRAS upon request. A post-evaluation report must be submitted to IE Singapore at the end of the employee’s posting.

\(^2\) This includes: overseas registration certificate / documentary proof, overseas legal acquisition / ownership documentary proof, employee employment contract, employee overseas posting contract, payslips and other salary documentary proof.
Frequently-Asked Questions

Product Overview

Overseas Entity

1. Why is DTD only allowed for the first three years of establishment or acquisition (including of equity interests therein) of the overseas entity?

Businesses often face the biggest challenges during the first three years of setting up an overseas presence. The enhancement seeks to alleviate some of the initial risks and costs of setting up an overseas presence.

2. What is an “overseas entity”?

An overseas entity refers to an entity:

a) that is established in the overseas jurisdiction;

b) that is set up or acquired by the applicant for not more than three years for the purpose of seeking out new business lines, new geographical markets or new products, and aligned with the applicant’s intent and efforts to internationalise; and

c) whose share capital is (partly or fully) owned by the applicant at the point of application and throughout the support period.

An overseas entity must be in the form of a branch, a company, a partnership or a representative office.

3. If my business has already established/acquired an overseas entity before the effective date of enhancement (1 July 2015), can we claim DTD when an employee is subsequently posted to that overseas entity after 1 July 2015?

Yes, the support period will be from the start date of the overseas posting, to the earlier of the end date of the overseas posting or last day of the three-year period from the date of establishment or acquisition of the overseas entity.
4. If my business has already established/acquired an overseas entity and posted an employee to the overseas entity before the effective date of enhancement (1 July 2015), can we claim DTD for the employee who is being posted to that overseas entity?

Yes, the support period will be from 1 July 2015, to the earlier of the end date of the overseas posting or last day of the three-year period from the date of establishment or acquisition of the overseas entity.

5. What is a “qualifying employee”?

A qualifying employee refers to an employee that is contractually employed by the applicant at the point of application, and throughout the duration of the support period. The employee should be posted overseas in line with the applicant’s intent to undertake overseas expansion plans, and to provide its employees with overseas exposure, such as overseeing the company’s new business lines overseas. There should also be opportunities for the employees to gain new skillsets.

6. What are “qualifying salary expenses”?

Qualifying salary expenses refers to the basic salary which excludes bonuses, commissions, taxes, allowances, overtime and other benefits (e.g. relocation cost, tax equalisation package, benefits-in-kind etc).

7. Why is DTD only allowed for basic salary of an employee who is being posted overseas?

Salary cost is generally the largest component of the expenses required for an overseas posting and basic salary is generally the immediate fixed cost component which businesses will normally have to bear.

8. If my business is a partnership, can we make a DTD claim for an equity partner who is being posted to an overseas entity?

No, an equity partner is not an approved employee for this enhancement.
9. Can businesses make a DTD claim for an employee who is not contractually employed by us?

No, businesses can only make a DTD claim if the following conditions are met:

a) The employee must be contractually employed by the applicant at the point of application, and throughout the duration of the support period;

b) The salary expense must be incurred by the applicant; and

c) The salary expense must not be deducted against any income that may be liable to tax in the overseas jurisdiction.

10. Can businesses make a DTD claim for an employee who has been posted to work for the overseas entity, and where the overseas entity chooses to pay for the salary of that employee, and subsequently recovers the salary cost from us at a cost-to-cost basis?

Yes, a Singapore business may make a DTD claim if the employee is contractually employed by the Singapore business, if the salary cost is incurred by the Singapore business and treated as a salary expense in the books belonging to the Singapore business. The Singapore business should obtain from the overseas entity proper documentary proof showing payment made to the employee, and inter-billing of the salary cost to the Singapore company for cost recovery. The Singapore business should also ascertain and confirm that the overseas entity would not be deducting such salary expense against any income that may be liable to tax in the overseas jurisdiction.

11. Can businesses make a DTD claim for an employee who has been posted to work for the overseas entity, and where the employee’s salary is co-shared between us and the overseas entity? The overseas entity will pay the salary of that employee, and subsequently recovers the salary cost from us at a cost-to-cost basis.

Yes, a Singapore business may make a DTD claim only on the portion of the salary cost which is being inter-billed by the overseas entity to the Singapore business, provided that the employee is contractually employed by the Singapore business, and the portion of the salary cost that is subsequently recovered from the Singapore business is incurred by the Singapore business and treated as a salary expense in the books belonging to the Singapore business.

The Singapore business should obtain from the overseas entity proper documentary proof showing, payment made to the employee, co-shared portion of the salary cost incurred by the Singapore business, and inter-billing of the co-shared portion of the salary cost to the Singapore business for cost recovery. The overseas entity must not be deducting such salary expense against any income that may be taxed in an overseas jurisdiction.
Overseas Posting

12. Can businesses make a DTD claim for an employee who is posted to work for an overseas entity for less than one year?

No, a minimum one year duration for the employee to work in the overseas entity is necessary so that there is sufficient time to allow the employee to contribute to the overseas entity and for the employee to gain valuable experience from on the job learning.

13. Can businesses make a DTD claim for an employee who is posted to work for an overseas entity for a five-year duration?

Businesses will only be allowed to claim DTD on the salary expenses incurred on first three years of the establishment of an overseas entity. Where the employee is posted to work overseas for a five-year duration for a newly established overseas entity, the salary expenses incurred on the last two years will not qualify for DTD.

DTD Expenditure Cap

14. What is the maximum amount of deductions an applicant can claim per year of assessment?

Businesses may claim a further or double tax deduction, subject to an expenditure cap of $1million per year of assessment, on qualifying salary expenses incurred for employees posted overseas and qualifying overseas investment development expenses under section 14K of the Income Tax Act. This is notwithstanding the number of approved employees posted overseas and approved overseas investment development projects.

Incentivised Applicant

15. My business is awarded an incentive under the ITA/EEIA and has been approved by IE Singapore to claim qualifying expenses under the DTD scheme. How should the qualifying expenses under the DTD scheme be set-off in the tax computation?

As a matter of principle, the matching of expense and revenue should be observed where feasible. Hence, businesses are required to identify the purpose for which the expenses were incurred and match the expenses against the specific income streams to which the expenses relate. Paragraphs (a) and (b) below set out the set-off rules for different situations.

(a) Qualifying expenditure that is directly identifiable to specific income streams of the business

The qualifying expenditure should be matched and allowed against the specific income streams to which the expenses relate.
(b) **Qualifying expenditure that is not directly identifiable to specific income streams of the business**

The qualifying expenditure may be treated as common expenses and be allocated across the different income streams using acceptable bases of allocation. The basis used must bear nexus to the business activities and reasonably reflect the level of activities under the different tax categories. In addition, the basis once adopted must be applied consistently across the years provided there is no change in business or operating circumstances. One example of a common allocation basis would be turnover ratio.

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