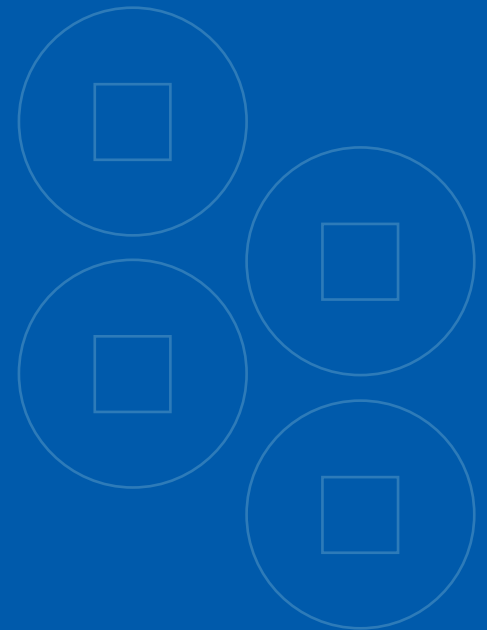




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# ***Multinational Enterprise Top-Up Tax and Domestic Top-Up Tax***

## **Part B of Module Four: Computation of ETR and Top-Up Amount**



July 2025

# Outline of Module

- ⊕ Jurisdiction ETR
- ⊕ Top-Up Amount
- ⊕ **Substance-Based Income Exclusion**
- ⊕ Allocation of Top-Up Amount
- ⊕ De Minimis Exclusion
- ⊕ Applicability to DTT



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# Substance-Based Income Exclusion

# Substance-Based Income Exclusion

## 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

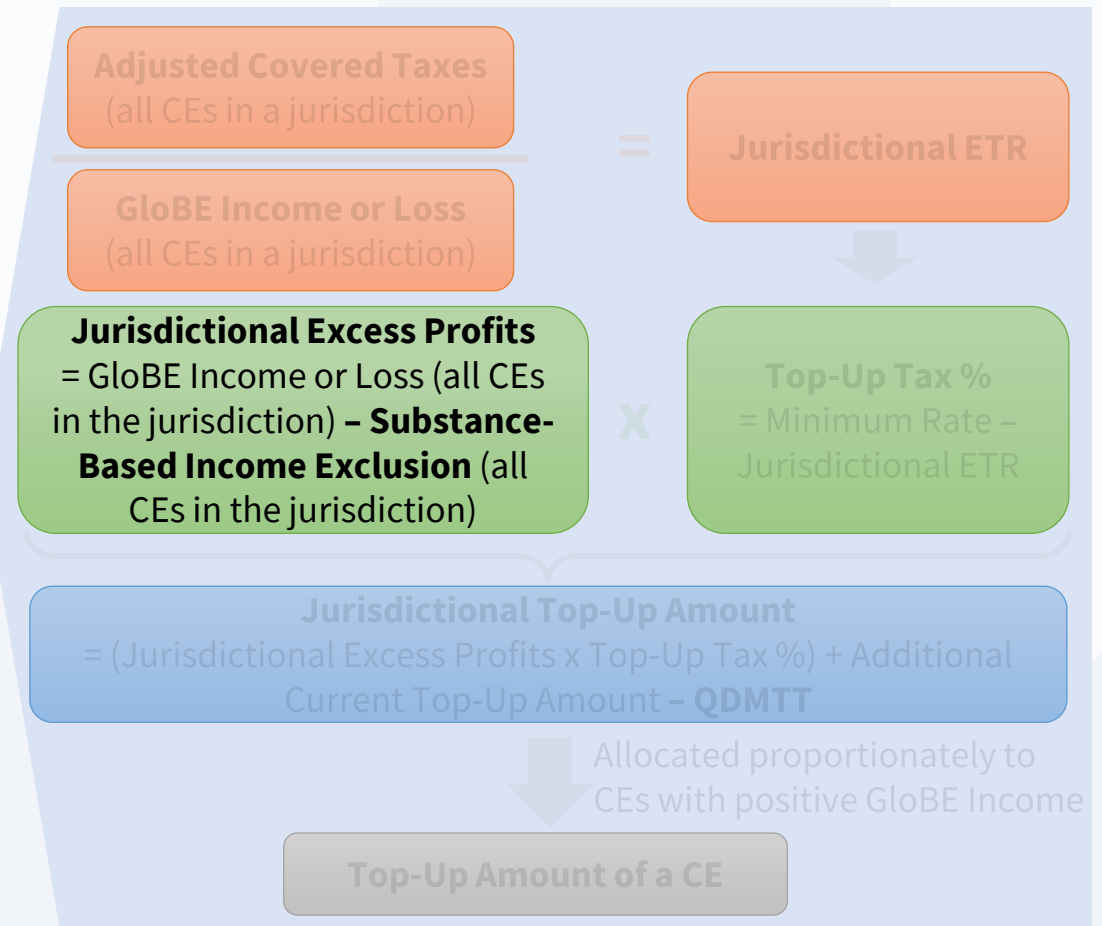
- Determine the GloBE Income or Loss and Adjusted Covered Taxes of each CE.

