



INLAND REVENUE
AUTHORITY
OF SINGAPORE

IRAS e-Tax Guide

Tax Treatment on Appropriation of
Trading Stock for Non-Trade or Capital
Purposes and Conversion of Non-Trade or
Capital Assets to Trading Stock
(Third Edition)

Tax Treatment on Appropriation of Trading Stock for Non-Trade or Capital Purposes and Conversion of Non-Trade or Capital Assets to Trading Stock

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Tax Treatment on Appropriation of Trading Stock for Non-Trade or Capital
Purposes and Conversion of Non-Trade or Capital Assets to Trading Stock

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1 Aim

- 1.1 This e-Tax Guide provides details on the income tax treatment when trading stock held by businesses is appropriated for non-trade or capital purposes¹ and when non-trade or capital assets are converted to trading stock².
- 1.2 This e-Tax Guide is relevant if you are carrying on any trade or business and maintain trading stock and assets for the purpose of your trade or business.

2 At a glance

- 2.1 The income tax treatments involving an appropriation of trading stock for non-trade or capital purposes, or the conversion of non-trade or capital asset to trading stock are as follows:

When trading stock of a person's trade or business is appropriated for non-trade or capital purposes	When non-trade or capital asset is converted to trading stock
An amount equal to the open market value ("OMV") of the trading stock as at the date of appropriation is treated as the person's income for that trade or business for the year of assessment relating to the basis period in which the trading stock was appropriated	In computing the profit or loss arising from a subsequent sale or disposal of such trading stock, the OMV of the non-trade or capital asset as at the date of conversion is treated as the cost of the trading stock. The profit (taxable) / loss (deductible) is revenue in nature and computed based on the difference between the sale price and the value of the trading stock (i.e. OMV of the non-trade or capital asset as at the date of conversion plus any additional cost incurred on the trading stock up to the date of sale)
The profit (taxable) / loss (deductible) on appropriation is revenue in nature and the deduction rules under section 14 applies for the purpose of ascertaining the amount of such profit / loss	The profit (non-taxable) / loss (non-deductible) on conversion is capital in nature

¹ Section 10J of the ITA

² Section 32A of the ITA

Capital allowance on a qualifying plant or machinery is allowed based on the OMV of the trading stock as at the date the trading stock is appropriated for use as a qualifying plant or machinery in any of the person's trades or businesses	Where the capital asset is a qualifying plant or machinery for which capital allowance had been claimed, a balancing adjustment is computed based on the difference between the tax written down value ("TWDV") of the plant or machinery and its OMV as at the date of conversion. A balancing charge (i.e. $OMV > TWDV$) is taxable and a balancing allowance (i.e. $OMV < TWDV$) is deductible. The balancing charge, if applicable, is capped at the amount of capital allowance previously granted in respect of that non-trade/capital asset.
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3 Glossary

3.1 Trading stock

Trading stock of a business refers to any property (moveable or immovable) that is sold in the ordinary course of trade or business or that would be sold if its manufacture, preparation or construction were complete.

3.2 Appropriation

An appropriation occurs when a trading stock of a person's trade or business is permanently set aside for use other than for sale or disposal in the ordinary course of the person's trade or business.

3.3 Date of Appropriation

This is the date when an appropriation of a trading stock occurs. For example, the date of appropriation is the date on which an item is transferred from trading stock for use as a capital asset in the trade or business, or for donation to a charitable organisation.

3.4 Conversion

A conversion occurs when a non-trade or capital asset is converted, whether wholly or partly, to trading stock.

3.5 Date of conversion

This is the point in time when a conversion of non-trade or capital asset to trading stock is irreversible. Prior to this, there may be various exploratory efforts made to assess whether to convert the non-trade or capital asset to trading stock.

3.6 Open Market Value

The OMV of a trading stock, non-trade asset or capital asset means the amount that would be realised if it had been sold on the open market on the date of its appropriation or conversion.

3.7 Reporting YA

Reporting YA is the year of assessment (YA) for which a person reports an appropriation of trading stock or conversion of non-trade or capital asset in the income tax return.

4 **Background**

4.1 Under the Income Tax Act 1947 ("ITA"), tax is imposed on gains or profits of a revenue nature. Conversely, gains of a capital nature are not taxed as Singapore does not impose capital gains tax. Likewise, tax deductions are allowed for loss of a revenue nature (including expenses incurred when an asset is held as a trading stock), but not for loss of a capital nature.

