7 August 2026

This document constitutes a IVAS Guidance Note. CVA holders are expected to comply with the requirements of this Guidance Note, or provide an explanation for any departures.

GN-002: VALUATION OF INTELLECTUAL PROPERTY RIGHTS FOR SECTION 19B OF THE SINGAPORE INCOME TAX ACT 1947

1. Preface

1.1. For Singapore income tax purposes, capital expenditures incurred for business purposes are generally not deductible unless deduction or capital allowances are specifically provided for under the Singapore Income Tax Act 1947 ("SITA"). Writing-down allowances ("WDA") are granted under section 19B of the SITA on the actual capital expenditure incurred by a company[1] in acquiring qualifying intellectual property rights ("IPRs") for use in its trade or business.

1.2. For such capital expenditure exceeding certain value thresholds[2], the company claiming WDA (the "claimant") is required to submit a valuation report to the Inland Revenue Authority of Singapore ("IRAS") to substantiate the Open Market Price ("OMP") of acquired IPRs as at the acquisition date[3]. This rule was introduced in the Singapore Budget 2016 as an anti-avoidance mechanism to ensure that the transacted price of IPRs is reflective of the market value[4].

1.3. The IRAS has issued an e-Tax Guide on Intellectual Property Rights Valuation Report for Purposes of Section 19B of the Singapore Income Tax Act 1947 ("S19B Guide") on 27 Jun 2018 which has been updated on 30 Jan 2026. The S19B Guide outlines the minimum information that should be provided in a valuation report to be submitted for the purposes of section 19B of the SITA ("S19B Valuation Report") and explains IRAS' expectations.

1.4. IRAS expects reports to be credible, transparent, and prepared by qualified professionals. While the S19B Guide does not mandate the use of IVS, it does state that the valuation process should follow internationally accepted

[1] S19B WDA is also available to partners of a partnership on capital expenditure incurred by the partnership in acquiring qualifying IPRs.
[2] Refer to the thresholds specified in the S19B Guide for preparing a S19B Valuation Report.
[3] As defined in section 19B of the SITA, the 'acquisition date' of any intellectual property rights is the date of the signing of the agreement to acquire those rights; or if there is no agreement, the date on which those rights are assigned to the company.
[4] MOF (2016), Budget 2016 Annex A-4: Tax Changes, item 8.

valuation standards, including the International Valuation Standards ("IVS") issued by the International Valuation Standards Council ("IVSC").[5]

2. Objective of the Guidance Note

2.1. This note shows how compliance with IVS addresses those requirements set out in the S19B Guide for a S19B Valuation Report and provides supplementary information to guide valuers in performing the relevant valuation analyses for a S19B Valuation Report in compliance with the following sections of the IVS 2025:

a) IVS 100 Framework
b) IVS General Standards (IVS 101 to IVS 105)
c) IVS 210 Intangible assets

2.2. This note does not aim to replace or modify the principles of intangible assets valuation set out in the existing IVS and it does not constitute official guidance or represent the position of the IRAS.

2.3. When preparing a S19B Valuation Report for tax purposes, IRAS has set the requirements in the following legislation and documents:

i. **Section 19B of the Singapore Income Tax Act[6]**
Section 19B of the SITA sets the legal framework for granting WDA on capital expenditure incurred in acquiring qualifying IPRs by a company for the purpose of its trade or business. This section contains the relevant statutory provisions defining qualifying IPRs, prescribed basis of value, allowable tax writing-down periods, and other compliance requirements.

ii. **Declaration Form[7]**
This form serves as an official declaration by the claimant (i.e. the company claiming WDA under section 19B of the SITA), ensuring that the claim has fulfilled the relevant conditions.

iii. **S19B Guide[8]**
This guide outlines the minimum requirements for a S19B Valuation Report and explains the information requirements for the following:

1. Background of the company's business and value drivers
2. Credentials of Valuer
3. Date of valuation
4. Definition of value
5. Disclaimers and limitations (if any)

[5] S19B Guide, 6.1(b).
[6] The statutory provisions of section 19B of the SITA are accessible at Singapore Statues Online.
[7] The Declaration Form for the Purpose of Claiming Writing-Down Allowances for Intellectual Property Rights (IPRs) Under Section 19B of the Income Tax Act can be obtained from the IRAS website.
[8] The S19B Guide can be obtained from the IRAS website.

6. Information relied on in determining the valuation
7. Material risks
8. Purpose of valuation
9. Terms of engagement
10. Type(s) of IPR being valued
11. Valuation approaches and methods
12. Valuation assumptions and inputs
13. Valuation conclusion

For the avoidance of doubt, the submission of the Declaration Form and an independent valuation of the IPRs (subject to the relevant value thresholds) that meets the above information requirements have the force of law.[9]

3. Background of the Company's Business and Value Drivers

3.1. All significant assumptions must be reasonable under the circumstances, be supported by evidence and be relevant having regard to the intended use for which the valuation is required in order to provide an IVS-compliant valuation.[10]

