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The Growth Strategist For Asia

Enterprise Innovation Scheme (EIS): New Tax Incentive for AI Adoption

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Singapore Introduces Enhanced Tax Support for AI Investment

As businesses increasingly incorporate Artificial Intelligence (AI) into their operations, Singapore has introduced a new tax incentive designed to encourage AI adoption across the economy.

As part of the enhancements announced in Budget 2026, the **Enterprise Innovation Scheme (EIS)** now includes a new qualifying activity for the adoption of AI. Businesses may claim enhanced tax deductions on qualifying AI expenditure incurred in **YA 2027 and YA 2028**. The new provisions are set out in Section 14ZK of the Income Tax Act and further clarified in IRAS' updated EIS e-Tax Guide published on 31 August 2026.

The introduction of an AI-specific tax incentive reflects the Government's broader objective of encouraging businesses to harness AI technologies to improve productivity, strengthen competitiveness and support workforce transformation.

What Is the Tax Benefit?

Under the new rules, businesses may enjoy tax deductions of up to **400%** on qualifying AI expenditure, subject to a maximum expenditure cap of **S$50,000 per Year of Assessment**.

The deduction is structured as follows:

Nature of expenditure	Deduction available
AI expenditure otherwise deductible under Section 14 of the Singapore Income Tax Act	100% base deduction + 300% enhanced deduction
AI expenditure not otherwise deductible under Section 14 of the Singapore Income Tax Act	400% deduction

A business that incurs S$50,000 of qualifying AI expenditure may therefore potentially enjoy up to S$200,000 of tax deductions.

Unlike certain other EIS activities, the **cash conversion option is not available** for AI expenditure. Businesses can only benefit through enhanced deductions.

What Types of AI Expenditure Qualify?

The legislation broadly recognises two categories of qualifying expenditure.

1. AI Systems

Qualifying expenditure includes subscriptions or licences for AI systems.

Examples include:

- Conversational AI and generative language models
- Machine learning and deep learning systems
- Natural language processing applications
- AI-powered translation and sentiment analysis tools
- Computer vision applications such as facial recognition and object detection systems

From a practical perspective, this may potentially include enterprise AI platforms, AI copilots, generative AI solutions and AI-enabled software products.

2. AI Business Services

Qualifying expenditure also includes services that support the adoption or development of AI within a business.

Examples include:

- AI strategy and consultancy services
- AI implementation and deployment projects
- AI platform services
- Data and analytics services
- System engineering and compliance services
- AI-related training services
- AI development and maintenance services

Importantly, IRAS has clarified that such services must relate to the development, deployment, operation or maintenance of an AI system. General consulting projects that do not involve AI implementation may not qualify.

What Does Not Qualify?

Businesses should also be aware of the specific exclusions under the legislation.

The following expenditure is specifically excluded:

- Servers
- Storage devices
- Computing equipment
- Physical infrastructure
- Government grant-funded expenditure
- Sub-licensed AI systems
- Expenditure that has already been claimed under certain other tax provisions

This suggests that the incentive is primarily focused on AI software and AI-related services, rather than hardware or infrastructure investment.

An Important Practical Issue: Software Bundles

One of the more useful clarifications provided by IRAS concerns software packages that contain both traditional software functionality and AI functionality.

For example, IRAS describes a software package that costs S$12,000 and contains both standard software features and AI capabilities. A comparable package without AI features costs S$8,000. Under IRAS' example, only the incremental S$4,000 attributable to the AI component would be treated as qualifying AI expenditure.

This is particularly relevant for:

- Microsoft 365 subscriptions with Copilot add-ons
- ERP systems with embedded AI functionality
- Bundled SaaS solutions
- Enterprise software packages incorporating AI modules

Businesses should therefore consider whether apportionment may be required and maintain documentation supporting the methodology adopted.

How Businesses Can Prepare

Although the incentive applies only for YA 2027 and YA 2028, businesses may wish to begin preparations early.

Practical action points include:

Identify AI-related expenditure

Review software, consulting and transformation projects to identify components that may potentially qualify under the new rules.

Separate qualifying and non-qualifying costs

Where projects involve a mixture of software, infrastructure and consulting expenditure, maintaining appropriate cost breakdowns may become critical.

Monitor grant funding

Government grants and subsidies can reduce the amount of expenditure eligible for the enhanced deduction.

Retain supporting documentation

Businesses should maintain contracts, invoices, project scopes and pricing information that demonstrate how the expenditure relates to AI adoption.

Evaluate timing of future projects

Where possible, businesses may wish to consider whether planned AI investments can be aligned with the qualifying period in YA 2027 and YA 2028.

How We Can Help

The introduction of the AI incentive is a positive development, but many practical questions remain.

In our experience, the key challenges are unlikely to involve the legislation itself. Instead, the issues are likely to centre around:

- Determining whether expenditure relates to an AI system
- Distinguishing qualifying AI consulting from general consulting services
- Apportioning bundled software arrangements
- Assessing grant interactions
- Preparing supporting documentation for IRAS review

Our team can assist with:

- Reviewing AI projects and identifying potentially qualifying expenditure
- Assessing software licences and bundled arrangements
- Evaluating AI consultancy and implementation costs
- Advising on documentation and substantiation requirements
- Quantifying potential EIS benefits
- Assisting with tax computations and EIS claims

As businesses accelerate their AI adoption journey, tax incentives such as the EIS can help reduce the after-tax cost of investment while supporting broader digital transformation initiatives.

If your organisation is currently evaluating or implementing AI solutions, our tax team would be pleased to discuss how the enhanced EIS provisions may apply to your specific circumstances.

Contact Us

If you would like to discuss how the new AI adoption incentive may apply to your business, please reach out to your usual CLA Global TS contact or any member of our corporate tax team.

Contact us

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