

# **IRAS CIRCULAR**

## **CARRY-BACK RELIEF SYSTEM**



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[Revisions have been made to paragraphs 48 (table), 49(b)(iii) & (iv), 49(c)(iv), 50, 51 and footnote 25.

Editorial revisions have also been made to Annex 4 –

- (i) In Example 1, the unabsorbed loss for year ended 31.12.2005 c/f should be \$277,647 (@5%) and \$30,588 (@20%);
- (ii) In Example 2, the foreign tax relief of the YA 2005 computation should be \$981.79.]

Revised on 30 Jul 2009

Inserted the following 2 new paragraphs, with subsequent paragraphs consequentially re-numbered:

- 31 - to set out a new method of apportionment (based on amounts adjusted to normal tax rate) for cases with concessionary tax rates to ensure a consistent and logical apportionment outcome. Corresponding revisions to the illustrations and Note 1(d) and (e) of Annex 3, Note 3 in example 1 of Annex 4 are also made.
- 43 - to explain that the tax treatment set out in paragraphs 41 and 42 for partners of an LLP applies similarly to limited partners of an Limited Partnership (LP).

Inserted a reference to LP where appropriate in paragraphs 16, 51 (including footnote 22) and the subtitle after paragraph 40.

Footnote 25 is revised to inform that the election form is available on IRAS website.

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# IRAS CIRCULAR

## CARRY- BACK RELIEF SYSTEM

### INTRODUCTION

Currently, trade losses arising from the carrying on of a trade, business, profession or vocation in any basis period by any person are allowed to be offset against his<sup>1</sup> other sources of income<sup>2</sup> derived during the same basis period. If the trade loss incurred in any particular Year of Assessment (“YA”) cannot be fully relieved, the balance of such loss (referred to hereafter as “unabsorbed trade loss”) will be allowed to be carried forward for offset against the income of the person for subsequent YAs. If the person is a company, the carry-forward of the unabsorbed trade loss is subject to the condition as spelt out in paragraph 7 below.

2 In the case of a person claiming capital allowances<sup>3</sup> (“CA”), any CA in excess of the income from all sources of the person (referred to hereafter as “unabsorbed CA”) for any YA can be carried forward to offset against income of that person for subsequent YAs, subject to the condition as spelt out in paragraph 8 below.

3 There is currently no carry-back of unabsorbed CA and unabsorbed trade losses.

4 On 18 February 2005, PM and Minister for Finance announced in his Budget Statement 2005 that a one-year carry-back of unabsorbed CA and unabsorbed trade losses of up to \$100,000 for businesses (referred to hereafter as “carry-back relief system”) will be introduced from the YA 2006. The objective of this tax change is to provide timely relief for small businesses to help them cope with cash-flow problems, especially in a cyclical downturn.

5 To effect the carry-back relief system, changes to the Income Tax Act (“ITA”) have been incorporated as part of the draft 2005 Income Tax (Amendment) Bill [i.e. the new sections 37E and 37F, together with consequential amendments to sections 2, 10D(2)(b) and (d), 10H(1)(a) and (b), 23(3), 36A(4), 36A(10) and 37(5)]. The said Amendment Bill is put out for public consultation<sup>4</sup> for the period from 4 June 2005 to 3 July 2005.

6 This Circular provides details of the carry-back of unabsorbed CA and unabsorbed trade losses (referred to hereafter as “carry-back relief”).

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<sup>1</sup> In this circular, the term “his” would not be confined to make reference to the male gender, but would also be used to refer to the female gender, a company or a body of persons, as the context requires.

<sup>2</sup> This is provided under section 37(3) of the Income Tax Act (“ITA”).

<sup>3</sup> In this circular, the term “capital allowances” (“CA”) refer to allowances given under sections 16, 17, 19, 19A, 19B, 19C, 19D or 20 of the ITA.

<sup>4</sup> The draft 2005 Income Tax (Amendment) Bill could be downloaded from the Ministry of Finance website [www.mof.gov.sg](http://www.mof.gov.sg)

## **CURRENT CONDITIONS FOR CARRY-FORWARD OF UNABSORBED CA AND UNABSORBED TRADE LOSSES**

### **Carry-Forward Of Unabsorbed CA And Unabsorbed Trade Losses**

7 In the case of a company, the carry-forward of its unabsorbed trade losses for offset against its income of subsequent YAs is subject to the condition that the shareholders of the company on the last day of the year in which the trade loss was incurred must be substantially the same as the shareholders of the company on the first day of the YA in which such trade loss is used for offset against the company's income. This requirement for offset of unabsorbed trade losses, as set out under section 37(12) of the ITA, is commonly known as the "shareholding test".

8 Unabsorbed CA can be carried forward by a person for offset against his income of subsequent YAs, so long as that person continues to carry on the trade, business or profession in respect of which the CA is granted. This requirement for the carry-forward of CA, as set out under section 23(1) of the ITA, is commonly known as the "business continuity test" or "same business test". The same business test is imposed in addition to the shareholding test<sup>5</sup> if the person is a company.

### **Loss transfer under group relief system**

9 Where the person is a company within a group and it is unable to offset all of its trade losses, CA and donations within itself in a current YA, such current year unabsorbed CA, unabsorbed trade losses and unabsorbed donations<sup>6</sup>, subject to the satisfaction of conditions, can be transferred to another company within the same group for offset against the other company's assessable income<sup>7</sup> under the group relief system<sup>8</sup>. This is provided for under section 37C of the ITA.

### **CA and trade loss transfer between spouses**

10 In the case of an individual, he<sup>9</sup> can transfer his unabsorbed CA, unabsorbed trade losses and unabsorbed donations of a current YA or of a prior YA<sup>10</sup> or both to

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<sup>5</sup> The shareholding test for capital allowances is set out under section 23(4) of the ITA. This means that for a company to offset its unabsorbed CA carried forward against the income of any YA, the shareholders of the company on the last day of the year in which the CA arose must be substantially the same as the shareholders of the company on the first day of the YA in which such CA is used for offset against the company's income.

<sup>6</sup> For the purpose of this circular, the term "donations" refers to donations qualifying for tax deduction under section 37(3)(b) to (f) of the ITA. Unabsorbed donations in respect of a YA are the donations made by a person in a basis period for the YA which exceed his statutory income for the YA.

<sup>7</sup> as defined under section 37C(19) of the ITA.

<sup>8</sup> For more details of the group relief system, please refer to IRAS Circular on "Loss Transfer System of Group Relief" dated 23 October 2002.

<sup>9</sup> In this circular, the term "he" would not be confined to make reference to the male gender, but would also be used to refer to the female gender, or to a company, or a body of persons, as the context requires.

his spouse if the latter has assessable income<sup>11</sup> for the current YA, and vice versa<sup>12</sup>. This is specifically provided for under section 37D of the ITA.

## **CARRY-BACK RELIEF SYSTEM AND EFFECTIVE DATE OF IMPLEMENTATION**

11 Under the carry-back relief system, any person carrying on a trade, business, profession or vocation may carry back his current year unabsorbed CA and unabsorbed trade losses (collectively referred hereafter as “qualifying deductions”) up to a limit of \$100,000, to offset against his assessable income of the YA immediately preceding the YA relating to the year in which the CA was granted or trade loss was incurred (referred to hereafter as “immediate preceding YA”).

12 “Assessable income” against which carry-back relief is allowed refers to assessable income as determined under section 37 of the ITA and after deducting:

- (a) in the case of a company, any investment allowance<sup>13</sup> as well as any current year unabsorbed CA, unabsorbed trade loss and unabsorbed donation transferred from a transferor company or transferor companies under section 37C of the ITA; and
- (b) in the case of an individual, any unabsorbed CA, unabsorbed trade loss and unabsorbed donation transferred from his spouse under section 37D of the ITA.

13 The qualifying deductions mentioned in paragraph 11 above which are available for carry-back comprise:

- (a) current year unabsorbed CA falling to be made under sections 16, 17, 19, 19A, 19B, 19C, 19D or 20 of the ITA; and
- (b) current year unabsorbed trade losses incurred by the person in any trade, business, profession or vocation, which, if it had been a profit, would be assessable under the ITA.

14 The carry-back relief is allowed provided certain conditions governing the carry-back of qualifying deductions are met and the administrative procedures are

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<sup>10</sup> The transfer of unabsorbed CA in respect of a prior YA to the spouse is subject to the same business test. This means that if an individual has ceased his trade in YA 2006, and he wishes to transfer his unabsorbed CA, unabsorbed trade losses and unabsorbed donations to his spouse in YA 2007, he will not be able to transfer the unabsorbed CA relating to this trade to his spouse

<sup>11</sup> as defined under section 37(1) of the ITA.

<sup>12</sup> For more details of the transfer between spouses, please refer to IRAS Circular on “Change to assess the income of a husband and wife as separate individuals” dated 22 June 2004 (revised on 15 April 2005).

<sup>13</sup> which is allowed under Part X of the Economic Expansion Incentives (Relief from Income Tax) Act.

complied with. Details on the conditions and the administrative procedures are provided in paragraphs 17 to 46 and 47 to 51 of this Circular respectively.

15 The carry-back relief takes effect from YA 2006. This means that YA 2006 is the first YA in which the qualifying deductions for that YA can be carried back for offset against assessable income of the immediate preceding YA, i.e. YA 2005 [subject to a limit of \$100,000 and satisfaction of the conditions as spelt out under paragraphs 17 to 46 of this Circular].

## **PERSONS ELIGIBLE FOR CARRY- BACK RELIEF**

16 The carry-back relief is available to any person who carries on a trade, business, profession or vocation. This would include companies, individuals who are sole-proprietors, partners of a partnership [including a limited liability partnership (LLP) and a limited partnership (LP)] and bodies of persons [such as clubs and associations which are assessed to tax under section 11(1) and (2) of the ITA], trustees of trusts and executors of estates.

## **GENERAL CONDITIONS GOVERNING THE CARRY-BACK RELIEF**

17 The carry-back of qualifying deductions is subject to the following conditions:

### **(A) Same business test**

18 Unabsorbed CA for any current YA are available for carry-back only if the same business test is satisfied. This means that a person who has just commenced to carry on a trade, business or profession during the basis period relating to any YA (commencing from YA 2006) would not be able to carry back his unabsorbed CA relating to that YA for offset against his assessable income of the immediate preceding YA.

19 As the carry-back of unabsorbed trade losses for any current YA (commencing from YA 2006) for offset against assessable income of the immediate preceding YA is not subject to the business continuity test, a person who has just commenced to carry on a trade, business, profession or vocation during the basis period relating to any YA (with effect from YA 2006) would be able to carry back his unabsorbed trade losses relating to that YA for offset against his assessable income of the immediate preceding YA. For example, an individual who has left employment and set up a business during the basis period for YA 2006 would be able to carry back his unabsorbed trade losses (but not unabsorbed CA) for YA 2006 for offset against his assessable income (which may comprise of employment income, rental income etc.) for YA 2005.

### **(B) Quantum of qualifying deductions to be carried back**

20 Any person eligible to carry back his qualifying deductions to offset against his assessable income of the immediate preceding YA is allowed to carry back the lower of

- (a) the actual amount of such qualifying deductions; or
- (b) the assessable income of the immediate preceding YA.