3.2. S19B Guide states that a S19B valuation report should, where applicable, include the following analysis to support revenue forecast and assumptions used in valuing the IPRs[11]:

a) Overview of the industry which the company operates in, which include the key drivers of the industry, the outlook of the industry and the future growth drivers of the industry;
b) Company's background, including description of the company's business segments and geographical markets, and the revenue of each business segment;
c) Analysis of company's products and services, including the product life cycle and similar products offered by competitors;
d) Profiles of its customers and competitors;
e) Company's competitive positioning in the industry, which includes the market share of the company;
f) Historical financial performance of the products or services which would utilise the acquired IPRs;
g) Economic and market outlook of the products or services to which the IPRs relate; and
h) How the IPRs contribute to the value of the business for instance, how the IPRs are connected to the company's business strategy, how the IPRs contribute to the company's competitive advantages, and the risks and opportunities related to the IPRs. The Intangibles Disclosure

[9] S19B Guide, 5.1.2, 5.1.5, and 6.2.
[10] IVS 102, para. 50.04.
[11] S19B Guide, 6.4.1.

Framework 2023 on IPOS website provides some useful guidance and illustrations on how companies should explain and substantiate the role of specific IPRs in their business, and the value that such IPRs contribute.

3.3. Additionally, where there are different IPRs which generate revenues for different business segments, S19B Guide also states that a separate analysis of each business segment should be included in the valuation report[12].

3.4. A S19B Valuation Report should provide the above information and analyses with the aim of enabling the intended user to understand how the economic benefits attributed to the IPRs are supported by reliable and reasonable assumptions and inputs. Below are some examples of how the qualitative analyses could affect the valuation assumptions and inputs. These examples are for illustration purposes only as the facts and circumstances differ for each case.

Industry Context and Market Trends

3.5. Depending on the industry and where the company operates within the supply chain and its business model, it can have varying commercialisation models and R&D / technological / product cycles which can affect the valuation assumptions and inputs used to value IPRs. Market demand, regulations, and technological changes can also affect the economic life and earning potential of the IPRs.

3.6. For example, patents for pharmaceutical products may require a longer development period and substantial R&D costs to complete clinical trials and to obtain regulatory approval before commercialisation in the relevant markets. When the patent expires, trademarks of the pharmaceutical products may continue to drive value for the business due to customer recognition. However, generics (i.e. drugs with the same active pharmaceutical substance) may lead to increased competition. There should be proper analysis in the S19B Valuation Report to explain how the economic benefits are properly estimated and attributed to the different IPRs over time, considering changes in market conditions and other circumstances, where applicable.

3.7. Industry cyclicality should be considered by the valuer in assessing the economic life, revenue growth, and discount rate relating to the specific IPR. Technology-related industries may face greater obsolescence and disruption risks. For example, a patent in a fast-moving industry (e.g., mobile technology) may have a shorter economic life than one in a slow-changing field (e.g., medical devices). On the other hand, the trademarks relating to consumer goods are dependent on the market share, customer loyalty, competition and other market and economic factors.

[12] S19B Guide, 6.4.2.

Business Strategy and Functional Role of IPRs

3.8. The same IPRs can have different values depending on how it is used within a business model: as a revenue generator, a competitive advantage, or a cost-saving mechanism. The business' ability to commercialise and enforce IPRs also affect its income potential.

Key Value Drivers of the IPRs

3.9. IPRs may drive value in different ways, such as:

- Competitive Advantage: IPRs, such as patents, provide exclusive rights to an invention, allowing companies to differentiate themselves and gain a competitive edge.
- Barriers to Entry: Strong protection can make it difficult for competitors to replicate or copy a company's products or services, creating barriers to entry.
- Premium Pricing: The perceived value and exclusivity of IPRs can allow companies to charge higher prices for their products or services.
- Revenue Streams: IPRs can be licensed to other companies, creating new revenue streams and expanding market reach e.g. franchising.

3.10. The above assessment may affect the projection of economic benefits attributable to the relevant IPRs over time.

Competitive Landscape and Market Position

3.11. IPRs generally relate to legal rights that operate on a territorial basis. Furthermore, the value of IPRs can be influenced by market share, customer loyalty, legal protection strength, competitive advantages, and infringement risks, which can vary across jurisdictions.

3.12. A strong trademark that is well recognised in the relevant markets may command premium pricing and justify higher profit margins. On the other hand, a patented drug with superior clinical benefits and efficacy may be more valuable than generics. An assessment of these observations can be useful in explaining revenue growth or royalty rate used in valuing the IPRs. A well-defended patent portfolio with strong market presence may justify lower risk.

3.13. The value of IPRs may be affected by other IPRs of competing products and services in the same market. For example, a patented technology may be less valuable in a competitive market with non-infringing alternative technologies providing similar technical functionalities and pricing. High competition could mean higher risk of product or technology obsolescence, leading to the need to undertake more R&D or marketing investments to innovate new products or technologies.

4. Credentials of Valuer[13]

4.1. The valuation report should provide information relating to the following:

a) Name and qualifications;
b) Valuer's experience in valuing similar types of IPRs or IPRs in similar industries; and
c) Any relevant licences, registrations and/or professional memberships.

4.2. If the valuer is also undertaking other assignment(s) or had undertaken other assignment(s) for the company within the past two years of the date of the valuation report, the valuer must disclose the relationship, and demonstrate that there is no conflict of interest between the valuation assignment and the other assignment(s) undertaken.

