

IRAS CIRCULAR

**TAX EXEMPTION OF INTEREST INCOME
DERIVED BY INDIVIDUALS FROM
STANDARD SAVINGS, CURRENT AND
FIXED DEPOSIT ACCOUNTS IN SINGAPORE
(Revised Edition)**



**INLAND REVENUE
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OF SINGAPORE**

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TAX EXEMPTION OF INTEREST INCOME DERIVED BY INDIVIDUALS FROM STANDARD SAVINGS, CURRENT AND FIXED DEPOSIT ACCOUNTS IN SINGAPORE

INTRODUCTION

On 28 February 2003, DPM and Minister for Finance announced in his Budget Statement 2003 that interest income derived by individuals from their standard domestic savings, current and fixed deposit accounts would be exempt from tax.² The objective of this tax change is to help retain domestic funds in Singapore and also attract back funds currently placed offshore.

2 The tax exemption of interest income as announced by DPM and Minister for Finance will be implemented in two phases as follows:

- (a) interest income derived during the period 1 January 2003 to 31 December 2004 [i.e. years of assessment (“YAs”) 2004 and 2005] by an individual on any deposit of moneys in excess of the first \$100,000³ in each of his standard savings, current and fixed deposit accounts would be exempt from tax (hereinafter referred to as “partial tax exemption”); and
- (b) interest income derived on or after 1 January 2005 [i.e. with effect from year of assessment (“YA”) 2006] by an individual from deposit of moneys (regardless of the amount) in any standard savings, current and fixed deposit accounts in Singapore would be exempt from tax (hereinafter referred to as “total tax exemption”).

3 The above two-step process towards total exemption of interest income derived by an individual from the deposit of moneys in any standard savings, current and fixed deposit account in Singapore is necessary because under an agreement between the Government and the Development Bank of Singapore Limited (“DBS Bank”), depositors with the Post Office Savings Bank (POSB) enjoy the exclusive right to tax exemption on

¹ In relation to paragraphs 6 to 17 under Part II of this Circular

² The exemption of interest income sourced domestically is also one of the recommendations made by the Economic Review Committee to the Government.

³ All amounts are expressed in Singapore dollars unless otherwise stated.

interest income derived from the first \$100,000 of their deposits until 31 December 2004.

4 This Circular, which consists of 3 parts, seeks to provide further details on the above-mentioned tax change as follows:

- (a) Part I clarifies the scope of the tax exemption of interest income that is applicable for both the partial tax exemption and the total tax exemption as stated in paragraphs 2(a) and (b) above;
- (b) Part II provides the details on the partial tax exemption as stated in paragraph 2(a) above; and
- (c) Part III provides the details on the total tax exemption as stated in paragraph 2(b) above.

PART I SCOPE OF TAX EXEMPTION OF INTEREST INCOME FOR BOTH THE PARTIAL TAX EXEMPTION AND THE TOTAL TAX EXEMPTION

5 The scope of both the partial tax exemption and the total tax exemption as stated in paragraphs 2(a) and (b) is as follows:

- (a) The tax exemption is applicable to both an individual who is resident in Singapore for income tax purposes (hereinafter referred to as “resident individual”) and an individual who is not resident in Singapore for income tax purposes (hereinafter referred to as “non-resident individual”);
- (b) The tax exemption is applicable only to interest income derived by these individuals from the deposit of moneys (in either Singapore dollars or foreign currencies) in any:
 - (i) standard savings account;
 - (ii) standard current account; and
 - (iii) standard fixed deposit account,

placed with any of the following institutions:

- (i) a bank in Singapore approved by the Minister by order in the Gazette under section 13(16) of the Singapore Income Tax Act (“SITA”) (hereinafter referred to as “approved bank”); and
 - (ii) a finance company licensed under the Finance Companies Act (Chapter 108) (hereinafter referred to as “finance company”); and
- (c) Deposits in relation to any standard savings, current or fixed deposit account exclude deposits the interest from which is determined by the performance of the securities to which the deposits are tied or fluctuations in currency exchange rates or any other deposits as may be prescribed under the SITA.

PART II DETAILS OF THE PARTIAL TAX EXEMPTION APPLICABLE FROM 1 JANUARY 2003 TO 31 DECEMBER 2004⁴

6 Currently, interest income derived by a resident or non-resident individual from the deposit of moneys of up to an aggregate amount of \$100,000 in one or more of his POSB savings accounts with DBS Bank is exempt from tax under section 13(1)(u) of the SITA. For a non-resident individual, the interest income derived from any amount of moneys held on deposit in an approved bank is also exempt from tax under section 13(1)(t) of the SITA. These tax exemptions remain unchanged.

