IRAS e-Tax Guide

Income Tax: Taxation of Insurers Arising from Adoption of FRS 117 – Insurance Contracts (Second Edition)

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Abbreviations

AFS	Available-for-sale
BS	Balance Sheet (or statement of financial position) of the FS
CA	Capital allowances
CIT	Comptroller of Income Tax
CSM	Contractual service margin
ECI	Estimated chargeable income
Form A1	Form A1 of MAS Statutory Returns (statement of financial position)
Form A2	Form A2 of MAS Statutory Returns (statement of profit and loss)
FRS	Financial Reporting Standard
FS	Financial Statements
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FYE	Financial year end
IA	Insurance Act 1966
ITA	Income Tax Act 1947
MAS	Monetary Authority of Singapore
MTM	Mark-to-market
OCI	Other comprehensive income
P&L	Profit and Loss Account (or statement of profit or loss) of the FS
QDS	Qualifying Debt Securities
RBC	Risk-based Capital
SFRS(I)	Singapore Financial Reporting Standard (International)
TAM	Total Asset Method
Transitional YA	The first YA for which an insurer is required to use the MAS Statutory Returns as the basis to prepare tax computation
V&C Regulations	Insurance (Valuation and Capital) Regulations 2004
YA	Year of Assessment

1. Aim

1.1 This e-Tax Guide provides details on the income tax treatment of a licensed insurer[1] (“insurer”) arising from the adoption of FRS 117 *Insurance Contracts* or SFRS(I) 17 *Insurance Contracts* (collectively referred as “FRS 117” hereinafter).

1.2 This e-Tax Guide is relevant to all insurers, unless otherwise specified. It applies to insurers for financial years beginning on or after 1 Jan 2023. For the tax treatment of insurers for a financial year prior to that, please refer to IRAS e-Tax Guide “Taxation of insurers arising from changes made to risk-based capital framework”.

2. At a Glance

2.1 The Accounting Standards Council issued FRS 117 on 29 Mar 2018. FRS 117 which supersedes FRS 104 *Insurance Contracts* (“FRS 104”), is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. It applies to entities for their annual reporting periods beginning on or after 1 Jan 2023. An entity can choose to apply FRS 117 before that date, but only if it also applies FRS 109 *Financial Instruments* or SFRS(I) 9 *Financial Instruments* (collectively referred as “FRS 109” hereinafter).

2.2 Currently, insurers rely on their FS prepared in accordance with the accounting standards as the basis for preparing their tax computations, except for profits from funds established and maintained for participating policies (i.e. participating fund[2]). The insurance returns filed with MAS for regulatory purposes (“MAS Statutory Returns”) are also used to allow insurers to apply the tax rules applicable to insurers.

2.3 With the adoption of FRS 117 for the preparation of FS, the MAS Statutory Returns instead of FS will be used as the basis for preparing tax computations for insurers. Related consequential adjustments to existing tax treatments will also be introduced.

2.4 The changes will take effect from YA 2024 (or YA 2025 for insurers whose FYE is not 31 Dec) or such earlier YA as may be approved by the CIT.

[1] “Licensed insurer” has the meaning given by section 2 of the IA.

[2] For profits from participating fund, insurers will rely on their MAS Statutory Returns instead of FS and are taxed based on the actual distributions made to policyholders and shareholders as reflected in the MAS Statutory Returns.

3. Glossary

Term	Definition
Best Estimate	Best estimate, in relation to the valuation of insurance liabilities of a life policy, is to be determined by first projecting future cash flows using realistic assumptions (including assumptions on expenses, mortality and morbidity rates, lapse rates, etc.) and then discounting these cash flow streams at appropriate interest rates.
Functional Currency	The functional currency is the currency of the primary economic environment in which a business operates.
Investment-Linked Policy	Investment-linked policy is defined in the First Schedule of the IA as any policy which provides benefits calculated by reference to units, the value of which is related to the market value of the underlying assets.
Participating Policy	A participating policy is defined in the First Schedule of the IA as any non-investment-linked policy conferring a right to participate in allocations by way of bonuses from policy assets of the fund established and maintained by an insurer for such a policy.
Policy Liabilities	Policy liabilities are to be valued based on best estimate assumptions, with provision for adverse deviation. Policy liabilities for life insurance are computed using a prospective discounted cash flow method while those for general insurance consist of premium liabilities and claims liabilities.

4. Current Tax Treatment

4.1 Under the IA, insurers are required to establish and maintain separate insurance funds, namely participating fund, non-participating fund, investment-linked fund and general insurance fund, for the policies issued (the "fund concept") and file MAS Statutory Returns with MAS for regulatory purposes. The MAS Statutory Returns are prepared in Singapore dollar, and on a calendar year basis except for captive and marine mutual insurers which are allowed to file the Returns based on their FYE.

4.2 For income tax purpose, the current taxation basis of insurers is based on the fund concept and the tax treatment for the various insurance funds is provided under section 26 of the ITA. Except for profits from participating fund, insurers are taxed based on the surplus method. They will rely on their FS as a starting point in the preparation of their tax computations, complemented by their MAS Statutory Returns which are used to segregate their income and expenses into respective funds and business lines. When applying the surplus method, an increase in policy liabilities is allowed as a deduction and a decrease in policy liabilities is taxed based on the amounts reflected in the MAS Statutory Returns.

4.3 For profits from participating fund, insurers rely on their MAS Statutory Returns instead of FS and are taxed based on the actual distributions made to policyholders and shareholders as reflected in the MAS Statutory Returns. Please refer to Annex A for details on the taxation of participating fund.

5. FRS 117

5.1 A key concept introduced by FRS 117 is the CSM. CSM represents the unearned profit of a group of insurance contracts. The profit from a group of insurance contracts is recognised over the period an insurer provides insurance coverage, and as the insurer is released from risk underwritten. When an insurer writes a profitable group of contracts, it is required to avoid immediate recognition of profits through the establishment of a CSM. On the other hand, if a group of contracts is or becomes loss-making, the loss is recognised immediately.

5.2 There are three measurement models in FRS 117:

a. General Model;
b. Premium Allocation Approach; and
c. Variable Fee Approach.

Depending on the model adopted, investment income (including income qualifying for tax exemption or concessionary tax rate) may be reflected in the CSM and released to the P&L over a period of time.

5.3 On the date of initial application of FRS 117, there will be a transitional accounting adjustment in the FS, due to the difference in the valuation of insurance contracts pre and post FRS 117.

6. Insurers to Use MAS Statutory Returns as the Basis for Preparing Their Tax Computations

6.1 With the adoption of FRS 117, insurers will no longer be able to prepare their tax computations using the FS prepared in accordance with FRS 117, as the FS do not provide information such as premiums, expenses and claims paid nor provide the information by types of insurance funds or lines of business that is necessary for applying the tax treatment under section 26 of the ITA. Certain investment income (e.g. one-tier dividends) may also not be reported as a standalone item in the FS as it could be comingled with other income and reflected in the CSM under FRS 117.

6.2 Given the above, it was announced in the 2022 Budget Statement that MAS Statutory Returns instead of FS will be used as the basis for preparing tax computation for insurers with effect from YA 2024 (for insurers whose FYE is 31 Dec) or YA 2025 (for insurers whose FYE is not 31 Dec) as the case may be.

6.3 As MAS Statutory Returns provide the income and expense information of insurers by types of insurance funds or lines of business, using MAS Statutory Returns as the basis for preparation of tax computation will allow the tax treatment currently stipulated in section 26 of the ITA and the tax exemption or concession in respect of income from qualifying insurance activities and qualifying income from QDS (as defined in section 13(16) of the ITA), etc., to continue to apply without adding substantial tax compliance burden on the insurers.

7. Changes to Existing Tax Treatments Arising from the Use of MAS Statutory Returns

7.1 With the adoption of MAS Statutory Returns as the basis for preparing tax computations, some related consequential changes to existing tax treatments will be introduced. These changes are explained in the following paragraphs.

A. Insurers whose FS are Prepared in Non-Singapore Dollar Functional Currencies

7.2 Currently, insurers whose FS are prepared in non-Singapore dollar functional currencies are required to comply with section 62B of the ITA. They are required to submit their tax computations in their non-Singapore dollar functional currencies. All items up to the chargeable income would be presented in the non-Singapore dollar functional currencies in the tax

computations. The chargeable income would then be converted to an equivalent amount of Singapore dollar using the average exchange rate from MAS' website.

7.3 On the other hand, MAS Statutory Returns are prepared in Singapore dollar. For the purpose of translating the figures from functional currency to presentation currency in Singapore dollar, insurers are required to comply with FRS 21 *The Effects of Changes in Foreign Exchange Rates*, and the external auditors are expected to perform the necessary verification on this aspect as part of their audit.

7.4 FRS 21 requires the following rates to be used when the functional and presentation currencies are different:

a. assets and liabilities are to be translated using the closing rate;

b. income and expense items are to be translated using the exchange rates on the dates of the transactions, or for practical reasons, the average rate which approximates the actual rates; and

c. all resulting translation differences are to be treated as part of OCI.

7.5 Based on the insurers' feedback, the following exchange rates are used by insurers for translating figures from non-Singapore dollar functional currency to presentation currency in Singapore dollar in their MAS Statutory Returns:

a. For Form A1, assets and liabilities are translated based on the month-end/year-end rate/closing rate, and equity is translated at the historical rate.

b. For Form A2, all items are translated based on the transaction rate/quarterly average rate/average rate for the year.

c. The resulting translation difference[3] is reported as other reserves in Form A1.

7.6 For most insurers with non-Singapore dollar functional currencies, their financial ledger is maintained in that currency. Relevant figures are extracted from the ledger and translated using the exchange rates mentioned in paragraph 7.5 to prepare the MAS Statutory Returns.

7.7 For a few other insurers, they maintain two financial ledgers, one in non-Singapore dollar functional currency and another in Singapore dollar. The ledger in non-Singapore dollar functional currency will be used to prepare FS

[3] The translation exchange difference (from non-Singapore dollar functional currency to Singapore dollar) is merely a notional gain or loss and is therefore not taxable or deductible for tax purpose. As such, if there are translation exchange differences included in Form A2, tax adjustments will be required to disregard such amounts.

in functional currency and the ledger in Singapore dollar will be used for MAS Statutory Returns.