4.2 Over time, trading stock held by a person may be used for non-trade or capital purposes; or non-trade or capital assets may be converted by the person to be trading stock. For instance:

- i. a trader of computers may decide to use a computer from its trading stock for its daily operations (i.e. as fixed asset of the trade);
- ii. a business may donate its trading stock for charitable purpose;
- iii. a property developer may decide to keep the balance of unsold property units for long-term investment to derive rental income; or
- iv. a hotel owner may redevelop the hotel into residential properties for sale.

Following the tax treatment for revenue/capital gains or losses, gains or losses of a revenue nature are recognised for income tax purposes when trading stock is appropriated for non-trade or capital purposes. Such gains or losses of a revenue nature are subject to tax or allowed a deduction. Accordingly, the gains or losses from a subsequent disposal of the non-trade or capital asset are of a capital nature and will not be subject to tax or allowed a deduction.

4.3 Conversely, if a non-trade or capital asset is converted to a trading stock, the gains or losses of a capital nature upon the conversion are not subject to tax or allowed a deduction. When

the trading stock is subsequently sold, only the gains or losses of a revenue nature is subject to tax or allowed a deduction.

- 4.4 Section 10J of the ITA which applies to an appropriation of trading stock for non-trade or capital purposes and section 32A of the ITA which applies to a conversion of non-trade or capital asset to trading stock are enacted with consequential amendments to sections 19 and 19A³, to uphold the tax principle that gains and losses that are revenue in nature should be recognised for tax purposes, while those which are capital in nature should not.
- 4.5 A validation clause is inserted in the Income Tax (Amendment) Act 2021 to provide certainty to taxpayers that IRAS' tax treatment of past cases where trading stock was appropriated for non-trade or capital purposes is valid and in line with the policy intent. Any tax paid or assessment made before 16 November 2021 in connection with such an appropriation of trading stock is validly assessed and the assessments will remain unaffected. However, this validation does not affect any legal proceedings instituted before 13 September 2021 (i.e. the date of introduction of the Income Tax (Amendment) Bill 2021).

5 Effective Date

- 5.1 Section 10J and Section 32A of the ITA apply to such appropriation or conversion which take place on or after 16 November 2021.

6 Trading stock is appropriated for non-trade or capital purposes

- 6.1 When a trading stock of a person's trade or business is appropriated for non-trade or capital purposes, gains or losses of a revenue nature are recognised for income tax purposes as the trading stock is held on revenue account and is treated as sold on the date of appropriation. An amount equal to the OMV of the trading stock as at the date of appropriation is treated as the person's income for that trade or business and is chargeable to tax under section 10(1)(a)⁴ of the ITA for the YA relating to the basis period in which the trading stock was appropriated.
- 6.2 The net profit or loss arising from the appropriation of trading stock is taxable or deductible.
- 6.3 In arriving at the net profit or loss on appropriation, section 14 applies as if the trading stock was sold on the date of the appropriation, and expenses which are incurred in that appropriation, including those incurred to acquire, manufacture, construct or otherwise bring the trading stock into existence up to the date of appropriation, are deductible under section 14⁵ of the ITA, subject to section 15⁶ of the ITA.

³ Section 19(10) and (11) and section 19A(14D) and (14E) of the ITA.

⁴ Section 10(1)(a) of the ITA is the charging section for gains or profits from any trade or business.

⁵ Section 14 of the ITA sets out the deductions allowed against income.

⁶ Section 15 of the ITA sets out the expenditure which are not tax deductible.

Capital allowance

- 6.4 Where a person carrying on a trade or business appropriates his trading stock for use as a qualifying plant or machinery in any of his trades or businesses, capital allowances under section 19 or 19A of the ITA will be allowed on the qualifying plant or machinery that was converted from trading stock.
- 6.5 The capital expenditure is treated as having been incurred on the date of appropriation of the trading stock and capital allowance is allowed based on the OMV of the trading stock as at the date of appropriation.

