

IRAS e-Tax Guide

Income Tax: Liberalised Treatment of Expenses Incurred in Singapore to derive Foreign Income



INLAND REVENUE
AUTHORITY
OF SINGAPORE

Published by
Inland Revenue Authority of Singapore

Published on 10 Oct 2014

Disclaimers: IRAS shall not be responsible or held accountable in any way for any damage, loss or expense whatsoever, arising directly or indirectly from any inaccuracy or incompleteness in the Contents of this e-Tax Guide, or errors or omissions in the transmission of the Contents. IRAS shall not be responsible or held accountable in any way for any decision made or action taken by you or any third party in reliance upon the Contents in this e-Tax Guide. This information aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary our position accordingly.

© Inland Revenue Authority of Singapore

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording without the written permission of the copyright holder, application for which should be addressed to the publisher. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Table of Contents

	Page
1 Aim	3
2 At a glance.....	3
3 Background.....	3
4 Liberalised tax treatment	4
5 Administrative Procedure	5
6 Contact Information.....	6
7 Updates and amendments	7
Annex - Tax treatment of expenses incurred by a company to derive foreign dividend income	8

Liberalised Treatment of Expenses Incurred in Singapore to derive Foreign Income

1 Aim

- 1.1 This e-Tax Guide¹ provides details on the liberalised tax treatment of expenses incurred in Singapore to derive foreign income remitted to Singapore.
- 1.2 It applies to all Singapore tax resident persons deriving foreign income and is effective from Year of Assessment (YA) 1996.

2 At a glance

- 2.1 Strictly, expenses incurred in Singapore in any year to derive foreign income are not deductible unless the foreign income is remitted to Singapore in the same year.
- 2.2 Under the liberalised tax treatment, a person can opt to carry forward allowable expenses incurred in Singapore in the year to derive foreign income but which is **not remitted** to Singapore in that same year. These expenses can be deducted in subsequent years when the foreign income is remitted to Singapore.

3 Background

- 3.1 Under sections 14(1) and 15 of the Singapore Income Tax Act (SITA), expenses may be deducted to arrive at net taxable income for any YA provided that:
 - (a) the expenses are incurred wholly and exclusively in producing the income;
 - (b) the expenses are incurred in the basis period for the YA; and
 - (c) the deduction of the expenses is not otherwise prohibited by the SITA.
- 3.2 Based on a strict application of section 14(1), expenses incurred in any year to earn income which is not taxable in the same year are not tax deductible. Thus, expenses incurred in any year to derive foreign income do not qualify for tax deduction if the income is not remitted to Singapore in the same year. Such expenses are strictly also not

¹ This e-Tax guide replaces the IRAS's e-Tax Guide on "Liberalised Treatment of Expenses Incurred in Singapore to Derive Foreign Income" published on 22 Jan 1996.

available for carry forward to offset against the foreign income when it is remitted to Singapore in subsequent years.

- 3.3 Where the foreign income is remitted to Singapore in any year, only allowable expenses incurred *in that year* to earn the foreign income received can be deducted. Any excess of expenses over the foreign income received (i.e. the deficit) in any year is disregarded. This means that the deficit cannot be set-off against any other income in that year or subsequent years or against foreign income remitted to Singapore in subsequent years.
- 3.4 Computation 1 in the Annex is an example of how allowable expenses incurred to derive foreign dividend income are deductible applying existing tax rules.
- 3.5 IRAS recognises that in some cases, a person who derives foreign income is unable or may have genuine commercial reasons for not remitting his foreign income to Singapore in the same year. In such cases, the mismatch in timing of the receipt of the foreign income and the outlay of the expenses means that prior years' expenses which are incurred to produce the foreign income are not deductible.
- 3.6 To facilitate the remittance of foreign income and complement Government's regionalisation efforts, an administrative concession has been introduced by IRAS with effect from YA 1996 to liberalise the tax treatment of expenses incurred in earning foreign income so long as the foreign income is remitted to Singapore.

4 Liberalised tax treatment

- 4.1 Under the liberalised tax treatment, allowable expenses incurred in Singapore in any year to derive foreign income which is not remitted to Singapore in the same year may be carried forward and deducted against the foreign income when it is remitted to Singapore in subsequent years. This is on the condition that the allowable expenses must not already have been claimed as a deduction in the foreign tax jurisdiction. In this connection, IRAS may require an external auditor's certificate to this effect before such expenses are allowed to be deducted.
- 4.2 In the case of allowable expenses incurred to derive foreign investment, for example foreign dividends, only allowable expenses incurred on income-producing investments may be carried forward to offset foreign dividend income subsequently remitted to Singapore. For the purposes of this e-Tax guide, an investment is regarded as income-producing from the date it commences to produce income if it continues to be held for purposes of earning income.
- 4.3 In computing the amount of allowable expenses to be deducted against the foreign income remitted in any year, two methods are allowed:

(a) Direct method

Under this method, you are required to keep a detailed account of the allowable expenses and the corresponding foreign income for each year. In any year that the foreign income is remitted to Singapore, the actual allowable expenses which had been incurred to earn the foreign income will be allowed as a deduction to arrive at the net income taxable in Singapore.