## 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.

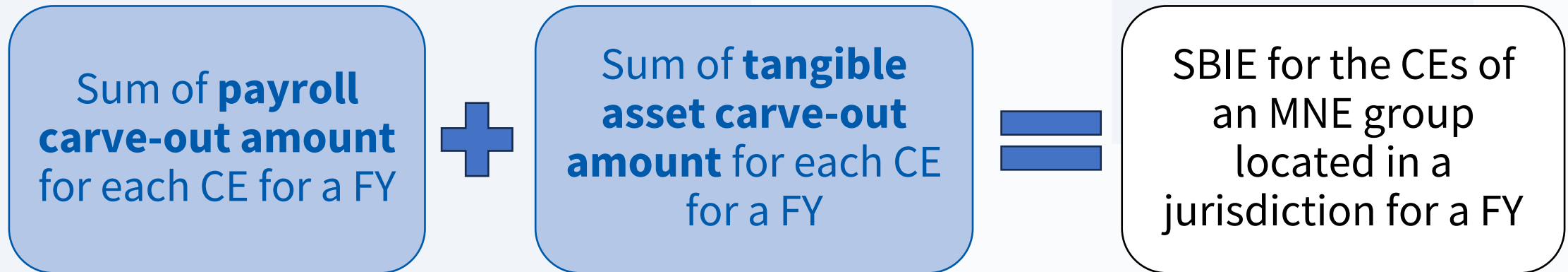


# Substance-Based Income Exclusion

- ✓ The GloBE income or loss for a jurisdiction is reduced by the SBIE for that jurisdiction, to determine the excess profits.
- ✓ The SBIE for the CEs of an MNE group located in a jurisdiction for a FY is computed based on the payroll costs and the carrying value of tangible assets.
- ✓ Payroll costs and tangible assets are indicators of substantive activities, which are generally expected to be less mobile and, therefore, less likely to result in profit-shifting.
- ✓ The GloBE Rules provide for a 10-year SBIE transition period, starting in 2023 with a 10% and 8% carve-out for payroll costs and tangible assets respectively, which decreases to 5% each from 2033 onwards.

# Substance-Based Income Exclusion

How to compute the SBIE of a jurisdiction?\*



- An MNE group may:
  - Elect **not to claim SBIE** for its CEs in a jurisdiction for a FY.\*\*
  - If it is claiming SBIE, determine the SBIE for its CEs in a jurisdiction for a FY by taking into account the amount of **all or a portion** of the “eligible payroll costs” and “eligible tangible assets” of the CEs for the FY.

\* Sections 18(1) to 18(3) of the MMT Act.

\*\* Sections 18(9) and 18(10) of the MMT Act.

# Substance-Based Income Exclusion

How to compute the SBIE of a jurisdiction?

FY beginning	Payroll carve-out amount = X% of <b>eligible payroll costs</b> ,* where X =	Tangible asset carve-out amount = Y% of <b>carrying value of eligible tangible assets</b> ,** where Y =
In 2025	9.6%	7.6%
In 2026	9.4%	7.4%
In 2027	9.2%	7.2%
In 2028	9.0%	7.0%
In 2029	8.2%	6.6%
In 2030	7.4%	6.2%
In 2031	6.6%	5.8%
In 2032	5.8%	5.4%
From 2033	5.0%	5.0%

\* Section 18(2) of the MMT Act and paragraph 1 of the Second Schedule to the MMT Act.

\*\* Section 18(3) of the MMT Act and paragraph 2 of the Second Schedule to the MMT Act.

