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IRAS e-Tax Guide

Pioneer Incentive: Tax Treatment of Gains
and Losses from a Separate Trade
(Fifth Edition)

Pioneer Incentive: Tax Treatment of Gains and Losses from a Separate Trade

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1 Aim

- 1.1 This e-Tax Guide provides information on the tax treatment of gains and losses from the separate trade carried on by a pioneer enterprise or a pioneer service company.
- 1.2 It is relevant to all businesses that are awarded the pioneer or pioneer service incentive by the Minister for Trade and Industry.

2 At a glance

- 2.1 Where a pioneer enterprise or a pioneer service company carries on a separate trade, it is required to:
 - (a) Set-off losses arising from the separate trade in any accounting period against the pioneer income for that same period.
 - (b) Deem the statutory income of the separate trade to be 5% of the gross revenue of the separate trade if the adjusted profit of that trade is less than 5% in any accounting period.
- 2.2 The above requirements may however be waived in certain situations set out in paragraph 6.

3 Glossary

3.1 Adjusted profit

Adjusted profit refers to the company's profits after all tax adjustments and before deduction of capital allowances, losses and donations

3.2 Pioneer income or loss

Pioneer income or loss refers to income or losses derived by the company from the pioneer or pioneer service trade.

3.3 Pioneer trade

Pioneer trade refers to the trade for which a company has been approved as a pioneer enterprise or pioneer service company. The pioneer or pioneer service trade will be set out in the Letter of Offer for the incentive.

3.4 Separate trade

Separate trade means any trade or business other than the pioneer trade carried on by the company.

3.5 Statutory income

Statutory income refers to the company's profits after all tax adjustments and after deduction of capital allowances and unabsorbed capital allowances.

4 Background

4.1 Under sections 5(3) and 17(3) of the Economic Expansion Incentives (Relief from Income Tax) Act 1967 ("EEIA 1967"), the Minister for Trade and Industry may approve any qualifying company to be a pioneer enterprise or pioneer service company. Upon approval, the company will enjoy a tax relief period not exceeding 15 years. During the tax relief period, income derived by the company from the pioneer trade will be exempt from tax.

4.2 In cases where the company carries on separate trades, it would need to maintain separate accounts for each separate trade.

- 4.3 As the tax exemption is only granted for the pioneer trade and not the separate trades, the company is required to classify separately in its tax computation the income and expenses relating to the pioneer and separate trades. The company must also ensure that the income and expenses have been properly identified to the pioneer and separate trades.
- 4.4 Special rules would apply to the computation of pioneer income where separate trades are carried on. These rules are explained in paragraph 5.

5 Special Rules Applicable

- 5.1 Section 8(2) of the EEIA 1967 provides that where the carrying on of a separate trade results in a loss in any accounting period, the pioneer income for that period shall be reduced by the loss. This requirement may, however, be waived if the Comptroller is satisfied that the loss was not incurred for the purpose of obtaining a tax advantage.
- 5.2 Section 8(3) provides that where the separate trade results in an adjusted profit in any accounting period which amounts to less than 5% of the gross revenue, the statutory income¹ of the separate trade shall be deemed to be 5% of the gross revenue. The pioneer income shall also be reduced accordingly. The Comptroller may however, accept a lower rate of deemed income of the separate trade.
- 5.3 Sections 8(2) and 8(3) are not applicable to a company whose separate trade is considered by the Comptroller to be subordinate and incidental to the carrying on of the pioneer trade. In such cases, the income or loss arising from the separate trade shall be deemed to form part of the pioneer income or loss.

6 Waiver of Sections 8(2) and 8(3) Requirements

- 6.1 Depending on the circumstances of each case, the Comptroller may consider the loss from the separate trade as not incurred for the purpose of obtaining a tax advantage for the purpose of section 8(2) of the EEIA 1967. The Comptroller may also accept a lower rate of deemed income of a pioneer enterprise or pioneer service company under section 8(3) of the EEIA 1967 in specific circumstances. These include:
- (a) where the separate trade was an existing activity undertaken by the company before the pioneer status was awarded and the separate trade was already in a loss position before the commencement of the pioneer trade;

¹ The application of section 8(3) abatement at the statutory income level instead of adjusted profit level will take effect from Year of Assessment 2020.

- (b) where the loss incurred was due to depressed sale prices arising from recession, poor market conditions, exceptionally strong competition and substandard products;
- (c) where the profit margin of the separate trade followed market trends for that industry, taking into account the size of turnover of the separate trade, whether the separate trade was a new or established activity and the profit margins of the separate trade in the past;
- (d) where the income, direct expenses and capital allowances have been properly identified to both the pioneer and separate trade activities; and appropriate and reasonable bases have been used in apportioning indirect expenses and common assets qualifying for capital allowances between these trades.

7 Administrative Procedure

- 7.1 A company need not apply to the Comptroller for waiver of the sections 8(2) or 8(3) requirements. Nonetheless, the onus of proof that income and expenses had been properly classified between the different trades and that any loss from the separate trade was not incurred for a tax advantage rest solely with the company.
- 7.2 The company should state clearly the basis for not applying sections 8(2) and 8(3) in its tax computation. While there is no need to furnish any supporting documents with the tax returns, companies should retain adequate supporting documents and provide them to IRAS upon request.

8 Contact Information

- 8.1 If you have any enquiries or need clarification on this e-Tax Guide, please contact IRAS at 1800 356 8622.

9 Updates and Amendments

	Date of amendment	Amendments made
1	6 Aug 2014	<p>This guide has been updated and re-written to reflect the re-numbering of the sections in the EEIA. In addition, the following requirements were removed:</p> <ul style="list-style-type: none"> a. Certification from auditor or tax agent that expenses have been properly charged or allocated between the pioneer and separate trades; and b. Confirmation from auditor or tax agent that the loss from separate trade was incurred under circumstances stated in paragraph 6 above
2	12 Dec 2019	<p>This guide has been updated and re-written as follows:</p> <ul style="list-style-type: none"> a. To define statutory income in paragraph 3.5; b. To clarify that the statutory income, and not the adjusted profit, of the separate trade of the pioneer enterprise or pioneer service company is deemed to be 5% of the gross revenue for the purpose of section 8(3) of the EEIA by amending paragraph 5.2. The application of this change will take effect from Year of Assessment 2020; and c. To streamline the considerations for waiver of sections 8(2) and 8(3) requirements under paragraph 6.
3	28 Feb 2023	<p>This guide has been updated as follows:</p> <ul style="list-style-type: none"> a. renumbered section 5(2) and section 17(2) of the EEIA as section 5(3) and section 17(3) of the EEIA 1967 in paragraph 4.1; and b. renamed “EEIA” as “EEIA 1967” to reflect the revised title of the Economic Expansion Incentives (Relief from Income Tax) Act 1967 effective from 31 Dec 2021.