

IRAS CIRCULAR

Enhanced Carry-back Relief System



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[Revisions have been made to Appendix 2 –

- (i) In Example 1A, YA 2009 Tax Computation of Mr Lim, the loss transferred to Mrs Lim's YA 2009 assessment (s37D) should be \$14,000, and the unabsorbed loss c/f should be \$40,000; and
- (ii) In Example 1B, YA 2009 Tax Computation of Mrs Lim, revised assessment (with s37D claim allowed), the YA 2009 loss transferred from Mr Lim should be \$14,000 and the assessable income should be Nil.]

Revised on 30 Jul 2009

Paragraph 11 is updated to make reference to new Appendix 3, which provides an example to illustrate the application of the enhanced CBR to companies with income which are subject to concessionary tax rate.

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IRAS CIRCULAR

Enhanced Carry-Back Relief System

Current Treatment

1. Under the carry-back relief (“CBR”) system¹, any person carrying on a trade, business, profession or vocation may carry back his current year unabsorbed capital allowances and unabsorbed trade losses (collectively referred to as “qualifying deductions”) up to \$100,000 to set-off against his assessable income for the immediate preceding year of assessment (“YA”). The deduction is capped at the lowest of \$100,000, the amount of qualifying deductions or assessable income.
2. The “assessable income” against which CBR is allowed, refers to assessable income as determined under section 37 of the Income Tax Act (“ITA”) and after deducting:
 - (a) in the case of a company, any deduction under section 37G for incremental expenditure on research and development, investment allowance as well as any current year unabsorbed capital allowance, unabsorbed trade loss and unabsorbed donation transferred from a transferor company or transferor companies under section 37C of the ITA;
 - (b) in the case of an individual, any unabsorbed capital allowance, unabsorbed trade loss and unabsorbed donation transferred from his spouse under section 37D of the ITA.
3. In this Circular, the YA relating to the year in which the capital allowance was granted or trade loss was incurred is hereinafter referred to as the “YA of loss”, and the YA in which the qualifying deductions are utilised is hereinafter referred to as the “YA of set-off”.

¹ For details, please refer to IRAS’ circular on “Carry-back Relief System” issued on 10 June 2005 (revised on 15 June 2005).

Budget 2009 Enhancement

4. The Minister for Finance has announced in his 2009 Budget Statement that the CBR system will be enhanced for YAs 2009 and 2010. The enhancements for these 2 YAs are as follows:
- (a) the maximum amount of qualifying deductions that may be carried back from each YA will be increased from \$100,000 to \$200,000; and
 - (b) the maximum number of YAs to which the qualifying deductions may be carried back will be increased from 1 YA to 3 YAs.

In other words, for the YAs 2009 and 2010, a person carrying on a trade, business, profession or vocation may carry back qualifying deductions of up to \$200,000 for a YA of loss to set-off against his assessable income for up to 3 YAs immediately preceding the YA of loss.

5. For the purpose of carrying back qualifying deductions for YAs 2009 and 2010, the carry-back shall be made in the following order:
- (a) Firstly, to the third YA immediately preceding the YA of loss;
 - (b) Secondly, where there are qualifying deductions remaining after (a), the balance will be carried back to the second YA immediately preceding the YA of loss; and
 - (c) Finally, where there are qualifying deductions remaining after (b) above, the balance will be carried back to the YA immediately preceding the YA of loss.
6. The above order of carrying back accords maximum benefit to a person who has qualifying deductions in both YAs 2009 and 2010. The order of carrying back is summarised in the following table:

YA of Loss	Order of Carry Back of Qualifying Deductions		
	First YA	Second YA	Third YA
2009	2006	2007	2008
2010	2007	2008	2009

7. In any YA of set-off, where there are more than 1 YA of loss, the qualifying deductions of the earliest/ earlier YA of loss shall be deducted against the assessable income of that YA of set-off. For example, where the YA of set-off is YA 2007, the qualifying deductions in respect of YAs 2008, 2009 and 2010 shall be deducted against the assessable income of YA 2007 in that order.

8. The CBR is given on due claim and is available to any person carrying on a trade, business, profession or vocation, including individuals who are sole-proprietors or partners of a partnership. All other conditions in relation to the CBR system, including the shareholding test² (for companies) and business continuity test as provided in section 37E and IRAS' circular on "Carry-back Relief System", remain unchanged for YAs 2009 and 2010.
9. Following the enhancement, together with the existing CBR of up to \$100,000 applicable for each of the YAs 2007 and 2008, the maximum amounts of qualifying deductions that may be set-off against the assessable income for YAs 2006, 2007 and 2008 are \$300,000, \$500,000 and \$400,000 respectively. For example, where the YA of set-off is YA 2006, the maximum amount of qualifying deductions comprises maximum qualifying deductions of \$100,000 from YA 2007 and maximum qualifying deductions of \$200,000 from YA 2009. The table shows how the maximum amounts of qualifying deductions for each YA of set-off is arrived at:

YA of set-off \ YA of loss	YA 2006	YA 2007	YA 2008	YA 2009	Maximum qualifying deductions relating to each YA of loss (\$)
YA 2007	a				a ≤ 100,000
YA 2008		b			b ≤ 100,000
YA 2009	c	d	e		c+d+e ≤ 200,000
YA 2010		f	g	h	f+g+h ≤ 200,000
Maximum qualifying deductions for each YA of set-off (\$)	a+c ≤ 300,000	b+d+f ≤ 500,000	e+g ≤ 400,000	h ≤ 200,000	

