Multinational Enterprise Top-Up Tax and Domestic Top-Up Tax

Part C of Module Two: Computation of GloBE Income or Loss

INLAND REVENUE AUTHORITY OF SINGAPORE

May 2025

Outline of Module

- Overview
- The FANIL
- Currency
- Mandatory Adjustments to the FANIL
- Optional Adjustments to the FANIL

Optional Adjustments to the FANIL

Adjustments to the FANIL

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What are the optional adjustments that are applicable?

- Election out of excluded dividends
- Election out of excluded equity gains or losses
- Election for a company in distress
- Election to use the realisation principle
- Election to reflect a deduction for a stock-based compensation
- Election to recognise gains over five years
- Election to exclude intra-group transactions
- Election for foreign exchange risk hedges
- Election where assets and liabilities are adjusted to fair value for tax purposes

- The optional adjustments to the FANIL are made upon election, and are applicable to both the MTT and DTT.

Regulation 29 – Election for a Company in Distress

The filing entity of an MNE group may make an election for a company in distress

Election applies to a CE where:

The CE is released from an obligation to pay debt

An amount of income is reflected in the FANIL of the CE in respect of the release

The release is made pursuant to:

i. insolvency, bankruptcy or similar proceedings;
ii. the third-party creditor and the CE obtained independent expert opinion on the inability to meet payments due within the next 12 months; and
iii. the third-party creditor, and at time of the debt release, the liabilities of the CE exceed the fair market value of the CE's assets

Regulation 29 – Election for a Company in Distress

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With election

- Where a debt release is pursuant to (i) and (ii), the FANIL of a CE must be adjusted to exclude any income recognised in respect of the release.

- Where a debt release is pursuant to (iii), the FANIL of a CE must be adjusted by deducting the lowest of the following:
  a. the amount of income recognised in respect of the release;
  b. the amount by which its liabilities exceed the fair market value of its assets before the release; and
  c. the amount of any tax attribute of the CE reduced as a result of release.

Regulation 30 – Election to Use the Realisation Principle

The filing entity of an MNE group may make an election in the GIR to use the realisation principle to determine the gain or loss of:

a. all the assets and liabilities; or

b. the tangible assets,

that are subject to fair value or impairment accounting

Election applies to:

All the CEs of the MNE group located in a jurisdiction

or

The CEs located in a jurisdiction which are IEs

Regulation 30 – Election to Use the Realisation Principle

With election

- The gain or loss associated with an asset or liability is taken into account in the GloBE income or loss when the asset is disposed.
- The FANIL must be adjusted to take into account the following:
  a. to **exclude** the gain or loss attributable to the fair value or impairment accounting.
  b. The carrying value of such asset or liability used to determine its gain or loss is based on the later of:
     - the commencement of the first FY for which the election applies; and
     - the time the asset is acquired or the liability is incurred.

Without election

- The gain or loss associated with an asset or liability is taken into account in the GloBE income or loss whenever the value of the asset or liability changes due to changes in fair value or impairments.

Regulation 30 – Election to Use the Realisation Principle

Example

FY 1

» Election made in FY 1
» Acquires shares for $100 in FY 1

FY 2

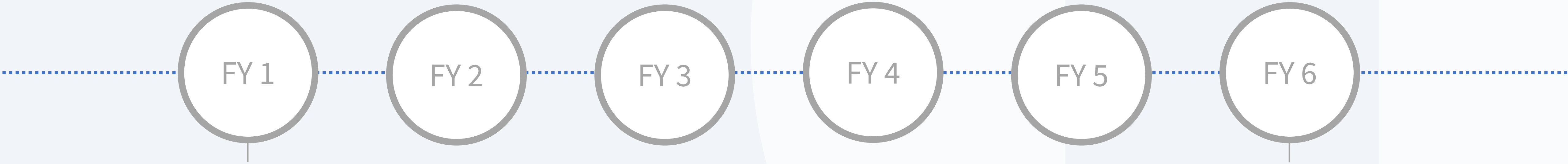
» Fair value loss of $20 for the shares in FY 2

FY 3

» Disposes the shares for $200 in FY 3

- Under the election, the FANIL of the CE for FY 2 must be adjusted to exclude the fair value loss of $20.
- In FY 3, the FANIL of the CE must be adjusted to take into account the gain on the disposal of the shares based on the carrying value of the shares at the time the shares are acquired. The gain is $100 (i.e. sale price of $200 less carrying value of $100).

