IRAS CIRCULAR

FILING OF INCOME TAX COMPUTATIONS AND FINANCIAL STATEMENTS IN FUNCTIONAL CURRENCIES OTHER THAN SINGAPORE DOLLARS

INLAND REVENUE
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- footnotes 2 and 3 (in bold) inserted for paragraph 2;
- examples in annexes 1 and 2 (accounting year end 31 Mar 2004 used instead of 31 Mar 2003).
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- paragraph 2 is revised following the amendment of the Income Tax Act;
- paragraphs 4, 6, 10 and footnote 3 – "YA 2004" is replaced with "the relevant first YA";
- Examples in paragraphs 9(i) and 9(ii) -- YA 2005 used instead of YA 2004 and consequential amendments to the dates in the examples

IRAS CIRCULAR

INTRODUCTION

1. Presently, all income tax computations and the accompanying financial statements submitted to the Comptroller of Income Tax (hereinafter referred to as "CIT") for the purposes of arriving at the tax payable must be denominated in Singapore dollar (hereinafter referred to as "S$"). IRAS has received requests by a number of companies to file their income tax computations and financial statements with the CIT in non-S$ if their functional currencies[1] are other than S$ (hereinafter referred to as "non-S$ functional currencies").

2. Prior to the amendment to the Companies Act in 2002, all companies must file their financial statements in S$ with the then Registrar of Companies and Businesses (hereinafter referred to as "RCB"), unless approval was obtained from RCB to do otherwise. The Companies Act has been amended to require a company with accounting period beginning on or after 1 January 2003 to comply with the Financial Reporting Standards ("FRS") and the Interpretations of FRS ("INT FRS"). The FRS requires a company to determine its functional currency and measure its results and financial position in that currency. Following this, the Income Tax Act has been amended[2] to provide for the filing of income tax computations and financial statements in non-S$ functional currencies with effect from year of assessment ("YA") 2004 for a business with accounting period beginning on 1 January 2003 and YA 2005 for a business with accounting period beginning after 1 January 2003 (the first effective YA, i.e. YA 2004 or YA 2005, as the case may be, is hereinafter referred to as "the relevant first YA").

3. Sole proprietors and partners need not comply with the Companies Act. However, if they maintain their financial accounts and prepare their financial statements in non-S$ functional currencies, they should similarly file their tax computations and financial statements in their non-S$ functional currencies. Their financial statements in non-S$ functional currencies which are submitted with their tax computations should continue to be certified true and correct by the sole proprietors or principal partners. Once businesses conducting their operations in non-S$ functional currencies switch to filing their income tax computations and financial statements in their non-S$ functional currencies, they <u>must continue</u> to do so in those non-S$ functional currencies, unless there is a subsequent change of functional currencies.

4. For businesses that have already written to CIT to request for filing of their tax computations and financial statements in their non-S$ functional currencies from a YA earlier than the relevant first YA, they are allowed to do so from

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[1] Functional currency is the currency of the primary economic environment in which the entity operates. Another term for functional currency is measurement currency.

[2] Please refer to section 62B of the Income Tax Act and the Income Tax (Functional Currency) Regulations 2004 for details of this requirement.

such earlier YA approved by CIT provided the rules stated in this Circular are adhered to in the preparation of their tax computations.

RULES FOR BUSINESSES FILING THEIR INCOME TAX COMPUTATIONS AND FINANCIAL STATEMENTS IN NON-S$ FUNCTIONAL CURRENCIES

5. For companies, all items in their tax computations up to the chargeable income should be in their non-S$ functional currencies. For sole proprietors, all items in their tax computations up to the adjusted income or loss as well as the capital allowances for that trade or business (but before any losses brought forward) should be in their non-S$ functional currencies whilst for partnerships, all items in their computations up to the allocated profit or loss as well as the capital allowances should be in their non-S$ functional currencies. Additional specific rules which must be adhered to in the preparation of their tax computations by companies, sole proprietors and partners are set out below.

