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

Part A of Module Three: Computation of Adjusted Covered Taxes

INLAND REVENUE AUTHORITY OF SINGAPORE

June 2025

Outline of Module

- **Overview**
- **Adjustments to Qualifying Current Tax Expense**
- **Adjustments to Qualifying Deferred Tax Expense**
- **Recaptured Deferred Tax Liabilities**
- Other Adjustments to Covered Taxes
- Allocation of Covered Taxes

Abbreviations

- **CbCR** : country-by-country reporting
- **CE** : constituent entity
- **CFC** : controlled foreign company
- **CIT** : corporate income tax
- **DTT** : domestic top-up tax
- **ETR** : effective tax rate
- **FANIL** : financial accounting net income or loss
- **FAS** : financial accounting standards
- **FS** : financial statements
- **FTE** : flow-through entity
- **FY** : financial year
- **GIR** : GloBE information return
- **GloBE** : Global Anti-Base Erosion
- **IE** : investment entity
- **IIE** : insurance investment entity
- **IIR** : income inclusion rule
- **JV** : joint venture
- **MMT Act** : Multinational Enterprise (Minimum Tax) Act 2024 of Singapore
- **MMT Regulations** : Multinational Enterprise (Minimum Tax) Regulations 2024 of Singapore
- **MOCE** : minority-owned CE
- **MTT** : multinational enterprise top-up tax
- **MTTC** : marketable transferable tax credit
- **QDMTT** : qualified domestic minimum top-up tax
- **QFTB** : qualified flow-through tax benefit
- **QRTC** : qualified refundable tax credit
- **RHE** : reverse hybrid entity
- **TTE** : tax transparent entity
- **UPE** : ultimate parent entity
- **UTPR** : undertaxed profits rule
- **WHT** : withholding tax

INLAND REVENUE
AUTHORITY
OF SINGAPORE

Overview

Recap – A Snapshot of the Mechanics

Step 1 – Determine if MNE group is in-scope

- Determine whether MNE group meets or exceeds the revenue threshold in the applicable FYs.

Step 2 – CEs within scope

- If the MNE group is in-scope, identify the location of each CE within the MNE group.

Step 3 – Safe harbours and de minimis rules

- Consider if safe harbour and/or de minimis rule applies to the jurisdiction.

Step 4 – GloBE Income / Loss and Covered Taxes

- Determine the GloBE Income or Loss and **Adjusted Covered Taxes** of each CE.

Step 5 – ETR and Top-Up Amount

- Compute ETR of all CEs located in the jurisdiction and determine the Jurisdictional Top-Up Amount.

Step 6 – MTT and DTT

- Impose top-up tax under MTT or DTT in accordance with agreed rule order.

Adjusted Covered Taxes (all CEs in a jurisdiction)

divided by

GloBE Income or Loss (all CEs in a juris)

= **Jurisdictional ETR**

Jurisdictional Excess Profits = GloBE Income or Loss (all CEs in the juris) **– Substance-Based Income Exclusion** (all CEs in the juris)

x

Top-Up Tax % = Minimum Rate – Jurisdictional ETR

Jurisdictional Top-Up Amount = (Jurisdictional Excess Profits x Top-Up Tax %) + Additional Current Top-Up Amount **– QDMTT**

Allocated proportionately to CEs with positive GloBE Income

Top-Up Amount of a CE

Definition of “Covered Taxes”

INLAND REVENUE AUTHORITY OF SINGAPORE

What constitutes “covered taxes”?

a. Taxes on the income or profits of a CE, including taxes on the CE’s share of the income or profits of another entity in which the CE holds any ownership interest;*

Includes
• Any taxes of a CE in respect to its income or profit; • taxes imposed on the CE’s share of undistributed profits from a TTE, such as a partnership; • taxes imposed under a CFC tax regime; and • taxes imposed on distributions from another CE.