However, the aggregate amount of qualifying deductions to be carried back in any YA shall not exceed \$100,000. Any unabsorbed CA or unabsorbed trade losses (as the case may be) not carried back will, subject to satisfying the same business test and/or the shareholding test, be allowed to be carried forward for offset against income of the subsequent YAs.

21 For instance, a person's assessable income for YA 2005 is say, \$60,000, but his qualifying deductions (i.e. unabsorbed CA and unabsorbed trade losses for YA 2006) is say, \$72,000. The amount of qualifying deductions to be carried back shall only be \$60,000. The excess of \$12,000 (i.e. \$72,000 - \$60,000) will be carried forward for offset against income for subsequent YAs. An example is given in Annex 1.

### **(C) Order of offset of CA and trade losses**

#### ***Current order of offset for CA, trade losses and donations for any person carrying on a trade, business, profession or vocation***

22 Currently, in determining the assessable income of a person carrying on a trade, business, profession or vocation, the following items will be offset against gains or profits from all sources of that person in the following order:

- i. firstly, CA brought forward from a prior YA (due to insufficiency of statutory income of a prior YA) followed by CA for the current YA;
- ii. secondly, trade losses brought forward from a prior YA (due to insufficiency of statutory income of a prior YA) followed by trade losses for the current YA; and
- iii. lastly, donations brought forward from a prior YA (due to insufficiency of statutory income of a prior YA) followed by donations for the current YA.

In setting off CA and trade losses, the order of offset<sup>14</sup> as set out in the ITA is as follows:

- (a) CA in excess of the income from a trade for which the CA was granted is to be offset first against income from any other trade, and then against income from any other source; and

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<sup>14</sup> The order of offset for CA and trade losses is spelt out in sections 35(2A) and 37(4) of the ITA.

- (b) any trade loss is to be offset first against income from the same trade, followed by income from any other trade, and finally against income from any other source.

23 Where there is more than one other trade, or more than one other source, the ITA does not spell out the manner of offset of the excess CA and trade loss in respect of a trade against income of other trades and other sources of income. However, in view that the carry forward of unabsorbed CA is subject to the same business test, and for reasons of clarity, consistency and equity, the CA and/or trade losses are offset proportionately among or between income from other trades, and then among or between income from other sources, as the case may be.

***Order of offset to remain the same under the carry-back relief system***

24 With the introduction of the carry-back relief system, the current order of offset as explained in paragraphs 22 and 23 above will similarly be applied in effecting the carry-back of the qualifying deductions. In other words, the qualifying deductions are to be carried back and utilised against the assessable income of the immediate preceding YA in the following order:

- (a) current year unabsorbed CA, if any; and then
- (b) current year unabsorbed trade losses, if any.

25 Where the qualifying deductions available for carry-back exceeds \$100,000, and such qualifying deductions arose from more than one trade, business, profession or vocation, the amount to be carried back would also be determined on a proportionate basis from each trade, business, profession or vocation. Examples on the manner of carry-back of qualifying deductions and the order of offset where there is more than one trade or more than one other source of income are given in Annex 2.

**SPECIFIC CONDITIONS APPLICABLE TO COMPANIES**

26 Apart from the conditions stipulated in paragraphs 17 to 25 above, companies are subject to the following conditions as well:

**(D) Shareholding test**

27 The carry-back of the qualifying deductions of a company is subject to the shareholding test, similar to the requirement imposed on the company for offset of carried forward CA, trade losses and donation. This means that for a company to carry back its qualifying deductions to offset against the assessable income of immediate preceding YA, the shareholders of the company on the first day of the year in which the CA arose or the first day of the year in which the trade loss was incurred must be substantially the same as the shareholders of the company on the last day of the immediate preceding YA in which such CA or trade loss is used for offset against the company's income. The example below illustrates the application of the

shareholding test for the carry-back of the unabsorbed CA and unabsorbed trade loss for YA 2006 to be offset against assessable income for YA 2005.

Company X's accounting period is 1 Jan 2005 to 31 Dec 2005 for YA 2006. In order to carry back its qualifying deductions for YA 2006 for offset against assessable income for YA 2005, there must not be substantial change in shareholders as at the following dates:

- a) For carry-back of unabsorbed CA:
  - (i) first day of the year in which the CA arose, i.e. 1 Jan 2006; and
  - (ii) last day of the YA in which the CA is utilised, i.e. 31 Dec 2005
- b) For carry-back of unabsorbed trade losses:
  - (i) first day of the year in which the loss was incurred, i.e. 1 Jan 2005; and
  - (ii) last day of the YA in which the loss is utilised, i.e. 31 Dec 2005

28 Where a substantial change in the shareholders of a company is not for the purpose of deriving any tax benefit or obtaining any tax advantage, the carry-back of the qualifying deductions may be allowed. In other words, the shareholding test may be waived by the Comptroller of Income Tax (CIT) on a case-by-case application basis. However, upon approval of such waiver, the qualifying deductions can only be deducted against the income from the same trade, business, profession or vocation in respect of which the allowance was made or the loss was incurred.

**(E) Quantum of qualifying deductions to be carried back for companies deriving income subject to tax at concessionary rate(s)**

29 Currently, for a company which has chargeable income in respect of the normal tax rate category (i.e. income subject to tax at the normal corporate tax rate) and unabsorbed CA, unabsorbed trade loss or unabsorbed donation in respect of concessionary tax rate category (i.e. if it had been a profit, it would be subject to tax at the concessionary tax rate) and vice versa, the adjustment stipulated under section 37B of the ITA will be applied within the company for offset across income chargeable under these two tax rate categories.

30 The section 37B adjustment as mentioned above will similarly apply for carry-back of qualifying deductions to offset against the assessable income of the immediate preceding YA. In addition, the amount of qualifying deductions to be deducted for any YA for such a company would be determined by the following formula, subject to the cap of \$100,000:

$$A + B$$

where A is any amount deducted against assessable income subject to tax at the normal corporate tax rate (currently at 20%); and

B is any amount deducted against assessable income subject to tax at any concessionary rate of tax divided by the adjustment factor for that concessionary rate of tax,

and the adjustment factor as mentioned above refers to the normal corporate tax rate divided by the concessionary rate of tax.

Annex 3 provides a worked example to illustrate how the quantum of qualifying deductions is determined for a company deriving income subject to tax at a concessionary rate. More examples are shown in Annex 4 illustrating the tax treatment where there is income from more than one other trade, or more than one other source.

31 To restrict qualifying deductions to the cap allowed under section 37E(5) or 37F(4), the amount of qualifying deduction under each tax rate to be carried back was previously apportioned based on the absolute amount of qualifying deduction under the concessionary rate available for carry-back. This basis of apportionment has been found to have led to an apportionment outcome that is not logical in certain circumstances<sup>15</sup>. To overcome this, the apportionment should be made based on the adjusted amount of qualifying deduction (whereby qualifying deductions under concessionary tax rate(s) should be adjusted to the amount(s) as if they are subject to tax under the normal tax rate). Revisions to Note 1(d) and (e) of Annex 3 and Note 2 of Annex 4 illustrate how this is being done. This change will take immediate effect for all assessments which are yet to be finalized.

#### **(F) Carry-back relief is effected after transfer under group relief system**

32 Under the carry-back relief system, the amount of current year unabsorbed CA and unabsorbed trade losses eligible for carry-back is the net amount after taking into account any amount of such items transferred out to a claimant company or claimant companies under the group relief system pursuant to section 37C, if applicable. Annex 5 provides an illustration on how the carry-back relief is effected where a transfer under the group relief system is made.

33 A diagram on the order of offset for companies at a glance is provided in Annex 6.

### **SPECIFIC CONDITIONS APPLICABLE TO INDIVIDUALS**

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<sup>15</sup> For example, where the losses under concessionary 10% tax rate and normal 18% tax rate are \$50,000 and \$100,000 respectively, the total losses in absolute amount available for carry-back is \$150,000. Apportionment based on this amount to restrict the amount of losses for carry back to \$100,000 would result in \$60,000 ( $\$^{50,000}/150,000 \times 100,000 \times 18/10$ ) to be carried back under the concessionary tax rate category. This is not a logical outcome since the apportioned amount would exceed the actual loss of only \$50,000 available under the 10% tax rate category. Taxpayers in some cases have therefore applied the S37B adjustment on the excess of \$10,000 to translate it back to the normal tax rate category. However, this is not the intended apportionment outcome.

34 In the case of an individual, in addition to those conditions as spelt out in paragraphs 17 to 25 above, the following conditions will also apply:

**(G) Carry-back relief is effected after transfer to spouse**

35 Under the carry-back relief system, the amount of current year unabsorbed CA or unabsorbed trade losses available for carry-back by an individual is the net amount after taking into account any amount of such items transferred out to his spouse under section 37D, if applicable. Where his assessable income of the immediate preceding YA is less than the amount of qualifying deductions available for carry-back, the individual and his spouse may elect to have such excess qualifying deductions transferred to his spouse for offset against the spouse's assessable income of the immediate preceding YA. The total amount of qualifying deductions to be carried back for offset against his and his spouse's assessable income of the immediate preceding YA is subject to a limit of \$100,000.

36 The carry-back of qualifying deductions by an individual to his spouse will only be granted if:

- (i) where his spouse has assessable income for the current YA, he has elected to transfer his qualifying deductions to his spouse under section 37D of the ITA; and
- (ii) where he has assessable income for the immediate preceding YA, and he has elected to carry back his qualifying deductions for offset against his assessable income for the immediate preceding YA.

37 Annex 7 provides an illustration on how the carry-back relief is effected for an individual and his spouse where a transfer under section 37D of the ITA is made.

**(H) Personal reliefs computed based on earned income are to be adjusted accordingly**

38 Currently, the following personal reliefs for any YA are given to an individual based on his earned income for that YA:

- (i) earned income relief under section 39(1) of the ITA;
- (ii) working mother child relief under section 39(2)(e) and in accordance with the Fifth Schedule of the ITA;
- (iii) deduction for CPF contributions by self-employed under section 39(2)(h) of the ITA.

39 With the carry-back of qualifying deductions to offset against the assessable income of the immediate preceding YA, the above-stated personal reliefs of the immediate preceding YA will be adjusted accordingly, based on the revised earned income of the individual for that YA (i.e. revised after taking into account the amount

carried back to himself as well as any excess qualifying deductions transferred to him<sup>16</sup> by his spouse under the carry-back relief system). This is illustrated in Example 2B of Annex 7.

40 A diagram on the order of offset for individuals at a glance is provided in Annex 8.

## **SPECIFIC CONDITION APPLICABLE TO PARTNERS OF AN LLP AND LIMITED PARTNERS OF AN LP**

### **(I) Restriction on qualifying deductions available for offset against income from other sources**

41 Currently, in the case of a partner of an LLP, the amount of his share of the LLP's CA and trade loss allowed against his income from other sources (referred to hereafter as "relevant deduction") for a YA, together with all of his relevant deduction allowed in all past YAs (referred to hereafter as "past relevant deduction") shall not exceed his contributed capital<sup>17</sup> as at the end of the basis period relating to that YA. Such a restriction is known as "relevant deduction restriction"<sup>17</sup>. Any amount of the partner's share of the LLP's CA and trade loss which is in excess of his contributed capital may be carried forward to a future YA for offset against his share of income from the same LLP<sup>18</sup>.