² For unabsorbed CA of YA 2009 and 2010 to be set-off against the assessable income for YAs 2006, 2007, 2008 and/or 2009, there must not be any substantial change in shareholders of the company as at the following dates:

		Set-off against Assessable Income from YAs			
CA of		2006	2007	2008	2009
YA 2009	1.1.2009 and	31.12.06	31.12.07	31.12.08	
YA 2010	1.1.2010 and		31.12.07	31.12.08	31.12.09

For unabsorbed losses of YA 2009 and 2010 to be set-off against the assessable income for YAs 2006, 2007, 2008 and/or 2009, there must not be any substantial change in shareholders of the company as at the following dates:

		Set-off against Assessable Income from YAs			
Losses of		2006	2007	2008	2009
YA 2009	1.1.2008 and	31.12.06	31.12.07	31.12.08	
YA 2010	1.1.2009 and		31.12.07	31.12.08	31.12.09

10. If the person eligible to carry back qualifying deductions is an individual, and if his assessable income for all the 3 YAs immediately preceding the YA of loss 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. The order of carrying-back qualifying deductions to set-off against the spouse's assessable income for the 3 YAs will similarly start from the third YA immediately preceding the YA of loss. The total amount of qualifying deductions to be carried back for set-off against his and his spouse's assessable income for the 3 YAs immediately preceding the YA of loss is subject to a limit of \$200,000 for each of the YAs 2009 and 2010.
11. Examples 1 and 2 in Appendix 1 illustrate how the CBR system applies to non-individuals following the enhancement. Examples 1A and 1B in Appendix 2 illustrate how the CBR is applied for an individual and his spouse where a transfer under section 37D of the ITA has been made. The example in Appendix 3 illustrates how the enhanced CBR system is applied to companies with income which are subject to concessionary tax rate.

Revision of Assessments due to election of CBR for YAs 2009 and 2010 And Refund of Tax Paid, if applicable

12. To ease businesses' cash flow in the current economic downturn, a taxpayer may elect for CBR based on an estimate of the qualifying deductions for YAs 2009 and 2010. In other words, the current requirement for taxpayers to submit supporting documents (e.g. finalised/ provisional accounts and the tax computations) together with their election for CBR would be waived for YAs 2009 and 2010. The finalised accounts and tax computations must however, still be submitted when taxpayers file their income tax returns to support their CBR claims.
13. For YAs 2009 and 2010, any person eligible to carry back qualifying deductions may provide his estimated qualifying deductions after his financial year end by submitting the new loss carry-back election form³ (hereinafter referred to as "new election form") at anytime before the filing of his income tax return for these YAs. Subject to the satisfaction of the conditions listed in paragraph 14 below, the Comptroller of Income Tax ("CIT") will revise the assessment(s) for the relevant YAs of set-off, within 1 month from the date of CIT's receipt of the new election form. If the taxpayer has paid up his tax in excess of the revised tax liability and he does not have any other outstanding tax liability, the credit balance due to him as a result of the revised assessment(s) will be refunded within 30 days from the date the credit arises. However, if the taxpayer has not fully paid up the tax previously assessed or has other outstanding tax liability, the credit due as a result of the revised assessment will first be set-off against his outstanding tax liability before any refund is made.

³ The new election form (specific to YAs 2009 and 2010) as prescribed by CIT could be downloaded from IRAS' website.

14. The revision of assessments and refund of tax paid (if any) based on estimated qualifying deductions are subject to the following conditions:
- (a) Taxpayer has submitted the new election form⁴ showing the estimated qualifying deductions to be carried back no later than the filing of the tax return for YA 2009 and 2010 as the case may be;
 - (b) Taxpayer has submitted the following documents for all 3 YAs immediately preceding the YA of loss:
 - For non-individuals, the income tax return, audited accounts and tax computations;
 - For individuals (and their spouses, if applicable), the income tax return, and if the business turnover is \$500,000 or more, the certified statement of accounts and tax computation; and
 - For CBR based on a share of estimated qualifying deductions of the trade, business, profession or vocation carried on through a partnership or limited liability partnership (LLP), the partnership's income tax return, and if the business turnover is \$500,000 or more, the certified statement of accounts, and tax computation; and
 - (c) If a non-individual has estimated qualifying deductions for YA 2009 or 2010, as the case may be, but has not filed the Estimated Chargeable Income ("ECI") for the YA concerned, he must file a nil ECI in addition to the submission of the new election form.
15. With the changes to the CBR system, the periods for which the shareholding test is applicable would also change. Accordingly, non-individuals who have previously submitted the old loss carry-back election form to elect for the carry back of YA 2009 qualifying deductions to set-off against his assessable income for YA 2008, must submit the new election form by 31 March 2009 if they wish to carry back their qualifying deductions.
16. Once a person has submitted the new election form before the filing of his income tax return, CIT will not accept any revision to the estimated qualifying deduction until the actual filing of the income tax return. He is not required to submit another new election form when he submits his income tax return. However he is required to show the actual qualifying deductions in his tax computation.

