IRAS e-Tax Guide

Filing of Income Tax Computations in Functional Currencies other than Singapore Dollars

INLAND REVENUE
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Filing of income tax computations in functional currencies other than Singapore dollars

1 Aim

1.1 This e-Tax Guide explains the rules for filing income tax computations in non-S$ currencies[1]. It applies to businesses that prepare their financial statements in non-S$ functional currencies.

2 At a glance

2.1 With effect from the accounting period beginning on or after 1 January 2003, companies are to prepare their financial statements in their functional currencies which may be non-S$. Sole proprietorships and partnerships may also choose to prepare their financial statements in non-S$ functional currencies.

2.2 If the financial statements are prepared in a non-S$ functional currency, the tax computation are to be prepared in the same functional currency. This applies to all items of the tax computation up to:

(a) chargeable income (after applying the partial or full tax exemption) of a company;
(b) distributable profit / loss of a partnership as well as the CA claimed; and
(c) adjusted profit / loss of a sole proprietorship (but before any loss brought forward) and the CA claimed.

These three items will then be converted into S$ at the average rate for the relevant YA.

2.3 Businesses who have previously prepared their financial statements and income tax computations in S$ would have to translate their existing S$ balances into the non-S$ functional currencies. These businesses can opt to use either the changeover rate or average rate method[2] for the purpose of translating the existing S$ balances. This option has to be made when the tax computation is first submitted in non-S$ functional currencies and is irrevocable. Please refer to paragraphs 5.6 and 5.7 for details.

2.4 In addition to the existing S$ balances, there may be other items for which translation is necessary. A summary of the respective translation method for these items can be found at paragraph 5.28.

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[1] This e-Tax guide replaces the IRAS' e-Tax guide on "Filing of Income Tax Computations and Financial Statements in Functional Currencies other than Singapore dollars" published on 31 Dec 2003 and revised on 13 Jan 2005.

[2] The relevant exchange rates to be used for each of these methods are provided in paragraphs 5.2 and 5.3.

3 Glossary

3.1 Businesses

Businesses include companies, sole-proprietorships and partnerships.

3.2 Capital allowances

Capital allowances ("CA") claimed by a business under section 16, 17, 18A (repealed), 18B, 18C, 19, 19A, 19B, 19C, 19D or 20 of the Income Tax Act for a YA.

3.3 Current year loss items

Unabsorbed CA, trade losses and donations for the current year are collectively referred to as current year loss items.

3.4 Existing companies

Existing companies are companies that were incorporated before 1 Jan 2003 and have submitted income tax computations in S$ prior to the relevant first YA.

3.5 Existing S$ balances

Existing S$ balances refer to the following items:
(a) unabsorbed tax items;
(b) tax written down value of existing assets;
(c) cost of the assets granted CA that have yet to be disposed of; and
(d) prior year income / expense items.

These are items originally reflected in S$ in the tax assessments prior to the relevant first YA.

3.6 Franked dividend

Franked dividends are dividends paid out of the profits of a company on which tax has already been paid in Singapore. Previously under the imputation system, the tax paid by the resident company is available as tax credits to the shareholders receiving the franked dividends. The imputation system was replaced by the one-tier corporate tax system with effect from 1 January 2008.

3.7 Functional currency

The functional currency is the currency of the primary economic environment in which a business operates. Another term for functional currency is measurement currency.

3.8 Newly incorporated companies

Newly incorporated companies refer to companies incorporated on or after 1 January 2003.

3.9 Prior year income / expense items

Prior year income / expense items are S$ items incurred and included in prior year tax computations but were taxable / allowable only in a subsequent YA, where non-S$ functional currency reporting is adopted.

3.10 Tax written down value

Tax written down value ("TWDV") refers to the cost of an asset that has not yet been given tax relief by way of CA. CA will be given on the TWDV in future YAs.

3.11 The relevant first YA

The first YA when a business files its income tax computation in its non-S$ functional currency.

3.12 Unabsorbed tax items

Unabsorbed tax items refer to any unabsorbed CA, trade losses (which include any unabsorbed further deduction), donations and investment allowances.