42 The relevant deduction restriction will also apply for the carry-back of qualifying deductions. For a current YA in which an LLP partner has elected for carry-back relief, the capital contribution of the LLP partner as at the end of the basis period relating to that YA will be taken into account. This is because the carry-back relates to qualifying deductions in respect of that YA and not in respect of the immediate preceding YA. Annex 9 provides an example showing the offset and restriction of CA and trade losses of partners of an LLP who have elected for carry-back relief.

43 The above treatment similarly applies to the limited partners of an LP.

## **SPECIFIC EXCLUSIONS**

### **Qualifying deductions in respect of income wholly exempt from tax**

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<sup>16</sup> In this circular, the term "him" would not be confined to make reference to the male gender, but would also be used to refer to the female gender, or to a company, or a body of persons, as the context requires.

<sup>17</sup> For an explanation of what constitutes "contributed capital" and for more details of the relevant deduction restriction", please refer to IRAS Circular on "Income Tax Treatment of Limited Liability Partnerships (LLPs)" issued on 15 July 2004 (revised on 16 July 2004), and IRAS Supplementary Circular on the same subject issued on 10 June 2005.

<sup>18</sup> Subject to the same business test and the shareholding test, if applicable.

44 Qualifying deductions of a company whose income from its trade or activity is wholly exempt from tax [for example, income derived from an activity of a pioneer enterprise approved under section 5(2) of the Economic Expansion Incentives (Relief from Income Tax) Act [EEIA] shall continue to be deducted only against such exempt income of the company. Unabsorbed CA or unabsorbed trade loss in respect of such trade or activity can be carried back if the company so desires, but can only be offset against exempt income of such a trade or activity of the immediate preceding YA. In other words, the carry-back of qualifying deductions of such a trade or activity would not be allowed against other exempt or non-exempt income.

### **Qualifying deductions in respect of specific categories of activity or trade**

45 Where there are rules restricting the deduction of current year CA and trade losses of specific categories of activity or trade only against income from such activity or trade, as well as rules restricting the carry-forward of such unabsorbed CA or unabsorbed trade losses, the same restriction will apply under the carry-back relief system. This means that the current year unabsorbed CA or unabsorbed trade losses in respect of these specific categories of activity or trade can only be carried back for deduction against his income from the same activity or trade, and not against his other assessable income of the immediate preceding YA. They are also not available for carry-back to his spouse for offset against the spouse's assessable income of the immediate preceding YA. These categories of activity or trade include:

- (i) income from finance leases<sup>19</sup> taxable under section 10D of the ITA; and
- (ii) income from business of hiring out motor cars taxable under section 10H of the ITA.

### **Section 10E**

46 A company or a trustee deriving income from the business of the making of investments and subject to tax in accordance with section 10E of the ITA is currently not allowed to carry forward its current year unabsorbed CA and unabsorbed trade losses in respect of that business, i.e. such unabsorbed CA and unabsorbed trade losses are to be disregarded. Such being the case, the company or the trustee is also not allowed to avail himself of the carry-back relief in respect of his current year unabsorbed CA and unabsorbed trade losses of that business.

### **Trade loss of eligible investors in approved start-up companies under the Enterprise Investment Incentive<sup>20</sup> (EII) scheme**

47 Currently, an eligible investor holding qualifying shares in the approved startup under the EII scheme may incur capital loss upon

- (a) the sale of its qualifying shares; or

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<sup>19</sup> entered into on or after 1st April 1990

<sup>20</sup> section 97V of the Economic Expansion Incentives (Relief from Income Tax) Act

(b) the liquidation of the approved start-up companies under the EII scheme.

48 Under the EII scheme, the eligible investor is allowed to deduct such capital loss in the same manner as a loss incurred from a trade or business carried on by the eligible investor. However, as such loss is actually capital in nature, any unabsorbed amount of such loss is not eligible for carry-back to offset against the person's assessable income of the immediate preceding YA.

## **PROCEDURE TO ELECT FOR CARRY-BACK RELIEF**

### **Timeframe to elect for carry-back relief**

49 To carry back qualifying deductions of any current YA to the immediate preceding YA, a person must make an election within the timeframe as stipulated below:

- a) In the case of a non-individual (i.e. companies, bodies of persons, trustees and executors), no later than the time of filing of its return of income for the current YA; and
- b) In the case of an individual, no later than 30 days from the date of service of the notice of assessment for the current YA on him.

An election, once made by the person, is irrevocable.

### **Documents to be furnished in respect of an election for the carry-back relief**

50 The types of documents to be submitted in respect of an election for the carry-back relief varies from person to person, depending on whether the person is a company, an individual, a body of persons, a trustee or an executor. It also depends on when the person makes the election for the carry-back relief. For a person who makes an election when he lodges his income tax return, the documents to be submitted together with his income tax return are as set out in the table below:

Type of Document	Companies <sup>21</sup>			Individuals who are sole-proprietors		Individuals who are partners <sup>22</sup>		Body of Persons, Trustees of Trust and Executors of Estates
	Qualify for audit exemption <sup>23</sup>		Does not qualify for audit exemption	Business turnover is \$500,000 or more	Business turnover is less than \$500,000	Business turnover is \$500,000 or more	Business turnover is less than \$500,000	
	Chosen to have A/cs audited	Chosen not to have A/cs audited						
Completed and signed election form <sup>24</sup> as prescribed by CIT	No	No	No	Yes	Yes	Yes		Yes
<b>Tax computation for the immediate preceding YA</b> - showing the quantum of the qualifying deductions carried back	Yes	Yes	Yes	Yes	No	NA, in respect of the business carried on through the partnership		Yes
<b>Tax computation for the current YA</b> - showing the quantum of the qualifying deductions carried back	Yes	Yes	Yes	Yes	No	NA, in respect of the business carried on through the partnership		Yes

<sup>21</sup> Including partners of partnerships/LLPs/LPs. For a company which is a partner of a partnership or an LLP/LP, the requisite accounts listed under these columns refers to the accounts of the trade, business or profession carried on through the company, and not the accounts of the trade, business, profession or vocation carried on through the partnership/LLP/LP. This is so even if such a company makes an election to carry back any part of its share of the loss of a trade, business, profession or vocation carried on through a partnership/LLP/LP. However, such a company must, at the time of making such an election, ensure that the precedent partner of the partnership/LLP/LP has already submitted to the Comptroller of Income Tax ("CIT"), the certified statement of accounts and tax computation (if applicable) of the trade, business, profession or vocation carried on through the partnership/LLP/LP. Failure to do so may render the election invalid.

<sup>22</sup> For such individuals, they need not submit the requisite accounts and tax computation (if applicable) of the trade, business, profession or vocation carried on through the partnership/LLP/LP. This is so even if such an individual makes an election to carry back any part of his share of the loss of a trade, business, profession or vocation carried on through a partnership/LLP. However, such an individual must, at the time of making such an election, ensure that the precedent partner of the partnership/LLP/LP has already submitted to CIT, the certified statement of accounts and tax computation (if applicable) of the trade, business, profession or vocation carried on through the partnership/LLP/LP. Failure to do so may render the election invalid.

<sup>23</sup> Under the Companies Act, dormant companies and exempt private companies with annual revenue below the prescribed threshold (currently set at \$5 million) are not required to have their accounts audited for financial year beginning on or after 1 June 2004.

<sup>24</sup> The election form as prescribed by CIT is available on IRAS website.

Type of Document	Companies <sup>20</sup>			Individuals who are sole-proprietors		Individuals who are partners <sup>21</sup>		Body of Persons, Trustees of Trust and Executors of Estates
	Qualify for audit exemption <sup>22</sup>		Does not qualify for audit exemption	Business turnover is \$500,000 or more	Business turnover is less than \$500,000	Business turnover is \$500,000 or more	Business turnover is less than \$500,000	
	Chosen to have A/cs audited	Chosen not to have A/cs audited						
<u>Accounts for the basis period relating to the current YA:</u> a) Audited accounts	Yes <sup>25</sup>	NA	Yes <sup>25</sup>	NA	NA	NA, in respect of the business carried on through the partnership	NA except for the categories stated in the footnote <sup>26</sup>	
b) unaudited accounts <sup>27</sup>	NA	Yes	NA	NA	No	NA, in respect of the business carried on through the partnership	NA	
c) Certified Statement of Accounts	NA	NA	NA	Yes	No, unless requested by CIT	NA, in respect of the business carried on through the partnership	Yes	

51 For an election for the carry-back relief made prior to a person's filing of his income tax return for the relevant current YA, the submission requirements are as follows:

a) A company

- (i) Completed and signed election form as prescribed by CIT (which will be released on IRAS website in due course);

<sup>25</sup> In the case of a company in liquidation, certified statement of accounts may be submitted if audited accounts cannot be provided.

<sup>26</sup> Audited accounts have to be submitted by the following categories of body of persons:  
a) Societies registered under the Societies Act, with gross income or expenditure exceeding \$500,000 in the basis period relating to the current YA; and  
b) Management Corporations registered under the Building Maintenance and Strata Management Act 2004, unless specifically exempted under this Act

<sup>27</sup> Unaudited accounts must be prepared in accordance with the Companies Act. The submission of the unaudited accounts must be accompanied by the notes to the accounts, the Directors' report and the Statement by Directors.

- (ii) A set of accounts<sup>28</sup> showing the loss in respect of the trade, business or profession carried on through the company (if the carry-back is in respect of such losses); and
- (iii) A tax computation<sup>29</sup> of the current YA and of the immediate preceding YA showing the amount of qualifying deductions to be carried back (including the share of loss from a partnership/LLP/LP if the company is a partner, if applicable).

b) An individual

- (i) Completed and signed election form as prescribed by CIT (which will be released on IRAS website in due course);
- (ii) For a sole-proprietor whose business turnover is \$500,000 or more, a set of accounts<sup>30</sup> of the sole-proprietorship business showing losses incurred, and a tax computation<sup>31</sup> of the sole-proprietor for the current YA and the immediate preceding YA, showing the amount of qualifying deductions to be carried back (including the share of CA/loss from a partnership/LLP/LP if the individual is also a partner);
- (iii) For a sole-proprietor whose business turnover is less than \$500,000, an indication to CIT in the election form of the amount of qualifying deductions to be carried back (including the share of CA/loss from a partnership/LLP/LP if the individual is also a partner);
- (iv) For an individual who is only a partner of a partnership/LLP electing to carry back his share of the partnership/LLP/LP CA/loss, an indication to CIT in the election form of his share of the qualifying deductions to be carried back.

c) A body of persons, Trustee, Executor

- (i) Completed and signed election form as prescribed by CIT (which will be released on IRAS website in due course);
- (ii) A set of accounts<sup>32</sup> showing the loss in respect of its trade or business;

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<sup>28</sup> The accounts should be the finalised set of accounts, but if it is not ready at the time of making the election for the carry-back relief, a provisional set of accounts may be submitted instead.

<sup>29</sup> The tax computation should be the finalised tax computation, but if it is not ready at the time of making the election for the carry-back relief, a provisional tax computation may be submitted instead.

<sup>30</sup> The accounts should be the finalised set of accounts, but if it is not ready at the time of making the election for the carry-back relief, a provisional set of accounts may be submitted instead.

<sup>31</sup> The tax computation should be the finalised tax computation, but if it is not ready at the time of making the election for the carry-back relief, a provisional tax computation may be submitted instead.