⁴ For YA 2010, the new election form can only be submitted after the end of the accounting period for the trade, business, profession or vocation.

17. If a taxpayer has not submitted the new election form before filing his income tax return, he is required to submit the new election form at the time of filing of the income tax return (or in the case of individual, no later than 30 days from the date of service of the notice of assessment for the YA of loss on him or his spouse, whichever is the later) if he wishes to carry back the qualifying deductions. For these cases, any refund of tax will be made within 3 months from the date of CIT's receipt of the election form and income tax return. This is provided that all the requisite information to ascertain the actual quantum of the qualifying deductions, the documents specified in paragraph 14 and the Capital Contribution Form⁵ for the YA of loss (in the case of an LLP partner) have been furnished at the same time.
18. For any general enquiries or clarification on this Circular, please call:
 - 1800-3568611 (Individual Income Tax)
 - 1800-3568622 (Corporate Income Tax)
 - 6351-3883 (Taxation of Body of persons)
 - 6351-3363 (Taxation of Trusts)

⁵ The Capital Contribution Form is downloadable from IRAS' website.

APPENDIX 1

Example 1

ILLUSTRATION OF HOW THE QUANTUM OF QUALIFYING DEDUCTIONS FOR YA 2009 IS DETERMINED TO BE CARRIED BACK TO 3RD and 2ND YA IMMEDIATELY PRECEDING THE YA OF LOSS

ABC Pte Ltd has unabsorbed CA and loss for YA 2009 and has claimed for carry-back relief (CBR), assuming the same business test and the shareholding tests are satisfied and YA 2006 -2009 are not its first 3 YAs of incorporation.

Tax Computation of ABC Pte Ltd for YA 2006, 2007, 2008 and 2009:

	YA 2009	
	\$	\$
Trade		
Adjusted Profit before CA	0	
Less: Current year CA	(35,000)	(35,000)
Other Income		
Rental		24,000
		(11,000)
Less: CA carried back to YA 2006		11,000
		0
Current year adjusted trade loss		(190,000)
Less: Loss carried back to YA 2006		170,000
Less: Loss carried back to YA 2008 (restricted to \$200,000)		19,000
Unabsorbed loss for y/e 31.12.2008 c/f		(1,000)
Unutilised investment allowance for YA 2009 c/f (note1)		(25,000)
Chargeable Income		0
Tax thereon		0.00

Note 1 Investment allowance is not eligible for carry-back

APPENDIX 1

Example 1 (continued)

		YA 2006			
		Original Assessment (before carry-back is allowed)		Revised Assessment (after carry-back allowed)	
		\$	\$	\$	\$
Trade					
	Adjusted Profit before CA	238,000		238,000	
Less:	Current year CA	(40,000)	198,000	(40,000)	198,000
Other Income					
	Rental		30,000		30,000
			228,000		228,000
Less:	Donation		(2,000)		(2,000)
	Investment allowance		(40,000)		(40,000)
			186,000		186,000
Less	CA carried back from YA 2007		(5,000)		(5,000)
			181,000		181,000
	CA carried back from YA 2009			(11,000)	
	Loss carried back from YA 2009			(170,000)	(181,000)
	Chargeable income (before exempt amount)		181,000		0
Less:	Exempt amount		(52,500)		0
	Chargeable income (after exempt amount)		128,500		0
	Tax thereon @ 20%		25,700.00		0.00
	Less: Tax previously assessed				(25,700.00)
	Tax to be discharged				(25,700.00)
 <i>Note 2</i>					
<i>Computation of exempt amount for normal chargeable income (maximum of \$100,000)</i>					
	<i>on the first \$10,000, 75% of the income</i>		7,500		0
	<i>on the next \$90,000, 50% of the income</i>		45,000		0
	<i>Total exempt amount</i>		52,500		0

APPENDIX 1

Example 1 (continued)

		YA 2007			
		Original Assessment (before carry-back is allowed)		Revised Assessment (after carry-back allowed)	
		\$	\$	\$	\$
Trade					
	Adjusted Profit before CA	5,000			
	Less: Current year CA	(40,000)	(35,000)		
Other Income					
	Rental		30,000		
			(5,000)		
	Less: CA carried back to YA 2006		5,000		
			0		
	Chargeable income (after exempt amount)		0		
	Tax thereon		0.00		

		YA 2008			
		Original Assessment (before carry-back is allowed)		Revised Assessment (after carry-back allowed)	
		\$	\$	\$	\$
Trade					
	Adjusted Profit before CA	150,000		150,000	
	Less: Current year CA	(40,000)	110,000	(40,000)	110,000
Other Income					
	Rental		20,000		20,000
			130,000		130,000
	Less: Loss carried back from YA 2009 (note3)			(19,000)	
	Chargeable income (before exempt amount)		130,000		111,000
	Less: Exempt amount (note 4)		(67,500)		(58,000)
	Chargeable income (after exempt amount)		62,500		53,000
	Tax thereon @18%		11,250.00		9,540.00
	Less: Tax previously assessed			(11,250.00)	
	Tax to be discharged			(1,710.00)	

Note 3 Balance of qualifying deductions from YA 2009 = 200,000 - 11,000 - 170,000 = 19,000

Note 4 Computation of exempt amount for normal chargeable income (maximum of \$300,000)

on the first \$10,000, 75% of the income	7,500	7,500
on the next \$120,000, 50% of the income	60,000	
on the next \$101,000, 50% of the income		50,500
	67,500	58,000

APPENDIX 1

Example 2

ILLUSTRATION OF HOW THE QUANTUM OF QUALIFYING DEDUCTIONS FOR YA 2010 IS DETERMINED TO BE CARRIED BACK TO 3 PRECEDING YAs

DEF Pte Ltd has unabsorbed CA and loss for YA 2010 and has claimed for CBR, assuming the same business test and the shareholding tests are satisfied and YA 2007-2010 are not its first 3 YAs of incorporation.