(b) Indirect method

The indirect method requires only the allowable expenses and the foreign income which has not been remitted to be aggregated. In any year that the foreign income is remitted, the expenses to be allowed as a deduction is computed in accordance with the following formula:

$$A/B \times C$$

Where A is the amount of foreign income remitted to Singapore in the year;

B is the aggregate of the foreign income derived during the liberalised tax treatment period up to and including the year concerned which has yet to be remitted to Singapore plus "A";

C is the aggregate of the allowable expenses incurred to produce foreign income during the liberalised tax treatment period up to and including the year concerned which have yet to be allowed as a deduction against foreign income remitted.

- 4.4 Once a method is adopted, it has to be used consistently from year to year unless there is a change in circumstances.
- 4.5 Computation 2 in the Annex shows an example of how the liberalised tax treatment of expenses incurred to derive foreign dividend income applies under the direct method [see para 4.3(a)].

5 Administrative Procedure

- 5.1 If you wish to come under the liberalised tax treatment from any YA, you need only to opt for it in the tax computation that is submitted together with your tax return for that YA.
- 5.2 If the liberalised tax treatment is opted from a particular YA, it shall:
 - (a) apply to all foreign income derived by you in the basis period for that YA, including any foreign income to which tax exemption or

remission has been granted. In other words, you cannot choose to have the liberalised tax treatment apply to only certain types of foreign income and not others. As a corollary, the liberalised tax treatment shall not apply to all your foreign income if you do not wish to come under the liberalised tax treatment.

- (b) remain in force from the YA until renounced by you or revoked by the Comptroller. If renounced or revoked, the liberalised tax treatment shall cease to apply from the YA following the year in which the renunciation or revocation occurs. However, the balance of allowable expenses carried forward up to and immediately before the year of renunciation or revocation shall, until it is fully utilised, continue to be available for deduction against the foreign income derived for the same period which is remitted to Singapore in subsequent years.

5.3 Once revoked or renounced, the liberalised tax treatment will not be available to the same person again.

6 Contact Information

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

(a) 1800-356 8622 (Corporate)

(b) 1800-356 8300 (Individual)

7 Updates and amendments

	Date of amendment	Amendments made
1	10 Oct 2014	The example in paragraph 3 was enhanced and moved to the Annex of this e-Tax Guide.

Annex - Tax treatment of expenses incurred by a company to derive foreign dividend income

Scenario:

- A Pte Ltd received foreign dividend income from outside Singapore in Years 2 to 4.
- The foreign dividend income in Years 2, 3 and 4 were remitted to Singapore in Year 4.
- A Pte Ltd incurred expenses in Singapore in Years 1 to 4.

	Year 1	Year 2	Year 3	Year 4
Foreign dividend income received from outside Singapore	NIL	\$2m	\$3m	\$4m
Foreign dividend remitted to Singapore	NIL	NIL	NIL	\$9m
Expenses incurred in Singapore (say, interest)	\$1m	\$1.2m	\$1.5m	\$2m

The tax treatment is as follows:

Computation 1: Without liberalised tax treatment

	Year 1	Year 2	Year 3	Year 4
Foreign dividend income remitted to Singapore *(\$2m+\$3m+\$4m)	NIL	NIL	NIL	\$9m*
Interest expenses disregarded	\$1m ¹	\$1.2m ²	\$1.5m ²	NIL
Allowable interest expense	NIL	NIL	NIL	\$2m ³
Net taxable income				\$7m

Computation 2: With liberalised tax treatment (using direct method)

	Year 1	Year 2	Year 3	Year 4
Foreign dividend income remitted to Singapore	NIL	NIL	NIL	\$9m
Interest expenses disregarded	\$1m ¹	NIL	NIL	NIL
Allowable interest expenses carried forward to Year 4	NIL	\$1.2m ⁴	\$1.5m ⁴	NIL
Total allowable interest expenses (\$1.2m+\$1.5m+\$2m)	NIL	NIL	NIL	\$4.7m
Net taxable income				\$4.3m

Notes:

¹ As the interest expense of \$1m in Year 1 is not incurred in the production of any income chargeable to Singapore tax, the expense is not tax deductible.

² For Years 2 and 3, the foreign dividend income is not remitted to Singapore and hence not chargeable to Singapore tax in those years. Accordingly, the allowable interest expenses of \$1.2m and \$1.5m incurred in Years 2 and 3 respectively are neither tax deductible in those years nor available for deduction against such dividend income which is subsequently remitted to Singapore in Year 4.

³ In Year 4, only the allowable interest expense of \$2m incurred in that year can be deducted against the dividend income of \$9m (i.e. including dividend income of \$4m received in Year 4) remitted to Singapore in the same year.

⁴ The allowable interest expenses of Years 2 and 3 of \$1.2m and \$1.5m respectively are available for carry forward to set-off against the total foreign dividend of \$9m remitted in Year 4.