7.8 For the purpose of translating the figures from non-Singapore dollar functional currency to presentation currency in Singapore dollar in MAS Statutory Returns, insurers currently obtain the exchange rates from sources such as MAS' website, banks, Oanda, Bloomberg, Reuters, foreign Central Banks, internal exchange rates, etc.

7.9 With the adoption of MAS Statutory Returns as the basis for preparing the tax computation, section 62B will not apply to insurers. The CIT will accept the Singapore dollar figures in the MAS Statutory Returns for the preparation of tax computation, subject to conditions listed in the next paragraph. This will reduce compliance burden on insurers.

7.10 To ensure parity in tax treatment among insurers, the CIT will accept exchange rates which meet all the following conditions:

a. The exchange rate is obtained from any of the sources listed in Annex B;

   If the exchange rate adopted is not from sources listed in Annex B, the insurer must ensure the exchange rate is reflective of the Singapore money market at that point in time. To substantiate that the exchange rate used is reflective of the Singapore money market at that point in time, insurers can perform comparisons of the exchange rates used with those listed in Annex B over a 2-week period. Generally, the exchange rate used should be a close approximation (not deviate by more than 5%) from these sources;

b. The exchange rate must be updated at least once every three months;

c. The exchange rate must be consistently used for internal business reporting, accounting and Goods and Services Tax purposes (if applicable); and

d. The exchange rate must be used consistently for the insurer's income tax computations unless there are reasonable grounds to justify the change.

The insurer must keep records (e.g. comparison samples of the exchange rates used with those listed in Annex B) on the exchange rates used and submit them to the CIT upon request.

7.11 Where the exchange rate used by an insurer fails to meet the above conditions, the insurer is required to justify the use of the exchange rate. If there is no justifiable reason for the use of the exchange rate, the CIT may

require the insurers to revise their tax computations based on exchange rates from acceptable sources listed in Annex B.

7.12 In a case where an insurer has existing balances relating to items such as tax written down value of existing assets or unabsorbed CA etc prior to the adoption of FRS 117, the insurer will have to make an irrevocable option to translate such balances into Singapore dollar using either the changeover rate or the average rate method. Please refer to paragraphs 9.1 to 9.6 for details of the two methods.

B. Insurers whose FYE is Not 31 Dec

7.13 With the exception of captive and marine mutual insurers, insurers are required to prepare their MAS Statutory Returns on a calendar year basis. For captive and marine mutual insurers, their reporting periods for both FS and MAS Statutory Returns are the same (i.e. the MAS Statutory Returns are prepared on a financial year basis).

7.14 Most insurers (excluding captive and marine mutual insurers) have a FYE that is 31 Dec, which is aligned with the last day of annual reporting period of MAS Statutory Returns. With the adoption of MAS Statutory Returns as the basis to prepare the tax computations, these insurers will continue to be required to submit their ECI within 3 months after their FYE, i.e. to submit their ECI by 31 Mar of the following year.

7.15 For those insurers (excluding captive and marine mutual insurers) that do not have a 31 Dec FYE, they will need to file their corporate income tax returns and tax computations for a YA which relates to a calendar year instead of a financial year. They are also required to submit their ECI within 3 months after the last day of their annual reporting period of MAS Statutory Returns, i.e. to submit their ECI by 31 Mar of the following year. This takes effect from the financial year beginning on or after 1 Jan 2023. Please refer to paragraph 9.7 for the details of the transitional arrangement, including the filing of ECI for these insurers.

C. Insurers whose Policy Liabilities Accepted for Tax Purpose Currently are Based on Amounts Reflected in FS

7.16 Currently, the CIT relies on the policy liabilities figures reported in the MAS Statutory Returns to allow a deduction for an increase in policy liabilities or to tax a decrease in policy liabilities. However, there are a few cases where the CIT has accepted, for tax purpose, the policy liabilities based on the amount reflected in the FS instead of in the MAS Statutory Returns.

7.17 With the adoption of MAS Statutory Returns as the basis to prepare the tax computation and based on section 26 of the ITA, the beginning and closing values of policy liabilities should be determined in accordance with the IA for tax purpose. In other words, the policy liabilities figures reported in the MAS

Statutory Returns, instead of the FS, should be used for tax purpose. This includes the cases mentioned in paragraph 7.16, where the amounts reflected in the FS were used.

7.18 Please refer to paragraph 9.8 for the details of a one-time tax adjustment to be made in YA 2024 (or YA 2025 for insurers whose FYE is not 31 Dec) to transit the cases referred to in paragraph 7.16 to using the policy liabilities figures reported in the MAS Statutory Returns.

D. Insurers with Financial Instruments

7.19 Currently, FRS 109 tax treatment, which seeks to align the tax treatment for financial instruments with the accounting treatment under FRS 109 so as to minimise tax adjustments, is the default tax treatment for financial instruments for all taxpayers (including insurers) who have adopted FRS 109 for accounting purposes. Insurers that have applied the temporary exemption from applying FRS 109 continue to apply FRS 39 *Financial Instruments: Recognition and Measurement* ("FRS 39") for accounting purpose. These insurers continue to apply the FRS 39 tax treatment or pre-FRS 39 tax treatment (if they have opted out of FRS 39 tax treatment).

7.20 Financial instruments in the MAS Statutory Returns, however, are valued and recognised based on the recognition and valuation requirements specified under the V&C Regulations (called the "MAS reporting treatment" hereinafter).

7.21 Under the MAS reporting treatment, financial instruments are not required to be grouped and classified into different categories (as compared with the classification requirement under FRS 109 accounting treatment[4]). Financial instruments such as debt and equity securities are generally valued and reported using the MTM valuation basis and are thus not subject to impairments (whereas certain debt securities are subject to impairments under FRS 109 accounting treatment). Moreover, all gains and losses arising from changes in the values of debt and equity securities are recognised in Form A2 (whereas the gains and losses of certain debt and equity securities are not recognised in the P&L under FRS 109 accounting treatment). A brief overview of the MAS reporting treatment is provided in Annex C.

7.22 The differences between MAS reporting treatment and FRS 109 accounting treatment may result in significant tax adjustments and reconciliations between the figures reported in the MAS Statutory Returns and the FS, should FRS 109 tax treatment continue to be the default tax treatment for insurers when they start to use MAS Statutory Returns to prepare tax computations. To minimise tax adjustments and reduce compliance burden of performing reconciliations, the tax treatment for the financial instruments

[4] For a brief overview of the FRS 109 accounting treatment, please refer to Annex A of IRAS e-Tax Guide "Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments".

of insurers will generally follow MAS reporting treatment (called the "MTM tax treatment" hereinafter) once insurers adopt MAS Statutory Returns as the basis for preparing tax computations. However, where specific tax treatment has been established under case law or provided under the tax statutes, or where MAS reporting treatment deviates significantly from tax principles, the specific tax treatment or tax principle will prevail.

MTM tax treatment

7.23 Insurers must apply the MTM tax treatment starting from the YA for which they first adopt MAS Statutory Returns as the basis for preparing tax computations. Under the MTM tax treatment:

a. All losses and gains on financial instruments reported in Form A2 (particularly Annex A2-3 of the MAS Statutory Returns), except for impairment losses and gains (i.e. reversal amounts of impairment losses) on loans[5] and receivables (including interest receivables on loans), will be allowable as a deduction or taxable in the YA relating to the basis period in which the losses and gains are reported in Form A2. This treatment will apply so long as the losses and gains are revenue in nature and regardless of whether the losses and gains are realised or unrealised. Conversely, any loss or gain arising from financial instruments that are on capital account will remain not allowable as a deduction and not taxable.

b. As for impairment losses and gains on loans and receivables (other than interest receivables on loans), the losses and gains reported in Form A2 will be allowable as a deduction or taxable in the YA relating to the basis period in which the losses and gains are reported in Form A2. This treatment will apply so long as the loans and receivables are on revenue account and are reflected as a credit-impaired financial asset in the insurer's audited FS for the accounting period where the last day of the accounting period falls within the basis period concerned.

c. For impairment losses and gains on interest receivable on a loan (whether the loan is on revenue or capital account), the losses and gains reported in Form A2 will be allowable as a deduction or taxable in the YA relating to the basis period in which the losses and gains are reported in Form A2. This treatment will apply so long as the loan, the interest receivable on that loan, or both the loan and interest receivable on that loan, are reflected as a credit-impaired financial asset in the insurer's audited FS for the accounting period where the last day of the accounting period falls within the basis period concerned.

[5] The term "loans" in this guide does not include debt securities.

Please refer to Annex D for details of the MTM tax treatment.

7.24 With the adoption of MAS Statutory Returns as the basis for preparing tax computations, MTM tax treatment will be the default tax treatment for financial instruments of insurers including the financial instruments of a shareholders' fund. As is the case of FRS 39 or FRS 109 tax treatment, the MTM tax treatment is not applicable to the financial instruments of a life insurer's participating fund since the surplus of the participating fund is taxed based on actual distributions made to policyholders and shareholders. However, where a surplus account belonging to shareholders has been established within the participating fund, the MTM tax treatment must be applied in determining the investment income from the financial assets of the surplus account of the participating fund.

7.25 Please refer to paragraphs 9.11 to 9.13 for the details of a one-time tax adjustment to be made in YA 2024 (or YA 2025 for insurers whose FYE is not 31 Dec) to transit the cases to MTM tax treatment.

<u>Where a loan on revenue account is transferred by an insurer</u>

7.26 When an insurer (called "transferor") transfers to another entity (called "transferee") a loan ("transferred loan") on revenue account and a cumulative amount of impairment losses in respect of that transferred loan for which deductions were previously allowed to the transferor, the tax treatment in the table below will apply on or after 30 Oct 2023.