Regulation 30 – Election to Use the Realisation Principle



» Election made in FY 1

» Revocation of election in FY 6

- The election must not be revoked in FY 1 and the subsequent four FYs (i.e. FY 2 to FY 5).
- If the election is revoked in FY 6:
  - the FANIL of each CE for which the election is made must be adjusted to include the relevant amount as an income or loss in FY 6; and
  - no new election can be made for FY 6 and the subsequent four FYs (i.e. FY 7 to FY 10).

Regulation 30 – Election to Use the Realisation Principle

- When an election is revoked, the FANIL of each CE for which the election is made must be adjusted to include the relevant amount.

Relevant amount = Aggregate of (A – B), for each asset or liability that is subject to the election and remains held by the CE on the first day of the first FY for which the election ceases to apply

- A = Fair value of the asset or liability on the first day of the first FY for which the election ceases to apply.
- B = Carrying value of such asset or liability based on the later of:
  - (i) the commencement of the first FY for which the election applies; and
  - (ii) the time the asset is acquired or liability is incurred.

Regulation 31 – Stock-Based Compensation

The filing entity of an MNE group may make an election in the GIR to reflect a deduction for a stock-based compensation based on the amount deducted for tax purpose in lieu of the expense recognised in the financial accounts

Election applies to:

All CEs of the MNE group located in a jurisdiction

Regulation 31 – Stock-Based Compensation

With election

- An expense allowed as a deduction for tax purpose is taken into account in the GloBE income or loss.
- The FANIL must be adjusted# to take into account the expense allowed as a deduction for tax purpose in lieu of the expense for a stock-based compensation recognised in the financial accounts.

 # Where the stock-based compensation is an option that expires without exercise in a FY for which an election is effective, the total expense deducted in the computation of the GloBE income or loss in the previous FYs in respect of that stock-based compensation is treated as income in that FY that the option expires.

Without election

- An expense recognised as a stock-based compensation in the financial accounts is taken into account in the GloBE income or loss.

Regulation 31 – Stock-Based Compensation

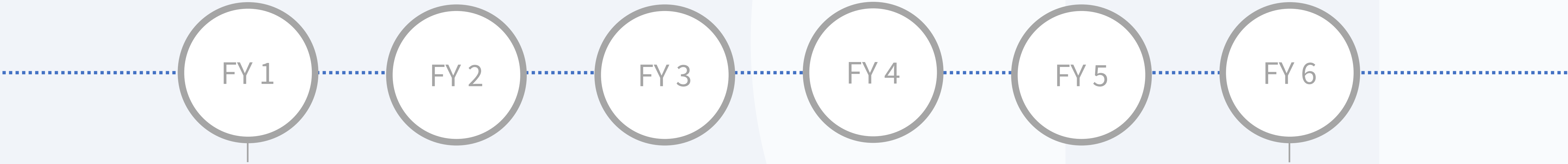
With election

- Where an expense for a stock-based compensation is taken into account in the GloBE income or loss of a CE in any FY before the election:

Excess = Sum of expenses for a stock-based compensation taken into account in the GloBE income or loss of a CE in any FY **before the election is effective** − Sum of expenses allowed as a deduction for tax purpose in respect of that compensation

- The CE's FANIL for the first FY in which the election is effective must be adjusted to include the amount of that excess as **income**.