** Paragraph 1(6)(a) of the First Schedule to the MMT Act.*

Definition of "Covered Taxes"

What constitutes "covered taxes"?

b. taxes imposed under an eligible distribution tax system;*

What is an "eligible distribution tax system"?
Refers to a CIT system under the laws of a jurisdiction where: a. the tax is generally payable only when profits are distributed (or deemed to be distributed) by a corporation to its shareholders, or when specific non-business expenses are incurred by the corporation; b. the tax rate is equal to or exceeds the minimum rate of 15%; and c. the tax system was in force on or before 1 Jul 2021.**

** Paragraph 1(6)(b) of the First Schedule to the MMT Act.*
*** Paragraph 1(7) of the First Schedule to the MMT Act.*

Definition of “Covered Taxes”

What constitutes “covered taxes”?

c. taxes imposed as a substitute for a tax on profits that generally applies in a jurisdiction, including WHT on income;* and

Examples
WHT on interest, rents and royalties, and other taxes on other categories of gross payments (such as insurance premiums), provided that such taxes are imposed in substitution for a generally applicable income tax.

** Paragraph 1(6)(c) of the First Schedule to the MMT Act.*

Definition of “Covered Taxes”

What constitutes “covered taxes”?

d. taxes charged by reference to the capital or the retained earnings of a company, including a tax charged by reference to both the income and capital of a company.*

The following types of taxes do not fall under “covered taxes”

- Consumption taxes, such as sales taxes and value-added taxes;
- excise and other taxes on inputs;
- digital services taxes;
- stamp duties, *ad valorem* taxes and other taxes that are imposed on a particular transaction;
- payroll taxes and other employment-based taxes; and
- property taxes based on ownership of specified items or categories of property.

** Paragraph 1(6)(d) of the First Schedule to the MMT Act.*

Definition of “Covered Taxes”

What constitutes “covered taxes”?

- The following taxes are **not** “covered taxes”:*
  a. any MTT, or any qualified IIR;
  b. any DTT, or any QDMTT;
  c. a qualified UTPR;
  d. any disqualified refundable imputation tax;** and
  e. any tax payable by a life insurer in respect of amounts accruing to or paid to policyholders.

** Paragraphs 1(6)(e) to 1(6)(i) of the First Schedule to the MMT Act.*
*** Paragraph 1(7) of the First Schedule to the MMT Act.*

Determine the Adjusted Covered Taxes of a CE

Adjusted covered taxes of a CE*

=

Step One – Determine the **qualifying current tax expense**** and **qualifying deferred tax expense**** of the CE, after taking into account any qualifying current tax expense and qualifying deferred tax expense of a FTE that is allocated to that CE

+ or −

Step Two – Make **adjustments** to the qualifying current tax expense and qualifying deferred tax expense

** Paragraph 1(1) of the First Schedule to the MMT Act.*
*** Paragraph 1(7) of the First Schedule to the MMT Act.*

The Starting Point for Computing the Taxes in the ETR Calculation

- The starting point for the computation of the taxes to be taken into account in the ETR calculation is as follows:

Current tax expense	+	Deferred tax expense
Taxes on income or profits for the current period		Arises from temporary difference between tax and accounting base

- The terms "**qualifying current tax expense**"* and "**qualifying deferred tax expense**"* refer to the current tax expense and deferred tax expense that are **reflected in the FANIL of a CE** that relate to the **covered taxes**.

** Paragraph 1(7) of the First Schedule to the MMT Act.*

Adjustments to Covered Taxes

What are the adjustments for calculating the covered taxes of a CE?

- Adjustments to qualifying current tax expense (Part A of Module 3).
- Adjustments to qualifying deferred tax expense (Part A of Module 3).
- Recaptured deferred tax liabilities (Part A of Module 3).
- Other adjustments relating to (Part B of Module 3):
    - Tax credits.
    - Post-filing adjustments.
    - Tax rate changes.
    - Unpaid current tax.
    - GloBE loss election.
    - Deemed distribution tax election.

INLAND REVENUE
AUTHORITY
OF SINGAPORE

Adjustments to Qualifying Current Tax Expense

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

What amounts are excluded from the qualifying current tax expense?