7 With the partial tax exemption, all interest income derived from standard savings, current and fixed deposit accounts with approved banks and finance companies in Singapore, except for the interest income from the first \$100,000 of deposit of moneys in such accounts (excluding POSB savings accounts with DBS Bank), will be exempt from tax. The interest income from the first \$100,000 of deposit of moneys in standard savings, current and fixed deposit accounts with approved banks (excluding POSB savings accounts with DBS Bank) and finance companies in Singapore will continue to be taxed so as to allow the continuation of the exclusive tax exemption on interest from the first \$100,000 of POSB savings accounts.

8 For a resident individual, the partial tax exemption confers the additional benefit of partial exemption on interest income derived from any standard savings/current/fixed deposit accounts with both approved banks and finance companies. In addition, the resident individual will enjoy tax exemption for interest income derived from the deposit of moneys in excess of the aggregate amount of \$100,000 in one or more of his POSB savings accounts with DBS bank. Effectively, interest income derived from any amount of moneys held on a POSB savings account derived by a resident individual will be fully exempt from tax.

9 For a non-resident individual, the partial tax exemption confers the additional benefit of partial exemption on interest income derived from any standard savings/current/fixed deposit accounts with a finance company.

⁴ The details described in Part II of the IRAS circular – “Tax Exemption of Interest Income Derived By Individuals From Standard Savings, Current and Fixed Deposit Accounts In Singapore” dated 8 May 2003 will no longer apply. The details explained in this current circular is made simpler to enable depositors to determine easily the amount of interest that will be exempt from tax.

10 The treatment of interest income derived by any individual from 1 January 2003 to 31 December 2004 under the partial tax exemption is summarized below:

Types of Deposit	Resident Individual	Non-Resident Individual
<p><u>Deposit of Moneys with POSB</u></p> <p>Interest income from deposit of moneys:</p> <p>(i) up to an aggregate amount of \$100,000 (or the equivalent amount in foreign currency) in one or more of his POSB savings accounts</p> <p>(ii) in excess of first \$100,000 (or the equivalent amount in foreign currency) in one or more of his POSB savings accounts</p>	<p>Already exempt from tax under section 13(1)(u)</p> <p>Exempt from tax under the partial tax exemption</p>	<p>Already exempt from tax under section 13(1)(t)</p>
<p><u>Deposit of Moneys with Approved Banks (other than deposit of moneys with POSB)</u></p> <p>Interest income from deposit of moneys in excess of first \$100,000 (or the equivalent amount in foreign currency) in the aggregation of all standard savings/current/fixed deposit accounts</p>	<p>Exempt from tax under the partial tax exemption</p>	<p>Already exempt from tax under section 13(1)(t)</p>
<p><u>Deposit of Moneys with Finance Companies</u></p> <p>Interest income from deposit of moneys in excess of first \$100,000 (or the equivalent amount in foreign currency) in the aggregation of all standard savings/current/fixed deposit accounts</p>	<p>Exempt from tax under the partial tax exemption</p>	

Determination of Interest Income to be Exempt from Tax under the Partial Tax Exemption

11 The actual interest income earned by a resident individual from all standard savings, current and fixed deposit accounts with approved banks and finance companies⁵ in Singapore (excluding POSB savings accounts with DBS Bank) will be aggregated for the purpose of determining the amount of interest that is subject to tax. To simplify the determination of the amount of interest on the first \$100,000 of deposits,

⁵ Where the actual interest income derived is in foreign currency, such amount has to be reflected in S\$ by the time such amount is to be declared for income tax purposes. If the amount has not already been converted into S\$ by that time, the actual interest income in S\$ shall be computed as:

the actual interest income derived in foreign currency * AAER;

where: AAER refers to the average annual exchange rate for that calendar year in which the interest income is derived by the individual. The AAER is available at the IRAS website (www.iras.gov.sg; under "others"; "Average Exchange Rates") and is shown as Singapore dollars to one unit of foreign currency.

a benchmark interest income⁶ will be adopted. The amount of actual interest income that is taxable will therefore be the lower of:

- (i) the benchmark interest income; or
- (ii) the aggregated amount of actual interest income earned by a resident individual from all standard savings, current and fixed deposit accounts with approved banks and finance companies in Singapore (excluding POSB savings accounts with DBS Bank).

Accordingly, the amount of actual interest income earned by a resident individual from non-POSB accounts to be exempt from tax under the partial tax exemption will be the aggregated amount of actual interest income earned by that individual from all standard savings, current and fixed deposit accounts with approved banks and finance companies in Singapore (excluding POSB savings accounts with DBS Bank) in excess of the benchmark interest income.