# Substance-Based Income Exclusion

Eligible Payroll Costs

Eligible Employee

Eligible Tangible Asset

Carrying Value



# Substance-Based Income Exclusion

Eligible Payroll Costs

Eligible Employee

Eligible Tangible Asset

Carrying Value

# What are “Eligible Payroll Costs”?

## Eligible payroll costs of a CE for a FY\*#

Payments recorded in FS used to determine the CE’s FANIL for that FY:

Expenditure  
on  
employee  
compen-  
sation for  
its eligible  
employees

Expenditure  
on payroll  
and  
employment  
taxes for its  
eligible  
employees

Social security  
contributions  
by the employer  
and similar  
payments for its  
eligible  
employees



Costs taken into account in the tangible asset carve-out amount of the CE



Costs of the CE attributable to income from international shipping activities or ancillary international shipping activities

\* Section 18(4) of the MMT Act.

\*\* Section 18(5) of the MMT Act.

# Subject to time apportionment as set out on Slide 54 if the eligible employee spends 50% or less of the total time spent in performing activities in the jurisdiction where the CE is located.

# What are “Eligible Payroll Costs”?

Eligible payroll costs of a FTE (that is not a UPE)\*

Where a proportion of the FANIL for a FY of a FTE (that is not a UPE) is:

allocated to a PE\*\* of the FTE,

or

allocated to a CE-owner\*\*\* of the FTE  
in accordance with its ownership  
interest in the profits of the FTE,

- a. the same proportion of the eligible payroll costs of the FTE for that FY is also allocated to the PE or CE-owner (as the case may be), if the eligible employees of the FTE are **located in the same jurisdiction as the PE or CE-owner** (as the case may be); and
- b. any **remaining eligible payroll costs of the FTE is disregarded** in computing the payroll carve-out amount of the FTE.

\* Section 18(7) of the MMT Act.

\*\* Paragraph 6(9)(b) of the First Schedule to the MMT Act.

\*\*\* Paragraph 6(9)(c)(i) of the First Schedule to the MMT Act.

# What are “Eligible Payroll Costs”?

Eligible payroll costs of a FTE (that is a UPE)\*

Where:

a proportion of the FANIL for a FY of a FTE (being the UPE of an MNE group) is allocated to itself,\*\*

and

the eligible employees of the FTE are located in the jurisdiction where the FTE is located,

only that proportion of the eligible payroll costs of the FTE for that FY is treated as its eligible payroll costs.

\* Section 18(8) of the MMT Act.

\*\* Paragraph 6(12)(f) of the First Schedule to the MMT Act.

# Exclusion to “Eligible Payroll Costs” – Shipping Income

What is excluded from the “eligible payroll costs” of a CE?

Payroll costs attributable to:	How much is excluded from the “eligible payroll costs”?
<ul style="list-style-type: none"> <li>international shipping income; and</li> <li>ancillary international shipping income (that is excluded from its FANIL).</li> </ul>	
Direct cost	Full amount of the payroll costs excluded*
Indirect cost – International shipping income	Payroll costs x [(Revenue from international shipping activity) ÷ (Total revenue)]**
Indirect cost – Ancillary international shipping income	Payroll costs x [(Specified formula) ÷ (Total revenue)]***

\* Regulations 52(1)(a) and 52(1)(b) of the MMT Regulations.

\*\* Regulations 52(1)(c) and 52(2) of the MMT Regulations.

\*\*\* Regulations 52(1)(d) and 52(3) of the MMT Regulations.

# Exclusion to “Eligible Payroll Costs” – Shipping Income

Specified formula for ancillary international shipping income\*

**Specified formula** =  $[A \times (B \div C)]$

- A = The CE’s revenue from ancillary international shipping activities for the FY.
- B = The CE’s ancillary international shipping income excluded from its FANIL for the FY.
- C = The CE’s total ancillary international shipping income for the FY.

\* Regulation 52(3) of the MMT Regulations.

# Adjustments to “Eligible Payroll Costs” – Activities Outside the Jurisdiction where the CE is Located

What adjustments to make to “eligible payroll costs” of such a CE?

- If an eligible employee of a CE **performing activities for an MNE group** spends **50% or less** of the total time spent in performing such activities **in the jurisdiction where the CE is located**:\*

**Eligible payroll costs** = (A x B%)

- A = The CE’s eligible payroll costs for the FY for that eligible employee as adjusted,\*\* if applicable.
- B = Percentage of time the eligible employee spends in performing activities for the MNE group in the jurisdiction where the CE is located for the FY.