- Amounts of current tax expense relating to, or that are:*
  a. an income or gain that are excluded from the computation of the GloBE income or loss of the CE for the FY;
  b. an uncertain tax position for the CE for the FY;
  c. a reduction made in respect of a QRTC or MTTC;
  d. not expected to be paid by the CE before the end of the period of three years commencing on the first day after the end of the FY;
  e. a gain or loss in respect of the disposal of local tangible assets** in the FY for which an election (in regulation 32(1) of the MMT Regulations) is made for the CE;

** Regulations 38(2)(a) to 38(2)(e) of the MMT Regulations.*
*** Regulation 32(6) of the MMT Regulations.*

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

What amounts are excluded from the qualifying current tax expense?

- Amounts of current tax expense relating to, or that are (continued):*
  - f. any amount of credit (whether refundable or not) or refund for the CE for the FY, in respect of covered taxes, that:
    - i. is not a QRTC or a MTTC; and
    - ii. has not been taken into account in the qualifying current tax expense for the CE for the FY or a previous FY;
  - g. any amount of credit (other than that in regulation 38(2)(*f*) of the MMT Regulations) or refund in respect of a tax credit that is not a QRTC or a MTTC; and
  - h. any current tax expense for a previous FY.

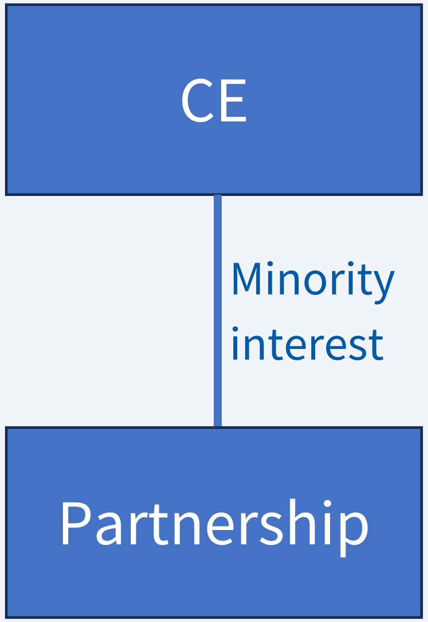
** Regulations 38(2)(f) to 38(2)(h) of the MMT Regulations.*

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

a. Any amount of current tax expense that relates to an income or gain that is excluded from the computation of the GloBE income or loss of a CE for a FY

- An income or gain excluded from a CE's GloBE income or loss for GloBE purpose may still be subject to covered taxes in certain jurisdictions or under certain circumstances.
- Such taxes are to be excluded from the qualifying current tax expense since the income or gain upon which the tax is imposed is excluded from the CE's GloBE income or loss.
- If an item of income is partially excluded from the GloBE income or loss, this regulation applies only to the extent of the excluded portion.

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense



- Example 1 – An income or gain excluded from the GloBE income or loss:
  - The income from a CE's minority interest is accounted for using the equity method for financial accounting purpose.
  - The income from the minority interest is excluded from the CE's GloBE income or loss as it is an excluded equity gain or loss.
  - The CE may be subject to net basis taxation on its share of the partnership's net income.
    - Such taxes must be excluded from the qualifying current tax expense.

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

- Example 2 – An income or gain excluded from the GloBE income or loss:

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

b. Any amount of current tax expense that relates to an uncertain tax position for the CE for the FY

- Subject to FAS and based on the MNE group's assessment that the taxes are not owed, and that there is a high degree of uncertainty whether such taxes would be paid in the future.
- The movement of taxes relating to an uncertain tax position is not included in the adjusted covered taxes until the amount is actually paid.

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

c. Any reduction of current tax expense made in respect of a QRTC or in respect of a MTTC

- QRTCs and MTTCs are accounted for as income under regulation 20 of the MMT Regulations.
- Excludes any amount of refund or equivalent credit in respect of a QRTC or a MTTC that is recorded as a reduction to the current tax expense.
- The tax treatment of tax credits will be further elaborated in Part B of this Module.

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

d. Any amount of current tax expense that is not expected to be paid by the CE before the end of the period of three years commencing on the first day after the end of the FY

- If the CE has no expectation of paying the tax within the three-year timeframe, the amount of tax is excluded from the qualifying current tax expense.
- Taxes relating to an uncertain tax position# and post-filing adjustments## are not covered under regulation 38(2)(*d*) of the MMT Regulations.

