INLAND REVENUE
AUTHORITY
OF SINGAPORE

IRAS e-Tax Guide

Income Tax: Deduction for Expenses Incurred Before First Dollar of Income is Earned (Third Edition)

Published by
Inland Revenue Authority of Singapore

Published on 23 Mar 2022

First edition on 30 June 2011
Second edition on 3 September 2014

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1 Aim

1.1 This e-tax guide explains the concession for enterprise development, which was first implemented in 2003. The concession was enhanced in Budget 2011 and has been legislated under section 14R of the Income Tax Act 1947 (2020 Revised Edition) ("ITA"). Section 14R allows tax deduction on certain expenses incurred before a business begins to generate revenue.

2 Glossary

2.1 **Deemed date of commencement**

The first day of the accounting year in which a business earns its first dollar of business receipt.

2.2 **Revenue expenses**

All outgoings and expenses that would have been allowable under Part V of the ITA and are not denied deduction under section 15 of the ITA if the business had commenced when the expenses are incurred.

3 Background

3.1 The concession for enterprise development was introduced in Budget 2003 and took effect from Year of Assessment (YA) 2004.

3.2 Under the concession, a person[1] who conducts business activities[2] is treated as having commenced his business on the deemed date of commencement. The concession seeks to promote entrepreneurship by providing businesses with greater certainty regarding tax matters. It also helps to partially relieve businesses of the costs incurred when starting out.

3.3 To facilitate business start-ups further, the Minister for Finance announced in Budget 2011 that businesses may claim tax deduction on revenue expenses incurred in the accounting year immediately

[1] For the purpose of this guide, a person includes a partnership.

[2] This refers to activities that give rise to income assessable to tax under section 10(1)(a) of the ITA.

before the deemed date of commencement. This enhancement took effect from YA 2012. The enhancement provides further relief to business start-ups which take a longer time to generate revenue. The enhancement has also been legislated under section 14R of the ITA.

4 Tax Treatment before YA 2004

4.1 Sections 14 and 15 of the ITA govern the deductibility of outgoings and expenses of a business. Under section 14(1), only outgoings and expenses that are wholly and exclusively incurred in the production of income are tax deductible. Besides this general deduction rule, the ITA also lists certain allowable deductions[3] and non-allowable expenses[4].

4.2 Outgoings and expenses incurred before a business commences operation are not wholly and exclusively incurred in the production of income. Hence, they are not allowable for tax purposes[5]. Consequently, for every new business that is established, it is necessary to determine the date on which the business commences its operations. This may pose tax uncertainty to some businesses.

5 Concession for Enterprise Development 2003

5.1 Under the 2003 concession for enterprise development, a business is, unless paragraph 7.1 below applies, treated as having commenced its operations on the deemed date of commencement. This means revenue expenses incurred in an accounting year, including those incurred prior to the day on which the business earns its first dollar of business receipt, are deductible for income tax purposes.

5.2 Any excess of the revenue expenses over the business income in the basis period for a YA is treated as a trade loss for that YA. Thus, the trade loss may be available for:

(i) offset against other income in the same YA;

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[3] Sections 14(1)(a) to (h), and sections 14A to 14ZF of the ITA.

[4] Section 15(1)(a) to (q) of the ITA.

[5] In addition, outgoings and expenses may be incurred prior to the date on which a business commences operation to set up the business by creating the permanent organisation or structure through which income is produced. These expenses are disallowed on the basis that they are capital in nature.

(ii) offset against income for future YAs[6],

(iii) transfer to a related company under the group relief system[7],

(iv) transfer to spouse[8], and

(v) carry-back relief to preceding YA[9].

6 Enhancement to the Concession Announced in Budget 2011

6.1 In Budget 2011, the 2003 concession was enhanced to allow tax deduction for revenue expenses incurred in the accounting year immediately preceding the deemed date of commencement. Such revenue expenses are treated as incurred on the deemed date of commencement. They are deductible against the business income derived during the basis period in which the business derives its first dollar of business receipt[10]. Similarly, any excess of the revenue expenses over the business income for a YA is treated as a trade loss. The usual rules for utilisation of the trade loss apply (see paragraph 5.2).

6.2 The 2011 enhancement took effect from YA 2012 and is legislated under section 14R of the ITA. This means businesses can claim revenue expenses incurred in an accounting year ending in 2010 (YA 2011) if the first dollar of business receipt is earned during accounting year ending in 2011 (YA 2012) and so on. The examples in Annex A illustrate the application of the 2003 concession and the 2011 enhancement.

7 Actual Date of Commencement

7.1 As with the 2003 concession, the implementation of the 2011 enhancement does not preclude businesses from providing relevant details to the Comptroller of Income Tax (“CIT”) to substantiate that their business operations have commenced earlier than the deemed date of commencement. If the actual date of commencement is established to be earlier than the deemed date of commencement, all expenses incurred wholly and exclusively in the production of income from the

[6] In the case of a company or registered business trust, the availability of offset is subject to the shareholding test under section 37(12) of the ITA (‘shareholding test’).