5. Date of Valuation

5.1. The valuation date is the point in time to which the valuation applies[14]. The valuation date will influence what information and data the valuer considers in a valuation. The valuer should be aware that most bases of value prohibit the consideration of information or market sentiment that would not be known or knowable with reasonable due diligence on the measurement/valuation date by participants[15].

5.2. Section 19B of the SITA requires the OMP of qualifying IPRs to be determined as at the acquisition date. The S19B Guide states that the valuation date for a S19B Valuation Report should be close to the acquisition date[16] of the transaction so that it is representative of the market conditions as at the date of the material transaction. The valuation should take into account all relevant information which may materially affect the valuation, up to the date of the material transaction[17].

5.3. Where a S19B Valuation Report is prepared after the acquisition date, the valuer should exercise professional judgement, substantiated by prevailing information as of acquisition date, not with the benefit of hindsight at some later date[18].

[13] S19B Guide, 6.5.
[14] IVS Glossary, 10.32.
[15] IVS 102 Bases of Value, 10.04.
[16] Section 19B (13) of the SITA defines the "acquisition date" of any intellectual property rights as:
(a) the date of the signing of the agreement to acquire those rights; or
(b) if there is no agreement, the date on which those rights are assigned to the company.
[17] S19B Guide, 6.6.1.
[18] IVS 102, A10.02(h).

6. Definition of Value

6.1. Bases of value describes the fundamental premises or requirements on which the reported values will be based[19]. The basis of value must be appropriate for the intended use and the source of the definition of any basis of value used must be cited or the basis explained[20]. The valuer is responsible for understanding the regulation, case law and other interpretive guidance related to all basis(es) of value used.[21]

6.2. An "Open Market Price" is defined in section 19B(10F) of the SITA as:

a) the price which those rights could have been purchased in the open market on the acquisition date of those rights; or

b) if, by reason of the special nature of those rights, it is not possible to determine the price mentioned in paragraph(a), such other value as the Comptroller considers to be a reasonable value for those rights after considering the valuation of those rights by an appropriate valuer and other relevant circumstances.

6.3. "Price" is the monetary or other consideration asked, offered or paid for an asset or to transfer a liability[22]. "Value" is the valuer's quantitative conclusion on the results of a valuation process as of a valuation date[23]. In the absence of an observable price for the purchase of the IPRs in the open market, a valuation of the acquired IPRs has to be carried out to determine its reasonable value. For the purpose of preparing a S19B Valuation Report, the S19B Guide clarifies that the OMP denotes "the arm's length price at which an asset would change hands, on the date of valuation, between a willing buyer and willing seller".

6.4. The relevant basis of value must be considered by the valuer in the selection of methods, inputs and assumptions, and the ultimate value[24]. Besides stating the basis of value, a valuer should consider the circumstances and state of the intangible asset(s) to be transferred as the assumptions can have a significant impact on value. The economic contribution of an intangible asset, such as IPRs, depends on how it is integrated with other assets and the specific circumstances of its use; whether the IPRs are acquired on a standalone basis or as part of a business or with other complementary assets can fundamentally influence its value[25].

6.5. Market value is defined by the IVS as the estimated amount for which an *asset* or *liability should* exchange on the *valuation date* between a willing buyer and

[19] IVS Glossary, 10.03.
[20] IVS 101 Scope of Work, 20.01(h).
[21] IVS 102, 20.04-20.05.
[22] IVS Glossary, 10.21.
[23] IVS Glossary, 10.38.
[24] IVS 102, 10.01.
[25] IVS 102, 50.01-50.04.

a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion[26]. In practice, IRAS will accept bases of value with the same meaning as open market price. This includes, but is not limited to, market value.

7. Disclaimers and limitations (if any)

7.1. If there are any disclaimers and limitations that affect the valuation process or the value, the valuer should identify them and explain the effect in the valuation report.[27]

7.2. A common disclaimer is that the valuer has relied upon information provided by the client / management without carrying out any verification procedures. As such information can include valuation assumptions and inputs that significantly impact the valuation conclusion, the valuer should exercise professional judgement and professional scepticism in assessing whether the information relied upon in the valuation process is reliable and reasonable and document the findings in the valuation report.

8. Information relied on in determining the valuation

8.1. An IVS-compliant valuation must have sufficient documentation and reporting to describe and provide transparency to the intended user on the valuation approach(es), valuation methods, inputs, valuation models, professional judgement, and resultant value(s).[28]

8.2. Documentation must be maintained throughout the valuation and must describe the valuation and the basis of conclusions made. The level of documentation must at a minimum meet the requirements contained in IVS 106 Documentation and Reporting, section 20.[29]

8.3. A S19B Valuation Report should contain sufficient information for IRAS to gain a good understanding of the engagement's purpose, and the valuer's analysis, reasoning, and support for the valuation methods, valuation inputs, and valuation conclusion. Failure to provide sufficient information in the S19B Valuation Report could result in the rejection of the valuation report or disallowance of the S19B WDA if the value of qualifying IPRs cannot be reliably determined based on the S19B Valuation Report.