Date of appropriation and timing of tax adjustment

- 6.6 A person is required to compute any gains or losses arising from an appropriation of trading stock and make the relevant tax adjustments at the time of filing the income tax return for the YA relating to the basis period in which the appropriation took place.
- 6.7 Where based on the facts available, the date of an appropriation is determined to fall within the basis period for a YA that is different from the Reporting YA, the income arising from the appropriation on that date will be assessed to tax in the YA in which the Comptroller of Income Tax ("CIT") discovers sufficient facts on which CIT may reasonably conclude that there has been such appropriation on that date.
- 6.8 Where a person fails to inform CIT of an appropriation of trading stock for the YA relating to the basis period in which the appropriation took place and the income on the appropriation had not been assessed to tax in that YA, such income is treated as the person's income for the YA in which the CIT discovers sufficient facts on which CIT may reasonably conclude that there has been such appropriation.
- 6.9 The table below summarises the various scenarios and the relevant YAs in which tax adjustment is to be made when an appropriation of trading stock takes place and the relevant date in respect of which the trading stock is to be valued at:

Scenarios in which trading stock is appropriated	YA in respect of which tax adjustment is made	Example (Assumption: financial year end - 31 December)	
(A) CIT agrees with the date of appropriation reported in the income tax return for the YA relating to the basis period in which the appropriation occurs	Reporting YA	Date of appropriation reported in the income tax return	1.9.2022
		YA in which the appropriation is reported in the income tax return	YA 2023

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Scenarios in which trading stock is appropriated	YA in respect of which tax adjustment is made	Example (Assumption: financial year end - 31 December)	
		Date on which trading stock is to be valued	1.9.2022
		YA in which tax adjustment is made	YA 2023
(B) Based on the facts available, the date of an appropriation is determined to fall within the basis period for a YA that is earlier than the Reporting YA	YA in which the CIT discovers sufficient facts on which the CIT may reasonably conclude that there has been an appropriation on that date	Date of appropriation reported in the income tax return	1.3.2023
		YA for which the appropriation is reported in the income tax return	YA 2024
		Date of appropriation determined by CIT based on the facts available	1.9.2022
		Year in which CIT discovers sufficient facts on which the CIT reasonably concludes that there has been an appropriation on 1.9.2022	2025
		Date on which trading stock is to be valued	1.9.2022
		YA in which tax adjustment is made	YA 2025
(C) Based on the facts available, the date of an appropriation	YA in which the CIT discovers sufficient facts on	Date of appropriation	1.9.2023

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Scenarios in which trading stock is appropriated	YA in respect of which tax adjustment is made	Example (Assumption: financial year end - 31 December)	
is determined to fall within the basis period for a YA that is later than the Reporting YA	which the CIT may reasonably conclude that there has been an appropriation on that date	reported in the income tax return	
		YA in which the appropriation is reported in the income tax return	YA 2024
		Date of appropriation determined by CIT based on the facts available	1.3.2024
		Year in which CIT discovers sufficient facts on which the CIT reasonably concludes that there has been an appropriation on 1.3.2024	2025
		Date on which trading stock is to be valued	1.3.2024
		YA in which tax adjustment is made	YA 2025
(D) Taxpayer fails to report/inform CIT of an appropriation which took place on a particular date	YA in which CIT discovers sufficient facts on which CIT may reasonably conclude that there has been an appropriation on that date	Year in which CIT discovers sufficient facts on which the CIT reasonably concludes that there has been an appropriation	Year 2026
		Date of appropriation determined based	1.3.2022

Scenarios in which trading stock is appropriated	YA in respect of which tax adjustment is made	Example (Assumption: financial year end - 31 December)		
		on the facts available		
		Date on which trading stock is to be valued	1.3.2022	
		YA in which tax adjustment is made	YA 2026	

7 Non-trade or capital asset is converted to trading stock

- 7.1 Where a non-trade or capital asset is converted to trading stock, the gain or loss upon the conversion relating to the change in the value of the non-trade or capital asset up to the date of conversion is capital in nature and is not taxable or deductible. For the purposes of computing the gains or profits arising from the subsequent sale or disposal of such trading stock, the OMV of the non-trade or capital asset as at the date of conversion is treated as the cost of the trading stock.
- 7.2 Where the non-trade or capital asset that is converted to trading stock is a qualifying plant or machinery in respect of which capital allowance has been claimed, balancing adjustment⁷ [i.e. balancing allowances or charges ("BA"/"BC")], which is based on the difference between the TWDV of the asset and its OMV as at the date of conversion, must be made. A BC is taxable while a BA is deductible. The BC, if applicable, is capped⁸ at the amount of capital allowances previously granted in respect of that non-trade/capital asset.
- 7.3 A person is required to make the relevant tax adjustments in the income tax return for the YA relating to the basis period in which the conversion occurs.
- 7.4 When the trading stock is subsequently sold, the amount of profit or loss on sale is computed based on the following formula:

$$\begin{array}{rclcl} \text{Profit or loss} & & & & \\ \text{on sale of} & = & \text{Actual} & - & \text{OMV of the non-} \\ \text{trading stock} & & \text{sale price} & - & \text{trade/capital asset on} \\ & & & & \text{the date on which it is} \\ & & & & \text{converted to trading} \\ & & & & \text{stock} \end{array} \quad - \quad \begin{array}{l} \text{Cost of any} \\ \text{additional} \\ \text{work done} \end{array}$$