Tax Computation of ABC Pte Ltd for YA 2007, 2008 , 2009 and 2010:

		YA 2010	
		\$	\$
Trade			
	Adjusted Profit before CA	0	
Less:	Current year CA	(150,000)	(150,000)
Other Income			
	Rental		24,000
			(126,000)
Less:	CA carried back to YA 2007 (restricted to assessable income for YA 07)		100,000
	CA carried back to YA 2008		26,000
			0
	Current year adjusted trade loss		(80,000)
Less:	Loss carried back to YA 2008 (restricted to assessable income for YA 08)		22,000
	Loss carried back to YA 2009 (overall restriction to \$200,000)		52,000
	Unabsorbed loss for y/e 31.12.2009 c/f		(6,000)
	Chargeable Income		NIL
	Tax thereon		NIL

APPENDIX 1

Example 2 (continued)

		YA 2007			
		<u>Original Assessment</u> <u>(before carry-back is allowed)</u>		<u>Revised Assessment</u> <u>(after carry-back allowed)</u>	
		\$	\$	\$	\$
Trade					
	Adjusted Profit before CA	152,000		152,000	
Less:	Current year CA	<u>(40,000)</u>	112,000	<u>(40,000)</u>	112,000
Other Income					
	Rental		<u>30,000</u>		<u>30,000</u>
			142,000		142,000
Less:	Donation		(2,000)		(2,000)
	Investment allowance		<u>(40,000)</u>		<u>(40,000)</u>
			100,000		100,000
	CA carried back from YA 2010			(100,000)	
	Loss carried back from YA 2010			0	(100,000)
	Chargeable income (before exempt amount)		<u>100,000</u>		<u>0</u>
Less:	Exempt amount (note 1)		<u>(52,500)</u>		<u>0</u>
	Chargeable income (after exempt amount)		<u><u>47,500</u></u>		<u><u>0</u></u>
	Tax thereon @20%		<u>9,500.00</u>		0.00
Less:	Tax previously assessed				<u>(9,500.00)</u>
	Tax to be discharged				<u><u>(9,500.00)</u></u>

Note 1 Computation of exempt amount for normal chargeable income (maximum of \$100,000):

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

APPENDIX 1

Example 2 (continued)

		YA 2008			
		Original Assessment (before carry-back is allowed)		Revised Assessment (after carry-back allowed)	
		\$	\$	\$	\$
Trade					
Adjusted Profit before CA		100,000		100,000	
Less:	Current year CA	(40,000)	60,000	(40,000)	60,000
Other Income					
Rental			30,000		30,000
			90,000		90,000
Less:	Donation		(2,000)		(2,000)
	Investment allowance		(40,000)		(40,000)
			48,000		48,000
	CA carried back from YA 2010			(26,000)	
	Loss carried back from YA 2010			(22,000)	(48,000)
Chargeable income (before exempt amount)			48,000		0
Less:	Exempt amount (note 2)		(26,500)		0
Chargeable income (after exempt amount)			21,500		0
Tax thereon @ 18%			3,870.00		0.00
Less: Tax previously assessed					(3,870.00)
Tax to be discharged					(3,870.00)

<i>Note 2</i>	<i>Computation of exempt amount for normal chargeable income: (maximum of \$300,000)</i>			
	<i>on the first \$10,000, 75% of the income</i>	<i>7,500</i>		
	<i>on the next \$38,000, 50% of the income</i>	<i>19,000</i>		
	<i>Total exempt amount</i>	<i>26,500</i>		<i>0</i>

APPENDIX 1

Example 2 (continued)

		YA 2009			
		Original Assessment (before carry-back is allowed)		Revised Assessment (after carry-back allowed)	
		\$	\$	\$	\$
Trade					
	Adjusted Profit before CA	360,000		360,000	
Less:	Current year CA	<u>(40,000)</u>	320,000	<u>(40,000)</u>	320,000
Other Income					
	Rental		<u>20,000</u>		<u>20,000</u>
			340,000		340,000
Less:	Investment allowance		<u>(40,000)</u>		<u>(40,000)</u>
			300,000		300,000
	CA carried back from YA 2010			0	
	Loss carried back from YA 2010 (note 3)			<u>(52,000)</u>	<u>(52,000)</u>
	Chargeable income (before exempt amount)		300,000		248,000
Less:	Exempt amount (note 4)		<u>(152,500)</u>		<u>(126,500)</u>
	Chargeable income (after exempt amount)		<u>147,500</u>		<u>121,500</u>
	Tax thereon @ 18%		<u>26,550.00</u>		21,870.00
Less:	Tax previously assessed				<u>(26,550.00)</u>
	Tax to be discharged				<u>(4,680.00)</u>