[7] Subject to the provisions of section 37B.

[8] Subject to the provisions of section 37C.

[9] Subject to the provisions of sections 37D and 37E.

[10] In the case where a person has ceased his business for some time but subsequently recommences the same business or another business, the concession also applies in determining the revenue expenses deductible in relation to the subsequent business.

actual date of commencement are tax deductible, subject to the provisions of section 15. In this regard, please refer to the e-Tax Guide on “Determination of the Date of Commencement of Business” for the guiding principles and examples.

8 Administrative Procedure

8.1 Any person who wishes to claim tax deduction of revenue expenses under S14R is required to provide the amounts and description of such expenses incurred during the basis period for the preceding YA in the tax computation for the current YA in which the first dollar of business receipt is earned. For example, if a business earns its first dollar of business receipt during the basis period for YA 2012, it must include the revenue expenses incurred during the basis period for YA 2011 in its YA 2012 tax computation.

8.2 For partnerships and sole-proprietorships, the amount of expenses claimed under section 14R must be included in the line “allowable business expenses” of the 4-line statement for the year of claim. For partnerships and sole-proprietorships reporting business income using a 2-line statement[11], the amount of expenses claimed under section 14R must be deducted from revenue to arrive at the line “adjusted profit/loss”.

8.3 Businesses are required to maintain the relevant supporting documents relating to the expenses claimed but they <u>need not submit these documents unless requested to do so by IRAS.</u>

8.4 The accounting period before the deemed date of commencement may exceed 12 months. In such a scenario, only revenue expenses relating to the 12-month period immediately before the deemed date of commencement may qualify for tax deduction under section 14R. Where a business is unable to identify the relevant expenses, the CIT may apply time apportionment to arrive at the amount of expenses for the 12-month period.

8.5 The example in Annex B illustrates the application of the tax treatment under section 14R to a company with its first set of accounts prepared for a period exceeding 12 months.

[11] Sole-proprietorships and partnerships with revenue of up to $200,000 can report a 2-line instead of 4-line statement with effect from YA 2021 and YA 2022 respectively.

9 Income subject to the provisions of section 10D

9.1 As with the 2003 concession, section 14R is not applicable to the income of entities to which the provisions of section 10D of the ITA applies.

9.2 Section 10D of the ITA provides rules for determining the taxable income of entities that carry on the business of the making of investments. Among other things, the provisions disallow tax deduction of revenue expenses incurred by such an entity in relation to non-income producing investments. As the Government has decided to maintain the current tax treatment of section 10D, the concessions remain not applicable to income which is subject to the provisions of section 10D.

10 Contact Information

For any enquiries or clarification on this e-Tax Guide, please call

(i) 1800 356 8622 (Corporate) or

(ii) 1800 356 8300 (Individual).

11 Updates and Amendments

	Date of amendment	Amendments made
1	03 Sept 2014	Paragraph 7.1 amended to make reference to e-Tax Guide "Determination of the Date of Commencement of Business".
2	23 Mar 2022	1. The e-Tax Guide has been renamed from "Income Tax: Concession for Enterprise Development – Deduction of Certain Expenses Incurred Before Business Revenue is Earned" to ""Income Tax: Deduction for Expenses Incurred Before First Dollar of Income is Earned" as the concession has been legislated under section 14R of the ITA. 2. The provisions have been updated to make reference to the renumbered provisions in the Income Tax Act 1947 (2020 Revised Edition). 3. The examples in the Annex have been updated to more recent dates, where applicable.

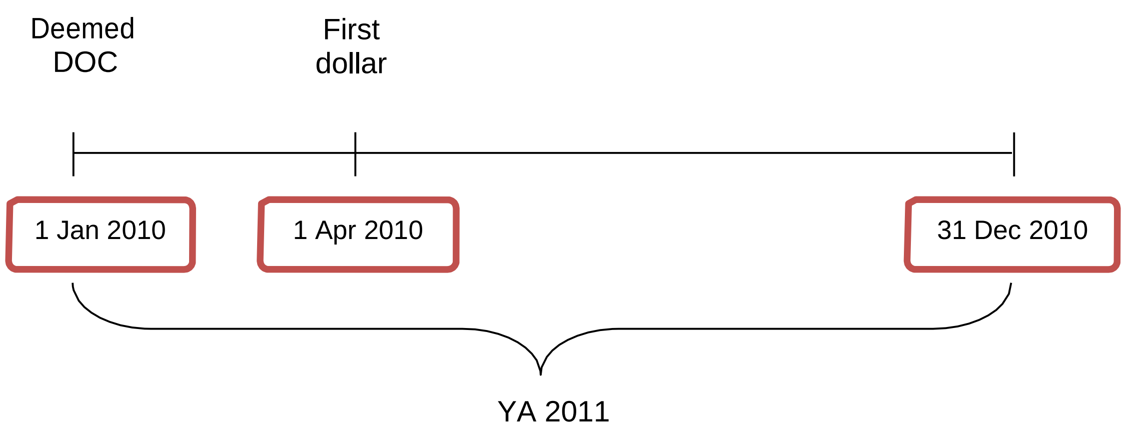
Annex A

Examples Illustrating the Effect of the 2003 Concession and the 2011 Enhancement under section 14R