⁷ Section 20(1)(b)(ii) of the ITA is applicable to a qualifying plant and machinery in respect of which capital allowances had been given

⁸ Section 20(4) of the ITA

As the gain or loss on sale is on revenue account, the gain is taxable and the loss is deductible.

8 Administrative Procedure

Reporting Requirement – Reporting Form for Appropriation of Trading Stock or Conversion of Non-Trade/Capital Asset

- 8.1 A person that is not an individual⁹ is required to give notice of any appropriation of trading stock for non-trade or capital purposes, or conversion of non-trade or capital asset to trading stock, to CIT at the point of filing the tax return¹⁰ relating to the basis period in which the appropriation or conversion took place¹¹. Please refer to Annex C for the prescribed reporting form (“AC Reporting Form”).
- 8.2 In the case of any partnership where any partner is not an individual, the precedent partner of the partnership is required to complete and submit the AC Reporting Form. The non-individual and individual partners of the partnership should prepare their respective income tax returns based on information in the partnership’s AC Reporting Form and return, but are not required to submit the AC Reporting Form.
- 8.3 A person may decide to donate perishable trading stock (e.g. milk, bread, fruits and vegetables). On the other hand, items such as rice and canned food are not generally considered to be perishable trading stock unless such items donated have become perishable with shortened shelf-life. Such donation of perishable trading stock need not be reported in the AC Reporting Form.

Valuation

- 8.4 The OMV of a trading stock, non-trade asset or capital asset is to be used to compute the tax adjustments relating to an appropriation or conversion. Where the value of the trading stock is readily available (e.g. shares or securities of a public listed company), CIT is prepared to accept the closing price of the shares or securities as at the date of appropriation or conversion.
- 8.5 For donation of trading stock that qualifies for enhanced tax deduction under section 37(3)¹² of the ITA, the cost of acquiring, making or constructing the trading stock will be treated as income¹³, instead of its OMV as at the date of appropriation. The net result is that there will be no net gain or loss on the appropriation to be subject to income tax. The taxpayer

⁹ The Income Tax (Exemptions from Notification under Sections 10J(5) and 32A(4)) Rules 2022 provides that individuals are exempted from the requirements under section 10J(5) and section 32A(4) of the ITA.

¹⁰ Includes filing of the Form C-S/C-S (Lite) as well as the Form T/UT.

¹¹ Section 10J(5) and Section 32A(4) of the ITA

¹² Section 37(3) of the ITA provides for 250% enhanced tax deduction for qualifying donations of artefacts, sculptures or works of art, shares and immovable property, made to an approved museum or institution of a public character as appropriate.

¹³ Section 10J(3)(a) of the ITA

continues to enjoy the enhanced deduction in respect of a qualifying donation based on the OMV of the donated trading stock.

- 8.6 Where perishable trading stock is donated, CIT is prepared to accept the OMV of such trading stock as nil to ease compliance/administrative burden of the taxpayer.
- 8.7 For real property and high value specialised / customised item which does not have a ready market, the CIT requires the OMV to be supported by an independent valuation if the historical cost of the real property and specialised / customised item exceeds \$1 million and \$500,000 respectively. To the extent that the cost incurred to obtain an independent valuation in respect of an appropriation/conversion event is to comply with the tax filing requirement, the cost incurred is tax deductible under section 14V of the ITA.