 # For taxes relating to an uncertain tax position, refer to regulations 38(2)(b) and 39(2)(b) of the MMT Regulations.

For post-filing adjustments, refer to regulation 40 of the MMT Regulations.

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

e. Any amount of current tax expense that relates to a gain or loss in respect of the disposal of local tangible assets in the FY for which an election (in regulation 32(1) of the MMT Regulations) is made for the CE

- The term "local tangible asset" refers to an immovable property in the jurisdiction where the CE disposing of it is located.
- Regulation 38(2)(*e*) of the MMT Regulations applies only if an election to recognise the disposal gains over five years is made under regulation 32(1) of the MMT Regulations.
    - Refer to Part C of Module Two for details on this election.

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

f. Any amount of credit (whether refundable or not) or refund, in respect of covered taxes that: (i) is not a QRTC or a MTTC; and (ii) has not been taken into account in the qualifying current tax expense for the CE for that FY or a previous FY

g. Any amount of credit (other than one in paragraph (f) above) or refund in respect of a tax credit that is not a QRTC or a MTTC

- The tax treatment of tax credits are further elaborated in Part B of this Module.

Regulation 38 – Amounts Excluded from Qualifying Current Tax Expense

h. Any current tax expense for a previous FY

- Regulation 38(2)(*h*) of the MMT Regulations is subject to post-filing adjustments under regulation 40 of the MMT Regulations.

Regulation 39 – Amounts Taken into Account in Qualifying Current Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

Which amounts are taken into account in the qualifying current tax expense?

- The amounts of covered taxes that are:*
  a. reflected in the FANIL (but not in the qualifying current tax expense) for the FY;
  b. paid by or refunded to a CE in the FY that relates to an uncertain tax position where the amount is excluded for a previous FY; and
  c. recorded in the equity or other comprehensive income, relating to amounts taken into account in the GloBE income or loss of a CE and that are subject to covered taxes under the laws of the jurisdiction where the CE is located.

** Regulation 39(2) of the MMT Regulations.*

Regulation 39 – Amounts Taken into Account in Qualifying Current Tax Expense

Covered taxes*

Reflected in the FANIL of the CE for the FY

and

Not reflected in the qualifying current tax expense of the CE for the FY

Positive Amount

Add to the qualifying current tax expense of the CE

or

Negative Amount

Subtract from the qualifying current tax expense of the CE

** Regulation 39(2)(a) of the MMT Regulations.*

Regulation 39 – Amounts Taken into Account in Qualifying Current Tax Expense

Covered taxes*

Paid by the CE that relates to an uncertain tax position where the amount is excluded for a previous FY

Add to the qualifying current tax expense of the CE

Refunded to the CE that relates to an uncertain tax position where the amount is excluded for a previous FY

Subtract from the qualifying current tax expense of the CE

** Regulation 39(2)(b) of the MMT Regulations.*

Regulation 39 – Amounts Taken into Account in Qualifying Current Tax Expense

Covered taxes*

- Recorded in the equity or other comprehensive income of the CE for the FY
- Relates to amounts:
  - reflected in the GloBE income or loss of the CE; and
  - subject to covered taxes under the laws of the jurisdiction of the CE

Positive Amount
Add to the qualifying current tax expense of the CE

or

Negative Amount
Subtract from the qualifying current tax expense of the CE

** Regulation 39(2)(c) of the MMT Regulations.*

INLAND REVENUE
AUTHORITY
OF SINGAPORE

Adjustments to Qualifying Deferred Tax Expense

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

What adjustments are required?

	Amounts of qualifying deferred tax expense relating to, or amounts that:*#	Adjustment
a.	an item excluded from the computation of the GloBE income or loss	Excluded
b.	a disallowed accrual or an unclaimed accrual	Excluded
c.	the impact of a valuation adjustment or accounting recognition adjustment with respect to a deferred tax asset	Excluded
d.	a re-measurement with respect to a change in the rate of tax	Added
e.	the generation or use of tax credits	Excluded

** Regulations 45(1)(a) to 45(1)(e) of the MMT Regulations.*
 # Regulations 45(1)(a) to 45(1)(e) of the MMT Regulations do not apply in relation to deferred tax assets or liabilities arising before the transition year.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

What adjustments are required?