(A) COMPANIES INCORPORATED PRIOR TO 1 JANUARY 2003 THAT HAVE SUBMITTED INCOME TAX COMPUTATIONS AND FINANCIAL STATEMENTS IN S$ PRIOR TO THE RELEVANT FIRST YA ("EXISTING COMPANIES")

<u>Unabsorbed tax items, tax written down value of existing assets brought forward, cost of existing assets & prior year income/expense items</u>

6. For existing companies, their unabsorbed tax items (elaborated in paragraph 7 below), tax written down value of their existing assets, cost of the assets granted capital allowances or industrial building allowances (hereinafter referred to as "IBA") that have yet to be disposed of and prior year income/expense items (elaborated in paragraph 8 below) would have been reflected in S$ in the companies' tax assessments prior to the relevant first YA or the YA that the companies have been granted approval under paragraph 4 to submit their tax computations and financial statements in their non-S$ functional currencies[3].

7. The unabsorbed tax items are unabsorbed capital allowance, IBA, trade loss (which includes any unabsorbed further tax deduction), donation or investment allowance.

8. Prior year income/expense items are S$ items incurred and included in the companies' previous tax computations but they were found to be only taxable/allowable in a subsequent YA where non-S$ functional currency reporting is adopted. An example is expenses which qualify to be carried forward to a subsequent YA to be set off against the foreign income remitted in that subsequent YA.

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[3] For companies that requested to file their tax computations and financial statements in their functional currencies other than S$ from a YA earlier than the relevant first YA.

9. For the purposes of translating all the S$ items referred to at paragraph 6 above (collectively referred to hereinafter as "existing S$ balances"), into the non-S$ functional currencies of companies, they must make an irrevocable election on how the translation is to be done They can either:

(i) translate all existing S$ balances into the non-S$ functional currencies equivalent amounts using the average of the exchange rates of the 12 months prior to the end of the last accounting period in which the financial statements are submitted in S$[4]. This exchange rate is referred to hereinafter as the "changeover rate". For example, if the company has an accounting year end of 31 March and the first YA to submit the tax computation in its non-S$ functional currency is YA 2005, the changeover rate is the average exchange rate of the 12 months from 1 April 2002 to 31 March 2003. Thereafter, any existing S$ balances not utilised or fully utilised will be carried forward to subsequent YA(s) in the non-S$ functional currency.

or

(ii) translate all existing S$ balances into the non-S$ functional currency equivalent amounts using the average of the exchange rates of the accounting period[5] that constitutes the basis period for that YA (hereinafter referred to as "average exchange rate"). For example, for YA 2005 tax computation of a company with accounting year ended on 31 March 2004, the average exchange rate is the average of the month-end exchange rates of April 2003 to March 2004. Any non-S$ functional currency equivalent amount translated in this way but not utilised or fully utilised in that YA will be carried forward to the subsequent YA in S$ by translation using the same average exchange rate for that YA. This translation of existing S$ balances for each YA from S$ into non-S$ functional currency and back into S$ to be carried forward, will cease once such S$ balances are fully utilised.

10. Companies must make this irrevocable election in writing in their tax return for the first YA submitted in their non-S$ functional currency. The tax computations (or revised tax computations for companies which had requested to file their tax computations in non-S$ functional currency before the relevant first YA) that are submitted to CIT must be prepared in accordance with the election.

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[4] This average is computed using the aggregate of the end of each month exchange rate for the 12 months divided by 12. The end of month exchange rates for the more commonly used foreign currencies are available at the MAS website <www.mas.gov.sg>.

[5] This is computed using the aggregate of the end of each month's exchange rate for the accounting period divided by the number of months in that accounting period.

Current year capital allowance of assets/industrial buildings acquired prior to the basis period of the first YA and current year deductions of unabsorbed tax items

11. Having translated the brought forward tax written down values of assets/industrial buildings as well as the unabsorbed tax items into the companies' non-S$ functional currencies, the current-year capital allowances, IBA and deduction of the unabsorbed tax items will be computed based on their non-S$ functional currency values.

12. For companies that choose option (i) referred to at paragraph 9 above, any amount of such unabsorbed items and capital allowance/IBA not utilised or fully utilised in any YA from the first YA in which tax computations and financial statements are submitted in non-S$ functional currencies shall be carried forward to subsequent YAs in their non-S$ functional currencies. The same applies to any tax written down value (of assets acquired/costs incurred on industrial buildings prior to the basis period of the first YA in which submissions are in non-S$ functional currencies) remaining as at the end of the basis period in any YA from the first YA of submissions in non-S$ currencies.