Record-keeping

- 8.8 Taxpayers should maintain contemporaneous documents to support an appropriation or conversion, including the date on which the appropriation or conversion took place and how the OMV is determined. These documents should be retained and made available to CIT upon request.
- 8.9 The table below shows examples of the relevant documents and information to support an appropriation or conversion. The examples provided are not exhaustive:

Nature of transaction	Examples of relevant documents and information
Trading stock is appropriated for non-trade or capital purposes	<ul style="list-style-type: none"> Proposals on the appropriation and Directors' resolution approving the appropriation of the trading stock for non-trade or capital purpose Accounting records of trading stock movement to fixed assets Donation receipt Advertisement for property rental or lease Investment yield analysis/study or recommendation by investment advisors Increased share capital to strengthen the company's financial position to support the long-term holding intention Change of accounting classification from trading stock under current assets to investment/fixed assets under non-current assets
Non-trade or capital asset is	<ul style="list-style-type: none"> Proposals on the conversion and Directors'

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converted to trading stock	<p>resolution approving the conversion of a non-trade or capital asset to trading stock</p> <ul style="list-style-type: none">• Payment of property development charge or differential premium• Appointment of contractors• Issue of property developer license (for sale)
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9 Contact Information

If you have any questions or need clarification on this e-Tax Guide, please call:

1800 356 8622 (Corporate Income Tax & Trust Income Tax); or
1800 356 8300 (Individual Income Tax & Partnerships)

10 Updates and amendments

	Date of update	Updates made
1	12 Jan 2024	Annex C - Updated the declaration on Part 4 of the AC Reporting Form

Annex A – Illustration of the tax treatment when trading stock is used for a purpose other than for sale in the ordinary course of business

Example

The financial year end of Company A is 31 December. The Company is in the business of selling computers. As and when the Company requires new computers for office use by its employees, it will draw on the existing trading stock and reclassify them as fixed asset in their accounting records.

Company A reported an appropriation of its trading stock as fixed assets in its income tax return filed for YA 2024.

Date	Event	Tax treatment	Applicable YA
1.9.2022	Purchased 50 identical computers as trading stock costing \$1,000 each	-	
31.12.2022	OMV of the unsold computers was higher than the cost and therefore no provision of diminution in value is required	-	YA 2023
15.4.2023	<p>Withdrew 2 computers for office use by employees:</p> <p>Total cost (i.e. \$1,000 x 2) \$2,000</p> <p>OMV as at date of appropriation \$2,500</p> <p><u>Profit on appropriation (on revenue account)</u></p> <p>\$2,500 – \$2,000) = \$500</p>	\$500 (taxable)	YA 2024
YA 2024	Capital allowance computed based on the OMV of the fixed asset as at the date of appropriation (assuming claim is made over 1 year)	\$2,500 (allowed)	YA 2024

Annex B1 – Illustration of the tax treatment when non-trade/capital asset is converted to trading stock and subsequently sold

The financial year end of Company B is 31 December. The Company manufactures and fabricates specialised equipment for sale based on the customers' requirements. The Company set aside 50 units of the equipment with general specifications as fixed assets for short term lease.

Owing to a shortage of certain components and the increase in demand for the specialised equipment, the company decided to reconfigure 30 units of its equipment with general specifications to meet the customers' requirements prior to the sales. Company B reclassified the 30 units of the equipment from fixed assets to trading stock in its accounts for the financial year ended 31 December 2024 and reported the conversion of its fixed assets to trading stock in its income tax return filed for YA 2025.

Date	Event	Tax treatment	Applicable YA
Year 2022	The cost of producing 30 units of equipment with general specification was \$90,000 <u>Capital allowance (claimed over 3 years)</u> \$90,000 / 3 years = \$30,000	\$30,000 (allowed)	YA 2023
Year 2023	<u>Capital allowance (claimed over 3 years)</u> \$90,000 / 3 years = \$30,000	\$30,000 (allowed)	YA 2024
15.1.2024	Converted 30 units of the equipment from fixed assets to trading stock OMV as at date of conversion \$110,000 TWDV (\$90,000 - \$30,000 - \$30,000) <u>\$30,000</u> Excess of OMV over TWDV <u>\$80,000</u> <u>Balancing charge</u> Capped at the amount of capital allowance claimed (\$30,000 x 2) \$60,000	\$60,000 (taxable)	YA 2025
30.3.2024	Sold 30 units of the reconfigured specialised equipment for \$205,000 OMV as at date of conversion \$110,000 Additional costs incurred on reconfiguration works <u>\$40,000</u> Total value of 30 units <u>\$150,000</u> <u>Profit on sale of trading stock (on revenue account)</u> \$205,000 - \$150,000 = \$55,000	\$55,000 (taxable)	YA 2025

Annex B2 – Illustration of the tax treatment when non-trade/capital asset is converted to trading stock and subsequently sold

Example

The financial year end of Company C is 31 December. The Company is in the business of developing properties both for sale and/or rental. The Company developed and owned a 5-storey office building which had been used as its office and the excess office space had been rented out since the building obtained the temporary occupation permit (“TOP”) in year 1999.