Regulation 31 – Stock-Based Compensation



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- If the election is revoked in FY 6:
  - the FANIL of each CE for the first FY in which the election ceases to apply must be adjusted if the conditions in following slide are satisfied; and
  - no new election can be made for FY 6 and the subsequent four FYs (i.e. FY 7 to FY 10).

Regulation 31 – Stock-Based Compensation

Revocation of election

- Where there is any stock-based compensation for which an expense is recognised for a CE under the election that has not been paid (i.e. the option has not been exercised) before the revocation of the election:

Excess = Total expense recognised under the election − Total expense that would have been recognised for that stock-based compensation had the election not been made

- The CE's FANIL for the first FY in which the election ceases to apply must be adjusted to include the amount of that excess as **income**.

Regulation 31 – Stock-Based Compensation

- Example:

Stock-based compensation expense	FY 1	FY 2	FY 3 (election is made)	FY 4 to FY 7	FY 8 (election revoked)
Amount recognised in financial accounts	$250	$250	$50	$200	$250
Amount allowed a deduction for tax purpose	$50	$50	$100	$250	$10
Regulation 31 adjustment to be made to the FANIL	N.A.	N.A.	1. ($50) (i.e. -100 + 50) 2. $400	1. ($50) (i.e. -250 + 200)	3. $100

Pre-election – Total amount recognised in financial accounts = $250 + $250 = $500 (i.e. A)

Pre-election – Total amount allowed deduction for tax purpose = $50 + $50 = $100 (i.e. B)

A – B = $500 – $100 = $400

Total expense recognised under election = $100 + $250 = $350 (i.e. C)

Total expense recognised if election is not made = $50 + $200 = $250 (i.e. D)

C – D = $350 – $250 = $100

Regulation 31 – Stock-Based Compensation

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C – D = $350 – $250 = $100

Regulation 31 – Stock-Based Compensation

- Example (continued):
  1. In FY 3 to FY 7, where the election is in effect, the FANIL must be adjusted to take into account the expense allowed a deduction for tax purpose in lieu of the expense recognised in the financial accounts.
  2. In FY 3, the pre-election total expense taken into account in the FANIL of \$500 (i.e. \$250 + \$250) exceeds the total expense allowed as a deduction for tax purpose of \$100 (i.e. \$50 + \$50). Hence, the excess of \$400 (i.e. \$500 – \$100) is treated as income.
  3. In FY 8, the election is revoked. Assuming no option has been exercised by the time, as the total expense recognised under the election of \$350 (i.e. \$100 + \$250) exceeds the amount that would have been recognised had the election not been made (i.e. the accounting expense of \$250 (i.e. \$50 + \$200)), the excess of \$100 (i.e. \$350 - \$250) is therefore treated as income.

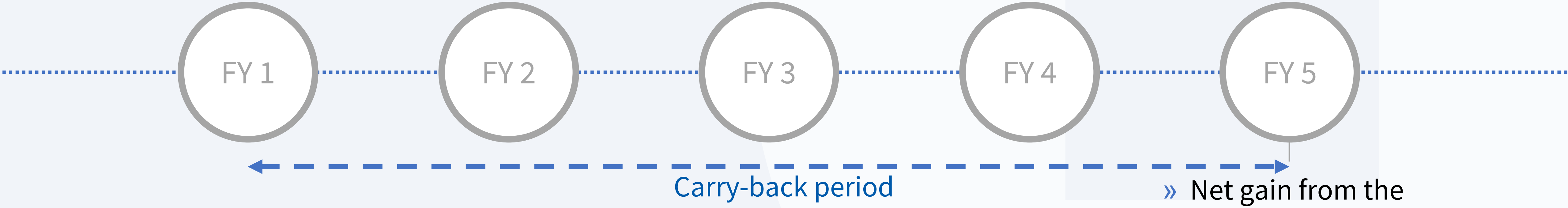
Regulation 32 – Election to Gains Over Five Years

- The filing entity of an MNE group may make an election in the GIR to recognise a gain over five years.
- This **annual** election permits an MNE group to spread the effect of gains or losses from the sale of **local tangible assets** over a period of up to five years.

