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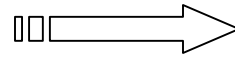
*Presented to you by
Corporate Tax Division
(27 Aug to 29 Aug 2002)*

Full Imputation vs One-tier Corporate Tax System

Full Imputation System

- Tax payable on normal CI is not final tax
- Tax payable is passed to shareholders as tax credits
- Shareholders are taxed on gross dividend & tax credits given (franked dividends)
- S44 a/c mechanism

**5-year
transitional
period
(1/1/03 to
31/12/07)**



One-tier Corp Tax System

- Wef 1/1/03
- Tax payable on normal CI is final tax
- Tax assessed on or after 1/1/03 will not be in S44 balance @ 31/12/02
- All unutilised S44 balance @ 31/12/02 will not be available
- Dividend will be exempt in the hands of shareholders [tax exempt (1-tier) dividends]

When would companies move from imputation system to one-tier system?

- When companies have nil S44 balance as at 31/12/02 remaining on 31/3/03
- When companies' S44 balance becomes nil any time during 1/4/03 to 31/12/07
- When companies opt to move to one-tier system any time during 1/1/03 to 31/12/07
- All companies which are still under imputation system will automatically move to one-tier system from 1/1/08

Companies remain under imputation system during 5-year transitional period

- Companies with S44 balance @ 31/12/02 can remain under the imputation system up to 5 years (1/1/03 - 31/12/07)
- Can utilise S44 balance @ 31/12/02 to pay franked dividends
- Once S44 balance = 0, automatically move to one-tier system



Companies remain under imputation system during 5-year transitional period

- Can opt to move to one-tier system any time during 1/1/03 to 31/12/07
 - Option form is available @ www.iras.gov.sg or fax express (code 209) from Dec 2002
 - Option is irrevocable
 - After the option, any remaining S44 balance will not be available for paying franked dividend



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Comptroller of Income Tax
65 Newton Road
Revenue House
SINGAPORE 307987

**OPTION TO MOVE TO ONE-TIER CORPORATE TAX SYSTEM
FOR THE PURPOSE OF PAYING DIVIDENDS
(For resident companies only)**

PART I - COMPANY PARTICULARS

Name of Company : _____
Tax Reference Number : _____
Registered address : _____

PART II - OPTION

We opt to move to the one-tier corporate tax system for the purpose of paying dividends with effect from the date of option stated below.

We understand that the option, once made, is irrevocable and any credit balance remaining in the company's Section 44 account will no longer be available for payment of franked dividends on or after this date.

Full name and signature of person making the option : _____

Capacity of person making the option : _____
Date of option : _____
Telephone number : _____

Companies remain under imputation system during 5-year transitional period

- Cannot pay franked dividend of which TDS is more than S44 balance @ 31/12/02 ascertained on the day before payment.
 - Otherwise need to pay a charge within 14 days.
 - Charge cannot be used to set-off against future tax.

Example

S44 balance @ 31/12/02	22,000
Maximum dividend company can frank (22,000 / 22%)	100,000
Franked dividend paid	150,000
TDS (150,000 x 22%)	33,000
Charge payable (33,000 – 22,000)	11,000

Companies remain under imputation system during 5-year transitional period

- Cannot pay exempt one-tier dividend in addition to franked dividend until S44 balance = 0 or opt to move to one-tier system

Example

S44 balance @ 31/12/02	22,000
Dividend payable	150,000
Franked dividend (22,000 x 22%)	100,000
TDS (100,000 x 22%)	22,000
Exempt 1-tier dividend (150,000 – 100,000)	50,000

Companies remain under imputation system during 5-year transitional period

- Can still pay normal exempt dividend
- Dividend payment must be based on shareholders' respective shareholding proportions
 - cannot stream franked dividends to certain shareholders only
- Franked dividend received by shareholders will be taxed at gross and TDS given
- For corporate shareholders, the tax on the franked dividend is a final tax and will not be added to S44 balance



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Determination of S44 balance @ 31/12/02