4 Background

4.1 With effect from accounting period beginning on or after 1 January 2003, companies have to comply with the Financial Reporting Standards of Singapore ("FRS") and the Interpretations of FRS ("INT FRS"). The FRS requires a company to determine its functional currency (which may be non-S$), and present its financial statements in that currency.

4.2 Consequently, the ITA was amended[3] to provide for the filing of income tax computations in the same non-S$ functional currency as that used for the financial statements. The earliest YA for this change is[4]:

(a) YA 2004 for a business with accounting period beginning on 1 January 2003; and

(b) YA 2005 for a business with accounting period beginning after 1 January 2003.

4.3 For sole proprietorships and partnerships that have chosen to prepare their financial statements in non-S$ functional currencies, they should file their tax computations in the same non-S$ functional currencies. Such financial statements should continue to be certified true and correct by the sole proprietors or precedent partners.

5 Rules governing the filing of income tax computations in non-S$ functional currencies

5.1 The general rules are as follow:

(a) For companies, all items in their tax computations up to the chargeable income should be in their non-S$ functional currencies;

(b) For partnerships, all items in their computations up to the distributable profit / loss, as well as the CA claimed, should be in their non-S$ functional currencies; and

(c) For sole proprietors, all items in their tax computations up to the adjusted profit / loss (but before any loss brought forward), as well as the CA for that trade or business, should be in their non-S$ functional currencies.

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

[4] Businesses that have been given approval to file their tax computations in their non-S$ functional currencies are allowed to do so from such earlier YA as approved by the Comptroller of Income Tax.

5.2 Businesses have an irrevocable option of translating all the existing S$ balances into the non-S$ functional currency using the average of the exchange rates[5] of:

(a) the 12 months before the end of the last accounting period in which the financial statements are submitted in S$ - “changeover rate; or

(b) the accounting period that constitutes the basis period for that Year of Assessment (“YA”) - “average rate”.

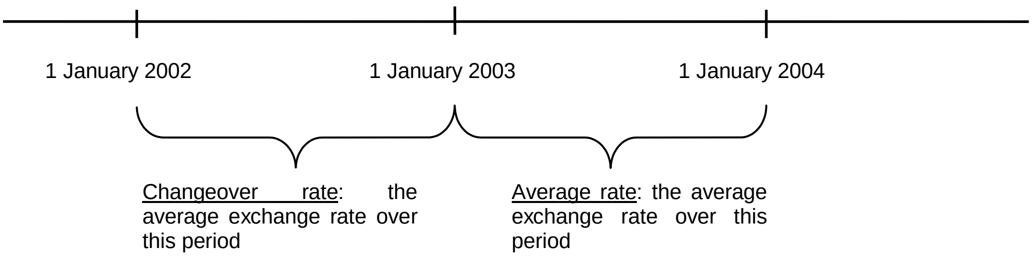
5.3 For example, if the company’s basis period for YA 2004 is 1 January 2003 to 31 December 2003, the relevant exchange rates to be used for the two options would be:

(a) the average of the exchange rates from 1 January 2002 to 31 December 2002 for the “changeover rate”; or

(b) the average of the exchange rates from 1 January 2003 to 31 December 2003 for the “average rate”.

This is illustrated in the timeline below:

A company with basis period 1 January 2003 to 31 December 2003 (for YA 2004):



5.4 Additional rules that apply to specific items of a tax computation are set out below.

(A) Companies

5.5 The rules below apply to existing companies and newly incorporated companies. Illustrations of income tax computations of companies using the changeover rate method and average rate method can be found in Annex A and Annex B respectively. An example of a newly incorporated company’s tax computation with non-S$ functional currency is provided in Annex C.

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. The average rates, as made available by the Monetary Authority of Singapore, should be used for this purpose. Otherwise, the applicable rate will be that as deemed reasonable by the Comptroller.

Existing S$ balances

5.6 The existing S$ balances for existing companies should be translated into the non-S$ functional currencies using either the changeover rate method or the average rate method[6]. Companies must make an irrevocable election to apply one method in the first YA when they submit their tax return in their non-S$ functional currency.