- (iii) A tax computation<sup>33</sup> showing the amount of qualifying deductions to be carried back;
- (iv) For a body of persons, a trustee or an executor who is only a partner of a partnership/LLP/LP electing to carry back his share of the partnership/LLP/LP CA/loss, an indication to CIT in the election form of the amount of his share of the qualifying deductions to be carried back.

For an election to carry back a share of CA/loss from a partnership/LLP/LP, the partner must, at the time of making such an election, ensure that the precedent partner of the partnership/LLP/LP has already submitted to CIT, the certified statement of accounts and tax computation (if applicable) of the trade, business, profession or vocation carried on through the partnership/LLP/LP. The claim for carry-back relief will be processed only if the precedent partner has submitted the requisite information to enable the quantum of qualifying deductions to be carried back. The precedent partner may submit a set of provisional accounts and tax computation if the certified accounts and tax computation are not finalised when the partner makes the election. Failure to do so by the precedent partner may render the election invalid.

52 Where an individual makes an election for the carry-back relief after he has lodged his income tax return for the relevant current YA (but no later than 30 days from the date of service of the notice of assessment for the current YA on him), he need only to submit the completed and signed election form as prescribed by CIT.

### **Documents to be furnished in respect of an election made by an individual to transfer excess qualifying deductions to his spouse**

53 Where an individual's assessable income in the immediate preceding YA is less than his qualifying deductions (i.e. he has excess qualifying deductions), in addition to electing for carry-back to offset against his own assessable income, he may (with his spouse's consent) also elect to transfer his excess qualifying deductions to his spouse. In such a case, both the individual and his spouse should complete and sign the election form prescribed by CIT and submit it to CIT not later than 30 days from the date of service of the notice of assessment on the individual or his spouse, whichever is the later.

### **TIMING OF TAX REFUND FOLLOWING REQUEST FOR CARRY-BACK RELIEF**

54 Upon election to carry back the qualifying deductions of any person to offset against his assessable income of the immediate preceding YA, CIT will take into

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<sup>32</sup> The accounts should be the finalised set of accounts, but if it is not ready at the time of making the election for the carry-back relief, a provisional set of accounts may be submitted instead.

<sup>33</sup> The tax computation should be the finalised tax computation, but if it is not ready at the time of making the election for the carry-back relief, a provisional tax computation may be submitted instead.

account the carry-back relief when re-assessing the tax of the person for the immediate preceding YA.

55 Where all the requisite information to ascertain the quantum of the qualifying deductions of any person to be carried back as mentioned in paragraph 48 to 51 have been furnished by that person (and his spouse, if applicable) at the time the election for carry-back is made, the tax to be refunded<sup>34</sup> from allowing the carry-back relief against the assessable income of that person (and of his spouse, if applicable) of the immediate preceding YA is expected to be made to him (and to his spouse if applicable) within 3 months from the date the election is made by him (and his spouse, if applicable).

### **TIME LIMIT FOR CIT TO RAISE ADDITIONAL ASSESSMENTS**

56 In the event that CIT discovers that the quantum of qualifying deductions allowed for offset against the assessable income of any immediate preceding YA was excessive, he would make an assessment on the amount which should rightly be charged to tax and such an assessment may be raised within 7 years after the expiration of that YA. For example, a person has carried back his trade loss of \$100,000 for YA 2006 to be offset against his assessable income for YA 2005, and the quantum of trade loss is subsequently reduced to \$70,000, CIT may revise the assessment for YA 2006 (to reduce the quantum of the loss) as well as raise an additional assessment for YA 2005 (in respect of \$30,000 over allowed) by 31 Dec 2012.

### **ENQUIRIES**

57 For enquiries or clarification on this circular, please contact the following telephone numbers:

1800-3568611 (Individual Income Tax)

1800-3568622 (Corporate Income Tax)

6351-3883 (Taxation of Body of Persons)

6351-3363 (Taxation of Trust/Estate)

Inland Revenue Authority of Singapore

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<sup>34</sup> If there is any tax owing for the other tax types (e.g. property tax), the amount of tax to be refunded would be after netting off the other outstanding tax liabilities.

ANNEX 1

ILLUSTRATION OF HOW THE QUANTUM OF QUALIFYING DEDUCTIONS TO BE CARRIED BACK IS DETERMINED

ABC Pte Ltd has unabsorbed CA and loss for YA 2006 and has claimed for carry-back relief  
 ABC Pte Ltd has normal chargeable income, donation and investment allowance for YA 2005  
 ABC Pte Ltd's accounting year end is 31 Dec.  
 [Assumption: The same business test and the shareholding test are satisfied. YA 2005 and 2006 are not ABC Pte Ltd's first 3 YAs.]

Tax Computations of ABC Pte Ltd for YAs 2005 and 2006

	YA 2006	
	\$	\$
<u>Trade</u>		
Adjusted profit before CA	0	
Less : Current CA	(35,000)	(35,000)
<u>Other income</u>		
Rental		24,000
		(11,000)
Less: CA carried back to YA 2005		11,000
Unabsorbed CA for YA 2006 c/f		NIL
Current year adjusted trade loss		(70,000)
Less: Loss carried back to YA 2005		70,000
Unabsorbed loss for y/e 31.12.2005 c/f		NIL
Unutilised investment allowance for YA 2006 c/f (Note 1)		(25,000)
Chargeable income		NIL
Tax thereon		NIL

**ANNEX 1 (CONTINUED)**  
**YA 2005**

	<b>Original Assessment</b>		<b>Revised Assessment</b>	
	<b>(before carry-back is allowed)</b>		<b>(with carry-back allowed)</b>	
	\$	\$	\$	\$
<u>Trade</u>				
Adjusted profit before CA	220,000		220,000	
Less : Current CA	40,000	180,000	40,000	180,000
 <u>Other income</u>				
Rental		30,000		30,000
		210,000		210,000
Less: Donation - \$1,000 (Note 2)		(2,000)		(2,000)
Investment allowance		(40,000)		(40,000)
		168,000		168,000
Less: CA carried back from YA 2006			(11,000)	
Loss carried back from YA 2006			(70,000)	(81,000)
Chargeable income (before deducting exempt amount)		168,000		87,000
Less: Exempt amount (Note 3)		(52,500)		(46,000)
Chargeable income (after deducting exempt amount)		115,500		41,000
 Tax thereon		23,100.00		8,200.00
Less: Tax previously assessed				(23,100.00)
Tax repayable				(14,900.00)

**Note 1** - Investment allowance is not eligible for carry-back.

**Note 2** - Donation made qualifies for double tax deduction under section 37(3) of ITA.

**Note 3** - Computation of exempt amount for normal chargeable income, excluding Singapore dividend:

On the first \$10,000, 75% of the income	7,500	7,500
On the next \$90,000, 50% of the income	45,000	
On the next \$77,000, 50% of the income		38,500
Total exempt amount	52,500	46,000

**ILLUSTRATION OF THE MANNER OF CARRY-BACK OF QUALIFYING DEDUCTIONS AND THE ORDER OF OFFSET WHERE THERE IS MORE THAN ONE TRADE**

**EXAMPLE 1**

- Mr Guan is a sole-proprietor of business X & Y, and a partner of partnership Z.
- Mr Guan has unabsorbed CA and loss for YA 2006 and has claimed for carry-back relief, but not the unabsorbed full CA is carried back.
- He wished to claim wife and child relief.
- The accounting year end of his sole proprietorship business and the partnership is 31 Dec.

**Tax Computations of Mr Guan for YAs 2005 and 2006**

	<u>YA 2006</u>	
	\$	\$
<u>Trade</u>		
Sole-proprietorship business X - Adjusted profit before CA	0	
Less : Current CA	<u>(80,000)</u>	(80,000)
Sole-proprietorship business Y - Adjusted profit before CA	50,000	
Less : Current CA	<u>(70,000)</u>	(20,000)
Partnership business Z - Share of adjusted profit before CA	0	
Less : Share of current CA	<u>(60,000)</u>	(60,000)
		<u>(160,000)</u>
<u>Other Income</u>		
Employment		24,000
Rental		<u>12,000</u>
		(124,000)
Less: CA carried back to YA 2005 ( <i>Note 1</i> )		<u>100,000</u>
Unabsorbed CA for YA 2006 c/f ( <i>Note 2</i> )		<u><u>(24,000)</u></u>
Sole-proprietorship business X - Current year adjusted loss		(60,000)
Partnership business Z - Share of current year adjusted loss		<u>(35,000)</u>
Unabsorbed loss for y/e 31.12.2005 c/f		<u><u>(95,000)</u></u>
Chargeable Income		<u><u>NIL</u></u>
Tax thereon		<u><u>NIL</u></u>

**ANNEX 2 (CONTINUED)**

**YA 2005**

	<u>Original Assessment</u> <u>(before carry-back is</u> <u>allowed)</u>		<u>Revised Assessment</u> <u>(with carry-back allowed)</u>	
	\$	\$	\$	\$
<u>Trade</u>				
Sole-proprietorship biz X - Adjusted profit before CA	80,000		80,000	
Less: Current CA	<u>(35,000)</u>	45,000	<u>(35,000)</u>	45,000
Sole-proprietorship business income - Adjusted profit before CA	95,000		95,000	
Less: Unabsorbed CA for YA 2004 b/f	(20,000)		(20,000)	
Current CA	<u>(25,000)</u>	50,000	<u>(25,000)</u>	50,000
Partnership business Z - Share of adjusted profit before CA	0		0	
Less: Share of current CA	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>
		83,000		83,000
Partnership business Z - Share of adjusted loss		<u>(6,000)</u>		<u>(6,000)</u>
		77,000		77,000
<u>Other income</u>				
Employment		40,000		40,000
Rental		<u>18,000</u>		<u>18,000</u>
		135,000		135,000
Less: CA carried back from YA 2006				<u>(100,000)</u>
Assessable income		135,000		35,000
Less: <u>Personal reliefs</u>				
- Earned Income	1,000		1,000	
- Wife	2,000		2,000	
- Child	2,000		2,000	
- CPF	<u>8,000</u>	<u>13,000</u>	<u>8,000</u>	<u>13,000</u>
Chargeable income		<u>122,000</u>		<u>22,000</u>
Tax thereon		<u>10,900.00</u>		80.00
Less: Tax previously assessed				<u>10,900.00</u>
Tax repayable				<u>(10,820.00)</u>

Note 1 - Computation of amount of CA to be carried back from each trade on a proportionate basis:

Sole-proprietorship business X:	$100,000 \times \frac{80,000}{160,000} = 50,000$	} Total = \$100,000
Sole-proprietorship business Y:	$100,000 \times \frac{20,000}{160,000} = 12,500$	
Partnership business Z:	$100,000 \times \frac{60,000}{160,000} = 37,500$	

Note 2 - Computation of amount of CA to be carried forward from each trade on a proportionate basis:

Sole-proprietorship business X:	$24,000 \times \frac{80,000}{160,000} = 12,000$	} Total = \$24,000
Sole-proprietorship business Y:	$24,000 \times \frac{20,000}{160,000} = 3,000$	
Partnership business Z:	$24,000 \times \frac{60,000}{160,000} = 9,000$	

**ANNEX 2 (CONTINUED)**

**ILLUSTRATION OF THE MANNER OF CARRY-BACK OF QUALIFYING DEDUCTIONS  
AND THE ORDER OF OFFSET WHERE THERE IS MORE THAN ONE OTHER  
SOURCE OF INCOME**

**EXAMPLE 2**

- DEF Pte Ltd has unabsorbed CA and loss for YA 2006 and has claimed carry-back relief.
- DEF Pte Ltd has normal chargeable income, including Singapore franked dividend and rental, for YA 2005
- DEF Pte Ltd's accounting year end is 31 Dec.
- [Assumption: The same business test and the shareholding test are satisfied. YAs 2005 and 2006 are not DEF Pte Ltd's first 3 YAs.]