8.4. The S19B Guide also states that the information on which the valuer relied on, as well as its source, should be specified clearly. This is particularly necessary

[26] IVS Glossary, 10.18.
[27] S19B Guide, 6.8.1.
[28] IVS 106, para. 10.01.
[29] IVS 106, para. 10.04.

if the company commissioning the valuation report is the source of the information. The valuer should make available any empirical evidence that is relied upon in the valuation report.[30]

8.5. A S19B Valuation Report may be subject to routine tax compliance reviews and additional information may be requested by the IRAS to address any gaps in the quantitative inputs and qualitative assumptions at a later date.

9. Material risks[31]

9.1. If the valuer identifies material risks underpinning the valuation, the valuer should describe the risks in sufficient detail to show that they have been given due consideration.

10. Purpose of Valuation

10.1. IVS 101 Scope of Work requires the client and valuer to agree the scope of work for a valuation or valuation review that is appropriate for the intended use[32]. The intended user's[33] needs and objectives should guide the valuer in providing sufficient documentation and reporting to describe and provide transparency to the intended user on the valuation approach(es), valuation methods, inputs, valuation models, professional judgement, and resultant value(s).[34]

10.2. The purpose of a S19B Valuation Report is to provide an independent valuer's opinion of the OMP of the IPRs acquired by the company as at the acquisition date[35]. Its purpose is to assist the intended user (i.e. IRAS) in assessing whether the capital expenditure incurred by the taxpayer in acquiring the IPRs reflects the OMP of the IPRs. Where the OMP of the IPRs is lower than the capital expenditure incurred, IRAS may grant WDA based on the lower amount[36].

10.3. The valuation report should state the purpose for which the valuation is carried out. Where it is not prepared for the purpose of valuing qualifying IPRs under S19B, IRAS may request for another valuation, unless the valuation of qualifying IPRs can be reliably determined based on the information provided in the report[37].

[30] S19B Guide, 6.9.1.
[31] S19B Guide, 6.10.1.
[32] IVS Glossary, 10.12.
[33] IVS Glossary, 10.13.
[34] IVS 106, 10.01.
[35] S19B(10F) of the SITA.
[36] S19B(10E) of the SITA.
[37] S19B Guide, 6.11.1.

10.4. For example, the acquisition of IPRs by the company may be part of business acquisition or restructuring exercise and there may be a separate valuation prepared for financial reporting or transfer pricing purposes. Typically, the consideration and requirements of such valuation reports are not the same as that of a S19B Valuation Report; such as definition of value, or the subject of valuation being intangible assets, rather than IPR(s), thus, the valuer should critically assess the relevance and appropriateness of such information when valuing IPRs for S19B purposes.

11. Terms of engagement[38]

11.1. The company commissioning a valuation must be able to demonstrate that it had provided clear instructions to the valuer. Instructions to the valuer should be documented in the letter of engagement.

11.2. As part of the valuation report, it is expected that the valuer specifies the terms of engagement for the conduct of the valuation, and to include the terms of engagement as part of the valuation report.

12. Type(s) of IPRs Being Valued – Qualifying IPRs

12.1. The IVS defines an "intangible asset" as an identifiable non-monetary *asset* with no physical substance[39]. Specific intangible assets are defined and described by characteristics such as their ownership, function, market position, image, and legal protection. These characteristics differentiate intangible assets from one another[40].

12.2. When valuing an intangible asset, the valuer must understand specifically what needs to be valued and the intended use of the valuation. Which intangible assets need to be valued and the definition of those intangible assets may differ depending on the intended use of the valuation. Differences in how intangible assets are defined can lead to significant differences in value[41].

Qualifying IPRs

12.3. A S19B Valuation Report must identify the relevant IPRs that are acquired by the claimant. Terms such as "intellectual property", "intangible assets" or "intangibles" can have different meanings depending on the valuation purpose and applicable standards which can vary across jurisdictions. For S19B purposes, qualifying IPRs are statutorily defined as "the right to do or authorise the doing of anything which would, but for that right, be an infringement of any

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[38] S19B Guide, 6.12.
[39] IVS Glossary, 10.11.
[40] IVS 210, 20.02.
[41] IVS 210, 20.06.

patent, copyright, trademark, registered design, geographical indication, layout-design of integrated circuit, trade secret or information that has commercial value, or the grant of protection of a plant variety"[42]. These generally relate to rights that are created under IP legal systems[43].

Non-Qualifying Components

12.4. The definition of qualifying IPRs for S19B purposes specifically exclude "information about customers, information on work processes (other than industrial information, techniques that are likely to assist in the manufacture or processing of goods or materials)", as well as any compilation of the aforementioned information[44].