On 25 May 2015, Company C submitted an application to redevelop the office building into a 5-storey residential/commercial building for sale. The application was turned down by the URA. The Company continued to occupy the building and rent out the excess office space.

In early 2023, the office building site has been re-zoned to allow for residential use. On 22 September 2023, Company C submitted an application to redevelop the site for residential for sale. The plan was provisionally approved on 30 November 2023, subject to payment of the development charge of \$12 million.

The Board of Directors’ meeting on 15 December 2023 approved the redevelopment of the office building into residential units for sale and payment of the development charge.

Company C proceeded to pay the development charge on 18 December 2023. The property was reclassified from Fixed Asset to Property Under Development in the accounts for the year ended 31 December 2023.

Company C reported a conversion of the investment property to trading stock in its income tax return filed for YA 2024.

Date	Event	Tax treatment	Applicable YA
1.9.1999	Developed the office building at \$10mil as an investment property for own office use (excess office space was rented out)	-	-
25.5.2015	Submitted an application to redevelop existing office building into residential / commercial building for sale. The application was rejected and Company C did not proceed with the plan (Note: Exploratory activity).	-	-
22.9.2023	Submitted an application to redevelop existing office building into residential for sale (Note: Exploratory activity as the application is subject to URA’s approval)	-	-

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30.11.2023	The plan was provisionally approved by URA on 30 November 2023, subject to payment of the development charge of \$12 million (Note: Exploratory activity as only URA's provisional approval was granted.)	-	-
15.12.2023	<p>Board of Directors' resolution approved the redevelopment plan and payment of development charge was made shortly thereafter. This is the date that indicates the period of contemplation has passed and there was a committed plan of actions on a specific date (i.e. the payment of development charge).</p> <p>The date of conversion is 15.12.2023.</p> <p>As at the date of conversion, the OMV of the land is \$25mil.</p> <p><u>Profit on conversion (on capital account)</u> \$25mil - \$10mil = \$15mil</p>	\$15mil (Not taxable)	YA 2024
1.1.2024 to 31.5.2025	Cost incurred on the redevelopment is \$40mil	-	-
Year 2025	<p>The redevelopment project obtained its TOP on 31.5.2025. All units were sold in the financial year ended 31.12.2025 at a total consideration of \$100mil.</p> <p>OMV as at the date of conversion \$25mil Add: Redevelopment costs <u>\$40mil</u> Total cost <u>\$65mil</u></p> <p><u>Profit on sale (on revenue account)</u> \$100m - \$65m = \$35m</p>	\$35mil (taxable)	YA 2026

Annex C – AC Reporting Form
Appropriation of trading stock for non-trade or capital purposes under
section 10J/ Conversion of non-trade or capital asset to trading stock
under section 32A of the Income Tax Act 1947 (“ITA”)



- Note:**
- An individual, including partnership with only individual partners, is not required to complete this Form.
 - This Form may take you 10 minutes to complete.
 - Please get ready the particulars of the appropriation/ conversion and market value of the trading stock and/ or capital asset as at the date of appropriation/ conversion.
 - There is no need to submit supporting document with the Form. However, contemporaneous supporting documents should be made available when the Comptroller of Income Tax (“CIT”) requests them.
 - You should submit the completed and signed Form together with your Income Tax Return or income tax computation via myTax Mail (<https://mytax.iras.gov.sg>).

Part 1 – Particulars of taxpayer/ partnership
Name of taxpayer/ partnership: _____ Tax Ref. No.: _____ Year of Assessment: _____
Part 2 – Declaration of appropriation/ conversion (Tick where applicable)
There is an appropriation during the basis period for the above Year of Assessment. <input type="checkbox"/> a) Trading stock held on revenue account is appropriated for non-trade/ capital purposes. (Please complete Part 3a below) <input type="checkbox"/> b) Non-trade/ capital asset is converted to trading stock. (Please complete Part 3b below)
Part 3a – Details of appropriation of trading stock for non-trade/ capital purposes¹⁴
Description of trading stock: _____ Date of purchase or completion ¹⁵ by taxpayer: _____ Date of appropriation: _____ Reason(s) for the appropriation: _____ Cost of trading stock: _____ Net book value of trading stock ¹⁶ _____ Open market value (“OMV”) of _____

¹⁴ Refer to section 10J of ITA

¹⁵ Completion of manufacture, preparation or construction.