13. For companies that choose option (ii), the amounts described in paragraph 12 shall be carried forward to subsequent YAs in S$ by translating the non-S$ functional currencies amount back into S$ using the average exchange rate for that YA.

S$ dividend received from Singapore resident companies and S$ interest received from loan stocks

14. Any S$ dividend received from Singapore resident companies and any S$ interest received from loan stock where Singapore tax has been deducted at source, should be translated into their functional currencies for the purposes of preparing their tax computations. This translation is to be done using the average exchange rate for the YA concerned. In the case where the dividends are received in non-S$ because the payer is a Singapore resident company that conducts its business in a non-S$ functional currency, the recipient has to translate the S$ equivalent of the dividends as stated in the voucher/dividend notification (please refer to paragraph 20 which sets out the requirement for companies paying dividends in their non-S$ functional currencies to state the S$ equivalent in the dividend vouchers) into its own non-S$ functional currency in every case using the average exchange rate. In other words this has to be done even if its own non-S$ functional currency is the same as the non-S$ currency of the dividends.

Other current year items

15. For all other current year items of companies[6], they will be reflected in the companies' tax computation based on the actual non-S$ functional currencies values as recorded in the companies' financial statements. For current-year further tax deduction and investment allowance that are based on current-year expenditure in non-S$ functional currencies, the amounts to be shown on the companies' tax computations will be computed based on the actual non-S$ functional currencies amount incurred (as recorded in the companies' financial statements). There is thus no need for translation on current-year items.

Partial tax exemption

16. In respect of the partial tax exemption up to S$100,000 chargeable income of companies for a YA, the amount will be translated into the companies' non-S$ functional currencies equivalent using the average exchange rate for that YA.

Income under tax incentives

17. For companies which have been granted tax incentives under the Economic Expansion Incentives (Relief from Income Tax) Act ("hereinafter referred to as "EEIA"), where the incentive is in the form of a preferential rate applied on an amount exceeding S$X (amount denominated in S$), this amount in S$ will be translated into the non-S$ functional currency based on the average exchange rate for the relevant YA.

Tax payable

18. Tax payable by companies shall be in S$ and this will be computed by multiplying the companies' chargeable income stated in their non-S$ functional currencies (after applying the partial tax exemption), with the corporate tax rate and the average exchange rate. Adjustments to companies' section 44 balances as at 31 December 2002, if applicable, will be made using the computed tax payable in S$.

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[6] These include:
- current year tax adjusted profit/loss from trade, business, profession or vocation;
- current year capital allowance/IBA in respect of assets acquired/costs incurred on industrial buildings on or after the year the companies are allowed to file financial statements in their non-S$ functional currencies;
- other sources of income like interest income other than the S$ interest from loan stocks, dividend income other than the S$ dividends from Singapore resident companies and rental income etc;
- current year donation.

Double taxation relief, unilateral tax credit and tax deducted at source in respect of Singapore franked dividends or interest

19. Where double taxation relief or unilateral tax credit is to be allowed, the relief or credit to be allowed is the lower of Singapore tax on the foreign sourced income (after deducting allowable expenses and other deductions allowed under the Income Tax Act, hereinafter referred to as "relevant foreign sourced income") or the foreign tax paid. The Singapore tax on the relevant foreign sourced income should be computed by multiplying the quantum of the relevant foreign sourced income (reflected in non-S$ functional currencies in the companies' tax computations) by the corporate tax rate for the YA and the average exchange rate of the same YA. As for the foreign tax paid, it will be based on the actual amount paid in its functional currency (or reflected in its functional currency if paid in a different foreign currency), multiplied by the average exchange rate of the same YA. On the other hand, tax deducted at source in respect of Singapore franked dividends, or interest from loan stocks, will be allowed based on the actual S$ amount withheld by the payer company, as shown on the Singapore tax vouchers.