Election does not apply to:

A gain or loss arising from the transfer of assets between members of the same MNE group

Regulation 32 – Election to Recognise Gains Over Five Years



» Net gain from the disposal of local tangible assets by the CEs located in Jurisdiction X

- Under the election, the net gain is allocated between the CEs located in Jurisdiction X for FY 5 and the previous four financial years (i.e. collectively referred to as the carry-back period).

Regulation 32 – Election to Recognise Gains Over Five Years

Local Tangible Asset*	Loss Year*
An immovable property in the jurisdiction where the CE disposing the asset is located	At least one CE in Jurisdiction X has a net loss from the disposal of the local tangible assets in that FY, **and**: Sum of net losses from the disposal of the local tangible assets of all CEs in Jurisdiction X > Sum of net gains from the disposal of the local tangible assets of those CEs

* *Regulation 32(6) of the MMT Regulations.*

Regulation 32 – Election to Recognise Gains Over Five Years

With election

- The relevant gain (i.e. the net gain from the disposal of the local tangible assets by all the CEs located in Jurisdiction X) is allocated between the CEs located in Jurisdiction X in the following manner:

Step One	• The relevant gain is first allocated to the CEs with a net loss from the disposal of the local tangible assets, starting with **FY 1** (i.e. the earliest year of the carry-back period), if that FY is a **loss year**. • The allocation process continues for the subsequent FYs (i.e. FY 2 to FY 5), if the FYs are loss years, in a similar way, until all the loss is covered.
Step Two	• If there is still unallocated gain after Step One, the remaining gain is allocated evenly to each of the five FYs in the carry-back period. • For each FY, the gain is allocated to the CEs with net gain from the local tangible asset disposal in FY 5 (i.e. election year).

Regulation 32 – Election to Recognise Gains Over Five Years

With election

Step One – Allocation to entities with net loss from the disposal of the local tangible assets in the carry-back period

- Starting with the earliest FY in the carry-back period with a net loss:

  a. If the total relevant gain is **sufficient** to cover all net loss from the asset disposal for the CEs in Jurisdiction X:

  - Each CE with a net loss is allocated an amount of the relevant gain that equals their net loss.

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 1 – The total relevant gain is **sufficient** to cover all net loss from the asset disposal for the CEs in Jurisdiction X:

FY 1 · FY 2 · FY 3 · FY 4 · FY 5

FY 2:
» CE 2 and CE 3 disposed local tangible assets for a net **loss** of **$100** and **$200**, respectively

FY 5:
» CE 1 disposed local tangible assets for a net **gain** of **$300**

- In FY 2, CE 2 and CE 3 have a net loss of $100 and $200, respectively, from the asset disposal.
- In FY 5, CE 1 has a net gain of $300 from the asset disposal.

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 1 – The total relevant gain is **sufficient** to cover all net loss from the asset disposal for the CEs in Jurisdiction X:

(S$)	FY 1	FY 2	FY 3	FY 4	FY 5
Net gain / (loss)		(300)			300
Allocate $300 relevant gain to CE 2 and CE 3 based on their respective net loss in FY 2					(300)
- CE 2		100			
- CE 3		200			
Adjusted net gain / (loss)	-	-	-	-	-

  - The total net gain of $300 from FY 5 is **sufficient** to cover all the net loss from the asset disposal in FY 2.
  - CE 2 and CE 3 are allocated a relevant gain amount that equals their respective net loss.
  - The above is taken into account in re-calculating CE 2 and CE 3's GloBE income or loss, ETR and top-up amount for FY 2.

Regulation 32 – Election to Recognise Gains Over Five Years

With election

Step One (cont'd) – Allocation to entities with net loss from the disposal of the local tangible assets in the carry-back period

- Starting with the earliest FY in the carry-back period with a net loss:

  b. If the total relevant gain is **insufficient** to cover all net loss from the asset disposal for the CEs in Jurisdiction X in the relevant FY:

  - The gain is divided proportionately among the CEs with net loss.
  - The proportion is determined by the ratio of each CE's net loss to the total net loss of all the entities in Jurisdiction X in the relevant FY.