12 For a non-resident individual, the amount of actual interest income from the deposit of moneys with finance companies in Singapore to be exempt from tax will be the aggregated amount of actual interest income earned by that individual from all standard savings, current and fixed deposit accounts with finance companies in Singapore in excess of the benchmark interest income.

13 Examples illustrating the computation of interest income that is exempt from tax under the partial tax exemption are shown in Annex A of this Circular.

Benchmark Interest Income

14 The benchmark interest income will be based on the interest income from the deposit of moneys of \$100,000 in a POSB savings account with DBS Bank held throughout the year.

15 DBS Bank will furnish the Government with the benchmark interest income after the end of each calendar year for the years ending 31 December 2003 and 31 December 2004. The benchmark interest income for the year ending 31 December 2003 is \$152.98. IRAS will publish the benchmark interest income for the year ending 31 December 2004 on the IRAS website once such figure is obtained from DBS Bank by end January 2005.

Determination of Interest Income to be Exempt from Tax under the Partial Tax Exemption in the Case of Joint Standard Savings, Current and Fixed Deposit Accounts

16 Where a standard savings, current or fixed deposit account is held jointly by 2 or more individuals⁷, for the purposes of determining the actual interest income derived by each holder of the account, the actual interest income derived from that account shall

⁶ Details on the benchmark interest income are provided in paragraph 14 and 15 of this Circular.

⁷ This also covers individual partners of any partnership.

be split equally among all the holders of the account unless the holders can furnish proof to show that the interest income is not to be split equally.⁸

17 An example illustrating the computation of interest income that is exempt from tax under the partial tax exemption in the case of joint standard savings, current and fixed deposit accounts is shown in Annex B of this Circular.

PART III SCOPE OF TAX EXEMPTION OF INTEREST INCOME OF ANY AMOUNT (WITH EFFECT FROM 1 JANUARY 2005)

18 As stated in paragraph 2(b) above, interest income derived on or after 1 January 2005 (i.e. with effect from the year of assessment 2006) by any individual from the deposit of moneys (regardless of the amount and in any currency) in any standard savings, current and fixed deposit account with any approved bank or finance company would be exempt from tax. As such, the methods prescribed in the above paragraphs for the purposes of determining the amount of interest income to be exempt under the partial tax exemption would no longer be applicable to interest income derived on or after 1 January 2005.

ENQUIRIES

19 Taxpayers who have any queries concerning this Circular may call our Individual Income Tax Helpline at 1800-356 8300.

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⁸ In the case of a partnership, the interest income derived shall be allocated to each individual partner in accordance with his or her profit sharing ratio under the partnership agreement.

Example 1: Determination of Interest Income Derived by a Resident Individual from Standard Savings/Current/Fixed Deposit Account to be Exempt from Tax under the Partial Tax Exemption

Mr A has 1 standard fixed deposit account with a finance company ABC and 1 standard current account with a non-POSB approved bank, Bank XYZ. For year 2003, the actual interest income derived from the fixed deposit account with finance company ABC and current account with Bank XYZ are \$50 and \$80 respectively.

Mr A also has another 3 standard savings accounts with POSB. For year 2003, the total actual interest income derived from these 3 accounts is \$300.

The benchmark interest furnished by DBS for year 2003 is \$152.98.

Computation

For YA2004, Mr A's total actual interest income is treated as follows for income tax purposes:

(I) Total interest income on POSB savings accounts of \$300 is fully exempt from tax.

(II) Total interest income on fixed deposit account with finance company ABC and current account with Bank XYZ:

The total interest income on the non-POSB accounts (i.e. fixed deposit account with finance company ABC and current account with Bank XYZ) of \$130 (\$50 + \$80) is lower than the benchmark interest of \$152.98.

Therefore, interest income subject to tax
 = interest income on the non-POSB accounts
 = \$130

(III) Total interest income from both POSB and non-POSB accounts:

	Total Interest Income Exempt from Tax in YA2004	Total Interest Income Subject to Tax in YA2004
POSB accounts	\$300	\$0
Non-POSB accounts	\$0	\$130
Total	\$300	\$130

Example 2: Determination of Interest Income Derived by a Resident Individual from Standard Savings/Current /Fixed Deposit Account to be Exempt from Tax under the Partial Tax Exemption

Mr B has 1 standard savings account and 1 standard current account with a non-POSB approved bank, Bank DEF. For year 2004, the total actual interest income derived from these 2 accounts is \$185. Mr B has another standard fixed deposit account with a finance company GHI. For year 2004, the actual interest income derived from this account is \$70.

In addition to the above, Mr B has 2 standard savings accounts with POSB. For year 2004, the actual interest income derived from these 2 accounts are \$100 and \$150 respectively.