Note 3 Balance of qualifying deductions from YA 2010 = 200,000 – 100,000 – 26,000 – 22,000 = 52,000

Note 4 Computation of exempt amount for normal chargeable income: (max on \$300,000)

<i>on the first \$10,000, 75% of the income</i>	<i>7,500</i>	<i>7,500</i>
<i>on the next \$290,000, 50% of the income</i>	<i>145,000</i>	
<i>on the next \$238,000, 50% of the income</i>		<u><i>119,000</i></u>
<i>Total exempt amount</i>	<u><i>152,500</i></u>	<u><i>126,500</i></u>

APPENDIX 2

EXAMPLE 1A

ILLUSTRATION OF HOW CBR IS APPLIED FOR AN INDIVIDUAL AND HIS SPOUSE WHERE TRANSFER UNDER SECTION 37D IS MADE AND AN ELECTION IS MADE BY HIM TO TRANSFER HIS EXCESS QUALIFYING DEDUCTIONS TO HIS SPOUSE

- Mr Lim has only 1 source of trade income from his sole-proprietorship. He also derived employment and rental income for YA 2009.
- He has unabsorbed CA and loss for YA 2009 from his sole-proprietorship business.
- His sole-proprietorship business accounting year end is 31 Dec.
- He wishes to claim qualifying child relief in respect of his only child.
- He has elected to claim for his unabsorbed CA and loss to be transferred to his wife, Mrs Lim and to carry back the balance of his unabsorbed loss to his and his wife's YAs 2006 to 2008 Assessments.

YA 2009 Tax Computation of Mr Lim

	\$	\$
<u>Trade</u>		
Sole-proprietorship business - Adjusted profit before CA	0	
Less: Current year CA	(55,000)	(55,000)
<u>Other income</u>		
Employment		24,000
Rental		12,000
		(19,000)
Less: CA transferred to Mrs Lim's YA 2009 assessment (s37D)		19,000
Unabsorbed CA c/f		<u>NIL</u>
Sole-proprietorship business - Current year adjusted trade loss		(254,000)
Less: Loss transferred to Mrs Lim's YA 2009 assessment (s37D)		14,000
		(240,000)
Less: Loss carried back [YA 2006 = \$66,000, YA 2007 = \$80,000 & YA 2008 = \$52,000] (Note 1)		198,000
		(42,000)
Less: Loss carried back to Mrs Lim's YA 2006 assessment (Note 2)		2,000
Unabsorbed loss c/f		<u>(40,000)</u>
Chargeable income		<u>NIL</u>
Tax thereon		<u>0.00</u>

Note 1 -

As Mr Lim has elected for CBR, the full amount of \$198,000 must be carried back notwithstanding that for each of YAs 2006, 2007 and 2008, he has \$5,600 personal reliefs to set-off against his assessable income.

Note 2 -

Maximum YA 2009 loss carried back to Mr Lim and his wife is \$200,000 (\$198,000+\$2,000).

EXAMPLE 1A (continued)

YA 2006 Tax Computation of Mr Lim

	YA 2006			
	Original Assessment (before carry-back is allowed)		Revised Assessment (with carry-back allowed)	
	\$	\$	\$	\$
<u>Trade</u>				
Sole-proprietorship business - Adjusted profit before CA	62,000		62,000	
Less: Current year CA	<u>(35,000)</u>	27,000	<u>(35,000)</u>	27,000
<u>Other income</u>				
Employment		18,000		18,000
Rental		<u>21,000</u>		<u>21,000</u>
		66,000		66,000
Less: Loss carried back from YA 2009 (Note 1)		<u>-</u>		<u>(66,000)</u>
Assessable income		66,000		-
Less: Personal reliefs				
- Earned income (Note 3A)	1,000		-	
- Child	2,000		2,000	
- CPF contributions by self-employed (Note 3B)	4,000		-	
- Compulsory employee CPF contribution	<u>3,600</u>	<u>10,600</u>	<u>3,600</u>	<u>5,600</u>
Chargeable income		<u>55,400</u>		<u>NIL</u>
Tax thereon		<u>2,297.50</u>		0.00
Less: Tax previously assessed				<u>2,297.50</u>
Tax to be discharged				<u>(2,297.50)</u>

Note 3A - Computation of earned income relief for YA 2006

(a) Based on the order of set-off, the loss carried back of \$66,000 will be set-off against trade income of \$27,000 first. The balance of loss carried back of \$39,000 [i.e. \$66,000 - \$27,000] will be set-off proportionately between employment (\$18,000) and rental income (\$21,000).

(b) Loss of \$39,000 attributable to employment income:
 $\$39,000 \times (\$18,000 / \$39,000) = \$18,000$

(c) Employment income net of loss carried back
 $\$18,000 - \$18,000 = \$0$

(d) Earned income relief is lower of actual earned income (i.e. \$0) or \$1,000.

Note 3B -

(a) Assume that the amount of self-employed obligatory and voluntary CPF contributions is \$4,000.

(b) Based on the order of set-off, the loss carried back of \$66,000 will be set-off against trade income of \$27,000 first. With the loss carried back, the assessable income from trade is nil.