Transferor	Transferee*	Tax treatment
An insurer, where the transferred loan is on revenue account	An entity, where the transferred loan is on revenue account	The deduction of Impairment loss previously allowed to the transferor is treated as having been allowed to the transferee. Any subsequent reversal amount of that impairment loss (i.e. impairment gain) is treated as a trading receipt of the transferee in the YA of the basis period in which the impairment gain is reported in Form A2. No indexation of the reversal amount is required.
An Insurer, where the transferred loan is on revenue account	An entity, where the transferred loan is on capital account	The deduction of Impairment loss previously allowed to the transferor is treated as a trading receipt of the transferor in the YA of the basis period in which the date of transfer falls.

* On date of transfer of loan on revenue account

YA of adjustment where a financial instrument is discovered to be on revenue account instead of on capital account, and vice versa

7.27 Where in any YA, there is information showing that a financial instrument ought to be regarded as on revenue account instead of on capital account, and vice versa (i.e. "a discovery is made"), all required tax adjustments in respect of the gains or losses of that financial instrument that were previously recognised in Form A2 (regardless of unrealised or realised) will be made in the YA in which the discovery is made, instead of revising or amending the assessments for the earlier YAs.

7.28 Any assessment or additional assessment would be made on the insurer within the period of four years beginning immediately after the end of the YA of the basis period in which the financial instrument is disposed of. For amended assessments, where a claim is made by an insurer, the insurer must make the claim within the period of four years beginning immediately after the end of the YA of the basis period in which the financial instrument is disposed of. Please refer to Annex E for illustrations of the statutory time limit for the CIT to raise assessments.

Value of assets to be used in TAM for computing interest adjustment

7.29 Please refer to Annex F for the purpose of ascertaining the value of assets to be used in the TAM for computing the interest adjustment (where applicable) once insurers start to use MAS Statutory Returns as the basis to prepare tax computations.

8. Tax Adjustments Required to Prepare Tax Computation Arising from the Use of MAS Statutory Returns

8.1 Despite the use of MAS Statutory Returns as the basis to prepare tax computations, it would not affect the evaluation of the following for tax purposes:

a. whether an asset or a liability (including a financial asset or a financial liability) is capital or revenue in nature;

b. whether an income item is taxable, taxed at a concessionary rate or tax-exempt; and

c. whether an expense qualifies for tax deduction.

8.2 Insurers will need to make the following tax adjustments[6] (other than those relating to financial instruments) when they use the MAS Statutory Returns

[6] These adjustments are not exhaustive.

as the basis to prepare the tax computation. For financial instruments, insurers may refer to Annex D for the tax adjustments (where applicable).

A. Tax Adjustments of Gains/Losses from Immovable Properties

8.3 Immovable properties such as land and buildings are reported at estimated market value as required under Regulation 11 of the V&C Regulations. The realised gains/(losses) and unrealised changes from last reported value of such properties are reported in rows 18 and 19 of Annex A2-3 of the MAS Statutory Returns respectively.

8.4 Insurers[7] will need to make yearly tax adjustments in their tax computations to exclude any unrealised gains or losses from immovable properties reported in row 19 of Annex A2-3 of the MAS Statutory Returns.

8.5 On disposal of their immovable property, insurers will have to exclude any realised gain or loss from their disposal of the immovable property reported in row 18 of Annex A2-3 of the MAS Statutory Returns. Where the amount of gain or loss on disposal of the property is determined to be revenue in nature[8], the amount of gain to be taxed or the loss to be allowed (as the case may be) is to be ascertained by deducting the cost of the property from its sale price, and is to be included in the tax computation of the insurer for the YA relating to the basis period in which the property is disposed of.

B. Tax Adjustments of Gains/Losses from Investments in Subsidiaries and Associates

8.6 Investments in subsidiaries and associates are reported at market value (if listed on securities exchanges) or net realisable value (if not listed on securities exchanges) as required under regulation 9 of the V&C Regulations. The realised gains/(losses) and unrealised changes from last reported value are reported in rows 2 and 3 of Annex A2-3 of the MAS Statutory Returns respectively.

8.7 For investments in subsidiaries and associates that are on revenue account and are measured in accordance with FRS 109, insurers are required to follow the MTM tax treatment as explained in paragraphs 7.23 to 7.27.

[7] For participating fund, the CIT is currently reviewing the timing of tax adjustments of unrealised gains or losses of immovable properties that are capital in nature. The CIT will release the details of the tax treatment in due course.

[8] Please refer to IRAS e-Tax Guide "Income Tax: Tax Treatment of Gains Derived from the Disposal of Investment of Insurers" on how the CIT applies the principles enunciated in the case of CIT v BBO [2014] SGCA 10 to determine the tax treatment of gains derived from the disposal of investments of insurers.

8.8 For those investments that are not measured in accordance with FRS 109, insurers[9] will need to make yearly tax adjustments in their tax computations to exclude any unrealised gains or losses from their investments in subsidiaries and associates reported in row 3 of Annex A2-3 of the MAS Statutory Returns.

8.9 On disposal of their investments in subsidiaries and associates, insurers will have to exclude any realised gains or losses from their investments in subsidiaries and associates reported in row 2 of Annex A2-3 of MAS Statutory Returns. Where the amount of gains or losses on disposal of such investments are determined to be revenue in nature, the amount of gains to be taxed or the losses to be allowed (as the case may be) is to be ascertained by deducting the cost of the investments from their sale price.

C. Other Tax Adjustments

8.10 The table below provides other tax adjustments that are required when insurers adopt the MAS Statutory Returns to prepare their tax computations:

S/N	Items	Tax adjustments
1	Reinsurance arrangements between a Singapore branch and its Head Office may not be considered as reinsurance by MAS except under certain circumstances, subject to certain safeguards being put in place (such as letter of credit to guarantee the Head Office's payment to the branch when claims occur etc.)	Deduction is allowable on the reduced amount of policy liabilities arising from the reinsurance ceded to Head Office; Reinsurance premiums paid to the Head Office remain tax-deductible, while the reinsurance recovery proceeds and commission income received by the Singapore branch from its Head Office are taxable
2	Certain expenses are booked in shareholders' fund due to MAS' requirements that such expenses are to be borne by shareholders' fund. For example, • provision for doubtful debts • medical expenses incurred for policyholders	Where the expenses are tax deductible, tax deduction is to be made under the insurance fund that has incurred the expenses. If the expenses cannot be specifically identified to any insurance

[9] For participating fund, the CIT is currently reviewing the timing of the tax adjustments of unrealised gains or losses of such investments that are capital in nature. The CIT will release the details of the tax treatment in due course.

S/N	Items	Tax adjustments
	• certain distribution expenses • ex-gratia claims payments	fund, they would have to be allocated to the insurance funds based on an allocation method agreed between the CIT and the insurer
3	Inter-fund adjustments in Form A2 between funds e.g. interest on late settlement of funds by non-participating fund to compensate participating fund	Not taxable/not deductible
4	Imputed rental income/expense on owner-occupied premises used for the insurer's business	Not taxable/not deductible
5	Interest and depreciation of right-of-use asset claimed as expenses in the Form A2 by the insurer, where the insurer, being the lessee, has adopted the accounting treatment under FRS 116 *Leases* for MAS Statutory Returns. For tax purpose, the lease arrangement is an operating lease, or is a finance lease treated not as a sale agreement.	• Interest and depreciation are not deductible • Contractual lease payments incurred are deductible
6	Translation exchange differences from non-Singapore dollar functional currency to Singapore dollar presentation currency included in Annex A1-9 of the MAS Statutory Returns (Other reserves), or included in the Form A2	Not taxable/not deductible
7	Contingency reserves reflected in Annex A1-9 of the MAS Statutory Returns	Not deductible
8	Income and expenses arising from non-insurance activities which are reported in the shareholders' fund under the FS, but not in MAS statutory Returns of a Singapore branch of a foreign insurer	Taxable/deductible where the items meet relevant income tax rules

S/N	Items	Tax adjustments
9	QDS	To follow the definition of QDS under section 13(16) of the ITA, instead of under MAS Statutory Returns for the purpose of granting tax concession under section 43H of the ITA
10	Capital injections in view of solvency requirements and the subsequent transfers back to shareholders	Not taxable/not deductible

9. Transitional Adjustments Arising from the Use of MAS Statutory Returns as the Basis for Preparing Tax Computations

A. Insurers whose FS are Prepared in Non-Singapore Dollar Functional Currencies

9.1 For insurers who have existing non-Singapore dollar functional currency balances prior to the adoption of FRS 117, they are given an irrevocable option of translating all such balances into Singapore dollar using the average of the exchange rates of:

a. the 12 months before the end of the last accounting period in which the FS are prepared based on FRS 104 and submitted in non-Singapore dollar functional currency – "changeover rate"; or

b. the accounting period that constitutes the basis period for a YA – "average rate".

9.2 Insurers must make an irrevocable option to apply one of the above methods in the YA 2024 (or YA 2025 for insurers whose FYE is not 31 Dec), i.e. the first YA when they use MAS Statutory Returns as the basis for preparing their tax computation. For the purpose of translating the balances, the exchange rate on the MAS' website should be used.

9.3 Existing non-Singapore dollar functional currency balances refer to the following items:

a. unabsorbed CA, trade losses, donations and investment allowances (if applicable);

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 incurred and included in prior year tax computations but are taxable/allowable only in a subsequent YA, when Singapore dollar currency is adopted.

9.4 The existing non-Singapore dollar functional currency balances will be translated into the Singapore dollar amounts to compute the current year CA and deduction in Singapore dollar currency for the relevant YA. Any unabsorbed Singapore dollar balances 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 Singapore dollar currency;

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

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

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

9.6 All other current year items will be reflected in the insurers' tax computations based on the Singapore dollar currencies values as shown in MAS Statutory Returns.

B. Insurers whose FYE is Not 31 Dec

9.7 For insurers (excluding captive and marine mutual insurers) whose FYE is not 31 Dec, the transitional YA and the due date to file ECI are as follows:

a. The transitional YA will be YA 2025. For example, an insurer whose FYE is 31 Mar, would use MAS Statutory Returns as the basis to prepare its tax computation for YA 2025 based on the following periods (instead of the period from 1 Apr 2023 to 31 Mar 2024):

(i) Period 1 Apr 2023 to 31 Dec 2023 based on certified[10] MAS Statutory Returns; and
(ii) Period 1 Jan 2024 to 31 Dec 2024 based on audited MAS Statutory Returns.