¹⁶ Net book value will be the same as purchase cost if no provision for diminution in value or fair value adjustment had been made previously.

Annex C – AC Reporting Form
Appropriation of trading stock for non-trade or capital purposes under
section 10J/ Conversion of non-trade or capital asset to trading stock
under section 32A of the Income Tax Act 1947 (“ITA”)



trading stock as at the date of appropriation:

Gain/ (loss) on appropriation brought to tax/ claimed in the Income Tax Return:

Whether the OMV is supported by independent valuation:

☐ Yes ☐ No

Confirmation that the tax adjustment(s) has/ have been included in the Income Tax Return:

☐ Yes ☐ No

Part 3b – Details of conversion of non-trade/ capital asset to trading stock¹⁷

Description of non-trade/ capital asset:

Date of purchase:

Date of conversion:

Reason(s) for the conversion:

Cost of asset:

Open market value (“OMV”) of the asset as at the date of conversion:

Estimated date of disposal of trading stock (if available):

Describe any value-add activities carried out on the trading stock after the conversion:

Whether the OMV is supported by independent valuation:

☐ Yes ☐ No

¹⁷ Refer to section 32A of ITA

Annex C – AC Reporting Form
Appropriation of trading stock for non-trade or capital purposes under
section 10J/ Conversion of non-trade or capital asset to trading stock
under section 32A of the Income Tax Act 1947 (“ITA”)



Confirmation that any balancing adjustment (if applicable) has been included in the Income Tax Return: ☐ Yes ☐ No ☐ Not applicable

Part 4 – Declaration

I declare that the information provided in this Form is true and complete.

I am aware that penalties may be imposed for making incorrect or false declarations to the Comptroller of Income Tax.

Full name and signature of authorised person Designation Date

Checklist on documents maintained to support the particulars of the appropriation/ conversion and valuation (Tick where applicable)

Please tick the relevant boxes below to indicate which relevant information and/ or documents are available to support the occurrence of an appropriation/ conversion, the date of appropriation/ conversion and valuation. You do not need to submit these documents at the point of tax filing. However, please retain them and submit them to CIT upon request.

- | | |
|--|--|
| <input type="checkbox"/> Proposal on Appropriation/ Conversion and Director's resolution | <input type="checkbox"/> Advertisement for rent or lease only |
| <input type="checkbox"/> Donation receipt (applicable only for donation of trading stock) | <input type="checkbox"/> Payment of development charge or differential premium |
| <input type="checkbox"/> Investment yield analysis/ study or recommendation by investment advisors | <input type="checkbox"/> Appointment of contractors |

Annex C – AC Reporting Form
Appropriation of trading stock for non-trade or capital purposes under
section 10J/ Conversion of non-trade or capital asset to trading stock
under section 32A of the Income Tax Act 1947 (“ITA”)



<input type="checkbox"/> Valuation report by an independent valuer	<input type="checkbox"/> Issue of developer licence (for sale)
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<input type="checkbox"/> Others (please provide details)
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Annex D – Frequently Asked Questions

1. Will the new legislation (sections 10J and 32A) apply to ongoing dispute cases?

No, the new legislation will not apply to ongoing dispute cases. For such cases, CIT will continue to work with taxpayers on possible resolutions based on the facts of each case.

2. How will sections 10J and 32A apply if the nature of an item is under dispute (i.e. whether the item should be regarded as a trading stock or non-trade asset)?

CIT will first ascertain whether the item should be a trading stock or non-trade asset before determining whether an appropriation or conversion has taken place.

3. Are sections 10J and 32A applicable to sole proprietors and partnerships?

Yes, the sections are applicable to sole proprietors and partnerships. The income tax computation of sole proprietors and partnerships should take into account any relevant tax adjustment arising from an appropriation of trading stock for non-trade or capital purposes or a conversion of non-trade or capital asset to trading stock.

In addition, the precedent partner of a partnership that has any non-individual partner is required to complete and submit the AC Reporting Form. Sole proprietors and partnerships with only individual partners are exempted from completing such Form.

Trading stock is appropriated for non-trade or capital purposes

4. Where there is no physical transfer of trading stock, how will CIT ascertain whether there is an appropriation and the date of appropriation?

Where there is no physical transfer of a trading stock (e.g. a property developer decided to keep the leftover unsold units for long term investment to derive rental income), CIT will examine documentary evidence supporting an appropriation has taken place, such as changes to accounting classification, board of directors' resolution, investment return/cashflow

Tax Treatment on Appropriation of Trading Stock for Non-Trade or Capital Purposes and Conversion of Non-Trade or Capital Assets to Trading Stock

analysis and other unequivocal evidences which provide reasonable inference that the appropriation is permanent.