**Tax Computations of DEF Pte Ltd for YAs 2005 and 2006**

	YA 2006	
	\$	\$
<u>Trade</u>		
Adjusted profit before CA	0	
Less : Current CA	(50,000)	(50,000)
 <u>Other Income</u>		
Gross Singapore franked dividend [net of allowable expense of \$400]		9,600
Rental		20,000
		(20,400)
Less: CA carried back to YA 2005		20,400
Unabsorbed CA for YA 2006 c/f		NIL
 Current year adjusted loss		(120,000)
Less: Loss carried back to YA 2005 (Note 1)		79,600
Unabsorbed loss for y/e 31.12.2005 c/f		(40,400)
 Chargeable Income		NIL
 Tax thereon		NIL
Less: Tax deducted at source (\$10,000 x 20%)		2,000.00
Net Tax repayable		(2,000.00)

**ANNEX 2 (CONTINUED)**

**YA 2005**

	<b>Original Assessment</b>		<b>Revised Assessment</b>	
	<b>(before carry-back is allowed)</b>		<b>(with carry-back allowed)</b>	
<u>Trade</u>	\$	\$	\$	\$
Adjusted profit before CA	140,000		140,000	
Less : Current CA	(45,000)	95,000	(45,000)	95,000
<u>Other income</u>				
Gross franked dividend (Singapore) [net of allowable expenses of \$1,500]		28,500		28,500
Rental		35,000		35,000
		158,500		158,500
Less: CA carried back from YA 2006 (Note 2)			(20,400)	
Loss carried back from YA 2006 (Note 2)			(79,600)	(100,000)
Chargeable income (before deducting exempt amount)		158,500		58,500
Less: Exempt amount (Note 3)		(52,500)		(18,622)
Chargeable income (after deducting exempt amount)		106,000		39,878
Tax thereon 23,100.00 8,200.00		21,200.00		7,975.60
Less: Tax deducted at source (\$30,000 x20%)		6,000.00		6,000.00
Net Tax Payable		<u>15,200.00</u>		1,975.00
Less: Tax previously assessed				<u>(15,200.00)</u>
Tax repayable				<u>(13,224.40)</u>

**Note 1** - Loss to be carried back = \$100,000 less CA carried back of \$20,400 = \$79,600.

**Note 2** - Based on the order of offset, the CA carried back of \$20,400 will be offset against the trade income of \$95,000 first, followed by the loss carried back of \$79,600. The balance of loss carried back of \$5,000 [i.e. \$79,600 - (95,000-20,400)] will be offset proportionately between dividend and rental income.

**Note 3** - Computation of exempt amount for normal chargeable income, excluding Singapore dividend:

On the first \$10,000, 75% of the income	7,500	7,500
On the next \$90,000, 50% of the income	45,000	
On the next \$22,244, 50% of the income [\$32,244 (Note 4) - \$10,000]		11,122
Total exempt amount	<u>52,500</u>	<u>18,622</u>

**Note 4** - The amount of \$32,244 is computed as follows:

- (a) Total Singapore dividend and rental income  
28,500 + 35,000 = \$63,500
- (b) Amount of loss carried back to be apportioned to dividend and rental = \$5,000 (see note 2)
- (c) Amount in (b) attributable to Singapore dividend  
 $\$5,000 \times \frac{\$28,500}{\$63,500} = \$2,244$
- (d) Singapore dividend net of loss carried back  
\$28,500 - \$2,244 = \$26,256
- (e) Normal chargeable income excluding net Singapore dividend  
\$58,500 - \$26,256 = \$32,244

**ILLUSTRATION OF HOW THE QUANTUM OF QUALIFYING DEDUCTIONS IS DETERMINED FOR A COMPANY DERIVING INCOME SUBJECT TO TAX AT A CONCESSIONARY RATE**

- GHI Pte Ltd has trade loss from its trade which was granted concessionary rate of tax of 10% for YA 2006 and has claimed for carry-back relief.
  - GHI Pte Ltd 's accounting year-end is 31 Dec.
- [Assumption :The same business test and the shareholding test are satisfied. YA 2005 and 2006 are not GHI Pte Ltd's first 3 YAs.]

**Tax Computations of GHI Pte Ltd for YAs 2005 and 2006**

	YA 2006	
	Concessionary income (taxed at 10%) \$	Normal Income (taxed at 20%) \$
<u>Trade</u>		
Adjusted Profit before CA	0	0
Less : Current CA	(20,000)	(15,000)
	(20,000)	(15,000)
Less: CA carried back to YA 2005	20,000	15,000
Unabsorbed CA for YA 2006 c/f	NIL	NIL
Current year adjusted trade loss	(180,000)	(70,000)
Less: Loss carried back to YA 2005 (Note 1)	84,375	32,813
Unabsorbed loss for y/e 31.12.2005 c/f	(95,625)	(37,187)
Chargeable Income		NIL
Tax thereon		NIL

## ANNEX 3 (CONTINUED)

YA 2005

	Original Assessment (before carry-back is allowed)		Revised Assessment (with carry-back allowed)	
	Concessionary income (10%)	Normal income (20%)	Concessionary income (10%)	Normal income (20%)
<u>Trade</u>	\$	\$	\$	\$
Adjusted Profit before CA	240,000	170,000	240,000	170,000
Less: Current CA	(30,000)	(25,000)	(30,000)	(25,000)
	210,000	145,000	210,000	145,000
Less: CA carried back from YA 2006			(20,000)	(15,000)
	210,000	145,000	190,000	130,000
Less: Loss carried back from YA 2006			(84,375)	(32,813)
Chargeable Income (before exempt amount)	210,000	145,000	105,625	97,187
Less: exempt amount (Note 2 and 3)	0	(52,500)	0	(51,094)
Chargeable Income (after exempt amount)	210,000	92,500	105,625	46,093
Tax at 10%		21,000.00		10,562.50
Tax at 20%		18,500.00		9,218.60
		39,500.00		19,781.10
Less: Tax previously assessed				(39,500.00)
Tax to be Discharged				(19,718.90)

Note 1 (a) Amount of CA carried back under 10% rate = \$ 20,000 (which is equivalent to  $20,000 \times \frac{10}{20} = \$10,000 @ 20\%$ )

(b) Total CA carried back = \$15,000 + \$10,000 [i.e. amount in (a)] = \$25,000

(c) Amount of loss that can be carried back = \$100,000 - (b) = \$75,000

(d) Total amount of adjusted loss available for carry-back =  $\$180,000 \times \frac{10}{20} (@10\%) + \$70,000 (@20\%) = \$160,000$

(e) Amount of loss to be carried back [i.e. amount in (c)] apportioned as follows:

Under 10%  $(\frac{90,000}{160,000} \times 75,000 \times \frac{20}{10}) = \$ 84,375$

Under 20%  $(\frac{70,000}{160,000} \times 75,000) = \$ 32,813$

Note 2 Nil as the partial tax exemption is not applicable to concessionary income.

Note 3 Computation of exempt amount for normal chargeable income: excluding Singapore dividend:

on the first \$10,000, 75% of the income	7,500	7,500
on the next \$90,000, 50% of the income	45,000	
On the next 87,187, 50% of the income		43,594
Total exempt amount	52,500	51,094

**ILLUSTRATION OF THE MANNER OF CARRY-BACK OF QUALIFYING DEDUCTIONS AND THE ORDER OF OFFSET WHERE THERE IS MORE THAN ONE TRADE (BEING SUBJECT TO TAX AT A DIFFERENT TAX RATE)**

**EXAMPLE 1**

- JKL Pte Ltd has income/loss from 2 or more tax rate categories, and has claimed for carry-back relief in respect of unabsorbed CA and loss for YA 2006. A new trade (Trade A) with income subject to tax at concessionary rate of 5% commenced only in YA 2006.
- JKL Pte Ltd 's accounting year-end is 31 Dec.

[Assumption: The same business test and the shareholding test are satisfied. YA 2005 and 2006 are not JKL Pte Ltd's first 3 YAs.]

**Tax Computations of JKL Pte Ltd for YAs 2005 and 2006**

	<b>YA 2006</b>		
	<b><u>Trade A</u></b>		
	<b>Concessionary income</b>	<b>Concessionary income</b>	<b>Normal Income</b>
	<b><u>(taxed at 5%)</u></b>	<b><u>(taxed at 10%)</u></b>	<b><u>(taxed at 20%)</u></b>
	\$	\$	\$
<u>Trade</u>			
Trade Profit before CA	0	40,000	0
Less : Current CA	<u>(90,000)</u>	<u>(50,000)</u>	<u>(45,000)</u>
	(90,000)	(10,000)	(45,000)
<u>Other income</u>			
Interest	-	-	5,000
Rental	-	-	20,000
	<u>(90,000)</u>	<u>(10,000)</u>	<u>(20,000)</u>
Less: CA carried back to YA 2005 ( <i>Note 1</i> )	0	10,000	20,000
Unabsorbed CA for YA 2006 c/f	<u><u>(90,000)</u></u>	<u><u>NIL</u></u>	<u><u>NIL</u></u>
Current year adjusted trade loss	(560,000)		(35,000)
Less: Loss carry back to YA 2005 ( <i>Note 2</i> )			
$(\frac{140,000}{175,000} \times 75,000 \times \frac{20}{5})$	240,000		
$(\frac{35,000}{175,000} \times 75,000)$			15,000
Unabsorbed loss for y/e 31.12.2005 c/f	<u><u>(320,000)</u></u>	<u><u>0</u></u>	<u><u>(20,000)</u></u>
Chargeable Income			<u><u>NIL</u></u>
Tax thereon			<u><u>NIL</u></u>

## ANNEX 4 (CONTINUED)

YA 2005

	Original Assessment (before carry-back is allowed)		Revised Assessment (with carry-back allowed)	
	Concessionary income (10%)	Normal income (20%)	Concessionary income (10%)	Normal income (20%)
<u>Trade</u>	\$	\$	\$	\$
Adjusted Profit before CA	150,000	135,000	150,000	135,000
Less: Current CA	(60,000)	(15,000)	(60,000)	(15,000)
	90,000	120,000	90,000	120,000
<u>Other Income</u>				
Interest	0	15,000	0	15,000
Rental	0	40,000	0	40,000
	90,000	175,000	90,000	175,000
CA carried back from YA				
Less: 2006			(10,000)	(20,000)
	90,000	175,000	80,000	155,000
Less: Loss carried back from YA 2006 (Note 3)				
(49,230 x $\frac{5}{10}$ )			(24,615)	
(190,770 x $\frac{5}{20}$ ) + 15,000				(62,693)
Chargeable Income (before exempt amount)	90,000	175,000	55,385	92,307
Less: exempt amount (Note 4 and 5)	0	(52,500)	0	(48,654)
Chargeable Income (after exempt amount)	90,000	122,500	55,385	43,653
Tax at 10%		9,000.00		5,538.50
Tax at 20%		24,500.00		8,730.60
		33,500.00		14,269.10
Less: Tax previously assessed				(33,500.00)
Tax to be Discharged				(19,230.90)

Note 1 CA in respect of Trade A is not eligible for carry back as JKL Pte Ltd is not carrying on Trade A during the basis period for YA 2005 (i.e. the same business test is not satisfied).