Amended asst after 31/12/02
which discharge tax assessed for
any YA which has been credited
into S44 balance @ 31/12/02

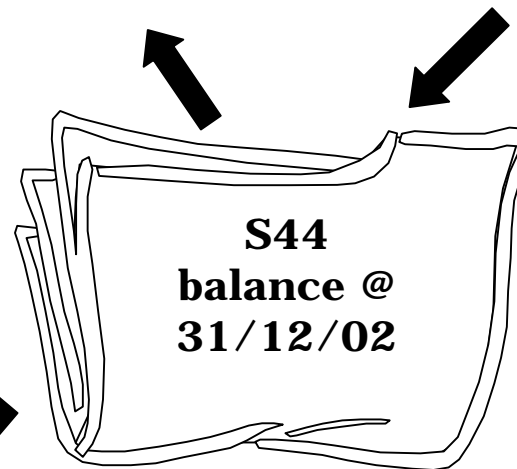
Tax on ECI or
additional ECI for YA
2003 submitted by
31/3/03

TDS relating to
franked dividend
during the 5
years

Add'l assessments
for tax previously
discharged after
31/12/02 and
adjusted against
S44 balance @
31/12/02

Normal exempt
dividend ought not
to be exempt

Any tax or additional tax
assessed on or after
1/1/03

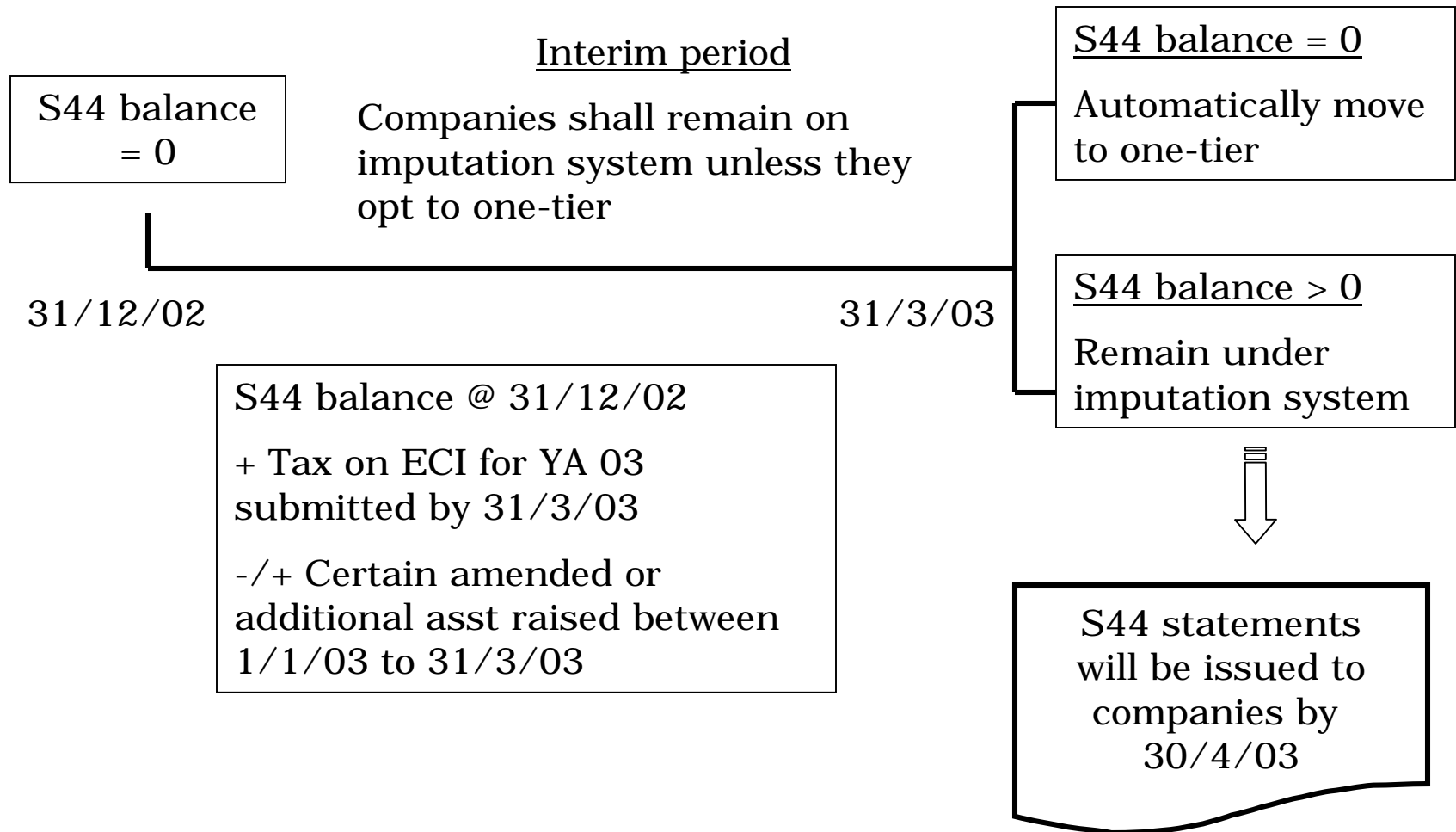


Determination of S44 balance @ 31/12/02 - inclusion of tax assessed on ECI for YA 2003

Interim period - 1/1/03 to 31/3/03

- As a concession, to include any tax or additional tax assessed on estimated normal CI for YA 2003 after 31/12/02
- ECI must be submitted by 31/3/03
- Tax on ECI submitted after 31/3/03 will not be included
- Concession applies to all companies regardless of their business and accounting year end

Determination of S44 balance @ 31/12/02 - inclusion of tax assessed on ECI for YA 2003



Determination of S44 balance @ 31/12/02 - inclusion of tax assessed on ECI for YA 2003

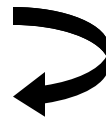
Interim period - 1/1/03 to 31/3/03

- Unless companies have opted to one-tier, any dividend payment will be treated as franked dividend
- Cannot pay franked dividend of which TDS is more than S44 balance @ 31/12/02 ascertained on the day before payment
 - Otherwise need to pay a charge within 14 days.