In other words, the FS would be used as the basis for preparing the tax computation for YA 2024, which would cover the basis period from 1 Apr 2022 to 31 Mar 2023, while the MAS Statutory Returns would be used as the basis for preparing the tax computations for YA 2025 and subsequent YAs. The period covered for YA 2026 and subsequent YAs would be based on the calendar year.

b. Due date for filing of ECI for YA 2025 and subsequent YAs will be changed to within 3 months from 31 Dec of the year preceding the YA. Using the same example in sub-paragraph (a), the due date to file the ECI would be as follows, instead of within 3 months from the insurer's FYE of 31 Mar:

YA	Covering Period	Due date to file ECI
2024	1 Apr 2022 to 31 Mar 2023	30 Jun 2023 (no change)
2025	1 Apr 2023 to 31 Dec 2024	31 Mar 2025
2026	1 Jan 2025 to 31 Dec 2025	31 Mar 2026
2027 and so on	1 Jan 2026 to 31 Dec 2026 and so on	31 Mar 2027 and so on

C. Insurers whose Policy Liabilities Accepted for Tax Purpose Currently are Based on Amounts Reflected in FS

9.8 For insurers whose policy liabilities based on the amounts reflected in the FS were accepted for tax purpose, a one-time tax adjustment may be made in

[10] The MAS Statutory Return must be certified by a director of the insurance company or in the case of a Singapore branch of a foreign insurer, certified by its Chief Executive or other authorised personnel.

YA 2024 (for insurers whose FYE is 31 Dec) or YA 2025 (for insurers whose FYE is not 31 Dec). Where the tax adjustment is to be made in YA 2024, the amount of adjustment is based on the difference between the policy liabilities figure in FS as of 31 Dec 2022 and policy liabilities figure in MAS Statutory Returns as of 1 Jan 2023, with adjustment (if applicable)[11]. The tax rate to be applied will be based on the applicable tax rate on the first day of the basis period for the transitional YA under the respective funds of the insurer.

D. Insurers with Financial Instruments

9.9 When the MTM tax treatment is first applied in the transitional YA, i.e. YA 2024 (or YA 2025 for an insurer whose FYE is not 31 Dec), certain gains and losses that arose from financial instruments on revenue account and recognised prior to the transitional YA, which ought to be taxed or allowed as deductions under the MTM tax treatment, may not be taxed or allowed as deductions. This is due to such gains and losses not being recognised in the P&L, even though they had been reported in Form A2 in prior years.

9.10 An example is the debt and equity securities that were classified as FVOCI as required by FRS 109. Any unrealised gains and losses arising from the changes in the values of such securities were recognised in the OCI instead of the P&L. Consequently, the amounts relating to debt and equity securities on revenue account and recognised before the transitional YA would not have been taxed or allowed as deductions under the current FRS 109 tax treatment. However, as such amounts had already been recognised in Form A2 before the transitional YA under MAS reporting treatment, these amounts should have been taxed and allowed as deductions under the MTM tax treatment. Accordingly, transitional tax adjustments are necessary to bring these amounts to tax or allow them as deductions as if the MTM tax treatment had been applied from the first day of acquiring the securities, and the treatment can then be applied seamlessly from the date of initial application of the MAS Statutory Returns.

9.11 To facilitate a seamless transition from the current tax treatment (as mentioned at paragraph 7.19) to the MTM tax treatment, a one-time transitional tax adjustment (where applicable) must be made in the transitional YA. Please refer to Annex G for the applicable tax adjustments required in the transitional YA.

[11] An example of applying a one-time tax adjustment is where policy liabilities figure in the MAS Statutory Returns includes an amount from provision of adverse derivation or premium deficiency reserve, but this amount is not included in the policy liabilities in FS. However, in a case where (for example) the deferred acquisition cost is reflected in the policy liabilities figure in the MAS Statutory Returns while it is reflected as part of a commission expense in the FS, in computing the one-time tax adjustment, the policy liabilities figure in the FS as of 31 Dec 2022 should be increased by the amount of deferred acquisition costs that was already allowed a deduction as commission expense previously. This is to avoid the deferred acquisition cost being deducted twice.

9.12 Insurers are required to furnish the details of how each tax adjustment is arrived at in their tax computations and must keep sufficient documents to support the tax adjustments. Insurers are not required to submit the documents with their corporate income tax returns, but must do so upon the CIT's request.

9.13 Notwithstanding paragraph 9.11, if the transitional tax adjustment includes an amount of gain or loss that had been taxed or allowed as a deduction before the application of MTM tax treatment (e.g. accrued investment income), then such amount must be excluded from the transitional tax adjustment so as to avoid double taxation or double deduction on the same amount.

9.14 To ease transition for insurers who may face cash flow issues due to additional tax payable that may arise from the move from the current tax treatment for financial instruments to the MTM tax treatment, an instalment plan of up to 18 months may be provided to affected insurers, upon request. The extended instalment plan applies only to the additional tax payable arising from the one-time MTM tax adjustment for the transitional YA. Requests for longer instalment periods will be handled on a case-by-case basis.

9.15 If the affected insurer would like to pay the additional tax arising from the one-time MTM tax adjustment by monthly instalments, it should:

- file the ECI <u>excluding</u> the tax adjustments arising from the transition to MTM tax treatment;

- write separately to the CIT before the ECI filing due date on the additional ECI arising from the transition to MTM tax treatment under each applicable tax rate and the number of instalments required (up to a maximum of 18 monthly instalments).

This is to ensure that separate arrangements can be made to grant instalments of up to 18 months on the additional tax payable arising from the transition to MTM tax treatment, while the normal instalment plan (where applicable) will be granted on the tax payable arising from the ECI excluding any tax adjustments due to the transition to MTM tax treatment.

9.16 There is no need to write to the CIT separately where the affected insurer does not require additional instalments for the additional tax payable arising from the transition to MTM tax treatment. In this case, the insurer is only required to file one ECI (i.e. inclusive of the tax adjustments due to the transition to MTM tax treatment) and the normal instalment plan will be granted on the tax payable arising from that ECI.

10. Administrative Procedure

10.1 Insurers are required to submit their MAS Statutory Returns (including auditor's report) together with their Form C, audited financial statements[12] and tax computation starting from the YA 2024 (or YA 2025 for insurers whose FYE is not 31 Dec). In addition, insurers have to meet a new requirement to submit a copy of their Detailed Profit and Loss Statement based on Form A2 items, together with Form C.

10.2 For insurers (other than captive and marine mutual insurers) whose FYE is not 31 Dec, in the transitional YA 2025, besides submitting the MAS Statutory Returns for the calendar year 2024, they are also required to prepare and submit the certified MAS Statutory Returns for the period from the first day immediately after the last day of the financial year ending in 2023 to 31 Dec 2023. For example, in the case of an insurer whose FYE is 31 Mar, it has to submit to the CIT the MAS Statutory Returns for the period 1 Apr 2023 to 31 Dec 2023 that is certified by its director or in the case of a Singapore branch of a foreign insurer, certified by its Chief Executive or other authorised personnel.

10.3 For Singapore branches of foreign insurers, the P&L of its shareholders' fund will not be reflected in the MAS Statutory Returns. Thus, if there is any income derived by the shareholders' fund of a foreign insurer through its Singapore branch, the branch will need to submit the management accounts of shareholders' fund certified by its Chief Executive or other authorised personnel. If there is no income derived by the shareholders' fund, the branch will only need to make a disclosure in the tax computation without the need to submit the management accounts of shareholders' fund.

10.4 For financial assets on capital account[13], insurers will need to submit an itemised list of these assets, including those that are derecognised during the year, for the CIT's determination of whether the assets are indeed on capital account. The list should be submitted yearly together with the corporate income tax return. Where the CIT has agreed that the financial assets are on capital account, any gains or losses (including related exchange differences) recognised in Form A2 will not be taxed or allowed as a deduction.

10.5 For non-financial assets (for example investments in immovable properties, investments in subsidiaries and associates) on capital account, in the YA of

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[12] Insurers that have filed a full set of FS with ACRA in XBRL are not required to file the same with the CIT.

[13] Please refer to IRAS e-Tax Guide "Income Tax: Tax treatment of Gains Derived from the Disposal of Investments of Insurers" for details of the administrative procedure for the CIT to determine whether the investments identified by insurers to be capital assets are indeed on capital account. This includes the submission of cogent and contemporaneous evidence to substantiate that the motive of acquiring, holding and disposing of such investments is not related to or for the insurance business of the insurer.

disposal of these assets, insurers must notify the CIT in their corporate income tax returns of the disposal of these assets.

10.6 In addition to the details currently provided by insurers in their tax computations, they are also required to furnish the following information:

All insurers	Confirmation that the translation exchange differences from translating figures from non-Singapore dollar functional currency to presentation currency in Singapore dollar in MAS Statutory Returns are only reflected in Form Annex A1-9 of the MAS Statutory Returns
	Details of unusual/significant business events occurrences (e.g. the transfer of insurance policies in/out of the insurer, merger/acquisition of business) or substantial revenue and expense items derived/incurred that have tax impact
	Confirmation that the income from QDS in the tax computation is identified based on the definition of "QDS" in the ITA and not the V&C Regulations
Captive insurers	Provide a breakdown of investment income similar to Form Annex A2-3 of the MAS Statutory Returns
Insurers with non-Singapore dollar functional currency	Specify the source of the exchange rates used and whether conditions stated in paragraph 7.10 are met

10.7 For the completion of the Form C[14] (other than the field for Related Party Transactions and the Form for Reporting Related Party Transactions in the Form C), insurers should extract information from the MAS Statutory Returns instead of the FS even if the fields in the Form C make reference to the FS. For example, for the fields on data as shown in the FS for the financial period (e.g. Revenue, Net Profit/ Loss before Tax, Sales, General and Administrative Expenses, Trade Receivables and Trade Payables, etc.), they should be completed using figures from the MAS Statutory Returns.

10.8 As for the completion of the field for Related Party Transactions and the Form for Reporting Related Party Transactions in the Form C, insurers should continue to complete them based on the value of related party transactions as disclosed in the FS. This will not affect the preparation of the income tax computation using MAS Statutory Returns.

