IRAS CIRCULAR

SIMPLIFICATION OF INCOME TAX RULES AND PROCEDURES –

100% CAPITAL ALLOWANCE FOR ITEMS OF MACHINERY OR PLANT COSTING NO MORE THAN $1,000 EACH

INLAND REVENUE
AUTHORITY
OF SINGAPORE

Published by
Inland Revenue Authority of Singapore

Published on 14 September 2004

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100% CAPITAL ALLOWANCE FOR ITEMS OF MACHINERY OR PLANT COSTING NO MORE THAN $1,000 EACH

INTRODUCTION

As part of Government's continuing efforts to streamline and simplify tax rules so as to reduce taxpayer's cost of compliance, the basis of granting capital allowances on capital expenditure incurred on the provision of machinery or plant (hereinafter referred to as "assets") for the purposes of a trade, business or profession has been reviewed. This Circular seeks to inform taxpayers of the revised tax treatment in the granting of capital allowance for assets that cost no more than $1,000 each.

CURRENT TAX TREATMENT

2 Part VI of the Singapore Income Tax Act (revised edition 2004) (hereinafter referred to as "SITA") sets out the rules for the granting of capital allowances on assets acquired for the purposes of a trade, business or profession. Specifically,

- section 19 provides for the cost less initial allowance, if any, to be allowed equally over the number of years of working life of the asset as specified in the Sixth Schedule of the SITA;

- section 19A(1) provides for the cost of the asset to be allowed equally over a period of 3 years in lieu of the allowances under section 19; and

- sections 19A(2) to 19A(10) provide for 100% of the cost of the assets specified therein to be allowed in one year.

3 When claiming the capital allowances on assets that are provided for under the above-mentioned sections for each year of assessment, the entity[1] must submit a schedule showing the details of additions and disposals of each asset, the allowances claimed (including any balancing allowance less any balancing charge) and the tax written down value of each asset after the allowances claimed for the year of assessment concerned. The preparation of such a capital allowance schedule for each year of assessment is time consuming and requires a great deal of effort especially if there are many items of low value assets.

REVISED TAX TREATMENT

4 With the objective of reducing taxpayer's cost of compliance while at the same time keeping the revenue implication low, a review was undertaken to examine if the basis of granting capital allowances could be simplified. From the review, it was noted that most entities do acquire assets costing no more than $1,000 each and capital allowances are claimed on these assets. Most entities would therefore have to track the tax written down values of such assets over a period of years where the cost of these assets cannot be fully written off in one year. When these assets are subsequently disposed of, they would most likely have already been fully depreciated (i.e. nil tax written down value) and, in most cases, they are likely to have no re-sale value also. In such a case, no balancing allowance or charge needs to be computed. The laborious tracking of the tax written down value of such assets is

[1] The entity refers to a person carrying on a trade, profession or business.

thus purely for the purpose of being able to claim capital allowance on such assets over a period of 3 years in most cases.

5 Arising from the review, it has been decided that for assets qualifying for capital allowance under sections 19 and 19A(1), 100% of the cost of any such asset acquired during or after the basis period relating to the Year of Assessment (YA) 2005 will be allowed[2], on due claim[3], subject to the following conditions:

(i) the cost of each asset is no more than $1,000; and

(ii) the aggregate claim for 100% write-off of all such assets is capped at no more than $30,000 per year of assessment.

6 In the event that the aggregate claim for 100% write-off as stated in paragraph 5 is above $30,000, only an amount not exceeding $30,000 of such claim will be allowed for 100% write off. [4] The allowance on those assets which exceeds the $30,000 cap will continue to be allowed under either section 19 or section 19A(1), as the case may be, for that YA concerned. For the subsequent YA(s), the allowance on those assets which exceeds the $30,000 cap will be allowed as follows:

(i) the entity can continue to claim the capital allowance for those assets under either section 19 or section 19A(1) as per the YA in which the $30,000 cap was exceeded; or

(ii) the entity can claim an immediate write-off of the tax written down value brought forward for those assets in any subsequent YA so long as the aggregate claim for the tax written down value on the said assets and the claim for 100% write-off of all other assets costing no more than $1,000 is capped at no more than $30,000 for that YA concerned.[5]

