

Explanatory Notes to Basic Format of Tax Computation for a Development and Expansion Incentive (DEI) Company

(This explanatory note mainly covers items specific to DEI companies)

1. DEI Income

This refers to the income derived from qualifying activities stated in the DEI certificate.

2. Non-DEI Income

This refers to the income other than DEI income.

3. Tax Rate

Concessionary Tax Rate

This refers to the reduced tax rate stated in the DEI certificate. The amount of DEI income in excess of the base income is taxed at a concessionary tax rate stipulated in the DEI certificate.

Normal Tax Rate

This refers to the prevailing corporate tax rate for the relevant year of assessment.

4. Functional Currency

Functional currency is the currency of the primary economic environment in which the entity operates.

A company is required to prepare its accounts and tax computation in its functional currency. Where a company's functional currency is in non-Singapore dollar (non-S\$), all items in the tax computation up to the chargeable income after exempt amount should be in their non-S\$ functional currency. Please refer to the IRAS circular "Filing of Income Tax Computations and Financial Statements in Functional Currencies Other Than Singapore Dollars".

Notwithstanding the above, companies are required to complete the Income Tax Return (Form C) and its appendices in S\$. Companies need to translate the relevant items required for the Form C and Appendices into S\$ equivalent amounts, using the average exchange rate (see Note 13).

5. Direct Expenses

The expenses which are incurred solely to derive the qualifying income or non-qualifying income.

6. Direct Identification of Revenue and Direct Expenses

All revenue and direct expense for qualifying and non-qualifying activities must be identified and reported separately under each tax category. The company must ensure that there are adequate underlying controls in its accounting and reporting system for the purpose of recording and reporting its income correctly under each tax category.

7. Common Expenses

The expenses which are incurred to derive both qualifying income and non-qualifying income. Please refer to note 9 for basis of apportioning the common expenses.

8. Common Assets

Common assets are assets used by the company for its trade or business to generate both qualifying and non-qualifying income. Please refer to note 9 for basis of apportioning the capital allowances for common assets.

9. Basis of Apportionment of Common Expenses and Capital Allowances for Common Assets

All common expenses and capital allowances for common assets must be apportioned to each tax category using an appropriate basis that must:

- i. Bear nexus to business activities and reasonably reflect the level of activities under the different tax categories.
- ii. Be applied consistently across the YAs provided that there is no change in the business or operating circumstances.

As a guide, we have used company's turnover as a basis of apportioning the common expenses and capital allowance for common assets in the "Common Expenses" and "Common Assets" schedules. Companies can use other basis of apportionment if the basis used can satisfy the above conditions.

If both DEI and non-DEI income are of similar nature (e.g., both income are derived from sales of goods manufactured by the company, or from trading of goods or from the provision of similar services), the turnover basis is a commonly acceptable basis for apportioning common expenses / capital allowances from common assets. (Turnover refers to revenue from Section 10(1)(a) trade sources only, that is, they exclude passive and non-trade income such as capital receipts, interest income etc.)

If the DEI and non-DEI income are of different nature, the turnover basis may not be appropriate. In this case, you can use a more appropriate basis such as gross profit margin / cost of sale / floor area / head count which is more reflective of the level of business activities under the DEI and non-DEI tax categories.

Complete the schedule on "Common Expenses" and "CA (Common Assets)" to apportion the total common expenses, total disallowable common expense and total capital allowance for common assets to the respective DEI and non-DEI tax category. Then fill in the apportioned amount in the P&L Account (total common expenses) and Main Tax Computation (total disallowable common expenses and capital allowances for common assets) under the DEI and non-DEI tax categories respectively.

10. Medical Expenses

The excess medical expense exceeding the specified percentage of total employee remuneration is to be taxed at prevailing corporate tax rate, i.e., the amount is to be included under non-DEI tax category in the main tax computation.

11. Base Income

This refers to the average corresponding income stated in the DEI certificate. The base income is subject to tax at prevailing corporate tax rate.

Enter base income amount (as stated in DEI certificate) or sub-total (before base income), whichever is lower, under "DEI" column (to be deducted from DEI sub-total) and enter the same amount under "Non-DEI" column (to add to non-DEI sub-total so as to tax at prevailing corporate tax rate).

If the DEI tax category is in a loss position (sub-total before base income is negative), base income is not applicable.

Fill in the following Base Income amount (Q) in Main Tax Computation:

If (P) under the DEI tax category ≤ 0 , (Q) = 0

If (P) under the DEI tax category > 0 and $<$ base income stated in DEI cert, then (Q) = (P)

If (P) under the DEI tax category > 0 and $>$ base income stated in DEI cert, then (Q) = base income stated in DEI certificate

12. Section 37B Adjustment

Where there is any unabsorbed capital allowances, losses or donations in respect of income that is taxed at one rate, the amounts will be set off against income taxed at another rate after applying an adjustment factor.

Where DEI and non-DEI tax categories are both in profit position or both are in loss position (Sub-total before S37B Adjustment for both tax categories are negative or both sub-totals are positive), Section 37B adjustment is not applicable as there are no losses at one tax rate to be set off against profit at another tax rate.

Please refer to the examples below on how to compute Section 37B adjustments. For the purpose of illustration, assume that the concessionary tax rate under DEI is 10% and the prevailing corporate tax rate is 17%.

Example 1

DEI = profit, non-DEI = loss

Example 1A

Set-off full non-DEI loss against DEI profit

	DEI (\$)	Non-DEI (\$)
Tax Rate	10%	17%
Amount before S37B set-off [item (T)]	50,000	(10,000)
Add/(Less): S37B adjustments *	(17,000)	10,000
Amount after S37B set-off	33,000	0
* 10,000 X 17/10 = 17,000		

Example 1B

Set-off part of non-DEI loss against DEI profit (insufficient DEI profit to absorb full non-DEI loss)

	DEI (\$)	Non-DEI (\$)
Tax Rate	10%	17%
Amount before S37B set-off [item (T)]	17,000	(50,000)
Add/(Less): S37B adjustments *	(17,000)	10,000
Amount after S37B set-off	0	(40,000)
* 17,000 X 10/17 = 10,000		

Example 2

DEI = loss, non-DEI = profit

Example 2A

Set-off full DEI loss against non-DEI profit

	DEI (\$)	Non-DEI (\$)
Tax Rate	10%	17%
Amount before S37B set-off [item (T)]	(10,000)	50,000
Add/(Less): S37B adjustments *	10,000	(5,882)
Amount after S37B set-off	0	44,118

* 10,000 X 10/17 = 5,882		
--------------------------	--	--

Example 2B

Set-off part of DEI loss against non-DEI profit (insufficient non-DEI profit to absorb full DEI loss)

	DEI (\$)	Non-DEI (\$)
Tax Rate	10%	17%
Amount before S37B set-off [item (T)]	(50,000)	5,882
Add/(Less): S37B adjustments *	10,000	(5,882)
Amount after S37B set-off	(40,000)	0
* 5,882 X 17/10 = 10,000		

13. Average Exchange Rate

This refers to the average of the exchange rates of the accounting period that constitutes the basis period for that year of assessment.

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. The end of month exchange rates for the more commonly used foreign currencies are available at the Monetary Authority of Singapore website <www.mas.gov.sg>.