

# IRAS CIRCULAR

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## NEW CORPORATE TAX REGIME

### INTRODUCTION

In his Budget Statement for FY2001, the Minister for Finance announced certain changes to the corporate tax regime, which will take effect from the year of assessment 2002. These changes, intended to help maintain Singapore's competitiveness and to lighten the tax burden of the smaller and less profitable companies, are:

- (a) reduction of company tax rate from the current 25.5% to 24.5%;
- (b) partial tax exemption on up to \$100,000 of a company's chargeable income (other than Singapore dividends) that is subject to tax at 24.5%, as follows:
  - (i) up to the first \$10,000 of such income, 75% of the income shall be exempt from tax;
  - (ii) up to the next \$90,000 of such income, 50% of the income shall be exempt from tax.

2 This circular provides further details of these tax changes to the corporate tax regime (referred hereafter as the "new corporate tax regime").

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### Reduction of company tax rate

3 With effect from the year of assessment 2002, the company tax rate will be reduced from the current 25.5% to 24.5%. In line with the reduction in the company tax rate, the Ministry of Finance has confirmed that the following tax rates under the Income Tax Act (ITA) for non-residents and certain payments that are presently pegged at 25.5% will also be correspondingly reduced to 24.5% with effect from the year of assessment 2002:

- (a) tax rate for non-residents;

- (b) tax rate for trustees (other than trustees for incapacitated persons) and executors;
- (c) rate for withholding tax (other than the 15% final withholding tax); and
- (d) rate for deduction of tax from dividends paid on or after 1 January 2001.

**Partial tax exemption on normal chargeable income of up to \$100,000**

4 In the case of companies, besides the reduction in company tax rate to 24.5% from the year of assessment 2002, the Minister also announced partial tax exemption on chargeable income (other than Singapore dividends) of a company of up to \$100,000 that is subject to tax at the rate of 24.5% (referred hereafter as “normal chargeable income”). The income to be exempt from tax under the new corporate tax regime (referred hereafter as “exempt amount”) is to be computed by applying the appropriate rate of exemption to the normal chargeable income (other than Singapore dividends) of a company before deducting the exempt amount.

5 Accordingly, the partial tax exemption does not apply to:

- (a) chargeable income of a company that is subject to tax at a concessionary rate (referred hereafter as “concessionary chargeable income”). A company that is granted any tax incentive in respect of which income is subject to tax at a rate other than 24.5% will therefore not enjoy the partial tax exemption on such income.
- (b) income earned by a non-resident company that is subject to a final withholding tax. Such income earned by a non-resident company, which includes interest and royalties, will therefore continue to be taxed at the rate provided in the ITA or the reduced rate provided in a tax treaty.

6 A company that has both normal chargeable income (other than Singapore dividends) and concessionary chargeable income for any year of assessment can also enjoy the partial tax exemption on its normal chargeable income.

7 Under the new corporate tax regime, a company with normal chargeable income (other than Singapore dividends) for any year of assessment will therefore be taxed on the income as follows:

- (a) up to the first \$10,000 of normal chargeable income (before deducting the exempt amount), 75% of the income or an amount up to \$7,500 shall be exempt from tax.

- (b) up to the next \$90,000 of normal chargeable income (before deducting the exempt amount), 50% of the income or up to \$45,000 shall be exempt from tax.
- (c) normal chargeable income, net of exempt amount, shall then be taxed at 24.5%.

8 The new corporate tax regime does not in any way change the basis for ascertaining the chargeable income of a company, as provided in the ITA. However, under the new regime, an amount of up to \$52,500 of a company's normal chargeable income will be exempt from tax at the company level for each year of assessment.

9 The examples in Annex 1 illustrate how the tax payable of a company is computed under the new corporate tax regime under different situations.

### **Taxation of bodies of persons under the new corporate tax regime**

10 Currently, a body of persons such as a club or trade association is taxed on its income based on the tax rates specified in Part B of the Second Schedule to the ITA (referred hereafter as "Part B rates"), which range from 6% to 55%. Where its effective rate of tax exceeds 25.5%, the rate of tax applicable on every dollar of its income is limited to 25.5%. With the implementation of the new corporate tax regime, MOF has confirmed that such limitation in the case of a body of person would also be modified in the manner set out in paragraph 11.

11 With effect from the year of assessment 2002, the rate of tax applicable on the income of a body of persons would be limited to the effective company tax rate, if this were lower than its effective rate of tax determined based on Part B rates.

12 The effective company tax rate in relation to a body of persons referred to in paragraph 11 is determined as follows:

$$\frac{\text{Tax chargeable at prevailing company tax rate on its normal chargeable income after deducting the exempt amount it would have enjoyed if it were to be taxed as a company}}{\text{Normal chargeable income before deducting the exempt amount it would have enjoyed if it were to be taxed as a company}}$$

13 For a body of persons, this essentially means that effective from the year of assessment 2002, where the tax payable on its income for any year of assessment determined based on Part B rates exceeds the tax payable on such income if it were to be taxed as a company, its tax payable for the year of

assessment is limited to the latter amount. The example in Annex 2 illustrates the determination of tax payable of the income of a body of person.

### **Section 44 account and deduction of tax from dividends**

14 Every company resident in Singapore that pays dividends has to deduct tax at 24.5% from the dividends paid to its shareholders (the tax deducted is commonly referred to as “franking credit”), unless the company is one designated by Minister under section 44(3) to pay gross dividends without tax deduction or the company is paying exempt dividends out of exempt income as specifically allowed by the provisions of the ITA or Economic Expansion Incentives Act (EEIA). This is not changed under the new corporate tax regime.

15 Currently, every company resident in Singapore is required to maintain a section 44 account. The tax assessed at 24.5% on the company’s income is the amount to be credited to the section 44 account for purpose of paying a taxed dividend. Any such dividend paid by the company will carry a franking credit of 24.5% (i.e.  $24.5/75.5$  of the net dividend paid).

16 For companies that have already deducted tax at the rate of 25.5% from the dividends they paid during 2001, the net dividends received by a shareholder is deemed to have been paid without deduction of tax and will be grossed up at the rate of 24.5% to determine the gross dividend assessable to tax. The difference between the amount of tax deducted at 25.5% from such dividends and the tax deemed to be so deducted would be available for franking future taxed dividends.

17 A shareholder who receives the dividends would be given franking credit at 24.5% of the re-grossed amount of the dividends. The example in Annex 3 illustrates the re-grossing of taxed dividends received by a shareholder.

## **ENQUIRIES**

18 Clarifications on the new corporate tax regime may be directed to IRAS at telephone no. 351-2123.

Inland Revenue Authority of Singapore