Payment of dividends in non-S$ functional currency

20. For resident companies which pay dividends in their non-S$ functional currencies, the amount of tax to be deducted from their section 44 balances should be translated into S$ using the exchange rate prevailing at the date of payment of each dividend. For the purposes of the dividend voucher/notification, the S$ equivalent of the gross dividend, tax deducted and net dividend (where net dividend is shown) must be provided. The S$ equivalent amounts are translated from the amounts in non-S$ functional currencies using the exchange rate prevailing at the date of payment of each dividend.

21. An illustration of income tax computation of an existing company which chooses option (i) is in Annex 1, while one which chooses option (ii) is in Annex 2.

Treatment of loss items under the group relief system

22. If companies have loss items[7] and qualify to transfer the loss items under the group relief system, the loss items of these companies will be transferred out based on the non-S$ functional currencies amounts as shown in the companies' tax computations. If the claimant companies submit their financial statements in non-S$ functional currencies which are different from that/those of the transferor company/companies, in order to effect the transfer, the loss items will be translated into the claimant companies'

[7] Current year unabsorbed capital allowance/IBA, current year unabsorbed trade losses or current year unabsorbed donations. For further details, please refer to IRAS Circular on Group Relief issued on 23 Oct 2002.

functional currencies, at the average exchange rate. A similar translation at the average exchange rate will be applicable if there is any transfer back of loss items by claimant companies to the transferor company due to revision(s) of the claimant companies' tax assessment(s).

Unrealised foreign exchange gains or losses

23. Certain exchange gains/losses of a revenue nature for any YA before the adoption of reporting in non-S$ functional currencies that were recognized by companies as having been derived/incurred based on accounting principles and included in their previous tax computations but were found to be "unrealized" gains/loses for tax purposes would have been excluded from the tax computation of the relevant YA and treated as taxable/allowable only in a subsequent YA in which the gains/losses are "realised" for tax purposes. Where the YA in which such "unrealised" gains/losses are regarded as realised for tax purposes (i.e. taxable/allowable) is one where reporting in non-S$ functional currency is adopted, the gains/losses shall be translated to the non-S$ functional currency using the changeover rate for companies which choose option (i) and the average exchange rate for companies which choose option (ii).

However, in 2003, CIT has granted a concessionary tax treatment whereby foreign exchange gains or losses of a revenue nature are recognized as having been derived or incurred for tax purposes based on accounting principles with effect from YA 2004. For companies which accept this concessionary tax treatment, their unrealised foreign exchange gains/losses of a revenue nature for the YA(s) prior to YA 2004 which have not been previously taxed or allowed for income tax purposes will be deemed realised in YA 2004[8]. Where the amount deemed realised in YA 2004 comprises S$ (wholly or in part) and YA 2004 is a YA in which reporting in non-S$ functional currency is adopted, such amount in S$ that is deemed realised shall be translated to the non-S$ functional currency using the changeover rate for companies which choose option (i) and the average exchange rate for companies which choose option (ii).

Exchange gain/loss arising from a change of functional currency

24. Where companies change their functional currencies as a result of compliance with the FRSs, any foreign exchange gains or loss arising from this change will not be taxable or deductible for income tax purposes.

[8] Please refer to IRAS Circular on "Income Tax Treatment of Foreign Exchange Gains or Losses for Businesses" published on 28 Nov 2003 for more details.

Election of section 24 for sale of property

25. For sale of property that is eligible for an election under section 24 (to qualify for section 24 the transaction must be one where

(i) the buyer has control over the seller, or
(ii) the seller has control over the buyer; or
(iii) a third party has control over both the seller and buyer.)

if buyer and seller have different functional currencies, the tax written down value of the property in the seller's functional currency must be translated to the buyer's functional currency using the exchange rate prevailing at the date of sales. For example, the seller's functional currency is S$ while the buyer's functional currency is US$. The tax written down value of the property transferred to the buyer in S$ must be translated into US$ using the exchange rate prevailing at the date of sale.

(B) NEWLY INCORPORATED COMPANIES

26. For newly incorporated companies whose accounting periods begin on or after 1 January 2003 (the first YA is 2004 or later), the rules (other than those in respect of existing S$ balances since such companies will not have these tax items), stated under paragraphs 14 to 19, 22 and 25 above shall apply to them. An example of the tax computation of a newly incorporated company with non-S$ functional currency is provided in Annex 3.