	Amounts of qualifying deferred tax expense relating to, or amounts that:*	Adjustment
f.	an unclaimed accrual for a previous FY (that was excluded under regulation 45(1)(*b*) of the MMT Regulations for that previous FY) that is paid	Added
g.	are not reflected in a deferred tax asset that is attributable to a loss, being an amount not so reflected only as a result of the recognition criteria not being met	Subtracted
h.	are in respect of a qualifying foreign tax credit as determined under regulation 45(2) of the MMT Regulations	Added
i.	any recaptured deferred tax liability under regulation 46 of the MMT Regulations that is paid	Added
j.	a gain or loss in respect of the disposal of local tangible assets in the FY for which an election (in regulation 32(1) of the MMT Regulations) is made for the CE	Excluded

For adjustments made under regulation 45(1) of the MMT Regulations, no item may be taken into account more than once.**

** Regulations 45(1)(f) to 45(1)(j) of the MMT Regulations.*
*** Regulation 45(7) of the MMT Regulations.*

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

a. Any amount of qualifying deferred tax expense in respect of an item excluded from the computation of the GloBE income or loss for that FY of the CE is excluded

- For example, if a CE generates a deferred tax asset with respect to income excluded from the computation of the GloBE income or loss, the deferred tax asset cannot subsequently be used to increase the amount of adjusted covered taxes since the tax is paid with respect to an item outside of the GloBE base.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

b. Any amount of qualifying deferred tax expense that reflects a disallowed accrual[#] or an unclaimed accrual[##] for that FY is excluded

- Such amounts are excluded until paid due to the speculative nature as to whether and when such amounts would actually be paid.
- Such amounts are included in the adjusted covered taxes when paid – refer to regulation 45(1)(*f*) of the MMT Regulations at Slide 40 for details.

[#] The term "disallowed accrual" refers to any movement in the deferred tax expense which relates to: (a) an uncertain tax position; or (b) distributions from another CE of the MNE group.

[##] The term "unclaimed accrual" refers to an increase in a deferred tax for a FY: (a) that is not expected to be reversed before the end of the fifth FY after that FY; and (b) where the filing entity of the MNE group has elected in the GIR not to include in the qualifying deferred tax expense of that CE for that FY.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

c. The impact in the FY of a valuation adjustment or accounting recognition adjustment with respect to a deferred tax asset is excluded

- Refer to regulation 45(1)(*g*) of the MMT Regulations at Slide 41 for details in respect of the adjustment required when there is a deferred tax asset attributable to a loss but not recognised only as a result of the recognition criteria not being met.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

- Example – Assume the CE is located in a jurisdiction with a domestic CIT rate of 15%:

FY 1	
FY 1	• The CE **incurs GloBE loss of $100 and generates a deferred tax asset of $15**. Financial forecasts indicate that the tax loss would not be used in future. • For accounting purpose, the relevant valuation adjustments or accounting recognition adjustments are made, resulting in a nil amount of deferred tax asset. • **Without regulation 45(1)(*c*) of the MMT Regulations**, nil deferred tax asset is recognised in FY 1 in which the GloBE loss is incurred. • **With regulation 45(1)(*c*) of the MMT Regulations**, the valuation or accounting recognition adjustments are disregarded. Hence, the full deferred tax asset of $15 is recognised in FY 1 for GloBE purpose.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

- Example – Assume the CE is located in a jurisdiction with a domestic CIT rate of 15% (continued):