5.7 The existing S$ balances translated into the non-S$ functional currency amounts are used to compute the current year CA and deduction in that non-S$ functional currency. Any unabsorbed non-S$ balances[7] will be carried forward to subsequent YAs in the following ways:

(a) If the changeover rate method is used, such balances will be carried forward to subsequent YAs in the non-S$ functional currency;

(b) If the average rate method is used, such balances will be carried forward to the subsequent YA in S$. This is done by translating the unabsorbed non-S$ balances into S$ amounts using the same average rate for that YA. This translation cycle will continue until the existing S$ balances are fully utilised.

The table below summarises the respective treatment under these two methods.

Table 1 – Translation of existing S$ balances using the changeover rate method or average rate method

Changeover rate method	Average rate method
• The changeover rate is used to translate existing S$ balances into non-S$ balances • Current year CA and deduction is computed based on the non-S$ values • Any unabsorbed non-S$ balances are carried forward in non-S$ without further translation.	• The average rate is used to translate existing S$ balances into the non-S$ balances • Current year CA and deduction is computed based on the non-S$ values • Any unabsorbed non-S$ balances are translated back to S$ amount to be carried forward in S$ using the same average rate for that YA.

6 For the purpose of computing the balancing charge on an asset that has been granted capital allowances previously, the cost of the asset should also be translated using either the changeover rate method or the average rate method.

7 These include unabsorbed S$ tax items that were brought forward from previous years and remained unabsorbed, and unabsorbed current year CA arising from existing assets that were reflected in S$.

Other current year items

5.8 All other current year items of companies[8] will be reflected in the companies' tax computations based on the actual non-S$ functional currencies values as shown in the companies' financial statements.

5.9 Further tax deduction and investment allowance given based on current year expenditure, will be shown in the companies' tax computations based on the actual non-S$ functional currencies amount incurred. There is no need to translate these current year items.

Election of section 24 for sale of property

5.10 A sale of property between related parties may be eligible for an election under section 24 of the ITA[9]. In this case, if the buyer and the seller have different functional currencies, the TWDV of the property in the seller's functional currency must be translated to the buyer's functional currency. The translation is to be done using the exchange rate prevailing at the date of the sale.

5.11 For example, the seller's functional currency is S$ while the buyer's functional currency is US$. The TWDV of the property transferred to the buyer must be translated into US$ using the exchange rate prevailing at the date of sale.

Loss items under the group relief system

5.12 Current year loss items that qualify for transfer under the group relief system[10] will be transferred out based on the non-S$ functional currency of the transferor. Where the functional currency of the transferor is different from the claimant, the current year loss items will be translated into the claimant's functional currency at the average rate.

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[8] These include:

- current year tax adjusted profit/loss from trade, business, profession or vocation;
- current year CA in respect of assets acquired and 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; and
- current year donation.

[9] 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.

[10] For further details, please refer to IRAS Circular on Group Relief issued on 6 Sep 2011.

5.13 A revision to claimant companies' tax assessments may result in reduced amount of loss items claimed by the claimant companies. In this case, the excess of the loss items previously claimed will be retained by the transferor companies, in the transferor companies' functional currencies.

<u>Unrealised foreign exchange gains / losses</u>

5.14 Exchange gains / losses of a revenue nature might have been recognised in the companies' accounts but were regarded as "unrealised" for tax purposes. These exchange gains / losses would have been excluded from the tax computation of the relevant YA, and would be treated as taxable / deductible only in a subsequent YA when the gains / losses are "realised" for tax purposes.

5.15 However, with effect from YA 2004, businesses may elect to align the tax treatment of foreign exchange gains / losses of a revenue nature with the accounting treatment[11]. With this election, any unrealised foreign exchange gains / losses which have not been taxed or deducted before YA 2004 would be deemed realised in YA 2004.

5.16 These unrealised exchange gains / losses in S$ may be realised or deemed realised in a YA where the reporting was in non-S$ functional currency. In this case, the gains / losses shall be translated to the non-S$ functional currency using the same exchange rate used for the purpose of translating the existing S$ balances.