(C) PARTNERS & PARTNERSHIPS

27. For partnerships whose financial statements are prepared in non-S$ functional currencies, all items up to the allocated profit or loss as well as the capital allowances claimed should be in their non-S$ functional currencies. To arrive at this amount, the rules stated under paragraphs 6 to 15, 19, 23 to 25 above will apply. As there will not be any unabsorbed tax items at the level of the partnership, the principal partners of the partnership must make an irrevocable election in writing in the first return submitted in non-S$ functional currencies on the manner of translating the tax written down value of existing assets brought forward, cost of existing assets (for the purposes of calculating balancing charge) and prior year income/expense items (please refer to paragraphs 8 and 9 above). The amount of profit/loss and capital allowances allocated to each partner will then be translated into S$ at the average exchange rate for inclusion in the tax computation of each partner. Any loss and capital allowance that cannot be absorbed or fully absorbed by a partner will be carried forward to the next YA in S$ in that individual partner's tax computation.

(D) SOLE-PROPRIETORS

28. For sole-proprietors who prepare the financial statements of their businesses in the non-S$ functional currencies, all amounts up to the adjusted profit or loss in the tax computations as well as the capital allowances (but before set-off of any losses brought forward) shall be in their non-S$ functional currencies.

29. To arrive at this amount, the following steps should be taken:

(i) An irrevocable election in writing on the manner for translating the tax written down value of existing assets brought forward, cost of existing assets (for the purposes of calculating balancing charge) and prior year income/expense items to the non-S$ functional currencies must be made in the first return which the sole-proprietors submit the financial statements of their sole-proprietorships in non-S$ functional currency. Please refer to paragraph 9 for details of the options available.

(ii) The adjusted profit or loss as well as the capital allowances for the year in non-S$ functional currency will be translated into S$ at the average exchange rate. Any unutilised losses brought forward in S$ from the previous YA can be set off against the current-year adjusted profit translated into S$.

(iii) If the sole-proprietorships incur adjusted losses, such losses together with the capital allowances for the YA translated into S$ at the average exchange rate can be set off against other sources of income of the sole-proprietors or against their spouses' income denominated in S$, if combined assessments were elected. However, if there are still unabsorbed losses or capital allowances attributable to the sole-proprietorships after all available set-offs have been taken, they will be carried forward to the following YA in S$.

(iv) Any foreign sourced income will be translated into S$ using the average exchange rate. Any relief including double taxation relief or unilateral tax credit, personal relief will be computed and allowed in S$. Any tax deducted at source in respect of Singapore franked dividends or interest from loan stocks will be allowed based on the actual S$ amount withheld by the payer company, as shown on the Singapore tax voucher.

An example of the tax computation of an individual taxpayer whose sole-proprietorship business is carried on in non-S$ functional currency is provided in Annex 4.

IMPACT ON INCOME TAX RETURN FILING PROCEDURES

30. Even though businesses (both companies and unincorporated businesses) that conduct their operations in non-S$ functional currencies submit their tax computations in their non-S$ functional currencies, they are still required to

declare the relevant data/information sought in their Income Tax Return and its appendices in S$. To comply with the said requirement, businesses need to translate the relevant items required for the Tax Return and Appendices that are generally found in their financial statements maintained in non-S$ functional currencies into S$ equivalent amounts, using the average exchange rate or changeover rate, whichever is applicable (please refer to the relevant paragraphs above for the exchange rate to be used for each of the items).

ENQUIRIES

31. For any general enquiries or clarification on this Circular, please call 1800-3568622 (Companies) or 1800-7206263 (Sole-proprietors and Partners).