12.5. If the subject of valuation includes any non-qualifying components, such as customer lists, customer data, customer relationships, and information used in marketing and selling goods or services to customers, the S19B Guide clarifies that the S19B Valuation Report should provide a separate analysis showing how the value for the qualifying IPRs is arrived at.[45]

12.6. In addition, the S19B Guide clarifies that the IPRs being valued should relate only to acquired IPRs as at the transaction date and should not include the value of future IPRs which were not present at the point of transaction, but are expected to be developed by the taxpayer after the acquisition through subsequent R&D activities. Where the value of the IPRs include potential of such IPRs to serve as a basis for subsequent research or improvement, the company will need to justify the extent to which the acquired IPRs (and not the subsequently generated new IPRs) contribute to future economic benefits.[46]

12.7. It may be helpful to clearly distinguish between qualifying IPRs and non-qualifying components in the analysis, and to align this with the company's business operations and value drivers. This approach can support consistency between the identification of IPRs and other intangible assets, and the projected economic benefits used in their valuation. As an example, a brand is typically used as a broader term of intangible assets that can include trademarks and other connected assets, including customer-based intangible assets, where applicable. In such cases, it is not appropriate to assume that the brand value represents the value of trademarks without further evaluation of whether any material value should be attributed to customer-based intangible assets.

[42] S19B(11) of the SITA.
[43] The SITA does not contain a different definition of these IPRs for tax purposes and the S19B Guide refers them to IP. For more details on the above categories of IPRs, please refer to website of the Intellectual Property Office of Singapore (IPOS).
[44] S19B(11A) of the SITA.
[45] S19B Guide, 6.13.2.
[46] S19B Guide, 6.13.3.

12.8. If IPRs are acquired as part of an ongoing business, the overall purchase consideration may include value relating to other tangible and intangible assets or even elements of goodwill (e.g. specific synergies, market expansion opportunities, an assembled workforce, future assets, or assemblage and parts of going concern value[47]).

12.9. The S19B Guide clarifies that where the IPRs are acquired as part of a business acquisition or in combination with other assets, a breakdown of the value of the IPRs into qualifying and non-qualifying IPRs should be provided. For the purpose of the WDA claim, a valuation of the IPRs is required to show how the value directly attributable to the qualifying IPRs and demonstrate that this represents a reasonable portion of the overall acquisition cost vis-à-vis other non-qualifying assets. The valuation report submitted will need to specifically state the purpose of valuation.[48]

Characteristics of IPRs

12.10. IPRs have unique characteristics that differ from other tangible and intangible assets. Furthermore, the legal and economic rights of IPRs are divisible. Therefore, it is also important to understand the characteristics of IPRs and ownership rights to be valued[49].

12.11. A S19B Valuation Report should contain sufficient information to demonstrate the valuer's understanding of the subject IPRs to be valued and their roles in generating economic benefits for the business. Such information should be relied upon in supporting the valuation assumptions and inputs used to value the IPRs.

12.12. Depending on the nature of the product / service offerings of the business and the business strategy, certain IPRs (e.g. trademark, patent, copyright, or trade secrets) may play a more important role than others in generating economic benefits for the business. Below is an example that illustrates some considerations for valuing a patent.

12.13. In Singapore, a patent has a finite legal life of up to 20 years, subject to annual renewal. However, an acquired patent may have a remaining legal life of less than 20 years as at the date of acquisition. When a patent expires, the invention it protects becomes part of the public domain. This means that anyone can use, sell, or improve the invention without the owner's permission.

12.14. The value of a patent used to protect an invention can be significantly influenced by any competing or complementary patents in the same market. While a patent provides exclusive rights to the patent owner to prevent others

[47] IVS 210, 20.09.
[48] S19B Guide, 5.1.3.
[49] IVS 210, 20.2; IPVG, 2.1–2.5.

from making, using, or selling their invention, doing so might infringe on other patents. Freedom to operate affects the patent owner's ability to commercialise or monetise its patent. hence, it is important to consider any encumbrances which could include existing licensing agreements, covenants not to sue, or other obligations that limit how the patent can be used or commercialised.

12.15. Though a patent may continue to generate economic benefits beyond the expiry of the patent because there is demand for the product, it should not be assumed that the full future economic benefits are attributable to the existing patent. When the patent lapses, the economic benefits generated by the product may be attributable to the product trademark or other connected assets. The basis of attributing economic benefits to other qualifying IPRs and any non-qualifying components should be evaluated and documented in the valuation report.

Legal Ownership

12.16. The S19B Declaration Form requires the claimant of WDA to declare that it is the legal[50] and economic owner of the acquired IPRs. "Legal ownership" means that the IPRs must be legally assigned to the claimant. For example, the legal owner of the IPRs can be the owner of a registered trademark / patent / design or the legal assignee. On the other hand, a licensee granted rights to use the IPRs would not meet the legal ownership condition.

12.17. While it is generally not the valuer's responsibility to perform due diligence to confirm the legal ownership and validity of the acquired IPRs, a valuer should obtain sufficient information to verify the legal ownership and existence of IPRs when preparing a S19B Valuation Report. Examples of the legal ownership and existence of the IPRs may include an assignment agreement for the acquired IPRs, registration documents for registered patents / trademarks / designs, record of registered and unregistered IPRs.

Economic Ownership

12.18. "Economic ownership" is defined in the S19B Declaration Form as "any future economic benefits attributable to the IPRs will accrue to the claimant"[51]. To fulfil this condition, a valuer should evaluate whether the projected economic benefits used for valuing qualifying IPRs are consistent with future economic benefits that are expected to accrue to the claimant as at the acquisition date. If there are any inconsistencies, the valuer should consider whether revision to the S19B Valuation Report is required.