(c) Deduction for CPF contributions by self-employed (capped at 33% of assessable income from trade) is nil.

EXAMPLE 1A (continued)

YA 2007 Tax Computation of Mr Lim

	YA 2007			
	Original Assessment (before carry-back is allowed)		Revised Assessment (with carry-back allowed)	
	\$	\$	\$	\$
<u>Trade</u>				
Sole-proprietorship business - Adjusted profit before CA	76,000		76,000	
Less: Current year CA	<u>(35,000)</u>	41,000	<u>(35,000)</u>	41,000
<u>Other income</u>				
Employment		18,000		18,000
Rental		<u>21,000</u>		<u>21,000</u>
		80,000		80,000
Less: Loss carried back from YA 2009 (Note 1)		<u>-</u>		<u>(80,000)</u>
Assessable income		80,000		-
Less: Personal reliefs				
- Earned income (Note 4A)	1,000		-	
- Child	2,000		2,000	
- CPF contributions by self-employed (Note 4B)	4,000		-	
- Compulsory employee CPF contribution	<u>3,600</u>	<u>10,600</u>	<u>3,600</u>	<u>5,600</u>
Chargeable income		<u>69,400</u>		<u>NIL</u>
Tax thereon		<u>3,399.00</u>		0.00
Less: Tax previously assessed				<u>3,399.00</u>
Tax to be discharged				<u>(3,399.00)</u>

Note 4A - Computation of earned income relief for YA 2007

(a) Based on the order of set-off, the loss carried back of \$80,000 will be set-off against trade income of \$41,000 first. The balance of loss carried back of \$39,000 [i.e. \$80,000 - \$41,000] will be set-off proportionately between employment (\$18,000) and rental income (\$21,000).

(b) Loss of \$39,000 attributable to employment income:
 $\$39,000 \times (\$18,000 / \$39,000) = \$18,000$

(c) Employment income net of loss carried back
 $\$18,000 - \$18,000 = \$0$

(d) Earned income relief is lower of actual earned income (i.e. \$0) or \$1,000.

Note 4B -

(a) Assume that the amount of self-employed obligatory and voluntary CPF contributions is \$4,000.

(b) Based on the order of set-off, the loss carried back of \$80,000 will be set-off against trade income of \$41,000 first. With the loss carried back, the assessable income from trade is nil.

(c) Deduction for CPF contributions by self-employed (capped at 33% of assessable income from trade) is nil.

APPENDIX 2

EXAMPLE 1A (continued)

YA 2008 Tax Computation of Mr Lim

	YA 2008			
	Original Assessment		Revised Assessment	
	(before carry-back is allowed)		(with carry-back allowed)	
	\$	\$	\$	\$
<u>Trade</u>				
Sole-proprietorship business - Adjusted profit before CA	48,000		48,000	
Less: Current CA	(35,000)	13,000	(35,000)	13,000
<u>Other income</u>				
Employment		18,000		18,000
Rental		21,000		21,000
		52,000		52,000
Less: Loss carried back from YA 2009 (Note 1)		-		(52,000)
Assessable income		52,000		-
Less: Personal reliefs				
- Earned income (Note 5A)	1,000		-	
- Child	2,000		2,000	
- CPF contributions by self-employed (Note 5B)	4,000		-	
- Compulsory employee CPF contribution	3,600	10,600	3,600	5,600
Chargeable income		41,400		NIL
Tax thereon		1,019.00		0.00
Less: Tax rebate for YA 2008 (20% capped at \$2,000)		(203.80)		
Tax payable		815.20		
Less: Tax previously assessed				815.20
Tax to be discharged				(815.20)

Note 5A - Computation of earned income relief for YA 2008

(a) Based on the order of set-off, the loss carried back of \$52,000 will be set-off against trade income of \$13,000 first. The balance of loss carried back of \$39,000 [i.e. \$52,000 - \$13,000] will be set-off proportionately between employment (\$18,000) and rental income (\$21,000).

*(b) Loss of \$39,000 attributable to employment income:
 $\$39,000 \times (\$18,000 / \$39,000) = \$18,000$*

*(c) Employment income net of loss carried back
 $\$18,000 - \$18,000 = \$0$*

(d) Earned income relief is lower of actual earned income (i.e. \$0) or \$1,000.

Note 5B -

(a) Assume that the amount of self-employed obligatory and voluntary CPF contributions is \$4,000.

(b) Based on the order of set-off, the loss carried back of \$52,000 will be set-off against trade income of \$13,000 first. With the loss carried back, the assessable income from trade is nil.

(c) Deduction for CPF contributions by self-employed (capped at 34.5% of assessable income from trade) is nil.

EXAMPLE 1B

- Mrs Lim derived employment and rental income and wished to claim working mother child relief (WMCR) in respect of her only child.
- Mrs Lim has elected to claim for Mr Lim's YA 2009 unabsorbed CA of \$19,000 and loss of \$14,000 to be set-off against her assessable income for the YA 2009.
- Mrs Lim has also elected to claim the balance of Mr Lim's YA 2009 unabsorbed loss of \$2,000 to be carried-back and set-off against her assessable income for YA 2006.