<u>Exchange gains / losses arising from a change of functional currency</u>

5.17 Foreign exchange gains / losses arising from a change in functional currency are not taxable or deductible for income tax purposes.

<u>Income under tax incentives</u>

5.18 Companies granted tax incentives under the Economic Expansion Incentives (Relief from Income Tax) Act ("EEIA") may be subjected to a preferential tax rate on their income exceeding S$X[12]. This amount in S$ should be translated into the non-S$ functional currency, using the average rate for the relevant YA.

<u>Partial or full tax exemption</u>

5.19 Any tax exemption granted under sections 43(6) or 43(6A) of the ITA should be translated into the companies' non-S$ functional currency using the average rate for that YA.

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[11] 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.

[12] This amount of S$X is commonly referred to as the base income.

Tax payable

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

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

5.21 Double taxation relief or unilateral tax credit is to be allowed at the lower of Singapore tax payable on the foreign sourced income (after allowable deductions under the ITA) or the foreign tax paid. The Singapore tax payable on the relevant foreign sourced income should be computed by multiplying the amount of the relevant foreign sourced income (reflected in non-S$ functional currency) by the corporate tax rate for the YA, and the average rate of the same YA.

5.22 The foreign tax paid will be computed by multiplying the actual amount paid (or as reflected in the financial statements) in the functional currency, by the average rate of the same YA.

5.23 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. The amount withheld should be shown on the Singapore tax vouchers.

Payment of dividends in non-S$ functional currency

5.24 Resident companies that pay dividends in their non-S$ functional currencies should translate the amount of tax to be deducted from their section 44 balances into S$. This is to be done at the exchange rate prevailing at the date of payment of each dividend.

5.25 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 the non-S$ functional currency using the exchange rate prevailing at the date of payment of each dividend.

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

5.26 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 the company's functional currency for the purposes of income tax filing. This translation is to be done using the average rate for the YA concerned.

5.27 Where the dividend/interest is received in non-S$[13], the recipient has to translate the S$ equivalent of the dividend/interest, as stated in the dividend voucher / notification[14], into its own non-S$ functional currency using the average rate. The translation has to be done even if the recipient and payer companies of the dividend/interest used the same non-S$ functional currency.

5.28 A summary of the translation method for the respective tax items can be found below:

Table 2 – Summary of translation method

S/N	Items	Translation method
a.	Tax written value of assets transferred under section 24	The tax written down value of the assets should be translated into the buyer's functional currency from the seller's functional currency, using the exchange rate prevailing at the date of sale
b.	Loss items under group relief system	These items should be translated into the claimant's functional currency from the transferor's functional currency, at the average rate for the relevant YA.
c.	Unrealised foreign exchange gains / losses	These gains/losses (reflected in S$) should be translated into non-S$ when they are realised, or deemed realised in the YA when the tax computation is prepared in non-S$. The rate to be used is the exchange rate used for the purpose of translating existing S$ balances.
d.	Income under tax incentives	The S$ base income should be translated into non-S$ using the average rate for the relevant YA.
e.	Partial or full tax exemption	These S$ amounts should be translated into non-S$ using the average rate for the relevant YA.
f.	Tax payable	The tax payable in S$ should be computed by multiplying the companies' chargeable income in non-S$ with the corporate tax rate and the average rate for the relevant YA.
g.	Double taxation relief and unilateral tax credit	The Singapore tax payable in S$ on the foreign sourced income should be computed by multiplying the relevant amount of the foreign sourced income (reflected in non-S$) by the corporate tax rate and the average rate for the

[13] This could be because the payer is a Singapore resident company that conducts its business in a non-S$ functional currency.

[14] Refer to paragraphs 5.24 and 5.25 which set out the requirements for companies paying dividend/interest in their non-S$ functional currencies to state the S$ equivalent in the dividend voucher/notification

S/N	Items	Translation method
		relevant YA. The foreign tax paid in S$ should be computed by multiplying the actual amount paid (or reflected) in the functional currency, by the average rate for the relevant YA.
h.	Receipt of S$ dividends and interest	These S$ amounts should be translated into the recipient's functional currency, by the average rate for the relevant YA.
i.	Payment of non-S$ dividends	The S$-equivalent dividends and tax credit to be deducted from the company's section 44 balance should be computed by multiplying the non-S$ amounts by the exchange rate prevailing at the date of payment of each dividend.