[14] All insurers should file the Form C, even if they meet the conditions for filing Form C-S or Form C-S (Lite).

Members of Lloyd's

10.9 The Members of Lloyd's are foreign insurers governed under section 56 of the IA and are not subject to Companies Act 1967. Hence, they are not subject to the local accounting standards, including FRS 117.

10.10 For tax purposes, these foreign insurers will continue to rely on the MAS Statutory Returns to prepare their tax computations and are subject to provisions under section 26A of the ITA.

11. Effective Date to Use MAS Statutory Returns as the Basis to Prepare Tax Computation

11.1 Insurers who apply FRS 117 for annual periods beginning on or after 1 Jan 2023 are required to use the MAS Statutory Returns as the basis for preparing their tax computations starting from the YA of the basis period in which FRS 117 is first applied for accounting purpose.

11.2 The CIT may allow, on a case-by-case basis, insurers to early-adopt the use of MAS Statutory Returns as the basis for preparing their tax computations. Insurers who wish to do so must first seek approval from the CIT. Examples where the CIT may consider allowing early adoption are:

a. Existing insurers that choose to early-adopt FRS 117 accounting treatment;

b. Newly incorporated insurers that opt to early-adopt MAS Statutory Returns as the basis of preparation of tax computations. This is notwithstanding that the insurers' FS may not be prepared in accordance with FRS 117 for the financial years beginning before 1 Jan 2023. Please see illustration below.

YA	Basis Period	Details	If early adoption is approved by CIT
2023 and 2024	1 Sep 2022 (date of incorporation) to 31 Dec 2023	Company submits its first set of accounts for the period from 1 Sep 2022 to 31 Dec 2023. Company has not adopted FRS 117 since its financial year begins prior to 1 Jan 2023.	Company will need to prepare its income tax computations for YA 2023 and YA 2024 based on MAS Statutory Returns. No transitional adjustment is required since the Company has adopted the MAS Statutory Returns to prepare its tax computations. <u>First YA</u>: YA 2023 <u>Basis period</u>: 1 Sep 2022 to 31 Dec 2022

			Second YA: YA 2024 Basis period: 1 Jan 2023 to 31 Dec 2023
2025	1 Jan 2024 to 31 Dec 2024	Company has to adopt FRS 117 from 1 Jan 2024.	Company continues to prepare its tax computation for YA 2025 based on MAS Statutory Returns

12. Contact Information

12.1 For general enquiries or clarifications on this e-Tax guide, please call 1800 356 8622.

13. Updates and Amendments

	Date of amendment	Amendments made
1	31 Oct 2023	• Inserted paragraph 7.26, to update the tax treatment for a transfer of loan by insurers where the loan is on revenue account. • Renumbered existing paragraphs 7.26 to 7.28 to paragraphs 7.27 to 7.29 due to the insertion of a new paragraph 7.26. • Amended the tables in Annex F to clarify the value of assets to be used in the TAM.

Annex A – Taxation of Participating Fund

1. Under the RBC framework, a "surplus account", belonging fully to the shareholders, is established within the participating fund. Any allocation of the participating fund to shareholders will be credited to this account. Such allocation, together with the net investment income arising from assets in the surplus account and an additional allocation under Regulation 22(4)(c) of the V&C Regulations[15], will be included in the "net income" in row 25 of Form A2. Shareholders may withdraw the balances in the surplus account if they are not required to meet capital requirements. This account will also keep track of any future capital support that shareholders may provide to satisfy the fund's capital needs.

2. Any amount that is not allocated to shareholders (i.e. to the surplus account under the RBC framework) will not be accessible by the shareholders. This is stipulated in section 16(9) of the IA, which provides that where the amount allocated to the surplus account in a particular accounting period is less than $1/9^{th}$ of the amount allocated to policyholders for that accounting period, the insurer shall not allocate the difference between the amount actually allocated and $1/9^{th}$ amount allowed to the surplus account in any subsequent accounting period. The difference will reside in the participating fund as part of the policy liabilities (could be the non-guaranteed component or the component relating to provision for adverse deviation) and is available for future distribution.

3. The surplus of the participating fund is taxed based on actual distributions made to policyholders and shareholders. However, the net income as shown in row 25 of Form A2 (representing the actual distributions made to shareholders, net investment income arising from assets in the surplus account plus an additional allocation under Regulation 22(4)(c) of the V&C Regulations) and the total amount to policyholders as shown in row 5 of Form L9 (representing the actual distributions made to policyholders), where applicable, would still be subject to the normal tax rules governing the deductibility of expenses/outgoings and taxability of income/receipts.

4. The following steps are to be applied in computing the gains or profits of the participating fund on which tax is payable:

   (i) Take the allocation to surplus account as reflected in row 6 of Form L9 (Statement of participating fund allocations) of the MAS Statutory Returns, also equal to row 1 of Annex A2-4 (Net income of participating fund);

[15] Under Regulation 22(4)(c) of the V&C Regulations, which took effect from 31 Mar 2020, a life insurer may make an additional allocation to the surplus account. This additional allocation refers to an amount that does not exceed $1/9^{th}$ of the amount of tax payable at the tax rate of 10% on the total amount allocated to policyholders.

(ii) Add the total amount to policyholders as reflected in row 5 of Form L9 of the MAS Statutory Returns;

(iii) Make all necessary tax adjustments relating to non-deductible/non-taxable items that are included in Form A2;

(iv) From the amount derived at step (iii), spilt the amount into the taxable surplus applicable to policyholders and shareholders respectively based on the actual distribution ratio as reflected in Form L9;

(v) For the amount applicable to shareholders obtained at step (iv) above, add the following:

a) amount of surplus account investment income as reflected in row 4 of Annex A2-4, after the necessary tax adjustments relating to non-deductible/non-taxable items included in the surplus account investment income; and

b) amount as reflected in row 6 of Annex A2-4 which represents the amount that does not exceed 1/9th of the amount of tax payable (at the tax rate of 10% referred to in section 43(9) of the ITA) on the total amount allocated to policyholders (row 5 of Form L9). The inclusion of this amount took effect from YA 2021. For avoidance of doubt, this amount will not be subject to any tax adjustments and no expenses/CA/donations will be allocated for deduction against this amount.

5. In any year where there is no actual distribution made to policyholders and shareholders, the above steps in (iii) to (v) would still be applicable, except that the split into the amount applicable to policyholders and shareholders would be based on the distribution ratio prescribed in the Articles of Association of the insurer or, if no such ratio is prescribed, the ratio based on the maximum percentage to be allocated to shareholders as prescribed in the IA[16].

6. The above method of computation is the same for both the participating fund established and maintained for Singapore policies and the participating fund established and maintained for offshore policies.

[16] Currently, under the IA, no part of the participating fund can be allocated to the surplus account except where the amount does not exceed 1/9th of the amount allocated by way of bonus to the participating policies. In other words, the ratio based on the maximum percentage to be allocated to shareholders as prescribed in the IA is 10% of the surplus to shareholders and 90% to policyholders. Notwithstanding, an insurer may make additional allocations to shareholders of an amount and in a manner as prescribed or specified in directions by MAS.

Deductibility of Policy Liabilities of the Participating Fund

7. The policy liabilities of the participating fund are derived not only by aggregating the policy liabilities of all policies in the fund but are also dependent on the value of the assets backing the liabilities and the extent to which the benefits are guaranteed. Under the RBC framework, policy assets of the fund should at least equal to policy liabilities. The “policy assets” is defined as the balance of total assets after deducting:

   (i) the amount in the surplus account; and
   (ii) all liabilities of the fund (except liabilities in respect of the policies comprised in the participating fund).

8. The amount of policy liabilities (net of reinsurance)[17] is calculated based on the highest of the following –

   (i) Minimum condition liability, which requires discounting of guaranteed liabilities of policies of the fund (including non-participating policies if any) using a risk-free interest rate;
   (ii) Sum of the liability of each policy of the fund (net of reinsurance), i.e. accounting for both guaranteed and non-guaranteed benefits based on insurer’s own best estimate of the investment return of the fund; and
   (iii) Value of policy assets of the fund less reinsurers’ share of policy liabilities.

9. Where the policy assets of the fund fall short of the minimum condition liability or the sum of policy liability of each policy of the fund (i.e. “the two minimum levels”), shareholders must provide capital support to the fund by deducting from the surplus account an amount equal to the shortfall. Such deductions may be recoverable in the future when the policy assets no longer fall short of the two floor values. However, should there be insufficient balance in the surplus account for such a deduction, a top up of the surplus account must be made from shareholders’ resources through a transfer of assets to the participating fund. By this mechanism, the policy liabilities of the participating fund would inevitably be set equal to the policy assets as long as the value of the policy assets is above that of the two minimum levels.

10. Under the RBC framework, the future premiums are based on actual premiums that the life insurer will charge the policyholders as provided for in the contract of insurance to support all the benefits including the non-guaranteed benefits of the policyholders. The policy liabilities that would need to be set aside by the life insurers to meet its contractual obligations to the policyholders includes the obligation to meet the reasonable expectation of policyholders with respect to future bonuses (i.e. non-guaranteed benefits).

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[17] Regulation 20(6) of Insurance (Valuation and Capital) Regulations.

11. Generally, for tax purposes, the deductibility of an expense is based on the principle of matching the expenses incurred in the year in question against the income of that year to arrive at the net taxable income, which is a yearly outcome of a company's performance. However, in the case of a life insurer under the RBC framework, some part of future expenses as well as future income are brought into the computation of the income and expenses of the year in question through the mechanism of determination of policy liabilities.

12. If the matching principle is to be applied to determine the deductibility for tax purposes, the amount of the non-guaranteed benefits included in the policy liabilities under the RBC framework is strictly not deductible. However, if the non-guaranteed benefits are to be disallowed, the amount of future premiums included in the method to derive the policy liabilities would have to be excluded from tax. This means that life insurers will have to re-compute the policy liabilities to segregate the portion of the future premiums that is applicable to non-guaranteed benefits. This is impractical since the method of computing policy liabilities is mandatory for MAS regulatory purposes. As a result of this inherent difficulty, and in view that future premiums would be taxed (since policy liabilities take into account future premiums to be earned), the policy liabilities computed under the RBC framework, are allowed as a deduction without the need to make further adjustments.

