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PIC scheme: all an SME needs to know

Introduced in 2010 and enhanced in subsequent years, it is a tax incentive to encourage businesses to invest in productivity and innovation activities

FROM THE DESK OF

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We are acutely aware of the increasing pressure that Singapore companies are facing to increase productivity and gain a competitive edge in a tight labour market.

The government has been leading the productivity drive towards a goal of 2-3 per cent productivity growth in the next decade. There are a great number of schemes and initiatives to encourage investment in productivity and innovation, such as the "Software-as-a-Service" initiative, the Productivity Initiatives in Services & Manufacturing (PRISM) and the latest Productivity and Innovation Credit (PIC) Scheme.

In this climate however, it never ceases to amaze me how many small medium enterprise (SME) business leaders are not aware of or make use of these fantastic initiatives. They have a lot to offer, particularly the recently enhanced PIC scheme.

Initially introduced in 2010 and enhanced in the subsequent years, the PIC scheme is a tax incentive to encourage businesses to invest in productivity and innovation activities. It covers six areas of activities: buying or renting IT equipment, training of employees, obtaining and in-licensing IP rights, registration of patent, trademarks, designs and plant varieties, research and development activities and certain design projects.

The scheme benefits all businesses, especially SMEs. Under the scheme, businesses can offset their spending through claims made via the Inland Revenue Authority of Singapore (IRAS). Most commonly, the claims made are for IT and employee training.

Maximise productivity through IT

Having the right software, machinery and devices can streamline the processes, reduce errors and maximise efficiency - this can significantly increase companies' productivity, which in turn will increase their competitive edge. And you would be surprised at how many items the enhanced scheme can cover.

The PIC indicates a list of prescribed IT tools that it will cover but also allows businesses to propose other tools that may be approved on a case-by-case basis. The prescribed list includes cost ore rental of a wide range of equipment from hardware such as mobile phones and computers, to software such as office systems and ERP software, including cloud computing services; which are most of the tools to set up an efficient office and a mobile workforce.

So for example, imagine a small 15-person human resource consultancy wants to upgrade its IT systems. This might include a new printer, routers and servers for the office, mobile phones and laptops for its employees as well as office system software and ERP software to streamline its work processes. The consultancy can then get 60 per cent of whatever they've spent back through a cash payout or they can wait until the end of tax year or its financial year to get a 400 per cent tax deduction on whatever they've spent under the PIC scheme. This relates to the government paying $6,800 if you spent $10,000 (the current tax rate being 17 per cent).

For companies involved in heavy machinery work such as manufacturing and construction, they can also make claims for the relevant machinery to help their daily operations, such as unmanned automated guided machines, grinders etc, as well as the software to run them.

Improving your 'people power'
A large part of increasing productivity involves the people who already work for you. Much of it is in their hands and giving them the opportunity to upgrade their skills has a two-fold effect. It tells your employees that you are invested in their future and it gives them the skills to do so. The result is that you have the right talent needed to maintain growth and they stay loyal to the company.

One great aspect of the PIC scheme is that it covers both fees paid for external and in-house training accredited by the Singapore Workforce Development Agency or Institute of Technical Education.

For example, the HR consultancy decides to send some staff for an external IT course. Once again, the government pays for 68 per cent of the total expenses as the firm claims 400 per cent of the expenses incurred. At the same time, the employees have a better grasp of IT knowledge which helps them to complete tasks faster.

All SMEs should be taking advantage of this - now.

How to claim
Now that you know what to claim for, let's talk about how you claim it. Businesses can get part, or in some cases, all of their money back through a 400 per cent tax deduction, a cash payout option or the PIC Bonus.

For the tax deduction, businesses can enjoy a 400 per cent tax deduction or allowances on up to $400,000 of their expenditure per year on each of the qualifying activities. It can be combined, which means that over a span of three years, the expenditure can reach a total of $1,200,000. Businesses can claim this in their income tax returns.

If you're a growing business, however, cash is much more important than tax credits. Therefore the cash payout is the option you want to look at, especially since you may be cash constrained and this gives you the opportunity to innovate and improve your productivity. For this option, eligible businesses can apply to convert up to $100,000 of their total expenditure into a non-taxable cash payout. What this means is that you get to spend up to S$100,000 on technology and get up to $60,000 in cash within three months.

Whether you apply for the tax deduction or the cash payout, you automatically receive the PIC Bonus. This bonus gives businesses a dollar-for-dollar matching cash bonus for year of assessment (YA) 2013 to 2015, with an overall cap of $15,000 for all three YAs combined and is given on top of the existing 400 per cent tax deductions or the cash payout. Businesses just need to claim it together in the income tax return or PIC cash payout application.

Get involved in this scheme - it can make a significant difference to your business today and tomorrow.