Note 2 Computation of amount of loss to be carried back:  
Amount of CA carried back under 10% rate = 10,000 (which is equivalent to  $10,000 \times \frac{10}{20} = 5,000$  @ 20%)  
Total CA carried back = \$5,000 + \$20,000 = \$25,000  
Amount of loss that can be carried back = \$100,000 - \$25,000 = \$75,000

Note 3 Adjusted assessable income available to offset the loss carry-back =  $80,000 \times \frac{10}{20} + 155,000 = \$195,000$   
Loss of \$240,000 (@ 5%) carried back from YA 2006 to be apportioned to income under 10% (\$80,000) and 20% (\$155,000) as follows:  
- under 10% tax rate category:  $40,000/195,000 \times 240,000 = 49,230$   
- under 20% tax rate category:  $155,000/195,000 \times 240,000 = 190,770$

Note 4 Nil as the partial tax exemption is not applicable to concessionary income.

Note 5 Computation of exempt amount for normal chargeable income: excluding Singapore dividend:

on the first \$10,000, 75% of the income	7,500	7,500
on the next \$90,000, 50% of the income	45,000	
on the next \$82,307, 50% of the income		41,154
Total exempt amount	52,500	48,654

**ANNEX 4 (CONTINUED)**

**ILLUSTRATION OF THE MANNER OF CARRY-BACK OF QUALIFYING DEDUCTIONS AND THE ORDER OF OFFSET WHERE THERE IS ONE INCOME SUBJECT TO TAX AT A DIFFERENT TAX RATE AND ONE OTHER SOURCE OF INCOME**

**EXAMPLE 2**

- MNO Pte Ltd has normal chargeable income (including foreign dividend from a country with headline tax rate of less than 15%) and tax loss from its trade that was granted concessionary tax rate of 10% for YA 2006, and has claimed for carry-back relief.
- MNO Pte Ltd 's accounting year-end is 31 Dec.

**[Assumption: The same business test and the shareholding test are satisfied. YA 2005 and 2006 are not MNO Pte Ltd's first 3 YAs.]**

**Tax Computations of MNO Pte Ltd for YAs 2005 and 2006**

	<b>YA 2006</b>	
	<b>Concessionary income (taxed at 10%)</b>	<b>Normal Income (taxed at 20%)</b>
	\$	\$
<u>Trade</u>		
Trade Profit before CA	0	60,000
Less : Current CA	(50,000)	(15,000)
	(50,000)	45,000
<u>Other income</u>		
Net foreign dividend [net of tax at 10% of \$1,000]	0	9,000
Rental	0	20,000
	(50,000)	74,000
Less: S37B offset for CA (50,000 x <sup>10</sup> / <sub>20</sub> )	50,000	(25,000)
Unabsorbed CA for YA 2006 c/f	0	
		49,000
Current year adjusted trade loss	(1,000,000)	0
	(1,000,000)	49,000
Less: S37B offset for loss (49,000 x <sup>10</sup> / <sub>20</sub> )	98,000	(49,000)
	(902,000)	0
Loss carried back to YA 2005		
Less: (100,000 x <sup>20</sup> / <sub>10</sub> )	200,000	0
Unabsorbed loss for y/e 31.12.2005 c/f	(702,000)	0
Chargeable Income		NIL
Tax thereon		NIL

## ANNEX 4 (CONTINUED)

YA 2005

	Original Assessment (before carry-back is allowed)		Revised Assessment (with carry-back allowed)	
	Concessionary income (10%)	Normal income (20%)	Concessionary income (10%)	Normal income (20%)
<u>Trade</u>	\$	\$	\$	\$
Adjusted Profit before CA	100,000	72,000	100,000	72,000
Less: Current CA	(40,000)	(25,000)	(40,000)	(25,000)
	60,000	47,000	60,000	47,000
<u>Other Income</u>				
Gross foreign dividend [tax on div at 10%]	0	20,000	0	20,000
Rental	0	35,000	0	35,000
	60,000	102,000	60,000	102,000
Less: Loss carried back from YA 2006			(200,000)	0
	60,000	102,000	(140,000)	102,000
Less: S37B offset ( $140,000 \times \frac{10}{20}$ )			140,000	(70,000)
Chargeable Income (before exempt amount)	60,000	102,000	0	32,000
Less: exempt amount (Note 1 and 2)	0	(52,500)	0	(18,500)
Chargeable Income (after exempt amount)	60,000	49,500	0	13,500
Tax at 10%		6,000.00		0.00
Tax at 20%		9,900.00		2,700.00
		15,900.00		2,700.00
Less: Foreign tax relief (Note 3)		(2,000.00)		(981.79)
Net Tax Payable		13,900.00		1,718.21
Less: Tax previously assessed				(13,900.00)
Tax to be Discharged				(12,181.79)

Note 1 Nil as the partial tax exemption is not applicable to concessionary income.

Note 2 Computation of exempt amount for normal chargeable income: excluding Singapore dividend:

on the first \$10,000, 75% of the income	7,500	7,500
on the next \$90,000, 50% of the income	45,000	
on the next \$22,000, 50% of the income		11,000
Total exempt amount	52,500	18,500

Note 3 Computation of foreign tax relief:

(a) Based on the order of offset, the loss carried back of \$200,000 (@10% will be offset against the same trade income (i.e. \$60,000 @10%) first, followed by other trade income (i.e. \$47,000 @20%). The balance of loss carried back of \$23,000 [i.e. \$70,000 - \$47,000] will be offset proportionately between foreign dividend (\$20,000) and rental income (\$35,000).

(b) Loss of \$23,000 attributable to:

- foreign dividend : $\$23,000 \times \frac{20,000}{55,000} =$	\$8,364
- rental income : $\$23,000 \times \frac{35,000}{55,000} =$	\$14,636

(c) Foreign dividend net of loss carried back

\$20,000 - \$8,364 = \$11,636

(d) Rental income net of loss carried back

\$35,000 - \$14,636 = \$20,364

(e) Foreign tax relief = lower of 10% of \$20,000 (i.e. \$2,000) or

$\frac{11,636}{13,500} \times 13,500 \times 20\% =$  \$981.79

11,636 + 20,364

**ILLUSTRATION OF HOW CARRY-BACK RELIEF IS EFFECTED WHERE TRANSFER UNDER GROUP RELIEF SYSTEM IS MADE**

- PQR Pte Ltd has unabsorbed CA and loss for YA 2006 and has elected to transfer its loss items to its related company, STU Pte Ltd, whose assessable income for YA 2006 is \$30,000.
- PQR Pte Ltd has also elected for carry-back relief. For its YA 2005 assessment, PQR Pte Ltd has qualified to claim current year unabsorbed CA of \$15,000 from its related company, VWX Pte Ltd.
- PQR Pte Ltd's accounting year end is 31 Dec.

[Assumption: The same business test and the shareholding test, as well as all conditions stipulated under S37C, are satisfied. YAs 2005 and 2006 are not PQR Pte Ltd's first 3 YAs.]

**Tax Computations of PQR Pte Ltd for YAs 2005 and 2006**

	<u>YA 2006</u>	
	\$	\$
<u>Trade</u>		
Adj profit before CA	0	
Less: Current CA	<u>(80,000)</u>	(80,000)
<u>Other income</u>		
Interest		25,000
Rental		<u>10,000</u>
		(45,000)
Less: Current CA transferred to STU Pte Ltd		<u>30,000</u>
		(15,000)
Less: CA carried back to YA 2005		<u>15,000</u>
Unabsorbed CA for YA 2006 c/f		<u>NIL</u>
Current year adjusted trade loss		(160,000)
Less: Loss carried back to YA 2005 (100,000 - 15,000)		<u>85,000</u>
Unabsorbed loss for y/e 31.12.2005 c/f		<u>(75,000)</u>
Chargeable income		<u>NIL</u>
Tax thereon		<u>NIL</u>

## ANNEX 5 (CONTINUED)

	YA 2005			
	Original Assessment		Revised Assessment	
	<i>(before carry-back is allowed)</i>		<i>(with carry-back allowed)</i>	
	\$	\$	\$	\$
<u>Trade</u>				
Adj profit before CA	240,000		240,000	
Less: Current CA	<u>(55,000)</u>	185,000	<u>(55,000)</u>	185,000
<u>Other income</u>				
Interest		36,000		36,000
Rental		<u>25,000</u>		<u>25,000</u>
		246,000		246,000
Less: Current year CA transferred from VWX Pte Ltd		<u>(15,000)</u>		<u>(15,000)</u>
		231,000		231,000
Less: CA carried back from YA 2006			(15,000)	
Loss carried back from YA 2006			<u>(85,000)</u>	<u>(100,000)</u>
Chargeable income (before deducting exempt amount)		231,000		131,000
Less: Exempt amount (Note 1)		<u>(52,500)</u>		<u>(52,500)</u>
Chargeable income (after deducting exempt amount)		<u>178,500</u>		<u>78,500</u>
Tax thereon		<u>35,700.00</u>		15,700.00
Less: Tax previously assessed				<u>35,700.00</u>
Tax repayable				<u>(20,000.00)</u>

**Note 1** - Computation of exempt amount for normal chargeable income, excluding Singapore dividend:

On the first \$10,000, 75% of the income	7,500
On the next \$90,000, 50% of the income	<u>45,000</u>
Total exempt amount	<u>52,500</u>



ILLUSTRATION OF HOW CARRY-BACK RELIEF IS EFFECTED FOR AN INDIVIDUAL AND HIS SPOUSE WHERE TRANSFER UNDER SECTION 37D IS MADE

**EXAMPLE 1A**

- Mr Tan has only 1 source of trade income from his sole-proprietorship. He also derived employment and rental income for YA 2006.
- Mr Tan has unabsorbed CA and loss for YA 2006 from his sole-proprietorship business.
- His sole-proprietorship business accounting year end is 31 Dec.
- He wished to claim qualifying child relief in respect of his only child.
- Mr Tan has elected to claim for his unabsorbed CA to be transferred to his wife, Mrs Tan and the balance for carry-back to his YA 2005 assessment.