YA 2009 Tax Computation of Mrs Lim

	YA 2009			
	Original Assessment (before s37D claim is allowed)		Revised Assessment (with s37D claim allowed)	
	\$	\$	\$	\$
Employment	25,000		25,000	
Rental	8,000		8,000	
		33,000		33,000
Less: YA 2009 CA transferred from Mr Lim		-	19,000	
YA 2009 loss transferred from Mr Lim		-	14,000	33,000
Assessable income		33,000		-
Less: Personal reliefs				
- Earned income (Note 1)	1,000		-	
- WMCR (Note 2)	3,750		-	
- CPF	5,000	9,750	5,000	5,000
Chargeable income		23,250		NIL
Tax thereon		113.75		0.00
Less: Tax rebate for YA 2009 (20% capped at \$2,000)		(22.75)		
Tax payable		91.00		
Less: Tax previously assessed				91.00
Tax to be discharged				(91.00)

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 15% (wef YA 2009) of Mrs Lim's earned income of \$25,000. With the CA and loss transferred from Mr Lim, Mrs Lim's WMCR is nil since the earned income has been reduced to nil.

EXAMPLE 1B (continued)

YA 2006 Tax Computation of Mrs Lim

	YA 2006			
	Original Assessment (before carry-back is allowed)		Revised Assessment (with carry-back allowed)	
	\$	\$	\$	\$
Employment	25,000		25,000	
Rental	3,000		3,000	
		28,000		28,000
Less: Loss carried back from YA 2009 by Mr Lim		-		(2,000)
Assessable income		28,000		26,000
Less: Personal reliefs				
- Earned income	1,000		1,000	
- WMCR (5% of mother's earned income) (Note 3)	1,250		1,161	
- CPF	5,000	7,250	5,000	7,161
Chargeable income		20,750		18,839
Tax thereon		28.13		0.00
Less: Tax previously assessed				28.13
Tax to be discharged				(28.13)

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)	\$25,000
(b) Loss carried back	\$2,000
(c) Amount in (b) attributable to earned income: $\$2,000 \times (\$25,000 / \$28,000) = \$1,786$	
(d) Earned income net of loss carried back (\$25,000-\$1,786)	\$23,214
(e) WMCR computed based on 5% of (d)	\$1,161

APPENDIX 3

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

Example

GHI Pte Ltd has trade loss from its trade which was granted concessionary rate of 10% for YA 2009 and has claimed carry-back relief (CBR).

GHI Pte Ltd's accounting year-end is 31st Dec.

[Assumption: the same business test and the shareholding tests are satisfied and YA 2007 - 2009 are not its first 3 YAs.]

Tax Computation of ABC Pte Ltd for YA 2006,2007, 2008 and 2009:

	YA 2009	
	Concessionary income (10%) \$	Normal income (18%) \$
Other Income		
Rental	0	49,000
Less: Unabsorbed CA & loss b/f YA 2008 (note 1)	(15,000)	(25,000)
Remaining income	0	24,000
Trade		
Adjusted Profit before CA	0	0
Less: Current CA	(180,000)	(80,000)
	(180,000)	(56,000)
Less: CA carried back to YA 2006 (note 2a & b)	180,000	56,000
	0	0
Unabsorbed CA b/f from YA 2008 & c/f (note 1)	15,000	-
Current year adjusted trade loss (note 2d)	(18,000)	(70,000)
Less: Loss to be carried back to YA 2006 (note 2e & 3)		37,000
Loss to be carried back to YA 2007 (note 2e & 3)	9,900	1,500
Unabsorbed loss for y/e 31.12.2008 c/f	(8,100)	(31,500)
Chargeable Income		NIL
Tax thereon		NIL

Note 1- unabsorbed CA b/f must be offset first against any other income, and any excess cannot be carried-back

Note 2- (a) Amount of CA carried back under 10% rate = \$ 100,000 ($180000 \times \frac{10}{18}$) @ 18% category.

(b) Amount of CA carried back under 18% rate = \$ 56,000 ;

i.e. Total CA carried back = \$156,000 (@ 18% rate)

(c) Therefore the remaining losses that can be carried back is restricted to \$ 44,000 (200,000 - (b))

(d) Total amount of loss available for carry-back = \$18,000 $\times \frac{10}{18}$ (@10%) +70,000(@18%) = \$80,000

(e) Amount of loss of \$44,000 (note 2c) to be apportioned as follows:

Under 10%: $(18000 \times \frac{10}{18}) / 80000 \times 44,000 \times 18/10 = 9,900$

Under 18%: $(\frac{70000}{80000} \times 44,000) = 38,500$

Note 3- Since the remaining assessable income in YA 2006 can only offset \$37,000 loss carried back from YA 2009 under the 18% rate, the balance of the losses will be carried back in this case to offset directly dollar for dollar against the assessable income in YA 2007.