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 2 – The total relevant gain is **insufficient** to cover all net loss from the asset disposal for the CEs in Jurisdiction X:

FY 1 | FY 2 | FY 3 | FY 4 | FY 5

FY 2:
» CE 2 and CE 3 disposed local tangible assets for a net **loss** of **$150** and **$200**, respectively

FY 5:
» CE 1 disposed local tangible assets for a net **gain** of **$300**

- In FY 2, CE 2 and CE 3 have a net loss of $150 and $200, respectively, from the asset disposal.
- In FY 5, CE 1 has a net gain of $300 from the asset disposal.

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 2 – The total relevant gain is **insufficient** to cover all net loss from the asset disposal for the CEs in Jurisdiction X:

(S$)	FY 1	FY 2	FY 3	FY 4	FY 5
Net gain / (loss)		(350)			300
Allocate $300 relevant gain proportionately to CE 2 and CE 3 respectively in FY 2					(300)
- CE 2		129			
- CE 3		171			
Adjusted net gain / (loss)	-	(50)	-	-	-

  - The total net gain of $300 from FY 5 is **insufficient** to cover all the net loss from the asset disposal in FY 2.
  - The net gain from CE 1 is allocated to CE 2 and CE 3 in FY 2, which is taken into account in re-calculating their GloBE income or loss, ETR and top-up amount for FY 2.
    - CE 2 = **$129 (i.e. 150/350 x 300)**; CE 3 = **$171 (i.e. 200/350 x 300)**.

Regulation 32 – Election to Recognise Gains Over Five Years

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With election

Step Two – Allocation to entities with net gain from the disposal of the local tangible assets

a. If there is still unallocated gain after addressing all the loss in Step One, **20% of the remaining gain** is allocated to **each FY** in the carry-back period.
b. For each FY in the carry-back period, the allocated gain is allocated proportionately to entities with net gain from the local tangible asset disposal in FY 5 (i.e. election year).
c. If there is no CE with net gain from the local tangible asset disposal in FY 5 (i.e. election year), the allocated gain for that FY is divided equally among all the CEs in Jurisdiction X.

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 3 – Allocation of unallocated gains proportionately to entities with net gain from the local tangible asset disposal:

FY 1 · FY 2 · FY 3 · FY 4 · FY 5

FY 2:
» CE 2 and CE 3 disposed local tangible assets for a net **loss** of **$150** and **$50**, respectively

FY 5:
» Election made in FY 5
» CE 1 and CE 2 disposed local tangible assets for a net **gain** of **$150 each**

- In FY 2, CE 2 and CE 3 have a net loss of $150 and $50, respectively, from the asset disposal.
- In FY 5, CE 1 and CE 2 have a net gain of $150 each from the asset disposal.

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 3 – Allocation of unallocated gains proportionately to entities with net gain from the local tangible asset disposal:

(S$)	FY 1	FY 2	FY 3	FY 4	FY 5
Net gain / (loss)		(200)			300
Step One – Allocate $300 relevant gain to CE 2 and CE 3 based on their net loss in FY 2					(200)
- CE 2		150			
- CE 3		50			
Adjusted net gain / (loss)	-	-	-	-	100

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 3 – Allocation of unallocated gains proportionately to entities with net gain from the local tangible asset disposal:

(S$)	FY 1	FY 2	FY 3	FY 4	FY 5
Step Two (a) – Allocate the remaining net gain of $100 evenly to each FY (i.e. 100/5 = 20)					
Net gain of $100 is allocated from FY 5 to the other FYs					(100)
Net gain of $20 is allocated to each FY	20	20	20	20	20
Step Two (b) – Allocate the allocated gain of $20 to CE 1 and CE 2 in each FY (proportionate to the respective CE's gain in FY 5)					
- CE 1	10	10	10	10	10
- CE 2	10	10	10	10	10