FY 2	• The CE **does not** have any taxable income or GloBE income or loss. • Financial forecasts have changed and for accounting purpose, the valuation or accounting adjustments are reversed, resulting in a deferred tax asset of $15. • **Without regulation 45(1)(*c*) of the MMT Regulations**, the movement in the deferred tax asset of $15 in FY 2 reduces the adjusted covered taxes in the FY in which there is no net GloBE income. • **With regulation 45(1)(*c*) of the MMT Regulations**, the reversal of valuation or accounting recognition adjustments are disregarded. Accordingly, the movement in the deferred tax asset of $15 is disregarded for GloBE purpose.
FY 3	• The CE earns GloBE income of $100 and, as the tax loss from FY 1 is utilised, the loss deferred tax asset is used and reversed.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

d. Any amount of qualifying deferred tax expense in the FY arising from a re-measurement with respect to a change in the rate of tax is excluded

- Such amounts are changes to expense already accrued and should not be taken into account as additional covered taxes in the FY.
- For example, an additional deferred tax expense is reflected in the FS because the tax rate increased from 10% to 15%. This amount should be excluded from the qualifying deferred tax expense since it does not relate to the GloBE income in the FY of the change in tax rate.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

e. Any amount of qualifying deferred tax expense in the FY that reflects the generation or use of tax credits is excluded

- For example, when an excess foreign tax credit carry-forward is generated, the generation of a deferred tax asset associated with such carry-forward does not reduce the adjusted covered taxes since it is excluded from the qualifying deferred tax expense.
- Conversely, when such a foreign tax credit carry-forward is used in a subsequent FY, the use of such a deferred tax asset does not result in an increase to the adjusted covered taxes.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

f. Any amount of unclaimed accrual for a previous FY (that is excluded under regulation 45(1)(*b*) of the MMT Regulations for that previous FY) that is paid in the FY is added

- The tax paid is included in the current taxes for the FY in which the tax is paid. However, this may be offset by the decrease in the deferred tax expense due to the reversal of the deferred tax liability.
- To ensure that the tax is taken into account for GloBE purpose, the amount is added to the qualifying deferred tax expense.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

g. Any amount not reflected in a deferred tax asset that is attributable to a loss for the FY, being an amount not so reflected only as a result of the recognition criteria not being met, is subtracted

- A deferred tax asset may not be recognised in the financial accounts due to the recognition criteria under the accounting rules not being met.
- Regulation 45(1)(*g*) of the MMT Regulations provides for the generation of a deferred tax asset for GloBE purpose in the FY of the loss, and decreases the adjusted covered tax in that FY. Accordingly, when such a deferred tax asset is reversed when the tax loss is utilised, the movement in the deferred tax asset increases the adjusted covered taxes.
- This regulation works in conjunction with regulation 45(1)(*c*) of the MMT Regulations, which disregards the generation of such a deferred tax asset in subsequent FYs when the recognition criteria is met.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

- Example:

FY 1	
FY 1	• The CE **incurs GloBE loss and tax loss of $100**. • For accounting purpose, no deferred tax asset is generated because the accounting recognition criteria is not met (i.e. no forecast of future profits). • **Without regulation 45(1)(*g*) of the MMT Regulations**, the deferred tax asset of $15 is not recognised in FY 1 in which the GloBE loss is incurred. • **With regulation 45(1)(*g*) of the MMT Regulations**, the deferred tax asset of $15 is recognised in FY 1 for GloBE purpose, and an adjustment to the CE's qualifying deferred tax expense for FY 1 is required by subtracting the amount of $15.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

- Example:

FY 2	• The CE **does not** have any taxable income or GloBE income or loss. • Due to changes in financial forecast, the recognition criteria is met. For accounting purpose, the deferred tax asset of $15 is recorded. • **Due to regulation 45(1)(*c*) of the MMT Regulations**, the reversal of valuation or accounting recognition adjustments are disregarded. Hence, a positive adjustment of $15 is made to the qualifying deferred tax expense to disregard the accounting recognition adjustment in FY 2.
FY 3	• The CE earns GloBE income of $100 and utilises the tax loss. The deferred tax asset of $15 is utilised in FY 3 and the movement in the deferred tax expense increases the adjusted covered taxes by $15 for FY 3.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

h. Any amount in respect of a qualifying foreign tax credit as determined under regulation 45(2) of the MMT Regulations for the FY is added

- The term "qualifying foreign tax credit" refers to a tax credit for foreign income tax paid by a CE in the jurisdiction where that CE is located, which:
  a. requires domestic losses to be offset against the relevant foreign income# before a tax credit is applied against the tax on foreign income; and
  b. permits a foreign tax credit to be offset against the tax on domestic profits to the extent that the domestic losses are offset against the relevant foreign income# for a previous FY.