 - Charge can only be used to set-off against tax assessed on ECI for YA 2003 submitted by 31/3/03.

Determination of S44 balance @ 31/12/02 - inclusion of tax assessed on ECI for YA 2003

<u>Example</u>	<u>S44 balance</u>	<u>S44 charge</u>
Balance @ 31/12/02	22,000	0
Franked dividend paid on 1/3/03. Dividend = 300,000, TDS = 66,000 (300,000 x 22%)	-22,000	44,000
	0	44,000
Tax on ECI for YA 03 submitted by 31/3/03 (NOA dated 8/4/03)	11,000	
S44 charge utilised	-11,000	-11,000
Balance	0	33,000

Not available
for future set-
off



Determination of S44 balance @ 31/12/02 - amended assts during 5-year transitional period

- S44 balance @ 31/12/02 is adjusted downward when:
 - amended assessments made during the 5 years, and
 - the amended assessments result in discharge of tax assessed for any YA that has previously been included in S44 balance @ 31/12/02



Determination of S44 balance @ 31/12/02 - amended assts during 5-year transitional period

Example

Date of asst	YA	Type of asst	Amount of tax	S44 Statement		
				Debit	Credit	Balance
Balance @	1/1/02					0
15/7/02	2001	Original	20,000		20,000	20,000
18/10/03	2001	Amended	(20,000)	20,000		0

Balance @ 31/12/02

Determination of S44 balance @ 31/12/02 - amended assts during 5-year transitional period

Example

Date of asst	YA	Type of asst	Amount of tax	S44 Statement		
				Debit	Credit	Balance
Balance @	31/12/02					20,000
15/7/03	2001	Original	40,000	0	0	20,000
18/10/03	2001	Amended	(20,000)	0	0	20,000