The benchmark interest furnished by DBS for year 2004 is assumed to be \$200.

Computation

For YA2005, Mr B's total actual interest income is treated as follows for income tax purposes:

(I) Total interest income on POSB savings accounts of \$250 is fully exempt from tax.

(II) Total interest income on Bank DEF and finance company GHI fixed deposit, current and savings accounts:

The interest income on the non-POSB accounts (i.e. fixed deposit account, current and savings accounts with Bank DEF and finance company GHI) of \$255 (\$185 + \$70) is higher than the benchmark interest of \$200. Therefore, the interest income subject to tax is equal to the benchmark interest of \$200.

	Actual Interest	Benchmark Interest	Interest Income Exempt from Tax in YA2005	Interest Income Subject to Tax in YA2005
Savings & Current Accounts - Bank DEF	\$185	\$200	\$ (255 - 200) = \$55	\$200
Fixed Deposit Account - Finance company GHI	\$ 70			

(III) Total interest income from both POSB and non-POSB accounts:

	Total Interest Income Exempt from Tax in YA2005	Total Interest Income Subject to Tax in YA2005
POSB accounts	\$250	\$0
Non-POSB accounts	\$ 55	\$200
Total	\$305	\$200

Example 1: Determination of Interest Income Derived by a Resident Individual from Joint Standard Savings/Current/Fixed Deposit Account to be Exempt from Tax under the Partial Tax Exemption

Mr C has 1 standard savings account, 1 standard current account and 1 standard fixed deposit account placed in US\$ with a non-POSB approved bank, Bank ABC. For year 2004, the actual interest income derived from these 3 accounts are \$120, \$150 and \$180⁹ respectively. Other than the above-mentioned accounts with Bank ABC, Mr C also has 1 joint standard savings account and 1 joint fixed deposit account with his wife, Mrs C with another non-POSB approved bank, Bank DEF. For year 2004, the actual interest income derived from these 2 accounts is \$600.

In addition to the above, Mr C has 2 standard savings accounts with POSB. For year 2004, the actual interest income derived from these 2 accounts are \$100 and \$150 respectively.

The benchmark interest furnished by DBS for year 2004 is assumed to be \$200.

Computation

Mr C:

(A) For YA2005, Mr C's total actual interest income is treated as follows for income tax purposes:

(I) Total interest income on POSB savings accounts of \$250 is fully exempt from tax.

(II) Total interest income on Banks ABC and DEF fixed deposit, current and savings accounts:

Interest income from Bank ABC = \$120 + \$150 + \$180 = \$450

Share of interest income from Bank DEF = \$600/2 = \$300

The total interest income on the non-POSB accounts (i.e. fixed deposit account, current and savings accounts with Bank ABC and DEF) of \$750 (\$450 + \$300) is higher than the benchmark interest of \$200. Therefore, the interest income subject to tax is equal to the benchmark interest of \$200.

⁹ The actual interest income derived on the standard fixed deposit account placed in US\$ with Bank ABC is US\$100. This is converted to S\$ using the AAER for year 2004 which will be available on the IRAS website. For the purposes of this example, it is assumed that US\$1 = S\$1.80. Therefore the actual interest income derived is S\$180 (i.e. US\$100*1.80).

Annex B (continued)

	Actual Interest	Benchmark Interest	Interest Income Exempt from Tax in YA2005	Interest Income Subject to Tax in YA2005
Savings, Current & Fixed Deposit Accounts - Bank ABC	\$450	\$200	\$(750 – 200) = \$550	\$200
Joint Savings & Fixed Deposit Accounts - Bank DEF	\$300			

(III) Total interest income from both POSB and non-POSB accounts:

	Total Interest Income Exempt from Tax in YA2005	Total Interest Income Subject to Tax in YA2005
POSB accounts	\$250	\$0
Non-POSB accounts	\$550	\$200
Total	\$800	\$200

Mrs C:

(B) For YA2005, Mrs C's total actual interest income is treated as follows for income tax purposes:

(I) Share of interest income from Bank DEF = $\$600/2 = \300

The total share of interest income on the non-POSB joint accounts (i.e. joint savings and fixed deposit accounts with Bank DEF) of \$300 is higher than the benchmark interest of \$200. Therefore, the interest income subject to tax is equal to the benchmark interest of \$200.

	Actual Interest	Benchmark Interest	Total Interest Income Exempt from Tax in YA2005	Total Interest Income Subject to Tax in YA2005
Joint Savings & Fixed Deposit Accounts - Bank DEF	\$300	\$200	\$(300 – 200) = \$100	\$200