

# Budget 2016

## Tax Changes for Businesses

Name of Tax Change	Current Treatment	New Treatment
<b>Other Changes</b>		
<p>Providing for allocation of expenses under Section 14U of the ITA and pre-commencement expenses under Part V of the ITA</p>	<p>Section 14U deems the first day of the accounting year in which a business earns its first dollar of trade receipt as the date of business commencement. Under Section 14U, businesses can claim tax deduction on expenses incurred up to 12 months before this date as well as revenue expenses incurred before the first dollar is earned (collectively, “Section 14U expenses”).</p> <p>If a business is awarded with an incentive that commences in the same accounting year in which the first dollar is earned, Section 14U does not require businesses to allocate the Section 14U expenses to the pre-incentive and incentive income. Similarly, pre-commencement expenses that have been granted deductions under Part V of the ITA6 are not required to be allocated to the pre-incentive and incentive income.</p>	<p>To ensure fair allocation of Section 14U and pre-commencement expenses to pre-incentive and incentive income derived by businesses enjoying tax incentives, and provide certainty on the allocation method to be used:</p> <ul style="list-style-type: none"> <li>a) Section 14U and pre-commencement expenses that are directly incurred to derive the pre-incentive income or incentive income will be specifically identified and set off against the relevant income; and</li> <li>b) For all remaining Section 14U and pre-commencement expenses, they will be allocated between the pre-incentive and incentive income based on income proportion (e.g. using turnover, gross profit).</li> </ul> <p>This change will take effect for Section 14U and pre-commencement expenses that are incurred from 25 March 2016.</p> <p>IRAS will release further details of the change by June 2016.</p>

<sup>6</sup> E.g. Under sections 14A(3), 14D(2), 14Q(4) and 14S(5). These provisions allow pre-commencement expenses relating to IP registration, R&D, renovation and refurbishment and design to be deemed as incurred on the actual date of commencement and hence tax deductible.