\* Regulation 54 of the MMT Regulations.

\*\* Sections 18(5) and 18(6) of the MMT Act and regulation 57 of the MMT Regulations.

# Adjustments to “Eligible Payroll Costs” – PE

What adjustments to make to “eligible payroll costs” of a PE?

- a. Treat any eligible payroll costs that are taken into account in determining the FANIL of a PE, as those of that PE;\*
- b. exclude any eligible payroll costs that are not taken into account in determining the FANIL of a PE;\*\* and
- c. treat any eligible payroll costs that are taken into account in determining the FANIL of a stateless PE, as nil.\*\*\*

\* Regulation 57(1)(a) of the MMT Regulations and paragraph 6(6) of the First Schedule to the MMT Act.

\*\* Regulation 57(1)(b) of the MMT Regulations and paragraph 6(6) of the First Schedule to the MMT Act.

\*\*\* Regulation 57(1)(c) of the MMT Regulations and paragraph 6(7) of the First Schedule to the MMT Act.



# Adjustments to “Eligible Payroll Costs” – PE

What adjustments to make to “eligible payroll costs” of a PE?

Where a proportion of the FANIL for a FY of a CE that is:

a PE of a FTE  
(i.e. D) that is  
the UPE of  
the MNE  
group

or

a PE of a FTE (i.e. E) through which E wholly or partly carries out its business where:

- E is treated as fiscally transparent in the jurisdiction where D is located; and
- the ownership interests in E are held by D directly or through one or more FTEs (each of which is treated as fiscally transparent in the jurisdiction where D is located),

is excluded from the PE’s FANIL,\* the same proportion of the PE’s eligible payroll costs for that FY is **not treated as the PE’s eligible payroll costs.**\*\*

\* Paragraph 6(12)(d) of the First Schedule to the MMT Act.

\*\* Regulation 57(2) of the MMT Regulations.

# Adjustments to “Eligible Payroll Costs” – PE

What adjustments to make to “eligible payroll costs” of a PE?

Where:

a proportion of the FANIL for a FY of the FTE (i.e. F) – that is the UPE of the MNE group – is allocated to the PE of F (i.e. Y)\*

and

the eligible employees of F are in the jurisdiction where Y is located,

the same proportion of F’s eligible payroll costs for that FY is also allocated to Y.\*\*

\* Paragraph 6(12)(e) of the First Schedule to the MMT Act.

\*\* Regulation 57(3) of the MMT Regulations.

# Substance-Based Income Exclusion

Eligible Payroll Costs

Eligible Employee

Eligible Tangible Asset

Carrying Value

# Who is an “Eligible Employee”?

Eligible employee in relation to a CE of an MNE group\*

A person who performs activities for an MNE group in the jurisdiction where the CE is located, who is:

an employee of the CE  
(including a part-time  
employee)

or

an independent contractor  
participating in the ordinary  
operating activities of the CE or  
the MNE group, under the  
direction and control of the  
MNE group

\* Section 18(4) of the MMT Act.

# Substance-Based Income Exclusion

Eligible Payroll Costs

Eligible Employee

Eligible Tangible Asset

Carrying Value

# What is an “Eligible Tangible Asset”?

Eligible tangible asset in relation to a CE\*



PPE located in the jurisdiction where the CE is located

Natural resources located in the jurisdiction where the CE is located

Right to use a tangible asset located in the jurisdiction where the CE is located under a lease

Licence granted by (or similar arrangement made with) the government of jurisdiction where the CE is located to use immovable property or exploit natural resources therein



## Quick Tip

“Eligible tangible assets” of the main entity of a PE exclude such assets of its PE.\*\*

Property held for sale, lease or investment (unless falling under exceptions)

Asset used to generate income from international shipping activities or ancillary international shipping activities

\* Section 18(4) of the MMT Act.

\*\* Section 18(5) of the MMT Act.

# What is an “Eligible Tangible Asset”?

What property falls under the exception to “property held for sale, lease or investment”?

1. Property held by a CE of an MNE group as **lessor under a lease** qualifies, provided that the lessee of the property is another CE of the MNE group in the jurisdiction where the lessor is located.\*
2. Property held by a CE of an MNE group as **lessor under an operating lease** qualifies, provided that the property is in the jurisdiction where the lessor is located.\*\*

\* Regulation 56(1) of the MMT Regulations.

\*\* Regulation 56(3) of the MMT Regulations.