 # The term "relevant foreign income" refers to the income of a CFC of the CE on which the CE is taxed as a result of a CFC tax regime.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

h. Any amount in respect of a qualifying foreign tax credit as determined under regulation 45(2) of the MMT Regulations for the FY is added

- Under regulation 45(2) of the MMT Regulations, the amount of a qualifying foreign tax credit that must be added to the qualifying deferred tax expense of a CE is the lower of:
  a. the qualifying foreign tax credit; and
  b. the amount of any domestic loss used to offset any relevant foreign income that allows the CE to offset the qualifying foreign tax credit against the tax on domestic profits, multiplied by the tax rate in the jurisdiction where the CE is located.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

i. Any recaptured deferred tax liability under regulation 46 of the MMT Regulations that is paid in the FY is added

- Certain amounts of deferred tax liability claimed as adjusted covered taxes must be recaptured if not paid or reversed within the time limit under regulation 46 of the MMT Regulations.
- Regulation 45(1)(*i*) of the MMT Regulations permits taking these previously recaptured deferred tax liability into account when such amounts are paid.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

j. Any amount of deferred tax expense that relates to a gain or loss in respect of the disposal of local tangible assets in the FY for which an election (in regulation 32(1) of the MMT Regulations) is made for the CE, is excluded

- The term "local tangible asset" refers to an immovable property in the jurisdiction where the CE disposing of it is located.
- Regulation 45(1)(*j*) of the MMT Regulations applies only if an election to recognise the disposal gains over five years is made under regulation 32(1) of the MMT Regulations.
    - Refer to Part C of Module Two for details on this election.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

A loss deferred tax asset of less than 15% is recast to 15%*

Deferred tax asset → Adjusted → Adjusted deferred tax asset

Deferred tax asset

- Calculated on the basis of a tax rate of **less than 15%**.
- Attributable to a loss that would have been taken into account in determining the GloBE income or loss for the FY.

Adjusted deferred tax asset

- Adjusted to the amount it would have been **had the tax rate been 15%**.
- Amount of the adjustment is **subtracted** from the qualifying deferred tax expense of that CE for that FY.

** Regulation 45(3) of the MMT Regulations.*

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

A loss deferred tax asset of less than 15% is recast to 15%

- Example – Assume the CE enjoys a concessionary tax rate of 5% in the jurisdiction:

FY 1	
FY 1	• In FY 1, the CE incurs a tax loss of $100 that is allowed to be carried-forward under domestic CIT rules for utilisation against future taxable income. The GloBE loss is the same amount as the tax loss. The loss of $100 generates a deferred tax asset of $5. • The loss deferred tax asset is recorded at the 5% rate in the financial accounts. • **Without regulation 45(3) of the MMT Regulations**, the deferred tax asset is $5. • **With regulation 45(3) of the MMT Regulations**, the deferred tax asset of $5 is recast to $15 in respect to the GloBE loss. This gives rise to an adjustment of $10 (i.e. $15 – $5) to be subtracted from the qualifying deferred tax expense of the CE in FY 1.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

A loss deferred tax asset of less than 15% is recast to 15%

- Example – Assume the CE enjoys a concessionary tax rate of 5% in the jurisdiction (continued):

FY 2

- The CE earns an income of $100.
- With the utilisation of the tax loss from FY 1, the deferred tax asset of $5 is reversed in the financial accounts.
- **With regulation 45(3) of the MMT Regulations**, upon the reversal of the recast deferred tax asset of $15, an adjustment of $10 is added to the adjusted covered taxes of the CE in FY 2.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

A deferred tax expense of greater than 15% is recast to 15%*

Deferred tax expense → Adjusted → Adjusted deferred tax expense

- Relates to covered taxes where the tax rate is **greater than 15%**.

- Adjusted to the amount it would have been **had the tax rate been 15%**.

