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The Growth Strategist For Asia

Leveraging Tax Incentives to Accelerate AI Adoption

Enterprise Innovation Scheme

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As Artificial Intelligence (“AI”) becomes a key driver of productivity, competitiveness, and economic transformation, the Singapore Government has taken concrete steps to encourage enterprises to adopt AI technologies. One of the key measures supporting this objective is the Enterprise Innovation Scheme (“EIS”), which has been enhanced under Budget 2026 to explicitly include qualifying AI expenditures. This enhancement provides businesses with a timely opportunity to adopt AI while managing costs through tax incentives.

Brief overview of EIS

EIS was first introduced in Budget 2023 and is available for Years of Assessment (“YAs”) 2024 to 2028. The scheme is designed to encourage businesses to engage in innovation and capability-building activities by offering enhanced tax deductions and, in certain cases, an optional cash payout.

Under the EIS, eligible businesses may claim up to 400% tax deductions or allowances on qualifying expenditure incurred in various innovation activities, namely:

- ▶ Research and development conducted in Singapore
- ▶ Registration of intellectual property
- ▶ Acquisition and licensing of intellectual property rights
- ▶ Innovation projects carried out with approved institutions
- ▶ Training courses aligned with SkillsFuture frameworks

These incentives aim to support businesses across the innovation lifecycle, from ideation to capability development and commercialisation.



Budget 2026 Enhancement: AI as a New Qualifying Activity

From YAs 2027 to 2028, AI-related expenditure has been introduced as a new qualifying category under the EIS.

Companies may claim 400% tax deduction on qualifying AI expenditure, capped at S\$50,000 per YA. At the prevailing corporate tax rate, this translates to a maximum tax savings of approximately S\$34,000 per YA.

Unlike other EIS activities, AI expenditure is not eligible for conversion into a non taxable cash payout. This means that the benefit is realised only when the company has sufficient taxable profits, thereby making tax planning and timing of expenditure particularly important.

What Qualifies as AI Expenditure?

Further guidance is expected from the Inland Revenue Authority of Singapore in mid-2026, and businesses are encouraged to keep abreast of developments to ensure that their expenditures qualify for the enhanced deductions.

What this means for Corporate Taxpayers

The inclusion of AI under EIS presents a practical opportunity for businesses to align technology investments with tax efficiency. Key considerations include:

- ▶ **Optimising tax benefits** - Structuring AI-related expenditure to fall within qualifying categories can significantly reduce the after-tax cost of adoption.
- ▶ **Timing of expenditure** - Given the absence of a cash payout option, companies should align AI investments with periods of taxable profitability to fully utilise the enhanced deductions.
- ▶ **Interaction with other incentives** – Businesses should evaluate whether AI-related activities may alternatively fall under Research & Development (R&D) or innovation categories and determine the most beneficial treatment.

Strategic Perspective

This enhancement reflects Singapore's broader push towards AI-driven transformation, but for businesses, the focus should be on practical execution in ensuring that AI investments are both commercially viable and tax-efficient.

Companies that take a structured approach to identifying, documenting, and timing their AI expenditure will be better positioned to maximise the available benefits.



Conclusion

The expansion of EIS to include AI expenditure is a targeted measure that lowers the cost of adopting emerging technologies. For corporate taxpayers, it presents an opportunity not just to claim enhanced deductions, but to integrate AI investments into a broader tax and business strategy.

Early planning will be key to unlocking the full value of the scheme.

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