# Substance-Based Income Exclusion

Eligible Payroll Costs

Eligible Employee

Eligible Tangible Asset

Carrying Value



# What is the “Carrying Value”?

Carrying value of an eligible tangible asset of a CE for a FY\*#

Average of:

(a) the value of asset recorded at **start of FY**

(b) the value of asset recorded at **end of FY**

for the purpose of preparing the CFS of the UPE of the MNE group, where each such value:

takes into account:

- accumulated depreciation, amortisation or depletion;
- impairment losses;
- capitalised amount of payroll costs;
- purchase accounting adjustments; and
- elimination adjustments attributable to inter-company sales.

excludes any increase in the value of the asset (or increase in the accumulated depreciation) due to revaluation of the asset

\* Section 18(4) of the MMT Act.

# Subject to time apportionment as set out on Slide 69 if an eligible tangible asset is in the jurisdiction where the CE is located 50% or less of the total duration of the FY.

# What is the “Carrying Value”?

Carrying value of eligible tangible asset of a FTE (that is not a UPE)\*

Where a proportion of the FANIL for a FY of a FTE (that is not a UPE) is:

allocated to a PE\*\* of the FTE,

or

allocated to a CE-owner\*\*\* of the FTE  
in accordance with its ownership  
interest in the profits of the FTE,

- a. the same proportion of the carrying value of the eligible tangible assets of the FTE for that FY is also allocated to the PE or CE-owner (as the case may be) if the eligible tangible assets of the FTE are **located in the same jurisdiction as the PE or CE-owner** (as the case may be); and
- b. any **remaining carrying value of the eligible tangible assets of the FTE is disregarded** in computing the tangible asset carve-out amount of the FTE.

\* Section 18(7) of the MMT Act.

\*\* Paragraph 6(9)(b) of the First Schedule to the MMT Act.

\*\*\* Paragraph 6(9)(c)(i) of the First Schedule to the MMT Act.

# What is the “Carrying Value”?

Carrying value of eligible tangible asset of a FTE (that is a UPE)\*

Where

a proportion of the FANIL for a FY of a FTE (being the UPE of an MNE group) is allocated to itself,\*\*

and

the eligible tangible assets of the FTE are located in the jurisdiction where the FTE is located,

only that proportion of the carrying value of the eligible tangible assets of the FTE for that FY is treated as its carrying value of the eligible tangible assets.

\* Section 18(8) of the MMT Act.

\*\* Paragraph 6(12)(f) of the First Schedule to the MMT Act.

# Types of Adjustments to the “Carrying Value”

## Shipping income

- Carrying value of the CE’s assets that are attributable to certain types of shipping income is wholly or partially excluded.

## Asset outside the jurisdiction where the CE is located

- Carrying value of the CE’s eligible tangible asset that is located **50% or less** of the total duration of the FY in the jurisdiction where the CE is located, is reduced by the proportion of the duration such an asset is not located in that jurisdiction.

## Property held under certain leases

- Carrying value of a property held by a CE as **lessor under a lease** is adjusted to take into account certain elimination adjustments.
- Carrying value of a property held by a CE as **lessor under an operating lease** is subject to certain adjustments based on the profile of the property and the lessee.

# Adjustments to the “Carrying Value” – Shipping Income

What is excluded from the “carrying value”?

Carrying value in respect of	How much is excluded from the “carrying value”?
Assets used to derive only:	
a. International shipping income	Full amount of carrying value excluded*
b. Ancillary international shipping income (that is excluded from its FANIL)	Carrying value x [(Ancillary international shipping income that is excluded from its FANIL) ÷ (Ancillary international shipping income)]**
Assets other than (a) and (b) attributable to:	
c. International shipping income	Carrying value x [(Revenue from international shipping activity) ÷ (Total revenue)]***
d. Ancillary international shipping income (that is excluded from its FANIL)	Carrying value x [(Specified formula) ÷ (Total revenue)]*** *

\* Regulation 53(1)(a) of the MMT Regulations.

\*\* Regulation 53(1)(b) of the MMT Regulations.

\*\*\* Regulations 53(1)(c) and 53(2) of the MMT Regulations.

\*\*\* \* Regulations 53(1)(d) and 53(3) of the MMT Regulations.

# Adjustments to the “Carrying Value” – Asset Outside Jurisdiction where the CE is Located

What adjustments to make to the “carrying value” of such an asset?