Regulation 32 – Election to Recognise Gains Over Five Years

- Example 3 – Allocation of unallocated gains proportionately to entities with net gain from the local tangible asset disposal:
  - After offsetting the total net gain of $300 against the net loss of $200 in FY 2, there is a remaining net gain of $100 in FY 5.
  - The remaining balance of $100 is equally allocated to each FY in the carry-back period (i.e. $100/5 = $20).
  - For each FY, the allocated amount of $20 is further allocated to CE 1 and CE 2, which have a net gain from the asset disposal in FY 5.
  - The allocation is based on the CE's net gain over the total net gain in FY 5. The amount of net gain which is allocated to CE 1 and CE 2 is $10 each (i.e. 20 x 150/300).

Regulation 33 – Election to Exclude Intra-Group Transactions

The filing entity of an MNE group may make an election in the GIR to apply the consolidated accounting treatment of the UPE to eliminate the income, expense, gain or loss arising from transactions between CEs

Election applies to:

The CEs of an MNE group that are located in the same jurisdiction and included in a tax consolidation group

Regulation 33 – Election to Exclude Intra-Group Transactions

What is a "tax consolidation group"?*

- Under the law of the jurisdiction in which the CEs of an MNE group are located, the income, expense, gain or loss of the CEs may for tax purpose be aggregated, shared or transferred between them as a result of a connection between these CEs.

** Regulation 33(5) of the MMT Regulations.*

Regulation 33 – Election to Exclude Intra-Group Transactions

With election

- The FANIL of the CEs must be adjusted:

  - in the first FY of election, to ensure that there is no duplication or omission of items of income, expense, gain or loss arising from the making of the election; and

  - for every FY that the election is effective, to apply the consolidated accounting treatment of the UPE to eliminate the income, expense, gain or loss arising from transactions between the CEs in the tax consolidation group.

Regulation 33 – Election to Exclude Intra-Group Transactions

FY 1 · FY 2 · FY 3 · FY 4 · FY 5 · FY 6

» Election made in FY 1

» Revocation of election in FY 6

- The election must not be revoked in FY 1 and the subsequent four FYs (i.e. FY 2 to FY 5).
- If the election is revoked in FY 6:
  - the FANIL of the CEs for which the election is made must be adjusted in FY 6 to ensure that there is no duplication or omission of items of income, expense, gain or loss from the revocation of the election; and
  - no new election can be made for FY 6 and the subsequent four FYs (i.e. FY 7 to FY 10).

Regulation 35 – Election for Foreign Exchange Risk Hedges

The filing entity of an MNE group may make an election in the GIR that the FANIL of a CE is to be adjusted to exclude the specified gain or loss arising from fluctuations in the exchange rates

Election applies to:

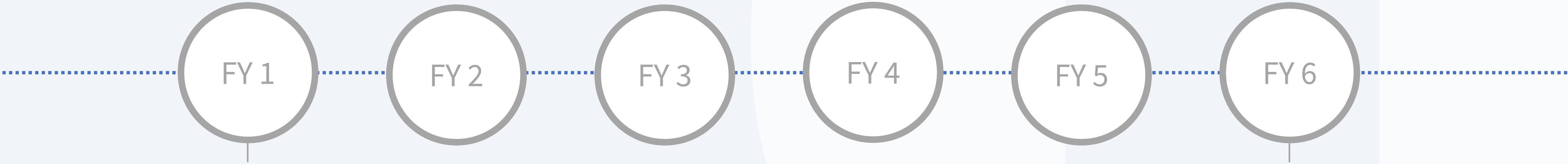
The CE that derived such gain or loss

Regulation 35 – Election for Foreign Exchange Risk Hedges

What constitutes "gain or loss from exchange rate fluctuations"?