Inland Revenue Authority of Singapore

Annex 1 (revised)

A sample tax computation for existing companies which opt for choice (i)

- Company with trade profits, interest income, franked Singapore dividend and investment allowance.
- Company's non-S$ functional currency is US$ and accounting year end ("y/e") is 31 Mar.
    - Average exchange rate from Apr 03 to Mar 04 is S$1.8:US$1 – "average exchange rate"
    - Average exchange rate from Apr 02 to Mar 03 is S$1.6:US$1 – "changeover rate"

Computation of tax payable for Company ABC for the YA 2005+

Trade - Adjusted Profit	US$100,000	
Less: Capital allowance		
- unabsorbed capital allowances b/f	(US$18,750)	(S$30,000* @S$1.6:US$1)
- current year (for assets acquired in y/e 31.3.2004)	(US$10,000)	
- current year (for assets existing as at 31.3.2003)	(US$31,250)	(S$50,000** @S$1.6:US$1)
	US$40,000	
Less Unabsorbed losses b/f	(US$15,625)	(S$25,000*@S$1.6:US$1)
	US$24,375	
Interest Income	US$10,000	
Gross dividend (note 3)	US$9,444	(S$17,000@S$1.8:US$1)
	US$43,819	
Less Donation	(US$1,200)	
	US$42,619	
Less Investment Allowance***	(US$11,111)	
CI (before exempt amount)	US$31,508	
Less exempt amount (note 1)	US$13,747	
CI (after deducting exempt amount)	US$17,761	
Tax assessed @ 22%+ @$1.8:US$1	S$7,033.35	
Less: TDS – amount shown		
on Singapore tax voucher(note 3)	S$3,740.00	
Net tax payable	**S$3,293.35**	

+ Assuming that the tax treatment and tax rate in YA 2005 are the same as those in YA 2004

* Amounts in S$ as per tax computation for YA 2004.

** Tax written down value of existing assets in S$ b/f from YA 2004. This represents the remaining 1/3 capital allowance to be given in YA 2005 (section 19A of the Income Tax Act).

*** Qualifying assets cost of S$90,000 is approved by EDB in 2002, and investment allowance is granted at 30% for 5 years. This amount is translated to US$ using the changeover rate, which is US$56,250. Company incurred US$37,037 on qualifying assets in y/e 31.3.2004. Thus, it is entitled to claim investment allowance of US$11,111 (US$37,037x30%), which is less than US$16,875 (US$56,250 x 30%). For the purpose of posting to the exempt dividend account (for the purpose of paying out exempt dividends), the amount will be translated to S$ using the average exchange rate, which is S$19,999.80 (US$11,111 x 1.8). Please note that the total amount of investment allowance in S$ should not exceed S$27,000.

Note 1 - Computation of exempt amount for normal chargeable income, excluding Singapore dividends

[S$100,000 translated into US$ @S$1.8:US$1 (average rate) is US$55,555. This is the maximum amount of CI in US$ which qualifies for partial tax exemption]

On the first US$5,555 (S$10,000@S$1.8:US$1), 75% of the income	US$ 4,166
On the next US$ 19,162, 50% of the income {[US$24,717 (note 2) - US$5,555] x 50%}	US$ 9,581
Total exempt amount	US$ 13,747

Note 2 – The amount of US$24,717 is computed as follows:

(1) Gross dividend	US$9,444
(2) Sum of donation and investment allowance (US$1,200+US$11,111)	US$12,311
(3) Amt in (2) attributable to Singapore dividend (9,444/43,819 X 12,311)	US$ 2,653
(4) Singapore dividend net of donation and investment allowance [(1) – (3) i.e. US$9,444 - US$2,653]	US$ 6,791
(5) Normal chargeable income, excluding net Singapore dividend [US$31,508 – (4) i.e.US$6,791]	**US$24,717**

Note 3 – Dividend & TDS

<u>As shown on the Singapore tax vouchers</u>

Gross dividend	S$17,000
TDS	S$ 3,740
Net dividend	S$13,260

Recorded in the books as US$7,800 [S$13,260 @ S$1.7:US$1(spot rate)]
Gross Dividend shown in company's tax computation is based on the average exchange rate (not that recorded in the books)
- **US$9,444** (S$17,000 @ S$1.8:US$)

Annex 2 (revised)

A sample tax computation for existing companies which opt for choice (ii)