[50] The S19B Declaration Form states that the legal ownership requirement can be waived by the Singapore Economic Development Board, subject to conditions.
[51] S19B Declaration Form.

12.19. The S19B Guide, FAQ 7 gives a clear example showing how revenue booked by other group entities must not be included in projections unless justified via licensing income. Accordingly, valuer must ensure revenue/profit projections include only economic benefits accruing to the claimant entity. Group-level revenue should be excluded unless supported by intercompany arrangements (e.g., licensing agreements).

12.20. Examples of supporting information can include business plans on how the claimant will be exploiting the IPRs and agreements with related / unrelated parties stating the economic benefits to be derived by the claimant from the use of the acquired IPRs. Transactions between related parties would also have to comply with arm's length conditions.

13. Valuation Approaches and Methods

13.1. IVS 103 Valuation Approaches requires the valuer to consider and select the most relevant and appropriate valuation approaches for the valuation of the asset and/or liability based on its intended use(s). Consideration must be given to the relevant and appropriate valuation approaches. One or more valuation approaches may be used in order to arrive at the value in accordance with the basis of value.[52]

13.2. A S19B Valuation Report should explain the choice of valuation approach and method adopted and the appropriateness of the approach and method in the context of the company and the IPRs being valued. The appropriateness of the valuation approach and method generally depends on the nature of the IPRs, the strength and weakness of the possible valuation approaches and methods, and the availability and reliability of information applicable to the method. As there could be limitations in a particular valuation approach or method being used, more than one approach or method may be used in the valuation of the IPRs to corroborate the valuation outcome[53].

13.3. The valuation must reflect a market-based perspective i.e., how independent parties would price the IPRs. The chosen method should be justified with reference to internationally accepted valuation standards and market practice for similar assets.

13.4. The IVS sets out three principal valuation approaches which can be used for valuing intangible assets (including IPRs) which are briefly summarised below.

a) The market approach estimates the value of an intangible asset with reference to the price of identical or comparable assets. The challenge in applying this approach lies in the difficulty in finding identical or comparable intangible assets, which are often unique and rarely traded

[52] IVS 103, 10.01.
[53] S19B Guide, 6.14.1-6.14.3.

in the market on a standalone basis. Adjustments may be required to reflect the differentiating characteristics of the subject intangible asset and the assets involved in the transactions[54].

b) The cost approach estimates the value of an intangible asset based on the replacement cost of a similar asset or an asset providing similar service potential or utility. The downside of this approach is that the value of intangible assets may not correspond to the replacement or reproduction cost. Generally, the cost approach should be used when no other approach can be applied satisfactorily[55].

c) The income approach estimates the value of an intangible asset by converting future income, cash flow, or cost savings generated by the subject asset into a present value by applying a discount rate. It may be challenging to separate income related to the intangible asset from income related to other tangible and intangible assets. The income approach is the most common approach applied to the valuation of intangible assets[56].

13.5. While a valuer is generally required to evaluate the appropriateness of all three approaches outlined above, the income approach is commonly selected for valuing IPRs that are already used in the generation of economic benefits. IVS 210 outlines several income approach methods. Relief-from-royalty method (RFRM) and multi period excess earnings method (MPEEM) are commonly used in practice for valuing IPRs for S19B purposes.[57] The following outlines some common issues that a valuer should consider when preparing a S19B Valuation Report using these methods.

Key issues to consider when using the RFRM

13.6. RFRM is more reliable when comparable market benchmarks are available. However, the extent of comparability analysis required for a S19B Valuation Report is generally more stringent than a purchase price allocation report because qualifying IPRs have unique legal and economic characteristics that can significantly affect their value.

13.7. While RFRM offers the advantage of using observable royalty rates based on market-based licences obtained from commercial databases, which could better reflect open market conditions agreed upon between independent parties, there are comparability issues due to differences between the subject IPRs and the market-based licences such as nature of IPRs and other

[54] IVS 210, 50.1–50.5.
[55] IVS 210, 70.1–70.4.
[56] IVS 210, 60.1–60.4.
[57] See examples of income approach methods in IVS 210, 60.05.

intangible assets, scope and strength of IPRs, industry and market, geographical scope, product or technology cycle, revenue potential, customer base, and competitive landscape.

13.8. Due to the unique characteristics of IPRs, there may be limited comparable market-based licences to make direct comparisons with the subject IPRs. Market conditions and economic factors can also impact the value of comparable IPRs over time.

13.9. If there are comparability issues with market-based licences that could materially affect the reliability of the RFRM in valuing the subject IPRs, the valuer should corroborate the valuation using other methods.

Key issues to consider when using the MPEEM

13.10. MPEEM estimates the value of the subject asset by reference to the excess earnings attributable to the subject asset after deducting notional charges attributable to other contributory assets. In a purchase price allocation report, the MPEEM is often used to value the primary intangible assets acquired in a business combination[58].

13.11. Intangible assets are generally broader than the definition of qualifying IPRs with specific exclusions under S19B of the SITA. Additionally, S19B Declaration Form requires that the economic benefits attributable to the qualifying IPRs to accrue to the claimant.