Application of the Offsetting Rules for Participating Fund Surplus or Loss Apportioned to Policyholders

13. The CA, trade losses or donations of a participating fund apportioned to policyholders, i.e. the policyholders' share of CA, trade losses or donations of the participating fund, are not available for deduction[18] against other income of a life insurer. Instead, these CA, trade losses or donations if remain unabsorbed for a YA can only be carried forward to set-off against the surplus of the participating fund apportioned to policyholders in the subsequent YAs, subject to shareholding and business continuity tests. This is because the participating fund's assets and liabilities should be ring-fenced and not co-mingled with the assets and liabilities of other insurance funds and shareholders' fund. Further, the policyholders and shareholders are two different groups of stakeholders. The respective interest of policyholders and shareholders should be protected and there should be no cross-subsidisation between the two groups.

14. The CA, trade losses or donations of a participating fund apportioned to shareholders, or in respect of shareholders' fund, or any other insurance fund, are not available for deduction against the surplus of the participating fund apportioned to the policyholders. However, the CA, trade losses or donations of a participating fund apportioned to shareholders can be used to set-off against other income of the life insurer. If the other income is subject

[18] Section 26(8)(aa) and 26(8)(b) of the ITA.

to tax at a different tax rate, the adjustment factor in section 37A of the ITA is applicable.

15. In addition, a life insurer is not allowed to claim a deduction for CA, trade losses or donations of its related entities in the group which is transferred to the life insurer being a claimant under the group relief system, against any surplus of the life insurer’s participating fund that is apportioned to policyholders. The life insurer is also not allowed to transfer its unabsorbed CA, trade losses or donations of its participating fund apportioned to policyholders, to its related entities under the group relief system[19].

16. A life insurer is only allowed to carry-back its current YA unabsorbed CA and losses of its participating fund apportioned to policyholders for set-off against the surplus for any preceding YA of its participating fund apportioned to policyholders under the loss carry-back relief system. It is not allowed to carry-back[20] its current YA unabsorbed CA and trade losses of other funds for set-off against the surplus for any preceding YA of its participating fund apportioned to policyholders.

Upon Cessation of Life Insurance Business

17. In the event that a life insurer ceases to write new business, it is possible that some residual amount would remain in the participating fund after the last policy and any other liabilities are discharged. Where the life insurer does not transfer the business to any other person in Singapore, this balance would be subject to the normal tax rules, i.e. taxability of the amount would depend on whether they arose from receipts of an income or capital nature. In this regard, the Life Insurance Association has agreed that for administrative ease, the remaining pool will be taken as comprising revenue items, unless the life insurer is able to substantiate that capital items are included in that pool which should not be taxed.

[19] Section 37B(15A) of the ITA.

[20] Section 37D(16B) of the ITA.

Annex B – Acceptable Exchange Rates Sources

Acceptable Sources of Exchange Rates	Remarks
a) Monetary Authority of Singapore	These rates can be obtained from https://eservices.mas.gov.sg/Statistics/msb/ExchangeRates.aspx
b) Exchange rates published by local banks	These include rates published by full banks, wholesale banks, offshore banks and merchant banks in Singapore.
c) Exchange rates published by reputable news agencies e.g. • Bloomberg • Reuters • Oanda	Rates from Bloomberg, Reuters and Oanda may be obtained from http://www.bloomberg.com, http://www.reuters.com,and http://www.oanda.com
d) Exchange rates published by foreign central banks e.g. European Central Bank and Federal Reserve Bank of New York	These apply only to foreign central banks without exchange controls.
e) Exchange rates published by local circulated newspapers	Examples would include: • Business Times • Straits Times • Financial Times • Lianhe Zaobao
f) Intercontinental Exchange (“ICE”) Data Services	
g) Online resources e.g. Yahoo! Finance, www.xe.com	Exchange rates published by websites are acceptable if these websites based their rates from sources (a) to (f) above. For example, exchange rates from Yahoo! Finance are obtained from Reuters.

Annex C – Brief Overview of MAS Reporting Treatment

Recognition and Valuation

1. An equity security is valued at its market value (if it is listed on a securities exchange) or at its net realisable value (if it is not listed on any securities exchange).

2. A debt security is valued at its market value (if it is listed on a securities exchange) or at its net realisable value (if it is not listed on any securities exchange).

3. Loans made to other persons (e.g. intercompany loans) are valued by aggregating the principal amounts outstanding under all loans less any allowance for impairment losses.

4. Any cash or deposit with a financial institution is valued at the nominal amount of such cash or deposit after deducting any amount deemed uncollectible from the financial institution.

5. A negotiable certificate of deposit is valued at its market value.

6. Derivatives (for hedging purposes only[21]) are valued at their market values.

Gains and losses

7. All realised gains and losses from last reported value are reported in Form A2 (particularly in Annex A2-3) at each reporting year end.

8. All unrealised changes from last reported value are reported in Form A2 (particularly in Annex A2-3) at each reporting year end.

[21] An insurer is only permitted to enter into or effect derivative transactions for the purpose of hedging or efficient portfolio management. Derivative transactions for speculative purposes or uncovered positions in derivatives are not permitted. (Details are in MAS Notice 125 Investments of Insurers.)

Annex D – MTM Tax Treatment

1. Under the MTM tax treatment[22], tax adjustment is generally not required for all gains and losses (such as changes in the values of debt and equity securities and any related exchange differences) on financial instruments reported in Form A2 as long as these financial instruments are on revenue account.

2. Conversely, all gains and losses that are capital in nature (i.e. arising from financial instruments that are on capital account) will remain not taxable and not allowable as deductions under the MTM tax treatment. Consequently, tax adjustment will be required in respect of these items on capital account.

3. **Impairment losses and gains (i.e. reversal amounts of impairment losses) on loans[23] and receivables**

    a. For loans that are on revenue account (e.g. policy loans extended in the course of the insurer's business, the impairment losses and gains (including related exchange differences) in respect of the outstanding principal amounts of the loans are allowable as a deduction or taxable for the YA relating to the basis period in which they are reported in Form A2. This treatment will apply so long as the loans are treated as credit-impaired financial assets in accordance with FRS 109 and are classified as such in the audited FS for the accounting period where the last day of the accounting period falls within the basis period concerned. For loans on capital account, the impairment losses and gains (including related exchange differences) in respect of the outstanding principal amounts of the loans will remain not allowable as deductions and not taxable under the MTM tax treatment.

    b. For interest receivable on a loan, regardless of whether the interest receivable is brought to tax under section 10(1)(*a*) or (*d*), the impairment losses and gains (including related exchange differences) in respect of the interest receivable on that loan are allowable as a deduction or taxable for the YA relating to the basis period in which they are reported in Form A2. This treatment will apply so long as the loan, the interest receivable on that loan, or both the loan and interest receivable on that loan are treated as credit-impaired financial assets in accordance with FRS 109 and are classified as such in the audited FS for the accounting period where the last day of the accounting

[22] Being the default tax treatment for insurers' financial instruments, MTM tax treatment also applies to the financial instruments of a shareholders' fund. However, MTM tax treatment is not applicable to the financial instruments of a participating fund as the surplus of the participating fund is taxed based on actual distributions made to policyholders and shareholders. Despite this, where a surplus account belonging to shareholders has been established within the participating fund, the MTM tax treatment must be applied in determining the investment income from the financial assets of the surplus account of the participating fund.

[23] The term "loans" in this annex does not include debt securities.

period falls within the basis period concerned. Where both the loan and interest receivable on that loan are not reflected as credit-impaired financial assets in the audited FS for the accounting period where the last day of the accounting period falls within the basis period concerned, the impairment losses and gains (including related exchange differences) in respect of the interest receivable will remain not allowable as deductions and not taxable under the MTM tax treatment.

c. For receivables (other than interest receivable on a loan) that are on revenue account (e.g. premium receivables), the impairment losses and gains (including related exchange differences) in respect of the receivables are allowable as a deduction or taxable for the YA relating to the basis period in which they are reported in Form A2. This treatment will apply so long as the receivables are treated as credit-impaired financial assets in accordance with FRS 109 and are classified as such in the audited FS for the accounting period where the last day of the accounting period falls within the basis period concerned. For receivables on capital account, the impairment losses and gains (including related exchange differences) in respect of the receivables will remain not allowable as deductions and not taxable under the MTM tax treatment.

d. Where an amount of impairment losses on receivables reported in Form A2 is determined using the 'simplified approach for trade receivables, contract assets and lease receivables' as permitted under FRS 109, this amount will generally not be deductible as the receivables are unlikely to meet the definition of a 'credit-impaired financial asset' as defined under Appendix A of FRS 109. However, should such receivables subsequently become credit-impaired as determined under FRS 109 and are classified as such in the audited FS for the accounting period where the last day of the accounting period falls within the basis period concerned, the impairment losses made on such credit-impaired receivables, which are revenue in nature and reported in Form A2, will be allowed as a deduction for the YA relating to the basis period in which they are reported in Form A2. Any impairment gains reported in Form A2 will be taxable to the extent that the amount had been allowed as a deduction previously.

4. **Debt securities (as financial assets)**

a. For any interest derived from debt securities that is chargeable to tax under section 10(1)(*d*) of the ITA, the interest is to be computed based on the contractual interest rate.

b. For any gain from discounts or redemption premiums on debt securities that is chargeable to tax under section 10(1)(*d*), the gain will be treated as accruing only to the insurers on the maturity or

redemption of the debt securities. In addition, the amount of taxable gain is to be computed based on the difference between the amount received on the maturity or redemption of the debt securities and the amount for which the debt securities were first issued (i.e. based on the manner set out in section 10(8A) of the ITA.)

5. **Money lent and cash & deposits with banks**

   a. Where section 10(1)(*d*) of the ITA applies, only interest income derived based on contractual interest rate will be chargeable to tax under section 10(1)(*d*).

   b. For non-interest-bearing loans, any interest income reported in Form A2 will be disregarded as it is notional.

   c. For a loan where the lender and borrower are not dealing with each other at arm's length, only interest income derived based on contractual interest rate will be chargeable to tax. As such, the interest income reported in Form A2 will be disregarded if the amount is not the contractual interest income. In addition, as such loan is not transacted at arm's length, the CIT is not precluded from making further adjustment to the interest income based on the arm's length principle[24].

   d. Please refer to paragraph 3(a) and (b) above in respect of the tax treatment for impairment losses.