- If an eligible tangible asset of a CE of an MNE group is in the jurisdiction where the CE is located **50% or less** of the total duration of the FY:\*

**Carrying value of the asset** = (A x B%)

- A = Carrying value of the asset as adjusted,\*\* if applicable.
- B = Percentage of the duration within a FY in which the eligible tangible asset is located in the jurisdiction where the CE is located.

\* Regulation 55 of the MMT Regulations.

\*\* Sections 18(5) and 18(6) of the MMT Act and regulation 57 of the MMT Regulations.

# Adjustments to the “Carrying Value” – Property Held under Certain Leases

What adjustments to make to the “carrying value” of such a property?

Type of lease	Adjustment to carrying value of the property
Property held by a CE as a <b>lessor under a lease</b> (provided the lessee is a CE in the same MNE group in jurisdiction where the lessor is located)	Carrying value of property must be adjusted to <b>take into account any elimination adjustments attributable to inter-company leases</b> in respect of the property*
Property held by a CE as a <b>lessor under an operating lease**</b> (provided property is in jurisdiction where the lessor is located):	
a. is <b>not a short-term rental property,**</b> and the lessee <b>is a CE in the same MNE group</b>	Carrying value = (Lessor’s carrying value of property) – (Lessee’s carrying value of property)***
b. is <b>not a short-term rental property</b> , and the lessee is <b>not a CE in the same MNE group</b>	Carrying value = (Lessor’s carrying value of property) – ( <b>Average amount of undiscounted remaining amount of payments due under a lease</b> )*** *
c. is <b>a short-term rental property</b>	Carrying value = Lessor’s carrying value of property*** **

\* Regulations 56(1) and 56(2) of the MMT Regulations.

\*\* Regulation 56(7) of the MMT Regulations.

\*\*\* Regulations 56(3) and 56(4)(a) of the MMT Regulations.

\*\*\* \* Regulations 56(3) and 56(4)(b) of the MMT Regulations.

\*\*\* \*\* Regulations 56(3) and 56(4)(c) of the MMT Regulations.

# Adjustments to the “Carrying Value” – PE

What adjustments to make to the “eligible tangible assets” of a PE?

- a. Treat any eligible tangible assets that are taken into account in determining the FANIL of a PE, as those of the PE;\*
- b. exclude any eligible tangible assets that are not taken into account in determining the FANIL of a PE;\*\* and
- c. treat any eligible tangible assets that are taken into account in determining the FANIL of a stateless PE, as nil.\*\*\*

\* Regulation 57(1)(a) of the MMT Regulations and paragraph 6(6) of the First Schedule to the MMT Act.

\*\* Regulation 57(1)(b) of the MMT Regulations and paragraph 6(6) of the First Schedule to the MMT Act.

\*\*\* Regulation 57(1)(c) of the MMT Regulations and paragraph 6(7) of the First Schedule to the MMT Act.



# Adjustments to the “Carrying Value” – PE

What adjustments to make to the “carrying value” of such assets?

Where a proportion of the FANIL for a FY of a CE of an MNE group that is:

a PE of a FTE (i.e. D)  
that is the UPE of the  
MNE group is excluded  
from the PE’s FANIL\*

or

a PE of a FTE (i.e. E), through which E wholly or partly  
carries out its business where E is treated as fiscally  
transparent in the jurisdiction where D is located, and  
the ownership interests in E are held by D directly or  
through one or more FTEs (each of which is treated as  
fiscally transparent in the jurisdiction where D is  
located), is excluded from the PE’s FANIL\*

the same proportion of the carrying value of the PE’s eligible tangible assets for that FY is not  
treated as the carrying value of the PE’s eligible tangible assets.\*\*

\* Paragraph 6(12)(d) of the First Schedule to the MMT Act.

\*\* Regulation 57(2) of the MMT Regulations.

# Adjustments to the “Carrying Value” – PE

What adjustments to make to the “carrying value” of such assets?

Where:

a proportion of the FANIL for a FY of the FTE (i.e. F) – that is the UPE of the MNE group – is allocated to the PE of F (i.e. Y)\*

and

the eligible tangible assets of F are in the jurisdiction where Y is located,

the same proportion of the carrying value of F’s eligible tangible assets for that FY is also allocated to Y.\*\*

\* Paragraph 6(12)(e) of the First Schedule to the MMT Act.

\*\* Regulation 57(3) of the MMT Regulations.



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