Example 1 (2003 Concession)

A sole proprietor registered its business on 1 December 2009 and has December year end.

1 Dec 2009	Date of registration
1 Apr 2010	Earns its first dollar of business receipt
1 Jan 2010	Deemed date of commencement ("DOC")
1 Jan 2010 to 31 Dec 2010	Accounting year in which the sole proprietor earns first dollar

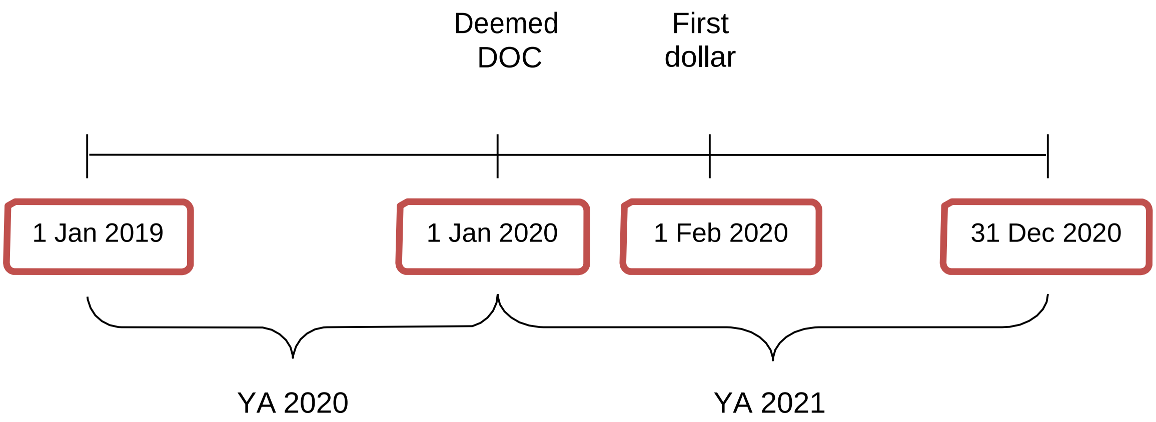


Under the 2003 concession, revenue expenses incurred during the basis period for YA 2011, including those incurred prior to the day on which the business earns its first dollar of business receipt, are deductible.

Example 2 (2011 Enhancement under section 14R)

A partnership is registered on 1 July 2018 and has December year end.

1 July 2018	Date of registration
1 Feb 2020	Earns its first dollar of business receipt
1 Jan 2020	Deemed date of commencement ("DOC")
1 Jan 2020 to 31 Dec 2020	Accounting year in which the partnership earns first dollar



Under section 14R, revenue expenses incurred during the basis period for YA 2020 are deemed incurred on 1 January 2020 (first day of the accounting year in which first dollar of business receipt is earned) and deductible in YA 2021.

(Note: The revenue expenses incurred during the period from 1 January 2020 to 31 January 2020 would also be allowable under the 2003 concession.)

Example 3

A company is incorporated on 6 May 2018 to carry on a business. Its accounting year ends on 31 December. Its accounts for the first 3 years since incorporation are as follows:

Year of Assessment	2019	2020	2021
Basis period	6 May 18 to 31 Dec 18	1 Jan 19 to 31 Dec 19	1 Jan 20 to 31 Dec 20
Sales income	0	0	25,762
Interest income	0	2,074	3,384
	0	2,074	29,146
Less: Expenses			
Advertisement/ promotion	(81)	(145)	(2,514)
Audit fee	(500)	(600)	(1,200)
Depreciation	(326)	(524)	(856)
Fixed assets expensed off	0	(294)	(281)
Penalties and fines	(70)	(50)	(120)
Printing & stationery	(48)	(154)	(234)
Private car expenses	(343)	(2,725)	(3,079)
Rental	(3,200)	(4,800)	(6,000)
Repairs & maintenance	(284)	(277)	(1,560)
Secretarial fee	(200)	(200)	(300)
Staff salaries	(4,376)	(7,542)	(12,588)
Telephone	(419)	(623)	(1,950)
Travelling and transport	(272)	(421)	(2,844)
Water and electricity	(873)	(885)	(1,854)
Net profit/ (loss)	(10,992)	(17,166)	(6,234)

The company earns its first dollar of business receipt on 1 June 2020 (YA 2021).

