Enterprise Innovation Scheme: Deduction, Cash Payout or New AI Route?

Description

For Years of Assessment 2024 to 2028, EIS can provide a 400% deduction on qualifying expenditure within activity caps, or an irrevocable cash conversion of up to S$100,000 at 20%, producing at most S$20,000. The new qualifying AI expenditure category applies for YA 2027 and 2028 on the first S$50,000, but it cannot be converted to cash. IRAS Enterprise Innovation Scheme. IRAS EIS cash-payout infographic.

Choose the branch that matches the case

Situation	Next step
Business expects taxable profit	Model the enhanced deduction against the applicable tax position
Cash flow matters more than a future deduction	Test the cash-payout staffing and activity conditions before electing
Spend is under the new AI category	Use the YA 2027â??2028 deduction route; cash conversion is unavailable
Activity or vendor is uncertain	Seek clarification before contracting and keep the technical scope

What the official record establishes

- IRAS Enterprise Innovation Scheme: IRAS states the YA 2024â??2028 period, deduction caps, AI route, cash-conversion exclusion, staffing test, irrevocability, deadlines and record rules.
- IRAS EIS cash-payout infographic: The official infographic states the S$100,000 conversion cap, 20% rate, S$20,000 maximum, eligible entities, three-local-employee condition, filing timing and seven-year retention.

Map the activity before the invoice

EIS covers specified activities, not any spending branded as innovation. The first four qualifying activities can receive 400% deductions on the first S$400,000 of qualifying expenditure, while qualifying innovation projects use a first-S$50,000 cap. IRAS Enterprise Innovation Scheme.

Link each cost line to the statutory activity and supporting document. A vendor proposal should explain the work, deliverables and who owns the resulting intellectual property.

Understand the cash conversion

A business may convert up to S$100,000 of total qualifying expenditure into a non-taxable cash payout at 20%, capped at S$20,000 for the year. The election is irrevocable. IRAS Enterprise Innovation Scheme.

Compare the S$20,000 maximum with the tax benefit and timing of a deduction using the companyâ??s actual tax forecast, not a generic headline.

Pass the active-business and staff tests

Cash conversion requires an active business and at least three full-time local employees for six months. IRAS sets wage and working-hour parameters and excludes certain owners and directors from the count. IRAS EIS cash-payout infographic.

Build a month-by-month payroll table showing citizenship or PR status, gross wage and hours. Do not count a person merely because CPF was paid once.

Treat AI expenditure as a separate branch

Budget 2026 adds a 400% deduction on the first S$50,000 of qualifying AI expenditure for YA 2027 and 2028. IRAS states that this category is not eligible for cash payout. IRAS Enterprise Innovation Scheme
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Keep AI subscriptions, implementation work, staff training and ordinary IT spending separated until the qualifying definition and attribution are clear.

Calendar the claim

For companies, the YA 2026 cash-payout application opens on 5 May and is due by 30 November 2026. One application is allowed for the year and processing is generally around three months. IRAS Enterprise Innovation Scheme.

Keep the claim file for seven years and reconcile it to the tax computation, fixed-asset or expense ledgers and payment evidence.

Model the two EIS choices on the same expenditure

Start with qualifying expenditure net of any government grant or subsidy. In one column, calculate the enhanced deduction or allowance; in another, calculate the cash conversion subject to the combined S$100,000 expenditure cap and 20% rate. Do not compare S$400 of deduction with S$20 of cash as though both were cash in hand.

Add the businessâ??s expected tax position and timing. A deduction has value only through the applicable tax computation, while the cash election is irrevocable for the converted amount.

Build evidence around the qualifying activity

Keep the contract, technical scope, invoice, proof of payment, grant computation and the record showing how the activity fits IRASâ??s definition. For a cash claim, add the employee-condition evidence and filed-return timing.

Do not let a vendorâ??s product label decide eligibility. â??AIâ?•, â??innovationâ?• or â??trainingâ?• in an invoice description is not a substitute for the statutory activity, eligible provider and expenditure tests.

Keep the election out of the vendor contract

A supplier can describe the service and evidence, but the taxpayer chooses and supports the tax claim. Do not let a quotation promise an EIS outcome or cash amount.

Before signing, identify any grant or subsidy, related-party issue and non-qualifying component so the invoice can be separated without inventing an allocation later.

Work the example before the real decision

An eligible company has S$80,000 of qualifying expenditure. Cash conversion would be 20%, or S$16,000, if all conditions are met. The enhanced deduction is S$320,000 before considering the normal deduction treatment and the companyâ??s tax position. This comparison is an illustrative calculation, not tax advice.

Checklist

1. Classify each cost by qualifying activity
2. Confirm the relevant YA and activity cap
3. Build the six-month local-employee table
4. Model deduction versus cash timing
5. Separate the new AI category
6. Submit once and retain records for seven years

Mistakes to avoid

- Assuming every digital project qualifies
- Counting excluded owners as local employees
- Treating the cash election as reversible
- Including AI costs in cash conversion
- Missing the company application deadline

Related next reads

After choose between enhanced deductions and cash conversion while preserving eligibility and evidence, a reader can review a financial-year-end change, or check payroll records.

Questions readers ask

What is the maximum cash payout?

S$20,000, based on converting up to S$100,000 at 20%.

Can qualifying AI expenditure be cashed out?

No. IRAS excludes the new AI expenditure category from cash conversion.

How many applications can be filed for a year?

IRAS allows one application per Year of Assessment.

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