APPENDIX 3

Example 1 - continued

YA 2006

	<u>Assessment before carry back relief</u>		<u>Assessment after carry back relief</u>	
	Concessionary income (10%) \$	Normal income (20%) \$	Concessionary income (10%) \$	Normal income (20%) \$
Trade				
Adjusted Profit before CA	120,000	150,000	120,000	150,000
Less: Current CA	(30,000)	(40,000)	(30,000)	(40,000)
	<u>90,000</u>	<u>110,000</u>	<u>90,000</u>	<u>110,000</u>
Other Income				
Rental	0	28,000	0	28,000
	<u>90,000</u>	<u>138,000</u>	<u>90,000</u>	<u>138,000</u>
Less: CA c/b from YA 2009 (note 4)			(180,000)	(56,000)
			<u>(90,000)</u>	<u>82,000</u>
Less: S37B adjustment (note 4)			90,000	(45,000)
Loss c/b from YA 2009 (note 5)			<u>0</u>	<u>(37,000)</u>
Chargeable Income (before exempt amount)	90,000	138,000	0	0
Less: exempt amount(note 6)	0	(52,500)	0	0
Chargeable Income (after exempt amount)	<u>90,000</u>	<u>85,500</u>	<u>0</u>	<u>0</u>
Tax thereon	<u>9,000.00</u>	<u>17,100.00</u>	0.00	0.00
Less: Tax previously assessed			(9,000.00)	(17,100.00)
Tax to be Discharged			<u>(9,000.00)</u>	<u>(17,100.00)</u>

Note 4 Amount of CA carried back under 10% adjusted to normal tax rate = \$ (180,000 -90,000) x 10/20 = \$45,000
 Note 5 \$37,000 is the balance of assessable income against which the YA 2009's loss carried back can be deducted in YA 2006.

Note 6 Computation of exempt amount for normal chargeable income: (maximum 100,000)
 on the first \$10,000, 75% of the income 7,500
 on the next \$90,000, 50% of the income 45,000
 Total exempt amount 52,500

APPENDIX 3

Example 1 - continued

YA 2007

	<u>Assessment before carry back relief</u>		<u>Assessment after carry back relief</u>	
	Concessionary income (10%) \$	Normal income (20%) \$	Concessionary income (10%) \$	Normal income (20%) \$
Trade				
Adjusted Profit before CA	120,000	180,000	120,000	180,000
Less: Current CA	(25,000)	(40,000)	(25,000)	(40,000)
	<u>95,000</u>	<u>140,000</u>	<u>95,000</u>	<u>140,000</u>
Other Income				
Rental	0	20,000	0	20,000
	<u>95,000</u>	<u>160,000</u>	<u>95,000</u>	<u>160,000</u>
Less: Investment allowance	0	(10,000)	0	(10,000)
	<u>95,000</u>	<u>150,000</u>	<u>95,000</u>	<u>150,000</u>
Less CA c/b from YA 2008 (note 7)	(45,000)	(75,000)	(45,000)	(75,000)
	<u>50,000</u>	<u>75,000</u>	<u>50,000</u>	<u>75,000</u>
Less: CA c/b from YA 2009			0	0
Loss c/b from YA 2009 (note 8)			(9,900)	(1,500)
Chargeable Income (before exempt amount)	<u>50,000</u>	<u>75,000</u>	<u>40,100</u>	<u>73,500</u>
Less: exempt amount (note 9)	0	(40,000)	0	(39,250)
Chargeable Income (after exempt amount)	<u><u>50,000</u></u>	<u><u>35,000</u></u>	<u><u>40,100</u></u>	<u><u>34,250</u></u>
Tax thereon @ 10%		5,000.00		4,010.00
Tax thereon @ 20%		7,000.00		6,850.00
Total Tax Payable		<u>12,000.00</u>		<u>10,860.00</u>
Less: Tax previously assessed				(12,000.00)
Tax to be Discharged				<u><u>(1,140.00)</u></u>

Note 7 Refer to note 10b in YA 2008's computation

Note 8 Refer to note 3 in YA 2009's tax computation

Note 9 Computation of exempt amount for normal chargeable income:(maximum 100,000)

on the first \$10,000, 75% of the income	7,500	7,500
on the next \$65,000, 50% of the income	32,500	
on the next \$63,500, 50% of the income		<u>31,750</u>
Total exempt amount	<u><u>40,000</u></u>	<u><u>39,250</u></u>

APPENDIX 3

Example 1 - continued

	YA 2008			
	<u>Assessment before carry back relief</u>		<u>Assessment after carry back relief</u>	
	Concessionary	Normal	Concessionary	Normal
	income (10%)	income	income (10%)	income
	\$	(18%)	\$	(18%)
	\$	\$	\$	\$
Trade				
Adjusted Profit before CA	8,000	30,000		
Less: Current CA	(68,000)	(150,000)		
	(60,000)	(120,000)		
Other Income				
Rental		20,000		
	(60,000)	(100,000)		
Less: CA c/b to YA 2007 (note 10)	45,000	75,000		
Unabsorbed CA c/f 2009	(15,000)	(25,000)		
Chargeable income		<u>0</u>		
Tax thereon		<u>0</u>		

NO CHANGE SINCE NO ASSESSABLE INCOME

Note 10 (a) Total CA available for c/b to YA 2007 = [(60,000 x 10/18)+100,000] = 133,333
 (b) As maximum amount for carry back to YA 2007 is \$100,000 @ normal tax rate, the amount to be apportioned as follows:

for 10% rate: $(\frac{33333}{133333} \times 100,000 \times \frac{18}{10}) = 45,000$
 for 18% rate: $(\frac{100000}{133333} \times 100,000) = 75,000$