6. **Money borrowed (e.g. intercompany loans, bank loans and issued debt securities)**

   a. Where section 14(1)(*a*) of the ITA applies, only interest expense incurred based on contractual interest rate (including related exchange differences on the payment of interest) and prescribed borrowing cost[25] incurred based on contractual amount (including related exchange differences on the payment of borrowing cost) will be allowed as a deduction under section 14(1)(*a*).

   b. For non-interest-bearing loans, any interest expense reported in Form A2 will be disregarded as it is notional.

   c. For a loan where the lender and borrower are not dealing with each other at arm's length, only interest expense incurred based on contractual interest rate will be allowed as a deduction. As such, the interest expense reported in Form A2 will be disregarded (i.e. not allowed for deduction) if the amount is not the contractual interest

[24] Section 34D of the ITA applies.

[25] Refer to Income Tax (Deductible Borrowing Costs) Regulations 2008.

expense. In addition, as such loan is not transacted at arm's length, the CIT is not precluded from making further adjustment to the interest expense based on the arm's length principle[26].

d. For any debt security that an insurer issues at a discount or any issued debt security that an insurer redeems at a premium, the discount suffered or the premium payable (collectively called "outgoing") by the insurer to which section 14(1)(*a*) of the ITA applies will be treated as incurred and allowable as a deduction only when it is paid on the maturity or redemption of the debt securities. In addition, the amount of deductible outgoing is to be computed based on the difference between the amount paid on the maturity or redemption of the debt securities and the amount for which the debt securities were first issued.

e. For any convertible debt security (which gives the holder an option to convert the debt securities into the issuing company's shares) that is issued at a discount or any issued convertible debt security that is redeemed at a premium, any outgoing that is attributable to the equity component or embedded derivative (which is the option to convert the debt security into equity) will be disregarded as there is no cash outlay and such outgoing is regarded as capital in nature.

7. **Derivatives used solely for hedging purpose[27]**

a. Where the underlying asset[28] of a hedge (i.e. the investment being hedged) is on revenue account, all gains and losses reported in Form A2 and which arose from the derivatives acquired to hedge that investment will be taxed or allowed as a deduction.

b. Where the underlying asset of a hedge (i.e. the investment being hedged) is on capital account, all gains or losses reported in Form A2 and which arose from the derivatives acquired to hedge that investment will not be taxed or allowed as a deduction.

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[26] Section 34D of the ITA applies.

[27] An insurer is only permitted to enter into or effect derivative transactions for the purpose of hedging or efficient portfolio management. Derivative transactions for speculative purposes or uncovered positions in derivatives are not permitted. (Details in MAS Notice 125 *Investments of Insurers*.)

[28] The term "hedging" is defined in MAS Notice 125 *Investments of Insurers* to mean "the reduction of investment risk through engaging in a transaction for a derivative on an investment where there is a high degree of negative correlation between the changes in value of the derivative and changes in value of the hedged investment" As such, an insurer can only engage in a transaction for a derivative on an investment.

Annex E – Illustrations of Statutory Time Limit to Raise Assessments

Illustration 1:

- Insurer's financial year ends on 31 Dec.
- Insurer has two financial instruments, both disposed of in 2023 (i.e. YA 2024).
  - ➢ Instrument A – Treated as on capital account; cumulative gains (including those that were unrealised previously) have not been taxed.
  - ➢ Instrument B – Treated as on revenue account; cumulative losses (including those that were unrealised previously) have been allowed as deductions.
- In 2026, the CIT discovers that –
  - ➢ Instrument A ought to be on revenue account.
  - ➢ Instrument B ought to be on capital account.
- The CIT to raise additional assessment for YA 2026 (i.e. YA of discovery) by 31 Dec 2028.

Illustration 2:

- Insurer's financial year ends on 31 Dec.
- Insurer has two financial instruments, both disposed of in 2023 (i.e. YA 2024).
  - ➢ Instrument C – Treated as on capital account; cumulative losses (including those that were unrealised previously) have not been allowed as deductions.
  - ➢ Instrument D – Treated as on revenue account; cumulative gains (including those that were unrealised previously) have been taxed.
- In 2026, the insurer discovers that –
  - ➢ Instrument C ought to be on revenue account.
  - ➢ Instrument D ought to be on capital account.
- Insurer to make a claim, in writing, to the CIT at the point of discovery (2026). No discovery or claim by the insurer may be made after 31 Dec 2028.
- Subject to the CIT's agreement, an amended assessment for YA 2026 will be issued.

Annex F – Value of Assets to be Used in the TAM

1. The value of assets to be used in the TAM for computing the interest adjustment under various scenarios is shown in the tables below:

Table 1:

S/N	Assets covered under FRS 39		Assets covered under MAS Reporting Treatment	
		Value for TAM		Value for TAM
i.	Insurers on FRS 39 tax treatment[29]	Default treatment Value of assets reported in the BS	Insurers transit to MTM tax treatment	Default treatment Value of assets reported in Form A1
ii.	Insurers on FRS 39 tax treatment	By election in writing Historical cost of assets[30]	Insurers transit to MTM tax treatment	No election required Historical cost of assets
iii.	Taxpayers on pre-FRS 39 tax treatment	No election required Historical cost of assets	Taxpayers transit to MTM tax treatment	No election required Historical cost of assets
iv.	Not applicable	Not applicable	New insurers on MTM tax treatment[31]	Default treatment Value of assets reported in Form A1
v.	Not applicable	Not applicable	New insurers on MTM tax treatment	By election in writing[32] Historical cost of assets

[29] This includes insurers who have made an election to use historical cost while they were on FRS 39 tax treatment but have subsequently opted to use the value of the assets as shown in the BS.

[30] Insurers must track the historical cost of all the assets separately and keep proper records on the cost of the assets. In addition, the historical cost must be applied consistently when using the TAM to compute interest adjustments.

[31] These are insurers whose first set of tax computation is prepared using MAS Statutory Returns (instead of the FS).

[32] A written election can be submitted to the CIT together with the insurer's first corporate income tax return. An election is regarded as having been made if the insurer submits its tax computation using the historical cost of the financial assets as the value of assets when making interest adjustment under the TAM.

Table 2:

S/N	Assets covered under FRS 109		Assets covered under MAS Reporting Treatment	
		Value for TAM		Value for TAM
i.	Insurers on FRS 109 tax treatment[33]	Default treatment Value of assets reported in the BS	Insurers transit to MTM tax treatment	Default treatment Value of assets reported in Form A1
ii.	Insurers on FRS 109 tax treatment	By election in writing[34] Historical cost of assets	Insurers transit to MTM tax treatment	No election required Historical cost of assets
iii.	Not applicable	Not applicable	New insurers on MTM tax treatment	Default treatment Value of assets reported in Form A1
iv.	Not applicable	Not applicable	New taxpayers on MTM tax treatment	By election in writing Historical cost of assets

2. Regardless of when the election to use historical cost is made (i.e. when under FRS 39 tax treatment, FRS 109 tax treatment or MTM tax treatment), insurers may, at any time thereafter, exercise an irrevocable option to use the default treatment as mentioned in the tables at paragraph 1.

[33] This includes insurers who have made an election to use historical cost while they were on FRS 109 tax treatment but have subsequently opted to use the value of the assets as shown in the BS.

[34] This includes insurers who have not made any election to use historical cost while they were on pre-FRS 39 tax treatment (as an election to use historical cost was not required under pre-FRS 39 tax treatment) and have continued to use historical cost even after they transited to FRS 109 tax treatment.

Annex G – Transition to MTM Tax Treatment

1. The tables below show the applicable tax adjustments for the transitional YA in respect of insurers' financial assets that are on revenue account and reported in the MAS Statutory Returns. The detailed rules cover the following three scenarios:

    a. Transition from FRS 39 Tax Treatment to MTM Tax Treatment;

    b. Transition from FRS 109 Tax Treatment to MTM Tax Treatment;

    c. Transition from pre-FRS 39 Tax Treatment to MTM Tax Treatment.

2. Where an insurer encounters a scenario that does not fall within any of the scenarios provided in the following tables, the transitional tax adjustments will be computed on a basis that the CIT considers reasonable in the circumstances.

3. For the purpose of the tables below —

    a. "relevant day" refers to the last day of the basis period for the YA immediately before the transitional YA; and

    b. "relevant period" refers to all the YAs between the first YA relating to the basis period in which insurers acquired the financial instruments and the YA immediately before the transitional YA (both YAs inclusive).

Table 1 – Transition from FRS 39 tax treatment to MTM tax treatment

Classification of financial assets under FRS 39 on the relevant day	**One-time tax adjustments made to transit from FRS 39 tax treatment to MTM tax treatment**
1. Equity securities on revenue account: Classified as FVTPL in the FS 2. Debt securities on revenue account: Classified as FVTPL in the FS	● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the FV recognised in the BS on the relevant day. ○ This adjustment is not required if the value in Form A1 and the FV in the BS are of the same amount.

Classification of financial assets under FRS 39 on the relevant day	One-time tax adjustments made to transit from FRS 39 tax treatment to MTM tax treatment
3. Equity securities on revenue account: Classified as AFS in the FS 4. Debt securities on revenue account: Classified as AFS in the FS	● To tax the amount of all cumulative gains (before deducting any accounting tax[35]) or allow as a deduction the amount of all cumulative losses (before deducting any accounting tax), previously recognised in the OCI for the relevant period and accumulated in a reserve account of the statement of changes in equity in the FS ("OCI Reserve"). ○ All cumulative gains and losses previously recognised in the OCI from the first day of acquiring the equity/debt securities up to the relevant day would not have been taxed or allowed as a deduction. On the other hand, such amounts would have been reported in Form A2. This adjustment is thus required to bring to tax or allow as a deduction these amounts of all cumulative gains and losses as if the MTM tax treatment has been applied from the first day of acquiring the equity/debt securities. ● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the FV recognised in the BS on the relevant day. ○ This adjustment is not required if the value in Form A1 and the FV in the BS are of the same amount.
5. Equity securities on revenue account: Classified as 'carried at cost' in the FS	● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the value recognised in the BS on the relevant day. ○ Any gain or loss arising from the changes in the values of the equity securities in Form A1 would have been reported in

[35] Accounting tax refers to the tax that is accounted for under FRS 12 *Income Taxes*.