Tax Computations of Mr Tan for YAs 2005 and 2006

	<u>YA 2006</u>	
	\$	\$
<u>Trade</u>		
Sole-proprietorship business - Adjusted profit before CA	0	
Less: Current CA	<u>(55,000)</u>	(55,000)
 <u>Other income</u>		
Employment		24,000
Rental		<u>12,000</u>
		(19,000)
Less: CA transferred to Mrs Tan (s37D)		<u>19,000</u>
Unabsorbed CA for YA 2006 c/f		<u>NIL</u>
 Sole-proprietorship business - Current year adjusted trade loss		(154,000)
Less: Loss transferred to Mrs Tan (s37D)		<u>9,000</u>
		(145,000)
Less: Loss carried back to YA 2005 (Note 1)		<u>100,000</u>
Unabsorbed loss for y/e 31.12.2005 c/f		<u>(45,000)</u>
 Chargeable income		<u>NIL</u>
 Tax thereon		<u>NIL</u>

**ANNEX 7 (CONTINUED)**

	YA 2005			
	<u>Original Assessment</u>		<u>Revised Assessment</u>	
	<i>(before carry-back is allowed)</i>		<i>(with carry-back allowed)</i>	
	\$	\$	\$	\$
<u>Trade</u>				
Sole-proprietorship biz - Adj profit before CA	77,000		77,000	
Less: Current CA	<u>(35,000)</u>	42,000	<u>(35,000)</u>	42,000
<u>Other income</u>				
Employment		40,000		40,000
Rental		<u>21,000</u>		<u>21,000</u>
		103,000		103,000
Less: Loss carried back from YA 2006 (Note 1)		<u>-</u>		<u>(100,000)</u>
Assessable income		103,000		3,000
Less: <u>Personal reliefs</u>				
- Earned income (Note 2)	1,000		1,000	
- Child	2,000		2,000	
- CPF	<u>8,000</u>	<u>11,000</u>	<u>8,000</u>	<u>11,000</u>
Chargeable income		<u><u>92,000</u></u>		<u><u>Nil</u></u>
Tax thereon		<u><u>6,400.00</u></u>		0.00
Less: Tax previously assessed				<u>6,400.00</u>
Tax repayable				<u><u>(6,400.00)</u></u>

**Note 1** - As Mr Tan has elected for carry-back relief, the full amount of \$100,000 must be carried back notwithstanding that he has \$11,000 personal reliefs to set off against his assessable income of \$103,000.

**Note 2** - Computation of earned income relief

(a) Based on the order of set-off, the loss carried back of \$100,000 will be set-off against trade income of \$42,000 first. The balance of loss carried back of \$58,000 [i.e. \$100,000 - \$42,000] will be set-off proportionately between employment (\$40,000) and rental income (\$21,000).

(b) Loss of \$58,000 attributable to employment income:

$$\$58,000 \times \frac{\$40,000}{\$61,000} = \$38,033$$

(c) Employment income net of loss carried back

$$\$40,000 - \$38,033 = \$1,967$$

(d) Earned income relief is lower of actual earned income (\$1,967) or \$1,000

ANNEX 7 (CONTINUED)

**EXAMPLE 1B**

- Mrs Tan derived employment and rental income and wished to claim working mother child relief (WMCR) in respect of her only child.
- Mrs Tan has elected to claim for Mr Tan's unabsorbed CA of \$19,000 and loss of \$9,000 to be set off against her assessable income for the YA 2006.

Tax Computation of Mrs Tan for YA 2006

	YA 2006			
	Original Assessment		Revised Assessment	
	<i>(before s37D claim is allowed)</i>		<i>(with s37D claim allowed)</i>	
	\$	\$	\$	\$
Employment		25,000		25,000
Rental		<u>3,000</u>		<u>3,000</u>
		28,000		28,000
Less: CA transferred from Mr Tan			19,000	
Loss transferred from Mr Tan			<u>9,000</u>	<u>28,000</u>
Assessable income		28,000		Nil
Less: <u>Personal reliefs</u>				
- Earned income (Note 1)	1,000		0	
- WMCR (Note 2)	1,250		0	
- CPF	<u>5,000</u>	<u>7,250</u>	<u>5,000</u>	<u>5,000</u>
Chargeable income		<u><u>20,750</u></u>		<u><u>Nil</u></u>
Tax thereon		<u><u>28.12</u></u>		0.00
Less: Tax previously assessed				<u>28.12</u>
Tax repayable				<u><u>(28.12)</u></u>

**Note 1** - With the CA and loss transferred from Mr Tan, Mrs Tan's earned income relief is nil since the earned income has been reduced to nil.

**Note 2** - WMCR refers to working mother child relief and is computed based on 5% of Mrs Tan's earned income of \$25,000. With the CA and loss transferred from Mr Tan, Mrs Tan's WMCR is nil since the earned income has been reduced to nil.

ANNEX 7 (CONTINUED)

**EXAMPLE 2A**

- Mr Lim is a sole-proprietor of businesses U and V, and is a partner of partnership W.
- The accounting year end of his businesses is 31 Dec.
- Mr Lim has unabsorbed CA and loss for YA 2006 from all his businesses.
- He wished to claim qualifying child relief in respect of 2 of his children.
- Mr Lim has elected to transfer his unabsorbed CA and unabsorbed loss for YA 2006 to his wife, Mrs Lim and to carry-back the balance of his unabsorbed loss to his and wife's YA 2005 assessments.

Tax Computations of Mr Lim for YAs 2005 and 2006

	<u>YA 2006</u>	
	\$	\$
<u>Trade</u>		
Sole-proprietorship business U - Adjusted profit before CA	0	
Less: Current CA	<u>(48,000)</u>	(48,000)
Sole-proprietorship business V - Adjusted profit before CA	50,000	
Less: Current CA	<u>(35,000)</u>	15,000
Partnership business W - Share of adjusted profit before CA	0	
Less: Share of current CA	<u>(35,000)</u>	<u>(35,000)</u>
		(68,000)
<u>Other income</u>		
Employment		24,000
Rental		<u>12,000</u>
		(32,000)
Less: CA transferred to Mrs Lim		<u>32,000</u>
Unabsorbed CA for YA 2006 c/f		<u><u>NIL</u></u>
Sole-proprietorship business U - Current year adjusted loss		(75,000)
Partnership business W - Share of current year adjusted loss		<u>(45,000)</u>
		(120,000)
Less: Loss transferred to Mrs Lim		<u>16,600</u>
		(103,400)
Less: Loss carried back to YA 2005	96,600	
Loss carried back to Mrs Lim's YA 2005 assessment	<u>3,400</u>	<u>100,000</u>
Unabsorbed loss for y/e 31.12.2005 c/f		<u><u>(3,400)</u></u>
Chargeable income		<u><u>NIL</u></u>
Tax thereon		<u><u>NIL</u></u>

**ANNEX 7 (CONTINUED)**

	YA 2005			
	Original Assessment		Revised Assessment	
	<i>(before carry-back is allowed)</i>		<i>(with carry-back allowed)</i>	
	\$	\$	\$	\$
<u>Trade</u>				
Sole-proprietorship biz U - Adj profit before CA	71,600		71,600	
Less: Current CA	<u>(35,000)</u>	36,600	<u>(35,000)</u>	36,600
Sole-proprietorship biz V - Adj profit before CA	65,000		65,000	
Less: CA b/f	(20,000)		(20,000)	
Current CA	<u>(25,000)</u>	20,000	<u>(25,000)</u>	20,000
Partnership biz W - Share of adj profit before CA	0		0	
Less: Share of current CA	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>
		44,600		44,600
Partnership business W - Share of adjusted loss		<u>(6,000)</u>		<u>(6,000)</u>
		38,600		38,600
<u>Other income</u>				
Employment		40,000		40,000
Rental		<u>18,000</u>		<u>18,000</u>
		96,600		96,600
Less: Loss carried back from YA 2006		<u>-</u>		<u>(96,600)</u>
Assessable income		96,600		0
Less: <u>Personal reliefs</u>				
- Earned income (Note 1)	1,000		0	
- Child	4,000		4,000	
- CPF	<u>8,000</u>	<u>13,000</u>	<u>8,000</u>	<u>12,000</u>
Chargeable income		<u>83,600</u>		<u>Nil</u>
Tax thereon		<u>5,140.00</u>		0.00
Less: Tax previously assessed				<u>5,140.00</u>
Tax repayable				<u>(5,140.00)</u>

**Note 1** - With the loss carried back, Mr Lim's earned income relief is nil since the earned income has been reduced to nil.

## ANNEX 7 (CONTINUED)

**EXAMPLE 2B**

- Mrs Lim derived employment and rental income for the YA 2006.
- She wished to claim working mother child relief in respect of her 2 children.
- Mrs Lim has elected to claim Mr Lim's unabsorbed CA and unabsorbed loss for YA 2006 to be set off against her YA 2006 assessment and the excess unabsorbed loss carried back by Mr Lim to be set off against her YA 2005 assessment.

## Tax Computations of Mrs Lim for YAs 2005 and 2006

	YA 2006			
	Original Assessment		Revised Assessment	
	<i>(before s37D claim is allowed)</i>		<i>(with s37D claim allowed)</i>	
	\$	\$	\$	\$
Employment		45,000		45,000
Rental		<u>3,600</u>		<u>3,600</u>
		48,600		48,600
Less: CA transferred from Mr Lim		-	32,000	
Loss transferred from Mr Lim		<u>-</u>	<u>16,600</u>	48,600
Assessable income		48,600		0
Less: <u>Personal reliefs</u>				
- Earned income (Note 1)	1,000		0	
- WMCR (Note 2)	9,000		0	
- CPF	<u>9,000</u>	<u>19,000</u>	<u>9,000</u>	<u>9,000</u>
Chargeable income		<u>29,600</u>		<u>Nil</u>
Tax thereon		<u>360.00</u>		0.00
Less: Tax previously assessed				<u>360.00</u>
Tax repayable				<u>(360.00)</u>

## ANNEX 7 (CONTINUED)

	YA 2005			
	Original Assessment		Revised Assessment	
	<i>(before carry back is allowed)</i>		<i>(with carry back allowed)</i>	
	\$	\$	\$	\$
Employment		40,000		40,000
Rental		4,000		4,000
		<u>44,000</u>		<u>44,000</u>
Less: Loss carried back from Mr Lim		-		3,400
Assessable income		44,000		40,600
Less: <u>Personal reliefs</u>				
- Earned income	1,000		1,000	
- WMCR (Note 3)	8,000		7,382	
- CPF	8,000	17,000	8,000	16,382
Chargeable income		<u>27,000</u>		<u>24,218</u>
Tax thereon		<u>280.00</u>		168.72
Less: Tax previously assessed				<u>280.00</u>
Tax repayable				<u>(111.28)</u>

**Note 1** - With the CA and loss transferred from Mr Lim, Mrs Lim's earned income relief is nil since the earned income has been reduced to nil.

**Note 2** - WMCR refers to working mother child relief and is computed based on 5% and 15% of Mrs Lim's earned income of \$45,000. With the CA and loss transferred from Mr Lim, Mrs Lim's WMCR is nil since the earned income has been reduced to nil.