The table below compares the effect of the concession for enterprise development.

<table>
<tr><th>Expenses incurred for period / year</th><th>Without concession</th><th>With 2003 concession</th><th>With section 14R</th></tr>
<tr><td>6 May 2018 to 31 Dec 2018</td><td rowspan="3">All expenses incurred may not be tax deductible</td><td rowspan="2">All expenses incurred may not be tax deductible</td><td>All expenses incurred may not be tax deductible</td></tr>
<tr><td>1 Jan 2019 to 31 Dec 2019</td><td>Revenue expenses incurred are tax deductible for YA 2021 (section 14R)[12]</td></tr>
<tr><td>1 Jan 2020 to 31 May 2020</td><td>Revenue expenses incurred are tax deductible for YA 2021 (2003 concession)</td><td>Revenue expenses incurred are tax deductible for YA 2021 (2003 concession)</td></tr>
<tr><td>1 Jun 2020 to 31 Dec 2020</td><td>Revenue expenses incurred are tax deductible for YA 2021</td><td>Revenue expenses incurred are tax deductible for YA 2021</td><td>Revenue expenses incurred are tax deductible for YA 2021</td></tr>
</table>

[12] To benefit from section 14R, the company has to provide the amounts and description of revenue expenses incurred during the year ending 31 December 2019 in its tax computation for YA 2021.

Tax computation for YA 2021[13]

The effect of section 14R to the company for YA 2021 is shown in the tax computation below.

	Without Concession	With 2003 Concession	With section 14R
Net profit/ (loss)	(6,234)	(6,234)	(6,234)
Add/(less):			
Interest income	(3,384)	(3,384)	(3,384)
Depreciation	856	856	856
Fixed assets expensed off	281	281	281
Penalties and fines	120	120	120
Private car expenses	3,079	3,079	3,079
Disallowable expenses incurred between 1 Jan 2020 & 31 May 2020 *[note 1]*	12,935	-	-
	7,653	(5,282)	(5,282)
(Less):			
Deductible revenue expenses incurred in the basis period for YA 2020 *[note 2]*	-	-	(15,647)
Adjusted profit/ (loss)	7,653	(5,282)	(20,929)
Add: Interest income	3,384	3,384	3,384
Unabsorbed losses c/f *[note 3]*		(1,898)	(17,545)
Chargeable income before partial tax exemption	11,037		

[13] CIT applies section 14R to the company for YA 2021, unless the company provides relevant details to CIT to show that it has commenced business operation before 1 January 2020.

Notes :

1. Assumption: all expenses are incurred evenly throughout the year.

Computation of disallowable expenses for period 1 Jan 20 to 31 May 20 (5 months)

Expenses as per accounts:	
Advertisement/ promotion	2,514
Audit fee	1,200
Printing & stationery	234
Rental	6,000
Repairs & maintenance	1,560
Secretarial fee	300
Staff salaries	12,588
Telephone	1,950
Travelling and transport	2,844
Water and electricity	1,854
Total	31,044

Disallowable expenses = 5/12 x 31,044 12,935

2. **Deductible revenue expenses incurred during basis period from 1 Jan 2019 to 31 Dec 2019**

Advertisement/ promotion	145
Audit fee	600
Printing & stationery	154
Rental	4,800
Repairs & maintenance	277
Secretarial fee	200
Staff salaries	7,542
Telephone	623
Travelling and transport	421
Water and electricity	885
Deductible revenue expenses	15,647

3. The unabsorbed loss is available for carry back to YA 2020 to offset interest income of $2,074, subject to the provisions of section 37D.

Annex B

Example of Company with Accounts Prepared for a Period Exceeding 12 Months

Example 4

A company was incorporated in Singapore on 15 September 2018. The financial year end of the company is 31 December. The Company's first set of accounts is prepared for the period from 15 September 2018 to 31 December 2019. The Company earns its first dollar on 1 February 2020 (i.e. in YA 2021).

As the first set of accounts covered a period of more than 12 months, there are 2 relevant YAs as follows:

YA	Basis period
2019 (1st YA)	15 Sep 2018 – 31 Dec 2018
2020 (2nd YA)	1 Jan 2019 – 31 Dec 2019

Under section 14R, revenue expenses incurred during the accounting year 1 January 2019 to 31 December 2019 (YA 2020) are allowed tax deduction in YA 2021. The company should:

(a) identify the expenses applicable to each of the 2 periods (i.e. 15 September 2018 to 31 December 2018 and 1 January 2019 to 31 December 2019); and

(b) submit a claim only for revenue expenses incurred for YA 2020 together with its tax computation for YA 2021.

If specific identification of expenses to the 2 periods is not possible, the CIT may accept time-apportionment of expenses.