Classification of financial assets under FRS 39 on the relevant day	One-time tax adjustments made to transit from FRS 39 tax treatment to MTM tax treatment
	Form A2 for the relevant period. However, there is no such amount recognised in the FS due to the equity securities being 'carried at cost' (i.e. value of equity securities in the FS is measured based on cost of acquisition after deducting any amount of impairment losses). This adjustment is thus required to bring to tax or allow as a deduction the cumulative gains and losses that arose from the changes in the value of equity securities (after taking into account any amount of impairment losses already allowed as a deduction) as if the MTM tax treatment has been applied from the first day of acquiring the equity securities.
6. Debt securities on revenue account: Classified as 'held-to-maturity' in the FS	● To tax the total amount of impairment losses, to the extent that the losses have been allowed as deductions for any YA falling within the relevant period, excluding any amount of the losses that had been reversed/written back and taxed for any YA falling within the relevant period. ○ This adjustment is not required if no amount of impairment losses has been allowed as a deduction for any YA falling within the relevant period. ● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the gross carrying amount (i.e. amortised cost before deducting any amount of allowance for impairment losses) recognised in the BS on the relevant day. ○ Any gain or loss arising from the changes in the value of the debt securities in Form A1 would have been reported in Form A2 for the relevant period. However, there is no such amount recognised in the FS as amortised cost of

Classification of financial assets under FRS 39 on the relevant day	One-time tax adjustments made to transit from FRS 39 tax treatment to MTM tax treatment
	debt securities is not subject to changes in FV. This adjustment is thus required to tax or allow as a deduction the cumulative gains and losses that arose from the changes in the value of the debt securities as if the MTM tax treatment has been applied from the first day of acquiring the debt securities.

Table 2 – Transition from FRS 109 tax treatment to MTM tax treatment

Classification of financial assets under FRS 109 on the relevant day	One-time tax adjustments made to transit from FRS 109 tax treatment to MTM tax treatment
1. Equity securities on revenue account: Classified as FVTPL in the FS 2. Debt securities on revenue account: Classified as FVTPL in the FS	● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the FV recognised in the BS on the relevant day. ○ This adjustment is not required if the value in Form A1 and the FV in the BS are of the same amount.
3. Equity securities on revenue account: Classified as FVOCI in the FS	● To tax the amount of all cumulative gains (before deducting any accounting tax[36]) or allow as a deduction the amount of all cumulative losses (before deducting any accounting tax), previously recognised in the OCI for the relevant period and accumulated in the OCI Reserve. ○ All cumulative gains and losses previously recognised in the OCI from the first day of acquiring the equity securities up to the relevant day would not have been taxed or allowed as a deduction. On the other hand, such amounts would have

[36] Accounting tax refers to the tax that is accounted for under FRS 12 *Income Taxes* or SFRS(I) 1-12 *Income Taxes*.

<table>
<tr><th>Classification of financial assets under FRS 109 on the relevant day</th><th>One-time tax adjustments made to transit from FRS 109 tax treatment to MTM tax treatment</th></tr>
<tr><td></td><td>been reported in Form A2. This adjustment is thus required to bring to tax or allow as a deduction these amounts of all cumulative gains and losses as if the MTM tax treatment has been applied from the first day of acquiring the equity securities.

● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the FV recognised in the BS on the relevant day.
○ This adjustment is not required if the value in Form A1 and the FV in the BS are of the same amount.</td></tr>
<tr><td>4. <u>Debt</u> securities on revenue account: Classified as <u>FVOCI</u> in the FS</td><td>● To tax the total amount of impairment losses, to the extent that the losses have been allowed as a deduction for any YA falling within the relevant period, excluding any amount of the losses that had been reversed/written back and taxed for any YA falling within the relevant period.
○ This adjustment is not required if no amount of impairment losses has been allowed as a deduction for any YA falling within the relevant period.

● To tax the amount of cumulative gains (before deducting any accounting tax) or allow as a deduction the amount of cumulative losses (before deducting any accounting tax), previously recognised in the OCI for the relevant period and accumulated in the OCI Reserve, to the extent that the <u>cumulative gains and losses arose solely from the changes in the FV of the debt securities</u>.
○ Impairment losses (or gains), if any, are credited (or debited) to the OCI of the FS (“accumulated impairment amounts”),</td></tr>
</table>

Classification of financial assets under FRS 109 on the relevant day	One-time tax adjustments made to transit from FRS 109 tax treatment to MTM tax treatment
	and do not reduce the FV of the debt securities in the BS. Accumulated impairment amounts (before deducting any accounting tax) in the OCI Reserve as at the relevant day must be excluded (i.e. not allowed as a deduction again or taxed again) in the determination of the amount of taxable cumulative gains and deductible cumulative losses arising from the changes in the FV of the debt securities. ○ Cumulative gains and losses arising from the changes in the FV of the debt securities, which were previously recognised in the OCI from the first day of acquiring the debt securities up to the relevant day would not have been taxed or allowed as a deduction. On the other hand, such amounts would have been reported in Form A2. This adjustment is thus required to bring to tax or allow as a deduction these amounts of cumulative gains and losses that arose solely from the changes in the FV of the debt securities as if the MTM tax treatment has been applied from the first day of acquiring the debt securities. ● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the FV recognised in the BS on the relevant day. ○ This adjustment is not required if the value in Form A1 and the FV in the BS are of the same amount.
5. <u>Debt</u> securities on revenue account: Classified as 'amortised cost' in the FS	● To tax the total amount of impairment losses, to the extent that the losses have been allowed as a deduction for any YA falling within the relevant period, excluding any amount of the losses that

Classification of financial assets under FRS 109 on the relevant day	One-time tax adjustments made to transit from FRS 109 tax treatment to MTM tax treatment
	had been reversed/written back and taxed for any YA falling within the relevant period. ○ This adjustment is not required if no amount of impairment losses has been allowed as a deduction for any YA falling within the relevant period. ● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the gross carrying amount (i.e. amortised cost before deducting any amount of allowance for expected credit losses) recognised in the BS on the relevant day. ○ Any gain or loss arising from the changes in the value of the debt securities in Form A1 would have been reported in Form A2 for the relevant period. However, there is no such amount recognised in the FS as amortised cost of debt securities is not subject to changes in FV. This adjustment is thus required to tax or allow as a deduction the cumulative gains and losses that arose from the changes in the value of the debt securities as if the MTM tax treatment has been applied from the first day of acquiring the debt securities.

Table 3 – Transition from pre-FRS 39 tax treatment to MTM tax treatment

Classification of financial assets under FRS 39 on the relevant day	One-time tax adjustments made to transit from pre-FRS 39 tax treatment to MTM tax treatment
1. Equity securities on revenue account: Classified as FVTPL, AFS or 'carried at cost' in the FS	● To tax the total amount of unrealised losses, to the extent that the losses have been allowed as a deduction for any YA falling within the relevant period, excluding any amount of such losses that

Classification of financial assets under FRS 39 on the relevant day	One-time tax adjustments made to transit from pre-FRS 39 tax treatment to MTM tax treatment
	had been reversed/written back and taxed for any YA falling within the relevant period. ● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the cost of acquiring the equity securities. ○ Any gain or loss arising from the changes in the value of the equity securities in Form A1 would have been reported in Form A2 for the relevant period. However, in view of the election for pre-FRS 39 tax treatment, any amount relating to the changes in the value of the equity securities would not have been taxed or allowed as a deduction for any YA falling within the relevant period. Instead, only unrealised losses akin to provision for diminution in value of investments and any subsequent write-back relating to such losses would have been allowed as deductions or taxed. These adjustments are thus required to bring to tax or allow as a deduction the cumulative gains and losses that arose from the changes in the value of the equity securities (after taking into account any amount of unrealised losses already allowed as deductions, net of any write-back already taxed) as if the MTM tax treatment has been applied from the first day of acquiring the equity securities.
2. Debt securities on revenue account: Classified as FVTPL, AFS or 'held-to-maturity' in the FS	● To tax the total amount of unrealised losses, to the extent that the losses have been allowed as a deduction for any YA falling within the relevant period, excluding any amount of such losses that had been reversed/written back and taxed for any YA falling within the relevant period.

Classification of financial assets under FRS 39 on the relevant day	One-time tax adjustments made to transit from pre-FRS 39 tax treatment to MTM tax treatment
	● To tax an amount of gain or allow as a deduction an amount of loss, computed by taking the value reported in Form A1 on the relevant day and subtracting from it the cost of acquiring the debt securities. ○ Any gain or loss arising from the changes in the value of the debt securities in Form A1 would have been reported in Form A2 for the relevant period. However, in view of the election for pre-FRS 39 tax treatment, any amount relating to the changes in the value of the debt securities would not have been taxed or allowed as a deduction for any YA falling within the relevant period. Instead, only unrealised losses akin to provision for diminution in value of investments and any subsequent write-back relating to such losses would have been allowed as a deduction or taxed. These adjustments are thus required to bring to tax or allow as a deduction the cumulative gains and losses that arose from the changes in the value of the debt securities (after taking into account any amount of unrealised losses already allowed as deductions, net of any write-back already taxed) as if the MTM tax treatment has been applied from the first day of acquiring the debt securities. ● To tax an amount of income or allow as a deduction an amount of loss, computed by taking the total amount of all contractual interest income reported in Form A2 for the relevant period and subtracting from it the total amount of interest income that were chargeable with tax for the relevant period. ○ This adjustment is not required if the total amount of all contractual interest income reported in Form A2 for the relevant

Classification of financial assets under FRS 39 on the relevant day	One-time tax adjustments made to transit from pre-FRS 39 tax treatment to MTM tax treatment
	period and the total amount of interest income that were chargeable with tax for the relevant period are of the same amount.