13.12. In this connection, the valuer should assess whether that the excess earnings used in the MPEEM are consistent with these requirements and whether further adjustments are required to exclude economic benefits attributable to non-qualifying components or economic benefits that do not accrue to the claimant.

13.13. Also, MPEEM may rely more on the financial projections and assumptions provided by the client rather than market-based data. The valuer must assess the reasonableness of information received from management, representatives of management or other experts and evaluate whether it is appropriate to rely on that information for the valuation[59].

13.14. RFRM may better reflect the economic benefits that accrue to a business that licenses the IPRs to be commercialised by another party. MPEEM may be more appropriate if the IPRs are used by the business to generate revenue and profits.

[58] IVS 210, 60.06–60.17.
[59] See IVS 103 Valuation Approaches, Appendix A20.13.

Using more than one method in valuing IPRs

13.15. Where there are limitations in applying either the RFRM or MPEEM, it may be useful to use both methods in corroborating the valuation conclusion because they provide both the valuer and the intended user with additional information to assess whether the valuation conclusion is reasonable. If the two methods produce substantially different values, the discrepancy may signal an issue with the underlying valuation inputs and assumptions and the valuer should perform procedures to understand why the value indications differ and provide additional justifications. The valuer should note the guidance provided in IVS 103 Valuation Approaches 10.05-10.09.

13.16. Where IPRs are valued in the context of an ongoing business and the valuation relies on financial projections that include economic contributions from other assets, it may be useful to assess the reasonableness of the value of IPRs in the context of the overall value of the business.

14. Valuation Assumptions and Inputs

14.1. The nature and source of the valuation inputs must be consistent with the basis of value, which in turn must have regard to the valuation intended use[60]. Sufficient information on the transaction should be available to allow the valuer to develop a reasonable understanding of the comparable asset and assess the valuation metrics/comparable evidence[61].

14.2. IVS 104 Data and Inputs deals with the selection and use of data to be used as inputs in the valuation. The aim of the valuation is to maximise the use of relevant and observable data[62] to the degree that it is possible. Data and inputs should be based on factual information (such as measurements or published prices) but often include reasoning and analysis in order to arrive at an input to be used in the valuation[63]. The valuer is responsible for assessing and selecting the data, assumptions and adjustments to be used as inputs in the valuation based upon professional judgement[64] and professional scepticism[65,66].

14.3. To assist the intended user in determining whether the valuation conclusion is reasonable, a valuer should explain the reasoning for the data, assumptions

[60] IVS 102, A10.05.
[61] IVS 103, A10.07(e).
[62] IVS 104, 10.03: Observable data is defined as information that is readily available to market participants about actual events or transactions that are used in determining the value for the asset or liability.
[63] IVS 104, 10.02.
[64] IVS Glossary: The use of accumulated knowledge and experience, as well as critical reasoning, to make an informed decision.
[65] IVS Glossary: Professional scepticism is an attitude that includes a questioning mind and critical assessment of valuation evidence.
[66] IVS 104, 10.04.

and adjustments used as inputs in the valuation. When relying on non-observable information, including those provided by the client, the valuer should explain how the information has been assessed to be reliable and reasonable for the purpose of the valuation.

Economic life of the IPRs

14.4. The S19B Guide clarifies that the economic life should only relate to the IPRs acquired at the date of transaction and should not include the extension of economic life arising from subsequent R&D activities to be undertaken by the company that acquires the IPRs, as such extension has not materialised at the point of the transaction. Additionally, the valuation report should show the relevant analysis of the legal, technological, functional and economic factors in arriving at the economic life of the acquired IPRs, such as:[67]

- Legal life of IPRs
- Validity and scope of legal protection
- Expected usage of the IPRs
- Life cycles of products / services related to the IPRs.
- Rate of technical, technological, commercial or other types of obsolescence
- Key factors and trends that may affect the usefulness/value of the IPRs, including the nature of the industry in which the IPRs operate, how the industry is organised (e.g. extent of market concentration/fragmentation), changes in customer demand and level of competition from other companies offering similar products or services

14.5. In some cases, a S19B Valuation Report may state that the economic life of IPRs has been determined based on the valuer's discussion with the client without supporting details. As the purpose of a S19B Valuation Report is to enable the intended user to assess the reasonableness of the value of IPRs for S19B purposes, the valuation report should document the supporting analysis and information considered by the valuer in determining the economic life of the IPRs.

Revenue / Profit projections

14.6. The S19B Guide clarifies that the relevant analysis supporting the basis of the projections should be provided in the valuation report.

14.7. Where financial projections are provided by the client, a valuer should exercise professional judgement and professional scepticism in assessing the following:

a) Whether management has a proven track record of meeting projected results in the past.

[67] S19B Guide, 6.15.1(a).

b) Whether projected growth is achievable with the existing business operations or requires substantial expansion and financing;
c) Whether there are concrete plans to achieve the projected growth;
d) Whether growth is consistent with broader market, industry trends, and business cycle; and
e) Whether growth relates to existing or new markets.

