

IRAS CIRCULAR

METHOD OF ALLOWING FOREIGN TAX CREDIT



**INLAND REVENUE
AUTHORITY
OF SINGAPORE**

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- insertion of a paragraph (i.e. paragraph 3) explaining the granting of unilateral tax credit for specified foreign income under section 50A of the Singapore Income Tax Act where there are no arrangements in force with the government of any territory outside Singapore
- updating of paragraphs 4 and 5 (re-numbered as 5 and 6).

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INTRODUCTION

1. Relief from double taxation, which takes the form of a credit against Singapore tax, is provided for under sections 50 and 50A of the Income Tax Act.
2. Section 50 specifies that where income subject to tax in Singapore is derived from a territory with which there is an arrangement for tax paid in that territory to be allowed as a credit against Singapore tax payable, then the Singapore tax payable is to be reduced by the foreign tax paid. The amount of the credit allowable is however limited to the Singapore tax on the foreign income. This limitation ensures that the Singapore tax on other income taxable in Singapore is not in any way eroded by the double taxation relief allowed.
3. Under section 50A, notwithstanding that there are no arrangements in force with the government of any territory outside Singapore, tax credit under section 50 may be given to any person resident in Singapore for tax payable under the law of that territory in respect of specified types of income¹.
4. Based on the provisions of section 50, where credit for foreign tax is to be allowed, the Singapore tax on each amount of income which has suffered foreign tax is computed first. The credit to be allowed is the foreign tax paid or the Singapore tax on that income, as computed, whichever is the lower. Where the foreign tax is equal to or higher than the Singapore tax attributable to that income, no further Singapore tax is payable after credit for the foreign tax on that income is allowed. For the purpose of determining the Singapore tax on the income which is the subject of double taxation relief, the appropriate tax rate is applied to the income after deducting allowable expenses and other deductions allowed under the Income Tax Act.

ADMINISTRATIVE PRACTICE

ADMINISTRATIVE PRACTICE APPLICABLE TO FINANCIAL INSTITUTIONS

5. For a bank or other financial institution where the expenses incurred on each source or item of income is not separately accounted for, it becomes

¹ The specified income are:

- a) Any income derived from any professional, consultancy and other services rendered in a foreign jurisdiction;
- b) Any royalty derived from a foreign jurisdiction, where the payment is not –
 - i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore); or
 - ii) deductible against any income accruing in or derived from Singapore.
- c) any dividend derived from a foreign jurisdiction;
- d) any income from employment in a foreign jurisdiction; and
- e) any profit derived from outside Singapore by a branch in a foreign jurisdiction of a company resident in Singapore

impossible to determine the Singapore tax on each item of income which qualifies for double taxation relief. In such cases where a strict matching of income and expenses on an itemised basis is not adopted, each amount of income which qualifies for double deduction is computed, as an administrative practice, using the following formula:

$$\frac{A}{B} \times C$$

where : A is the gross taxable income from a particular source which qualifies for double taxation relief;

B is the total of the gross taxable income from all sources;
and

C is the aggregate chargeable income from all sources, net of partial tax exemption of chargeable income under section 43(6) or (6A) of the Income Tax Act.

6. Using the formula, if the gross foreign income for Year of Assessment 2005 is \$100,000 on which foreign tax at 15% (\$15,000) has been paid, but the chargeable income net of partial tax exemption of chargeable income under section 43(6) or (6A) of the Income Tax Act attributable to that income is only \$30,000, then the Singapore tax on that income would only be \$6,000 (\$30,000 x 20%). In this case the double taxation relief to be allowed in respect of that foreign income is limited to \$6,000.
7. This will clarify the method adopted by IRAS with regard to the computation of the foreign tax credit to be allowed in granting relief from double taxation.

Inland Revenue Authority of Singapore