- Company with trade profits, interest income, franked Singapore dividend and investment allowance.
- Company's non-S$ functional currency is US$ and accounting year end ("y/e") is 31 Mar.
  - Average exchange rate for the accounting year 2004 is S$1.8:US$1 – "average exchange rate"

Computation of tax payable for Company ABC for the YA 2005+

Trade - Adjusted Profit	US$100,000	
Less: Capital allowance		
- unabsorbed capital allowances b/f	(US$16,667)	(S$30,000* @S$1.8:US$1)
- current year (for assets acquired in y/e 31.3.2004)	(US$10,000)	
- current year (for assets existing as at 31.3.2003)	(US$27,778)	(S$50,000** @S$1.8:US$1)
	US$45,555	
Less Unabsorbed losses b/f	(US$13,889)	(S$25,000*@S$1.8:US$1)
	US$31,666	
Interest Income	US$10,000	
Gross dividend (note 3)	US$9,444	(S$17,000@S$1.8:US$1)
	US$51,110	
Less Donation	(US$1,200)	
	US$49,910	
Less Investment Allowance***	(US$11,111)	
CI (before exempt amount)	US$38,799	
Less exempt amount (note 1)	US$17,204	
CI (after deducting exempt amount)	US$21,595	
Tax assessed @ 22%+ @S$1.8:US$1	S$8,551.62	
Less: TDS – amount shown		
on Singapore tax voucher(note 3)	S$3,740.00	
Net tax payable	**S$4,811.62**	

+ Assuming that the tax treatment and tax rate in YA 2005 are the same as those in YA 2004

* Amounts in S$ as per tax computation for YA 2004.

** Tax written down value of existing assets in S$ b/f from YA 2004. This represents the remaining 1/3 capital allowance to be given in YA 2005 (section 19A of the Income Tax Act).

*** Qualifying assets costs of S$90,000 is approved by EDB in 2002, and investment allowance is granted at 30% for 5 years. This amount is translated to US$ using the average exchange rate, which is US$50,000. Company incurred US$37,037 on qualifying assets in y/e 31.3.2004. Thus, it is entitled to claim investment allowance of US$11,111 (US$37,037x30%), which is less than US$15,000 (US$50,000 x 30%). For the purpose of posting to the exempt dividend account (for the purpose of paying out exempt dividends), the amount will be translated to S$ using the average exchange rate, which is S$19,999.80 (US$11,111 x 1.8). Please note that the total amount of investment allowance in S$ should not exceed S$27,000.

Note 1 - Computation of exempt amount for normal chargeable income, excluding Singapore dividends

[S$100,000 translated into US$ @S$1.8:US$1 (average rate) is US$55,555. This is the maximum amount of CI in US$ which qualifies for partial tax exemption]

On the first US$5,555 (S$10,000@S$1.8:US$1), 75% of the income	US$ 4,166
On the next US$ 26,075, 50% of the income {[US$31,630 (note 2) - US$5,555] x 50%}	US$ 13,038
Total exempt amount	US$ 17,204

Note 2 – The amount of US$31,630 is computed as follows:

(1) Gross dividend	US$9,444
(2) Sum of donation and investment allowance (US$1,200+US$11,111)	US$12,311
(3) Amt in (2) attributable to Singapore dividend (9,444/51,110 X 12,311)	US$ 2,275
(4) Singapore dividend net of donation and investment allowance [(1) – (3) i.e. US$9,444 - US$2,275]	US$ 7,169
(5) Normal chargeable income, excluding net Singapore dividend [US$38,799 – (4) i.e.US$7,169]	**US$31,630**

Note 3 – Dividend & TDS

<u>As shown on the Singapore tax vouchers</u>

Gross dividend	S$17,000
TDS	S$ 3,740
Net dividend	S$13,260

Recorded in the books as US$7,800 [S$13,260 @ S$1.7:US$1(spot rate)]
Gross Dividend shown in company's tax computation is based on the average exchange rate (not that recorded in the books)
- **US$9,444** (S$17,000 @ S$1.8:US$)

Annex 3

A sample tax computation for new companies[9]

- Company DEF with interest income, current year unabsorbed losses to be carried forward.
- Company DEF's foreign functional currency is US$ and a/c year end is 31 Dec.
    - Average exchange rate for the accounting year 2003 is S$1.78:US$1
- Company DEF and its related company (i.e. Company X) qualify as a group for YA 2004 for the purpose of group relief.
- Both Company DEF and its related company, company X are incorporated on the same day.