14.8. Where there are risks or uncertainties in factors affecting the projections, information on such factors should be included in the valuation report. Examples of the analysis may include:[68]

a) Historical financial performance of the IPRs before the company acquired the IPRs. Generally, the valuation of the IPRs would also consider the financial performance of the IPRs when the IPRs were being held by the transferor.
b) Future financial projections expected from the IPRs acquired.
c) Business cycle/outlook of the industry and the markets which the products are being sold to. Where the forecasted projections are more optimistic than the industry outlook, the company/valuer should provide the basis of its forecasts.
d) Product life cycle relating to the IPRs which includes the frequency of replacement.
e) Historical and expected future market share of business/ products related to the IPRs.

The valuation report should explain clearly how the projections are arrived at based on the analysis of the above factors, to the extent possible. For purposes of Section 19B claim, the projections should not include economic benefits that do not accrue to the company.

14.9. To meet the 'economic ownership' condition as discussed in the earlier section, revenue / profit projections should reflect economic benefits attributable to qualifying IPRs that accrue to the claimant.

14.10. Profits generally relate to the business as a whole. For S19B purposes, a valuer should evaluate the relevant economic benefits attributable to qualifying IPRs acquired by the claimant and not other intangible assets. Additionally, the valuer should also consider whether the economic benefits are expected to accrue to the claimant as at the acquisition date.

14.11. The valuation report should document the valuer's evaluation of the above factors. Any adjustments and justifications should be documented in the valuation report. In some cases, it is observed that a valuer would adjust the discount rate to address uncertainties associated with the financial projections. Even so, the valuation report should contain supporting information to show the intended user how such an adjustment would remedy the issue.

[68] S19B Guide, 6.15.1(b).

Royalty rate

14.12. The S19B Guide states that the valuation report should provide the relevant analysis to justify the royalty rate used in the valuation of IPRs, if applicable. Where adjustments are made or not made to the royalty rate obtained from comparable licenses, the basis should also be included in the valuation report. The valuation report should also provide the details of the selected comparable licenses such as:[69]

a) Industry of the licensor and licensee
b) Relationship between the licensor/licensee (i.e. whether they are independent parties and whether they may be part of a joint venture, to ascertain whether the licensing arrangement is a pure licensing of IP or may include an element of business profit.)
c) Nature (e.g., patents) and scope of rights (e.g., territory, exclusivity, duration, limitations) of the licensed IPRs
d) Stage of development / established profitability of the licensed IPRs
e) Compensation terms (for example, different royalty rates over time, upfront payment or periodic payments, etc)

The valuation report should explain clearly how the royalty rate was arrived at, based on the above details of the selected comparable licenses.

14.13. Even within the royalty rate range derived from the selected comparable licenses, there can be significant differences, such as scope and strength of the IPRs, price premium, market position, stage of development, terms of payment and cooperation, and other conditions.

14.14. A valuer should consider the benchmarking results in view of the full licensing terms and conditions of the comparable licenses to ensure comparability with the subject IPRs to be valued. The valuer should also evaluate whether adjustments are required to address any comparability issues that may impact the royalty rate(s) used in valuing the subject IPRs and document the findings in the valuation report.

Discount rate

14.15. The S19B Guide states that the workings and the basis of arriving at the discount rate should be provided in the valuation report. An analysis should also be provided to explain whether additional risk premium should be added to the discount rate to reflect the risk/uncertainty associated with the cash flows attributable to the IPRs.[70]

14.16. The Weighted Average Cost of Capital (WACC) generally reflect the risk profile of an entire company (or even a group of company) comprising different business operations, tangible assets, intangible assets, and financing

[69] S19B Guide, 6.15.1(c).
[70] S19B Guide, 6.15.1(d).

structures. In view of the objective of valuing IPRs, a valuer should use a discount rate reflecting the characteristics and risks specific to the IPRs being valued.

14.17. The determination of a discount rate for an intangible asset requires significant professional judgement. A valuer should consider the following factors for assessing the risks associated with an intangible asset (including IPRs)[71]:

a) intangible assets often have higher risk than tangible assets,
b) if an intangible asset is highly specialised to its current use, it may have higher risk than assets with multiple potential uses,
c) single intangible assets may have more risk than groups of assets (or businesses),
d) intangible assets used in risky (sometimes referred to as non-routine) functions may have higher risk than intangible assets used in more low-risk or routine activities. For example, intangible assets used in research and development activities may be higher risk than those used in delivering existing products or services,
e) the life of the asset. Intangible assets with longer lives are often considered to have higher risk, all else being equal,
f) intangible assets with more readily estimable cash flow streams may have lower risk than similar intangible assets with less estimable cash flows.

15. Valuation conclusion

15.1. Valuation reports must provide, in sufficient detail, a clear and well-structured description of the basis for the conclusion of value. In all instances the valuation report must be sufficient to describe the conclusion reached and be considered reasonable by the valuer applying professional judgement.[72]

15.2. The S19B Guide also states that the valuation report should explain how the conclusion is arrived at. While the valuation may produce a range of values under different valuation approaches and methods, the valuer must determine a point value for the purpose of Section 19B claim and state the basis for arriving at the point value.[73]

[71] IVS 210, 90.03.
[72] IVS 106, para. 30-01–30.07.
[73] S19B Guide, 6.16.1.

Appendix 1 – Additional References

Note: The following publications are intended solely for reference and do not fall within the scope of the "comply or explain" framework applicable to the Guidance Note

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