Determination of S44 balance @ 31/12/02 - amended assts during 5-year transitional period

Date of asst	YA	Type of asst	Amount of tax	S44 Statement		
				Debit	Credit	Balance
Balance @	31/12/02					20,000
30/4/03	2001	Add'l	50,000	0	0	20,000
18/10/03	2001	Amended	(60,000)	10,000	0	10,000
			(30,000)	0	0	20,000

If amount of tax for
18/10/03 is (30,000)



Determination of S44 balance @ 31/12/02 - add'l assts during 5-year transitional period

S44 balance @ 31/12/02 is adjusted upward:

- in cases where downward adjustments have been made to S44 balance @ 31/12/02, and
- additional assessments are subsequently made for the same YA



Determination of S44 balance @ 31/12/02 - add'l assts during 5-year transitional period

Example

Date of asst	YA	Type of asst	Amount of tax	S44 Statement		
				Debit	Credit	Balance
Balance @	31/12/02					20,000
15/2/03	2003	Original (ECI)	30,000	0	30,000	50,000
30/11/03	2003	Amended	(15,000)	15,000	0	35,000
28/12/03	2003	Add'l	10,000	0	10,000	45,000
			16,000	0	15,000	50,000

If amount of tax for
28/12/03 is 16,000



Determination of S44 balance @ 31/12/02 - amended/add'l assts during 5-year transitional period

Date of asst	YA	Type of asst	Amount of tax	S44 Statement		
				Debit	Credit	Balance
Balance @	31/12/02					20,000
30/4/03	2001	Add'l	50,000	0	0	20,000
18/10/03	2001	Amended	(60,000)	10,000	0	10,000
15/12/03	2001	Add'l	65,000 *	0	10,000	20,000

* Additional tax relating to tax discharged which has

- a) not been drawn down from S44 balance 50,000 }
- b) been drawn down from S44 balance 10,000 }
- c) neither (a) nor (b) 5,000 } 65,000

Determination of S44 balance @ 31/12/02 - add'l assts during 5-year transitional period

- Any upward adjustment to the S44 balance @ 31/12/02 relating to additional assessments for tax previously discharged and debited to the S44 account is upon request.
- Request to be made with reconciliation showing the amount of additional tax assessed relating to the same YA for which tax was previously discharged during the 5-year transitional period:
 - but has not been adjusted downwards against the S44 balances @ 31/12/02
 - and has been adjusted downwards against the S44 balances @ 31/12/02
 - but does not fall within the above 2 categories

Can tax discharge from amended assessments during 5-year transitional period be refunded?

	Has tax assessed been credited to S44 @ 31/12/02?	S44 balance before adjusting for tax discharge	Can tax discharge be refunded?
Discharge of tax assessed for any YA	No	NA	Yes
Discharge of tax assessed for any YA	Yes	> tax discharge	Yes
Discharge of tax assessed for any YA	Yes	< tax discharge	Refund up to S44 balance
Discharge of tax assessed for any YA	Yes	0	No



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Can tax discharge from amended assessments during 5-year transitional period be refunded?

Example (Annex 7 of Circular)

Date of asst	YA	Type of asst	Amt of tax	S44 State-ment			Tax not refund able		Tax Refund able	Tax payable
				Debit	Credit	Bal	Amt	Bal		
				Balance at 31/12/02					20,000	
30/1/03	2001	Amended	(50,000)	20,000	0	0	30,000	30,000	20,000	
15/2/03	2003	Orig(ECI)	40,000	0	10,000	10,000	(30,000)	0		10,000
18/10/03	2001	Amended	(60,000)	10,000	0	0	50,000	50,000	10,000	
30/11/03	2003	Amended	(15,000)	0	0	0	15,000	65,000	0	
15/12/03	2003	Add'l	10,000	0	0	0	(10,000)	55,000		0
28/12/03	2001	Add'l	65,000	0	10,000	10,000	(55,000)	0		10,000
			100,000	0	45,000	45,000	(55,000)	0		45,000
			50,000	0	0	0	(50,000)	5,000		0