5. Will CIT regard trading stock of properties which have been held for a long period and/or have been rented out (e.g. unsold completed property units) as not for the purpose of trading?

The mere fact that a property, which is a trading stock of a property developer, is held for a long period or that is let out to derive rental income is not conclusive of an appropriation. CIT will review all facts and documentary evidence to evaluate and assess if an appropriation has indeed taken place.

6. Is there an appropriation of trading stock for non-trade or capital purpose in the following situations?

S/N	Situations	Whether there is an appropriation of trading stock for non-trade or capital purpose to which section 10J applies
1	Items are identified upfront for non-trade/capital purpose. For instance: (a) a property unit in a commercial development is identified to be donated (b) an asset under construction is identified to be used as a plant or machinery in a person's trade or business when completed	No. If the items have already been identified for non-trade or capital purpose at the start and such purpose is clearly substantiated with documentary evidence, such items are not trading stock and the appropriate tax treatment (non-trade or capital in nature) should be applied consistently to the items.
2	Trading stock is used to provide a commercial sponsorship.	No. In this case, the trading stock was disposed of in the ordinary course of business, even though it was not sold. The deductibility of the expenditure will be determined based on the usual deduction rules under section 14 and subject to the provisions in section 15 of the ITA.

Tax Treatment on Appropriation of Trading Stock for Non-Trade or Capital Purposes and Conversion of Non-Trade or Capital Assets to Trading Stock

3	A person carrying on a trade or business appropriates a trading stock of that trade or business for sale in another trade or business carried on by him.	No. Section 10J does not apply to such an appropriation of trading stock as the appropriation was not made for a non-trade or capital purpose. Subsequent sales of the trading stock in another trade or business will be brought to tax accordingly.
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7. Will tax deduction be given on trading stock that is appropriated?

Yes, CIT will allow a deduction on the cost of the trading stock based on the usual deduction rules under section 14 of the ITA, subject to section 15 of the ITA.

8. Will CIT accept a valuation report prepared by an independent valuer to support the OMV of a trading stock?

Yes. The parameters for arriving at the OMV should be clearly defined so that the basis can be verified by CIT. CIT is prepared to accept the OMV provided that it is reasonable.

9. How should trading stock be valued as at the date of appropriation?

Trading stock should be valued based on the OMV. Where there is no market available as at the date of appropriation given the specific nature and/or condition of the trading stock, CIT is prepared to consider any valuation that is reasonable in the circumstances.

10. If a taxpayer failed to inform CIT of an appropriation of trading stock for non-trade purpose in its tax return, what will CIT do?

Where CIT discovers the appropriation of trading stock for non-trade purpose, the relevant income will be assessed to tax in the YA in which he discovers the appropriation.

Section 95 may apply if the taxpayer had filed an incorrect tax return by omitting information relating to the appropriation of trading stock for non-trade or capital purposes, which resulted in lower tax charged.

Non-trade or capital asset converted to trading stock

11. How will CIT ascertain whether there is a conversion and the date of conversion?

CIT will look for evidence to establish a conversion has taken place, for instance, whether the period of contemplation has passed and there is a

committed plan of actions on a specific date (e.g. the date of appointment of contractor or the date of payment of development charge to redevelop an immovable property for sale). The payment of a substantial sum of money such as a development charge would be highly indicative of such a commitment. However, if other circumstances show that the change had already taken place before the payment of the development charge, then an earlier date may be used. For example, this could occur where a person had occupied the premises for conducting business operations for some time before relocating the operations elsewhere.

12. If a taxpayer started to look for buyer to sell its non-trade asset, will IRAS regard this as conversion of non-trade assets to trading stock?

Where a taxpayer is looking to dispose of a non-trade asset held for long term in its original state (e.g. no redevelopment or minimal enhancement work done to the non-trade asset before the sale), such disposal will likely be regarded as a disposal of non-trade asset, unless the case facts indicate otherwise.

13. Where capital allowance was previously claimed on a non-trade/capital asset, will there be any balancing adjustment on the asset when it is converted to a trading stock?

Yes, balancing charge or allowance will be computed based on the difference between the tax written down value and OMV of the asset as at the date of conversion in accordance with section 20 of the ITA.