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Unlocking Innovation: Singapore's Tax Incentives for Research and Development (R&D) Activities

April 2026

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Innovation is no longer limited to laboratories or large technology companies. Today, many businesses in Singapore are improving processes, developing new systems, and finding better ways of operating as part of their day-to-day.

What many companies may not realise is that some of these activities could qualify for Research and Development (R&D) tax incentives. Because the rules can be complex and not always well understood, many businesses miss out on valuable tax benefits.

What R&D Means for Tax Purposes

For tax purposes, R&D does not need to involve a major invention or scientific breakthrough (although that would definitely help). It generally refers to work where a business is trying to solve a technical problem, and a ready solution is not clear at the start.

To qualify as R&D, a project must meet the following 3 conditions:

1. The objective is to acquire new knowledge, create new products or processes, or improve existing products or processes;
2. The work involves novelty or technical risk; and
3. The work involves a systematic, investigative and experimental study in a field of science or technology.

Activities such as developing new or improved software, improving production or operational processes, or building new internal systems may qualify. However, routine work such as basic data entry, regular maintenance, simple upgrades, or standard quality checks would usually not be considered R&D.

Singapore Tax Benefits on R&D Expenses

1. The power of 400% tax deduction

Singapore offers one of the most attractive tax regimes globally to encourage businesses to carry out R&D. Companies can generally claim tax deductions on qualifying R&D expenses, including staff costs for employees involved in R&D, materials and consumables used in projects, and certain outsourced R&D services.

In addition, under the **Enterprise Innovation Scheme ("EIS")** introduced in Budget 2023 to encourage businesses to invest in R&D, businesses may enjoy enhanced tax deductions of up to another 300% on qualifying R&D expenditure incurred on qualifying R&D activities undertaken in Singapore.

This effectively allows businesses to claim up to 400% tax deductions on qualifying local R&D spending, capped at the first S\$400,000 of expenditure. In simple terms, every S\$1 spent on qualifying local R&D can translate into up to S\$4 of tax deductions.

Singapore Tax Benefits on R&D Expenses

2. Turning tax deductions into immediate cash

For businesses that are not yet profitable or do not have sufficient taxable income to fully benefit from the enhanced deductions, the EIS also provides an alternative.

Companies may choose to convert up to S\$100,000 of the qualifying R&D expenditure into a non taxable cash payout at the conversion rate of 20% per year. This option helps transform future tax savings into immediate working capital, allowing businesses to reinvest in talent, technology, and product development when it is most needed.

Overall, these incentives can significantly reduce the cost of innovation, improve cash flow, and support continued business growth.



Why R&D Claims Can Be Challenging

Even though the tax benefits are attractive, making a successful R&D claim is not always straightforward.

One of the most common challenges is documentation. Businesses must be able to clearly explain what technical problem they are trying to solve, why the solution was uncertain, what steps were taken to test and develop the solution, and which costs relate directly to the R&D work.

Without proper records and support, even genuine R&D activities may fail to qualify for tax incentives.

How We Can Help

We support businesses at every stage of the R&D lifecycle, from identifying qualifying activities to maximising the tax benefits available. Our assistance includes reviewing projects early to assess eligibility, advising on practical and compliant documentation, and supporting discussions with the tax authorities where required. With the right planning and guidance, R&D tax incentives should not be treated as a last minute tax filing exercise, but as a strategic tool to support innovation and business growth.

If your team spends time testing, refining, and even failing before finding a solution to a technical problem, you may already be undertaking qualifying R&D without realising it. That may represent a significant opportunity.

Let us help you review your activities and ensure you fully benefit from Singapore's R&D tax incentives.

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