(B) Partners & partnerships

5.29 For partnerships whose financial statements are prepared in non-S$ functional currencies, all items up to the distributable profit / loss, as well as the CA claimed, should be in their non-S$ functional currencies. The rules applicable to companies will similarly apply to partnerships, except for those in relation to the transfer of loss items under the group relief system, income under tax incentives, partial or full tax exemption, tax payable and the payment of dividends.

5.30 The precedent partner of the partnership must make an irrevocable election in writing, in the first tax return submitted in non-S$ functional currency. The election shall specify the method of translating the existing S$ balances (which exclude unabsorbed tax items as there will not be any unabsorbed tax items at the level of the partnership). The amount of profit / loss and CA allocated to each partner will then be translated into S$ at the average rate for inclusion in the tax computation of each partner.

5.31 Any loss and CA 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.

(C) Sole-proprietors

5.32 For sole proprietors, all items in their tax computations up to the adjusted profit / loss (but before any loss brought forward) should be in their non-S$ functional currencies. CA for the trade or business should also be reflected in the non-S$ functional currencies.

5.33 A sole proprietor should make an irrevocable election in writing on the method of translating any existing S$ balances (which exclude any unabsorbed tax items). Such an election must be made in the first year when the sole-proprietor submit the tax return and financial statements of the sole proprietorship in non-S$ functional currency.

5.34 The adjusted profit / loss, and CA for the current year, as reflected in the non-S$ functional currency should be translated into S$ at the average rate. Unabsorbed losses brought forward in S$ from the previous YA can then be set off against the current year adjusted profit that is translated into S$.

5.35 If the sole-proprietorship incurs adjusted loss for the current year, such loss (and the CA) for the YA, as translated into S$, can be set-off against other sources of income of the sole-proprietor. Any loss and CA remain unabsorbed can be carried forward to the following YA in S$.

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

5.37 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 D.

6 Impact on income tax return filing procedures

6.1 Businesses are required to declare the relevant information sought in their income tax return and the appendices in S$. This is so even if they conduct their operations and submit their tax computations in non-S$ functional currencies.

6.2 To comply with this requirement, businesses need to translate the relevant non-S$ items into S$ equivalent amounts for the purpose of completing the tax return and its appendices. This can be done using the average rate or changeover rate, whichever is applicable.

7 Contact information

7.1 If you have any enquiries or need clarification on this Guide, please call:

(a) 1800-3568622 (Corporate)
(b) 1800-3568300 (Individual)

Annex A – A sample tax computation for an existing company which opt for the "changeover rate method"

- 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 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 Mar 2004)	(US$10,000)	
- current year (for assets existing as at 31 Mar 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)	
Chargeable Income ("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: Tax deducted at source – 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 Mar 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 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 & Tax deducted at source

As shown on the Singapore tax vouchers

Gross dividend	S$17,000
Tax deducted at source	S$ 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 rate (not that recorded in the books)
- **US$9,444** (S$17,000 @ S$1.8:US$)

Annex B – A sample tax computation for an existing company which opt for the "average rate method"

- 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 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 Mar 2004)	(US$10,000)	
- current year (for assets existing as at 31 Mar 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: Tax deducted at source – 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 rate, which is US$50,000. Company incurred US$37,037 on qualifying assets in y/e 31 Mar 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 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 & Tax deducted at source

As shown on the Singapore tax vouchers

Gross dividend	S$17,000
Tax deducted at source	S$ 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 rate (not that recorded in the books)
- **US$9,444** (S$17,000 @ S$1.8:US$)

Annex C – A sample tax computation for a newly incorporated company

- 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 Dec 2003 c/f (see note 2)	**(US$ 80,000)**
CI	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 Dec 2003 will be carried forward to YA 2005 in US$.

Annex D – A sample tax computation for an 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 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[15])
	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: Tax deducted at source – 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

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

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 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 rate.

**** Based on tax rates for YA 2003