If amount of tax for 28/12/03 is 100,000

If amount of tax for 28/12/03 is 50,000

Maintaining S44 Account

- All companies whether under imputation system or one-tier system need to maintain S44 account.
- Companies under one-tier system need to maintain S44 account to determine the amount of tax discharge to be refunded.
- Companies under imputation system need to maintain S44 account to determine:
 - The amount of tax discharge to be refunded
 - The amount of franked dividend that can be paid



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Utilisation of S44 charge

Type of S44 charge	Can S44 charge set-off against any tax or add'l tax assessed during 5-year transitional period?
S44 charge arises prior to 31/12/02	Yes
S44 charge arises from normal exempt dividends that ought not to have been exempted	Yes
S44 charge arises from non refundable tax discharge	Yes
S44 charge arises from overpayment of franked dividends between 1/1/03 and 31/3/03	Yes but only against tax on ECI for YA 2003 submitted by 31/3/03
S44 charge arises from overpayment of franked dividends from 1/4/03 to 31/12/07	No

Types of dividend payable during 5-year transitional period

1. Franked dividends
2. Tax exempt (1-tier) dividends
3. Normal exempt dividends
 - Out of income exempt from tax or income net of tax payable at concessionary tax rate
 - Approved deduction or approved further deduction of expenses [S14B(3C), S14K(5) & S14M(8)]
 - Foreign tax credit allowed (S13E)



Types of dividend payable during 5-year transitional period

Company	Can company pay franked dividends?	Can company pay tax exempt (1-tier) dividends?	Can company pay normal exempt dividends, if eligible?
Remains under imputation system from 1/1/03 to 31/12/07	Yes (1/1/03 to 31/12/07)	No	Yes
Move to one-tier from 1/1/03	No (wef 1/1/03)	Yes (wef 1/1/03)	Yes
Remains under imputation system from 1/1/03 to 31/12/05. Move to one-tier from 1/1/06	Yes (1/1/03 to 31/12/05)	Yes (wef 1/1/06)	Yes

Normal exempt dividend v tax exempt (1-tier) dividend during 5-year transitional period

- From 1/1/03, normal exempt dividends can be distributed to all tiers of shareholders without restriction on shareholding level.

- Need to maintain specified accounts to keep track of the balance available for payment of normal exempt dividends
 - Companies under imputation system cannot pay tax exempt (1-tier) dividends until their S44 balance is nil or they have opted to move to one-tier system.
 - Companies under imputation system must be able to substantiate that the exempt dividends paid by them are normal exempt dividends.

Normal exempt dividend v tax exempt (1-tier) dividend during 5-year transitional period

- Need to distinguish normal exempt dividends and tax exempt (1-tier) dividends in the vouchers:

	<u>Gross dividend</u>	<u>Tax</u>	<u>Net dividend</u>
Franked dividend	Amount (X)	Amount (Y)	Amount (X - Y)
Normal exempt dividend	Amount (Z)	Exempt	Amount (Z)
Exempt (1-tier) dividend	Amount (W)	Exempt-1-tier	Amount (W)

What to expect from 1 Jan 2008?

- All companies still remain on the imputation system will move to the one-tier system
- Any S44 balance remaining on 31/12/07 would no longer be available for paying franked dividends
- All dividends payable would be exempt from tax in the hands of shareholders
- Need not distinguish normal exempt dividend and tax exempt (1-tier) dividend in the vouchers

What to expect from 1 Jan 2008?

- All corporate shareholders receiving dividends paid by companies in S'pore can onward pay the dividends to their shareholders with no restriction on the shareholding and number of tiers
 - Need not maintain specified account to keep track of the balance available for payment of normal exempt dividends
- Need not maintain S44 account
- All S44 charge not utilised by 31/12/07 would not be available for set-off against tax assessed after 31/12/07
- All tax discharge after 31/12/07 may be refunded