7 With this revised basis of granting capital allowances for assets costing no more than $1,000 each, most entities should be able to reap administrative savings. Entities that wish to claim capital allowances based on this revised tax treatment for any YA from YA2005 should submit their tax computations with the relevant portion of their capital allowance schedule prepared on this new basis. In order for the entities to ensure that they have made a correct

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[2] For assets acquired under hire purchase agreements as opposed to cash purchase, to qualify for 100% write-off, the cash price of the hire purchase assets must be no more than $1,000 each. If the asset satisfies this criterion, the taxpayer can choose to claim a capital allowance equivalent to 100% of the instalment paid during the basis period.

[3] Entities can continue to claim the capital allowances over the stipulated period as provided for under section 19 or 19A(1) if they do not wish to avail themselves of the revised tax treatment.

[4] For example, if the company has 38 assets costing $800 each, only 37 of such assets will qualify for 100% write-off notwithstanding that the remaining asset not qualifying for 100% write-off also cost less than $1,000. In other words, the total amount allowed for 100% write-off is $29,600 (i.e. 37*$800). The remaining asset of $800 (hereinafter referred to as “Asset A”) does not qualify for 100% write-off due to the imposition of the cap of $30,000 (i.e. 38*$800 = $30,400).

[5] Using the same example in footnote 4, assuming that for YA2005, the company claimed 100% write-off for 37 assets while for Asset A, the claim was made under section 19A(1). For YA2006, the company has 15 assets costing $500 each and the company claimed 100% write-off for these 15 assets (i.e. the total amount allowed for 100% write-off is $7,500). The company can either claim the capital allowance for Asset A under section 19A(1) (i.e. as per YA2005) or claim an immediate write-off of the tax written down value brought forward for Asset A since the aggregate claim for YA2006 will in total be only $8,033 (i.e. $7,500 + $533) and hence does not exceed the cap of $30,000.

claim (i.e. the cost of each asset is no more than $1,000), it is suggested that entities should classify the assets purchased according to the value of the assets (i.e. above $1,000 or $1,000 and below). Entities should also keep track of the amount of claim made on all assets costing no more than $1,000 each to ensure that the $30,000 cap imposed for each YA is not exceeded.

8 The SITA will be amended in due course to allow for this new basis of 100% write-off of assets in one year subject to the conditions as stated in paragraph 5.

ADMINISTRATIVE CONCESSION

9 Notwithstanding that the revised tax treatment is available only to assets acquired during or after the basis period relating to YA2005, an administrative concession will be granted for the revised tax treatment, as stated in paragraph 5 above, to apply to assets acquired prior to the basis period for YA2005 in the following scenarios:

(i) **Assets acquired prior to the basis period for YA2005 but no claim for capital allowances has been made (i.e. deferred claim for capital allowances)**. If the asset cost no more than $1,000 each and no capital allowance has been previously claimed under section 19 or 19A(1), the taxpayer is allowed to claim 100% write-off for such assets for YA2005 or any YA thereafter if the claim continues to be deferred.

However, the total claim for 100% write-off of all assets costing no more than $1,000 each under both the revised tax treatment and the administrative concession in this sub-paragraph should not be more than $30,000 for the YA concerned.

(ii) **Assets acquired prior to the basis period for YA2005 and the tax written down value is less than $1,000**. Assets costing no more than $1,000 each that are acquired prior to the basis period for YA2005 and for which capital allowances have already been partially claimed or allowed under sections 19 or 19A(1) do not qualify for the administrative concession as stated in paragraph 9(i).

However, such entity will also be allowed, as an administrative concession, to claim an immediate write-off of the tax written down value brought forward for such assets in YA2005 or any YA thereafter.

The total claim for 100% write-off of all assets costing no more than $1,000 each under the revised tax treatment, the administrative concession as mentioned in paragraph 9(i) and the administrative concession in this sub-paragraph should not be more than $30,000 for the YA concerned.

ENQUIRIES

10 For any clarification on this e-Tax Guide, please call our following helpline:

- For Companies: 1800-3568622; and
- For Sole Proprietors & Partners of a Partnership: 1800-3568611
- For Bodies of Persons: 6351 3883

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