Computation of tax payable for Company DEF for the YA 2004

Interest income	US$10,000
Less: current year capital allowance	(US$20,000)
	(US$10,000)
Less: current year unabsorbed capital allowance transferred to claimant Co X (see note 1)	US$10,000
Unabsorbed capital allowance c/f	Nil
Adjusted Profit/(Loss)	(US$100,000)
Less: current year unabsorbed loss transferred to claimant Co X (see note 1)	US$ 20,000
Unabsorbed loss for y/e 31.12.2003 c/f (see note 2)	**(US$ 80,000)**
Chargeable Income	Nil

Note 1
Claimant Co X's functional currency is S$ and for YA 2004, its assessable income is S$53,400. The amount to be transferred from Company DEF in US$ equivalent is US$30,000 (S$53,400@S$1.78:US$1). Based on the set off rules under the group relief system, Co DEF's current year unabsorbed capital allowance must be transferred out before its current year unabsorbed loss can be transferred.

Note 2
The amount of unabsorbed loss for y/e 31.12.2003 will be carried forward to YA 2005 in US$.

[9] New company means a company that has just been incorporated in the basis period and in this example, YA 2004 is the company's first year of assessment.

Annex 4

A sample tax computation for existing sole proprietor

- Mr XYZ has a sole-proprietorship XYZ and receives partnership income, employment income, interest income and franked Singapore dividend.
- Sole-proprietorship prepares its financial statements in US$ functional currency and accounting year end ("y/e") is 31 Dec while the partnership prepares its financial statements in Euro functional currency.
  - Average exchange rate for year ended 31 Dec 2003 is S$1.8:US$1 – "average exchange rate"
  - Average exchange rate for year ended 31 Dec 2002 is S$1.6:US$1 – "changeover rate"

Computation of tax payable for Mr XYZ for the YA 2004

Trade - Adjusted Profit before capital allowance & loss b/f	US$100,000	
Less: Capital allowance		
- unabsorbed capital allowances b/f	(US$16,667)	(S$30,000*@S$1.8:US$1)
- current year (for assets acquired in y/e 2003)	(US$10,000)	
- current year (for assets existing as at 31.12.2002)	(US$31,250)	(S$50,000** @S$1.6:US$1) (assuming choice (i) is opted[10])
	US$42,083	
Translate to S$	S$75,749,	(US$42,083 @S$1.8:US$1)
Less Unabsorbed losses b/f	(S$25,000)	
Adjusted profit after capital allowances and losses b/f in S$	S$50,749	
Share of Partnership income	S$100,000***	
Employment income	S$100,000	
Interest income	S$10,000	
Gross dividend	S$10,000	
	S$270,749	
Less Donation	(S$1,200)	
AI	S$269,549	
Less: Reliefs	S$50,000	
CI	S$219,549	
Tax assessed	S$27,914.31	(Tax on the first S$160,000 is S$16,600 Balance of S$59,549 @19%****
Less: TDS – amount shown on Singapore tax voucher	S$2,200.00	
Net tax payable	**S$25,714.31**	

* Amounts in S$ as per tax computation for YA 2003.

** Tax written down value of existing assets in S$ b/f from YA 2003. This represents the remaining 1/3 capital allowance to be given in YA 2004 (section 19A of the Income Tax Act). If for instance, there is another 1/3 capital allowance to be given in YA 2005, then under choice (i), US$31,250 will be carried forward to be given in YA 2005. Under choice (ii), the amount carried forward will be S$50,000. This amount will be converted to US$ based on the average exchange rate for the calendar year 2004 (for YA 2005) to be set off against the trade income for YA 2005.

*** This is arrived at based on 1/5 share of Adjusted Income after capital allowances. This amount is translated from the partnership's functional currency in Euro into S$ based on the average exchange rate.

**** Based on tax rates for YA 2003

[10] If choice (ii) is opted, the amount will be US$27,778 @ S$1.8:US$1