

IRAS CIRCULAR

CONCESSIONARY “GROUP” TREATMENT FOR DIVIDEND INCOME ASSESSABLE TO TAX UNDER SECTION 10(1)(d) OF THE SINGAPORE INCOME TAX ACT



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Updated on 28 March 2005. Updates are as follows:

- Section 13(7) quoted in paragraph 6(b) has been renumbered as section 13(12) with reference to the Income Tax Act (Revised Edition 2004), and reference to exemption from tax of certain foreign-sourced income under sections 13(7A) and 13(8) is also made in the said paragraph
- insertion of paragraph 7(c) to clarify the treatment of shares in Singapore companies on the one-tier corporate tax system
- editorial amendments to paragraphs 8 and 11

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Introduction

- 1 A person in receipt of dividend income which is taxable in Singapore, including foreign dividend income remitted from overseas, is usually assessed to tax on such income under section 10(1)(d) of the Singapore Income Tax Act (SITA) unless the dividends constitute receipts of a trade or business carried on by that person. In assessing the dividend income to tax under section 10(1)(d), a deduction of all allowable expenses incurred wholly and exclusively in the production of the dividend income is effected to arrive at the net taxable dividend income.
- 2 When determining the dividend income to be taxed under section 10(1)(d), the current practice is to regard the dividend from each block of shares separately and to only allow a deduction of expenses incurred in respect of each block of shares. For example, a person who takes up a loan to finance the acquisition of a block of 10,000 shares in A Ltd will be allowed to take a deduction of the interest expense incurred on the loan against the dividend from the block of 10,000 shares in A Ltd. Where the interest expense incurred exceeds the dividend income from that block of shares in any year, the excess of the interest expense over the dividend income (ie. the deficit) cannot be set-off against the dividend income from any other blocks of shares (say, shares in B Ltd) or any other sources of income for that year or subsequent years. In other words, the deficit from any block of shares in any year will be disregarded.
- 3 The current tax treatment, which recognises each block of shares as a separate source of dividend income, requires taxpayers to match expenses incurred in respect of each block of shares against the dividend income derived therefrom. There have, however, been representations made to IRAS to apply the “global” basis for dividend income instead of the above tax treatment. Under the “global” basis, the dividend income from all shares is to be treated as having arisen from a single source and the total allowable expenses incurred to produce the dividend income will be deducted from such income to arrive at the net taxable dividend income. IRAS has recently reviewed the above tax treatment and has decided, as an administrative concession, to introduce a “group” tax treatment for dividend income (to be referred to as the concessionary “group” treatment hereafter).
- 4 This Practice Note sets out the relevant details of the concessionary “group” treatment.

Administrative Practice

- 5 With effect from the YA 1996, IRAS will apply the concessionary “group” treatment for dividend income assessable to tax under section 10(1)(d) of the SITA. The concessionary “group” treatment will, unlike the current tax treatment, allow the deficit arising within a group from any block of shares (say, 10,000 shares in A Ltd) for a particular year to be set-off against the net dividend income for the same year from other blocks of shares within the same group (say, 10,000 shares in B Ltd).

6 To be accorded the concessionary “group” treatment, all the investments of a taxpayer in shares and stocks shall be divided into the following groups:

(a) **Group 1**

Non-income producing shares (whether local or foreign shares);

(b) **Group 2**

Shares which produce dividend income for which tax exemption or remission has been granted, including overseas dividend income remitted to Singapore that is exempt from tax under sections 13(7A), 13(8) and 13(12) of the SITA;

(c) **Group 3**

Income producing shares in unrelated Singapore companies;

(d) **Group 4**

Income producing shares in related Singapore companies;

(e) **Group 5**

Income producing shares in overseas companies where no dividend income is remitted to Singapore in the year;

(f) **Group 6**

Income producing shares in overseas companies where dividend income is remitted to Singapore in the year and chargeable to tax in Singapore.

7 For the purposes of this Practice Note:

(a) shares are regarded as non-income producing if they have not yielded any dividend income to their beneficial owners since the date of acquisition. As a corollary, shares are regarded as income producing after they have yielded dividend income to their beneficial owners;

(b) a company is regarded as related to its shareholder if the latter beneficially owns, directly or indirectly, at least 25% of the issued share capital of the company;

(c) shares in Singapore companies on the one-tier corporate tax system [whereby the dividends declared therefrom are exempt(1-tier) dividends which do not carry any tax credit] are regarded as falling within group 2.

- 8 The residue of each group or each block of shares within the group is then derived by deducting from the dividend of each group or block the allowable expenses incurred to produce the dividend. As the expenses incurred in respect of shares within groups 1 and 5 do not produce dividend income which is chargeable to tax in Singapore, these expenses are not deductible. However, as an administrative concession, expenses incurred in any year in respect of shares in group 5 may, with effect from the YA 1996, be carried forward for set-off against the foreign dividend income of this group which is subsequently remitted to Singapore (please refer to Income Tax Practice Note 1996/IT/3 issued on 22 January 1996 for more details on the liberalised treatment of expenses incurred in Singapore to derive foreign income).
- 9 For shares within groups 2, 3, 4 and 6, any deficit arising from any block of shares within each of the groups shall be set-off against the net dividend income of other blocks of shares falling within the same group. If any of the groups should have a net deficit, the deficit shall not be deductible against the net dividend income of any other group or any other sources of income derived by a taxpayer. In other words, the net deficit of any group in any year shall be disregarded for tax purposes.
- 10 Under the concessionary “group” treatment, where it is necessary to determine the quantum of income for remission or exemption of tax or the amount of double taxation relief in circumstances where one or more blocks of shares within a group has suffered a deficit, the Comptroller shall apply the “weighted average” method to allocate any deficit arising from one or more blocks of shares to the net dividend income of the other blocks of shares within the same group. The example below will illustrate how the “weighted average” method will be applied:

Example

Foreign dividend income received by Company T in Singapore and the expenses incurred to derive the foreign dividend income are as follows:

<u>Shares in Company</u>	<u>Foreign Dividend Income</u>	<u>Allowable Expenses</u>	<u>Net Income/ (deficit)</u>	
A*	\$5m (foreign tax rate = 30%)	\$1m	\$4m)
)
B*	\$2m (foreign tax rate = 10%)	\$1m	\$1m)
)
C*	\$5m (foreign tax rate = 30%)	\$6m	(\$1m)	
Net dividend income			<u>\$4m</u>	

*Assumption: Companies are residents of non-tax treaty countries.

Under the concessionary “group” treatment, the amount of unilateral tax credit (UTC) to be given for net dividend income from Company A, B and C shall be computed as follows:

UTC for dividend income from Company A:

$$[\$4\text{m} - (4/5 \times 1\text{m})] \times 27\% = \$0.864\text{m}$$

UTC for dividend income from Company B:

$$[\$1\text{m} - (1/5 \times \$1\text{m})] \times 27\% = \$0.216\text{m}, \text{ restricted to } \$0.2\text{m} (\$2\text{m} \times 10\%)$$

UTC for dividend income from Company C:

Not applicable because the net dividend income is nil.

- 11 Taxpayers who have any enquiries on the above concessionary “group” treatment for dividend income may call IRAS for clarification.

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