**Note 3:** Since Mrs Lim does not have any trade income from which the loss carried back is to be set off first, the loss carried back is to be apportioned between her employment and rental income, and WMCR is to be computed as follows:

(a) Gross earned income (employment)	40,000	40,000
(b) Loss carried back	-	3,400
(c) Amount in (b) attributable to earned income	-	3,091
	$\frac{40,000}{40,000 + 4,000} \times 3,400$	
(d) Earned income net of loss carried back	40,000	36,909
(e) WMCR computed based on 5%+15% of (d)	8,000	7,382

## DIAGRAM SHOWING ORDER OF SET-OFF FOR INDIVIDUALS AT A GLANCE

Mr Toh		Mrs Toh	
Immediate preceding YA	Current YA	Current YA	Immediate preceding YA
Adj profit – S/P 1 XA	Adj profit – S/P 1 XR	Adj profit – Partnership 1 WK	Adj profit – Partnership 1 WS
Less CA for current year (XB) XC	Less CA for current year (XS) (XT)	Less unabsorbed CA b/f (WL) WM	Less unabsorbed CA b/f (WT) WU
Adj profit –Partnership XD	Adj profit –Partnership XU	CA for current year (WN) WO	CA for current year (WV) WW
Less: CA for current year (XE) (XF)	Less: CA for current year (XV) (XW)	Employment income WP	Employment income WX
		Interest income WQ	Interest income WY
Interest income XH	Interest income XZ	Rental income WR	Rental income WZ
Rental income XI	Rental income WA		VA
			Less Unabsorbed donation b/f (VB) VC
Less unabsorbed loss b/f– S/P 2 (XK) XL	Less current year loss – S/P 2 (WC) (WD)	Less Amt transferred from Mr Toh under section 37D(note 1) - current year loss (WE) Nil	Less Current year donation (VD) VE
Less current year loss – S/P 2 (XM) XN	Less Amt transferred to spouse under section 37D - current year loss WE (WF)	Less Personal Relief (note 2) Nil	Less Amt transferred from Mr Toh under section 37F (note 3) (WH) VF
Less Current year donation (XO) XP	Less Amt carried back under section 37E - current year loss(note 3) XP (WG)	Chargeable income Nil	Less Personal Relief Earned income VG
Less Amt carried back under section 37E (note 3) (XP) Nil	Less Amt carried back to spouse under section 37F - current year loss (note 3) WH		Child VH
Less Personal Relief (note 2) Nil	Unabsorbed loss for current yr c/f (WI)		CPF VI VJ
Chargeable income Nil	Current year donation c/f (WJ)		Chargeable income VK
	Chargeable income Nil		

## NOTES

- (1) The amount of losses transferred from spouse under section 37D must be the lower of Mrs Toh's assessable income or Mr Toh's losses available for transfer.
- (2) Personal Relief claim is nil since after the carry-back relief or loss transfer from spouse, there is nil assessable income.
- (3) The total amount to be carried back by an individual under section 37E and amount transferred to spouse under section 37F is capped at \$100,000, and for each amount (be it back to himself or back to his spouse), it must be the lower of the assessable income of the immediate preceding YA or the balance of current year CA or loss available for carry-back/transfer at each stage. An individual must transfer to his spouse for the current YA first under S37D (if applicable), then back to himself under section 37E (if applicable) and lastly to his spouse under section 37F (if applicable).

## ILLUSTRATION OF SET-OFF AND RESTRICTION OF CA AND TRADE LOSSES OF PARTNERS OF AN LLP

Partnership S&T is an LLP and has two partners (i.e. Mr Song and Topmost Pte Ltd). The LLP's accounting year end is 31 December. Both partners have claimed for carry-back relief. The details of the LLP for YA 2005 and 2006 are:

	Mr Song (Example 1)		Topmost Pte Ltd (Example 2)	
(A) Profit sharing ratio	30%		70%	
(B) Contributed capital as at:				
a) 31.12.04	\$20,000		\$120,000	
b) 31.12.05	\$80,000		\$175,000	
(C) Adj profit/loss of LLP for y/e:				
a) 31.12.04 - Profit \$ 83,000	\$27,900		\$ 65,100	
b) 31.12.05 - Loss \$120,000	(\$36,000)		(\$84,000)	
(D) CA for:				
a) YA 2005 - \$180,000	\$54,000		\$126,000	
b) YA 2006 - \$150,000	\$45,000		\$105,000	
(E) CA & losses	YA 2005	YA 2006	YA 2005	YA 2006
- Cumulative	\$54,000	\$135,000	\$126,000	\$315,000
(F) Contributed capital as at end of basis period	\$20,000	\$80,000	\$120,000	\$175,000
(G) Excess of cumulative CA and losses over contributed capital [(E)-(F)]	\$34,000	\$75,000	\$8,000	\$140,000
(H) Past relevant deduction	CA - \$20,000 Loss - \$ 0 <u>\$20,000</u>	CA - \$80,000 Loss - \$ 0 <u>\$80,000</u>	CA - \$80,900 Loss - \$ 0 <u>\$80,900</u>	CA - \$165,900 Loss - \$ 1,175 (i.e. 9,100 - 7,925) <u>\$167,075</u>

## Example 1 - Tax Computations of Mr Song for YAs 2006 and 2005

	YA 2006		\$ Restrict
	\$	\$	
<b>Trade</b>			
- Sole-proprietorship business – Adjusted profit before CA	0		
Less: Current CA	(35,000)	(35,000)	
- LLP – Adjusted profit before CA	0		
Less: Unabsorbed CA for YA 2005 b/f	(8,100)	(8,100)	
Current CA	(45,000)	(33,900)	(11,100)
Employment income		(75,000)	
Rental Income		38,000	
		22,000	
		(15,000)	
Less: CA carried back to YA 2005		15,000	
Unabsorbed CA for YA 2006 c/f		NIL	
Unabsorbed LLP CA for YA 2006 c/f		(11,100)	
Sole-proprietorship business – Adjusted loss		(70,000)	
Add: LLP adjusted loss		0	(38,000)
		(70,000)	
Less: Loss carried back to YA 2005		70,000	
Unabsorbed loss for y/e 31.12.05 from sole-proprietorship c/f		NIL	
Add: Unabsorbed LLP loss for y/e 31.12.05 c/f		(38,000)	
Total unabsorbed losses c/f		(38,000)	
Chargeable Income		NIL	
Tax payable		NIL	
Cumulative LLP CA & losses (54,000 + 45,000 + 38,000)		(135,000)	
Less: Set off against LLP profit in YA 2005		27,900	
Set off against other sources in YAs 2005 & 2006		60,000	
LLP CA & losses c/f			
- Unabsorbed CA for YA 2006 c/f	(11,100)		
- Unabsorbed loss for y/e 31.12.2005 c/f	(38,000)	(47,100)	

Summary of relevant deductions allowed in respect of:	
(i) YA 2005 LLP CA -	\$20,000
(ii) YA 2006 LLP CA	
- set off against YA 2006 income	
\$60,000 x $\frac{(8,100+33,900)}{75,000}$ =	\$32,000
- set off against YA 2005 income	
\$15,000 x $\frac{(8,100+33,900)}{75,000}$ =	\$8,000
	<u>\$60,000</u>

## ANNEX 9 (CONTINUED)

	YA2005					
	Original Assessment (before carry-back is allowed)			Original Assessment (after carry-back is allowed)		
	\$	\$	\$ Restrict	\$	\$	\$ Restrict
<b>Trade</b>						
- Sole-proprietorship biz – Adj profit before CA	170,000			170,000		
Less: Current CA	(15,000)	155,000		(15,000)	155,000	
- LLP – Adjusted profit before CA	27,900			27,900		
Less: Current CA	(54,000)	(20,000)	(6,100)	(54,000)	(20,000)	(6,100)
		135,000			135,000	
Employment income		48,000			48,000	
Rental Income		30,000			30,000	
		213,000			213,000	
Less : CA carried back from YA 2006				(15,000)		
Loss carried back from YA 2006				(70,000)	(85,000)	
		213,000			128,000	
Less: Personal Relief						
- Earned Income	1,000			1,000		
- Wife	2,000			2,000		
- Child	2,000			2,000		
- CPF	9,600	14,600		9,600	14,600	
Chargeable Income		198,400			113,400	
Unabsorbed LLP CA for YA 2005 c/f		(6,100)			(6,100)	
Tax payable		23,896.00			9,610.00	
Less: Tax previously assessed					23,896.00	
Tax to be refunded					(14,286.00)	
Cumulative LLP CA & losses		(54,000)				
Less: Set off against LLP profit in YA 2005		27,900				
Set off against other sources in YA 2005		20,000				
LLP CA & losses c/f						
- Unabsorbed CA for YA 2005 c/f	(6,100)					
- Unabsorbed loss for y/e 31.12.2004 c/f	0	(6,100)				

## Example 2 - Tax Computations of Topmost Pte Ltd for YAs 2006 and 2005

	YA 2006		\$ Restrict
	\$	\$	
<b>Trade</b>			
- Topmost Pte Ltd's operations – Adjusted profit before CA	0		
Less: Current CA	(55,000)	(55,000)	
- LLP - Adjusted profit before CA	0		
Less: Current CA	(105,000)	(105,000)	
Interest income		(160,000)	
Rental income		15,000	
		72,000	
		(73,000)	
Less: CA carried back to YA 2005		73,000	
Unabsorbed CA for YA 2005 c/f		NIL	
Topmost Pte Ltd's operations – Adjusted loss		(200,000)	
Add: LLP current loss		(9,100)	(74,900)
		(209,100)	
Less: Loss carried back to YA 2005		27,000	
Unabsorbed loss for y/e 31.12.05 c/f [i.e. LLP loss \$7,925 (i.e. 9,100 - 1,175) and trade loss \$174,175 (i.e. 200,000 - (27,000-1,175))]		(182,100)	
Add: Unabsorbed LLP loss for y/e 31.12.05 c/f		(74,900)	
Total unabsorbed losses c/f		(257,000)	
Chargeable Income		NIL	
Tax payable		NIL	
Cumulative LLP CA & losses (126,000 + 105,000 + 84,000)		(315,000)	
Less: Set off against LLP profit in YA 2005		65,100	
Set off against other sources in YAs 2005 & 2006		167,075	
LLP CA & losses c/f			
- CA for YA 2006	0		
- Unabsorbed loss for y/e 31.12.2005 (9,100 - 1,175) c/f	(7,925)		
- Unabsorbed loss for y/e 31.12.2005 c/f	(74,900)	(82,825)	

## Summary of relevant deductions allowed in respect of:

(i) YA 2005 LLP CA - \$60,900

(ii) YA 2006 LLPCA

- against YA 2006 income

 $\$87,000 \times \frac{105,000}{160,000} = \$57,094$ 

- against YA 2005 income

 $\$73,000 \times \frac{105,000}{160,000} = \$47,906$ 

(iii) YA 2006 LLP loss

- against YA 2005 income

 $\$27,000 \times \frac{9,100}{209,100} = \$1,175$ \$167,075

## ANNEX 9 (CONTINUED)

	YA 2005					
	Original Assessment (before carry-back is allowed)			Original Assessment (after carry-back is allowed)		
	\$	\$	\$ Restrict	\$	\$	\$ Restrict
<b>Trade</b>						
- Topmost Pte Ltd's operations – Adj profit before CA	300,000			300,000		
Less: Current CA	(50,000)	250,000		(50,000)	250,000	
- LLP – Adjusted profit before CA	65,100			65,100		
Less: Current CA	(126,000)	(60,900)		(126,000)	(60,900)	
		189,100			189,100	
Interest income		20,000			20,000	
Rental income		60,000			60,000	
		269,100			269,100	
Less : CA carried back from YA 2006				(73,000)		
Loss carried back from YA 2006				(27,000)	(100,000)	
Chargeable income (before deducting exempt amount)		269,100			169,100	
Less: Exempt amount		(52,500)			(52,500)	
Chargeable Income		216,600			116,600	
Tax payable		43,320.00			23,320.00	
Less: Tax previously assessed					43,320.00	
Tax to be refunded					(20,000.00)	
Cumulative LLP CA & losses		(126,000)				
Less: Set off against LLP profit in YA 2005		65,100				
Set off against other sources in YA 2005		60,900				
LLP CA & losses c/f						
- Unabsorbed CA for YA 2005 c/f	0					
- Unabsorbed loss for y/e 31.12.2004 c/f	0	0				