* *Regulation 45(4) of the MMT Regulations.*

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

A deferred tax expense of greater than 15% is recast to 15%

- Example – Assume the CE is located in a jurisdiction with a domestic CIT rate of 17%:

FY 1	
	• In FY 1, the CE acquires an asset for $200. The asset is depreciated over two years, with an annual depreciation of $100. The CE claimed accelerated capital allowances of $200 on the asset over one year. • Due to the timing differences between the accounting profit and the taxable profit, there is a deferred tax liability of $17 (i.e. $100 x 17%). • The deferred tax liability is recorded at the 17% rate in the financial accounts. • **Without regulation 45(4) of the MMT Regulations**, the deferred tax liability is $17. • **With regulation 45(4) of the MMT Regulations**, the deferred tax liability of $17 is recast to $15. This gives rise to an amount of $2 (i.e. $17 – $15) that is subtracted from the qualifying deferred tax expense of the CE in FY 1.

Regulation 45 – Adjustments to Qualifying Deferred Tax Expense

INLAND REVENUE AUTHORITY OF SINGAPORE

A deferred tax expense of greater than 15% is recast to 15%

- Example – Assume the CE is located in a jurisdiction with a domestic CIT rate of 17% (continued):

FY 2	
	• The CE earns an income of $100. • The deferred tax liability of $17 is reversed in the financial accounts. • **With regulation 45(4) of the MMT Regulations**, upon the reversal of the recast deferred tax liability of $15, an adjustment of $2 is added to the adjusted covered taxes of the CE in FY 2.

Recaptured Deferred Tax Liabilities

Regulation 46 – Recaptured Deferred Tax Liabilities

What constitutes a "recaptured deferred tax liability"?*

- A **deferred tax liability** (other than an **excluded liability**) taken into account in the qualifying deferred tax expense for a FY that is not reversed by the last day of the fifth FY after the initial FY.
- For example:

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

» In FY 1, the CE reports $100 as its deferred tax liability and includes it in its qualifying deferred tax expense.

» FY 6 is the fifth FY from FY 1.

» On 31 Dec of FY 6, the deferred tax liability of $100 has not been reversed and, thus, the CE has a recaptured deferred tax liability of $100.

** Regulation 46(1) of the MMT Regulations.*

Regulation 46 – Recaptured Deferred Tax Liabilities

What constitutes a "recaptured deferred tax liability"?

- As an exception to regulation 46(1) of the MMT Regulations, an excluded liability need not be monitored for recapture.

What is an "excluded liability"?*
Refers to a tax expense attributable to changes in the deferred tax liabilities for: a. cost recovery allowances on tangible assets; b. the cost of a licence or a similar arrangement from the government for the use of an immovable property or the exploitation of natural resources that entails a significant investment in tangible assets; c. research and development expenses;

** Regulation 46(3) of the MMT Regulations.*

Regulation 46 – Recaptured Deferred Tax Liabilities

What constitutes a "recaptured deferred tax liability"?

What is an "excluded liability"? (continued)

d. de-commissioning and remediation expenses;
e. fair value accounting on unrealised net gains;
f. foreign currency exchange net gains;
g. insurance reserves and insurance policy deferred acquisition costs;
h. gains from the sale of tangible property located in the same jurisdiction as the CE that are reinvested in tangible property located in the same jurisdiction; or
i. additional amounts accrued as a result of accounting principle changes with respect to anything falling within regulations 46(3)(*a*) to 46(3)(*h*) of the MMT Regulations.

Regulation 46 – Recaptured Deferred Tax Liabilities

Where a CE of an MNE group has a recaptured deferred tax liability:*

a. the amount included in its qualifying deferred tax expense for the initial year (i.e. FY 1) in relation to that recaptured deferred tax liability **must be excluded** for that FY

+

b. the following must be recalculated for the initial year (i.e. FY 1):
   i. the ETR for the CEs of the MNE group located in the same jurisdiction;
   ii. the top-up amounts of the CEs.

** Regulation 46(2) of the MMT Regulations.*

INLAND REVENUE AUTHORITY OF SINGAPORE

www.iras.gov.sg