- The gain or loss is attributable to an instrument intended to act as a hedge against currency risk in ownership interest (that are non-portfolio shareholding) held by a CE;
- the gain or loss is recorded in the other comprehensive income in the CFS of the UPE;
- the instrument is an effective net investment hedge under the authorised FAS upon which those statements are prepared;
- where the instrument is held by the CE, the economic and accounting effect of the hedge is not transferred to any other entity; and
- where the instrument is not held by the CE, the economic and accounting effect of the hedge is transferred to the CE.

Regulation 35 – Election for Foreign Exchange Risk Hedges



» Election made in FY 1

» Revocation of election in FY 6

- The election must not be revoked in FY 1 and the subsequent four FYs (i.e. FY 2 to FY 5).
- If the election is revoked in FY 6, no new election can be made for FY 6 and the subsequent four FYs (i.e. FY 7 to FY 10).

Regulation 36 – Election where Assets and Liabilities are Adjusted to Fair Value

The filing entity of an MNE group may make an election in the GIR that the FANIL of a CE is determined based on the fair value of the assets and liabilities, where such assets and liabilities are adjusted to fair value for tax purposes

Election applies to:

A CE that is required or permitted to adjust the value of its assets or liabilities to reflect fair value for tax purposes

- Excludes an adjustment for transfer pricing or the sale of trading stock

Regulation 36 – Election where Assets and Liabilities are Adjusted to Fair Value

With election

1. The CE must make an adjustment to its FANIL in respect of each asset or liability that is required or permitted to be adjusted to fair value for tax purposes; and

CE

For assets or liabilities that are required or permitted to be adjusted to fair value for tax purposes

Include **adjustment amount** to the FANIL

2. for the purpose of determining the CE's FANIL for the FY of election and the subsequent FYs, the value of such asset or liability is its fair value immediately after the event that caused or enabled the relevant tax adjustment to be made.

Value of asset or liability = Fair value immediately **after the event**

Regulation 36 – Election where Assets and Liabilities are Adjusted to Fair Value

With election

Fair value of the asset or liability immediately **after the event** leading to the relevant tax adjustment

−

Carrying value of the asset or liability immediately **before the event** leading to the relevant tax adjustment

+

- Less: Non-qualifying gain*
- Add: Non-qualifying loss*

= Adjustment amount

Include the adjustment amount in the CE's FANIL for the FY in which the relevant tax adjustment is made

or

Split the adjustment amount into five equal amounts and include in the CE's FANIL for that FY and the subsequent four FYs

** Regulation 61(9) of the MMT Regulations.*

Regulation 36 – Election where Assets and Liabilities are Adjusted to Fair Value

- Example 1 – If the adjustment is split into five equal amounts and CE 1 remains as a CE of the MNE group:

FY 1
- Election made in FY 1
- Total adjustment amount = **$500**
- The adjustment income is split into **five equal amounts**
- **$100** of the adjustment amount is included in CE 1's FANIL for FY 1

FY 2
- **$100** of the adjustment amount is included in CE 1's FANIL for FY 2

FY 3
- **$100** of the adjustment amount is included in CE 1's FANIL for FY 3

FY 4
- **$100** of the adjustment amount is included in CE 1's FANIL for FY 4

FY 5
- **$100** of the adjustment amount is included in CE 1's FANIL for FY 5

Regulation 36 – Election where Assets and Liabilities are Adjusted to Fair Value

- Example 2 – If the adjustment is split into five equal amounts and CE 1 ceases to be a CE of the MNE group before the end of FY 5:

FY 1 | FY 2 | FY 3 | FY 4 | FY 5

FY 1

- Election made in FY 1
- Total adjustment amount = **$500**

FY 2

- **$100** of the adjustment amount is included in CE 1's FANIL for FY 2

FY 1 – FY 2

- The adjustment income is split into **five equal amounts**
- **$100** of the adjustment amount is included in CE 1's FANIL for FY 1

FY 3

- CE 1 **ceases to be a CE** of the MNE group in FY 3
- **$300** of the adjustment amount is included in CE 1's FANIL for FY 3

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