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

Module Five: Transition Rules



August 2025

Outline of Module

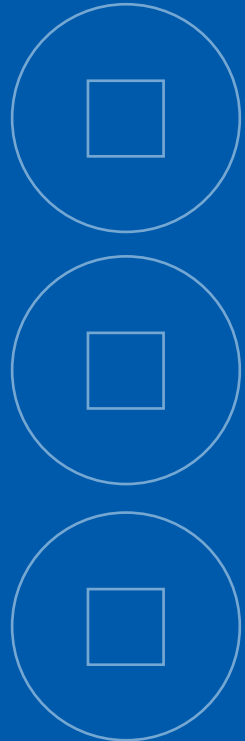
-  **Importance of Transition Rules**
-  **Definition of Transition Year**
-  **Importing Tax Attributes Upon Transition**
-  **Adjustments for DTT Where There is a New Transition Year**

Abbreviations

- **CbCR** : country-by-country reporting
- **CE** : constituent entity
- **DTT** : domestic top-up tax
- **ETR** : effective tax rate
- **FY** : financial year
- **GloBE** : Global Anti-Base Erosion
- **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
- **MTT** : multinational enterprise top-up tax
- **QDMTT** : qualified domestic minimum top-up tax
- **TCSH** : Transitional CbCR Safe Harbour
- **UPE** : ultimate parent entity
- **UTPR** : undertaxed profits rule

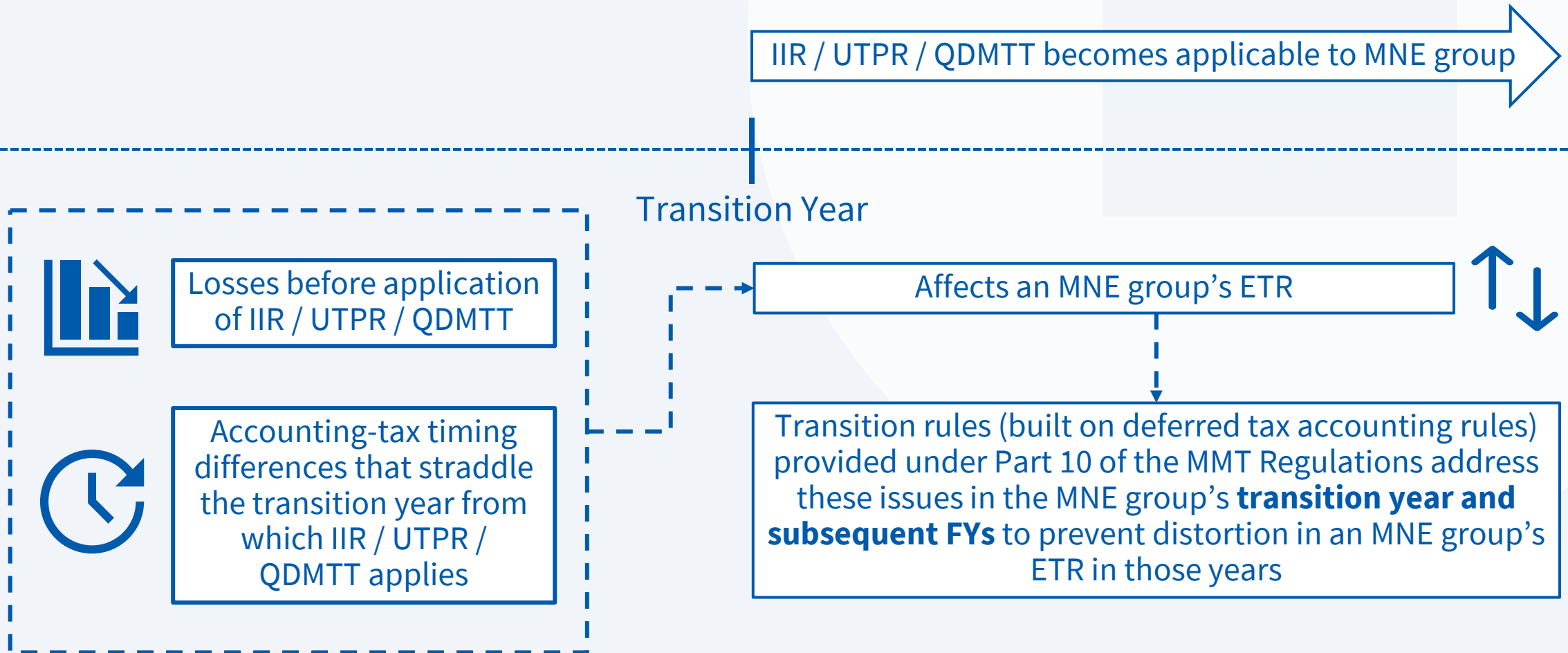


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Importance of Transition Rules

Purpose of Transition Rules





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Definition of Transition Year

Transition Year for MTT and DTT

In respect of each MNE group, transition year is determined on a jurisdictional basis.

MTT – Regulation 88(1)

First FY that:

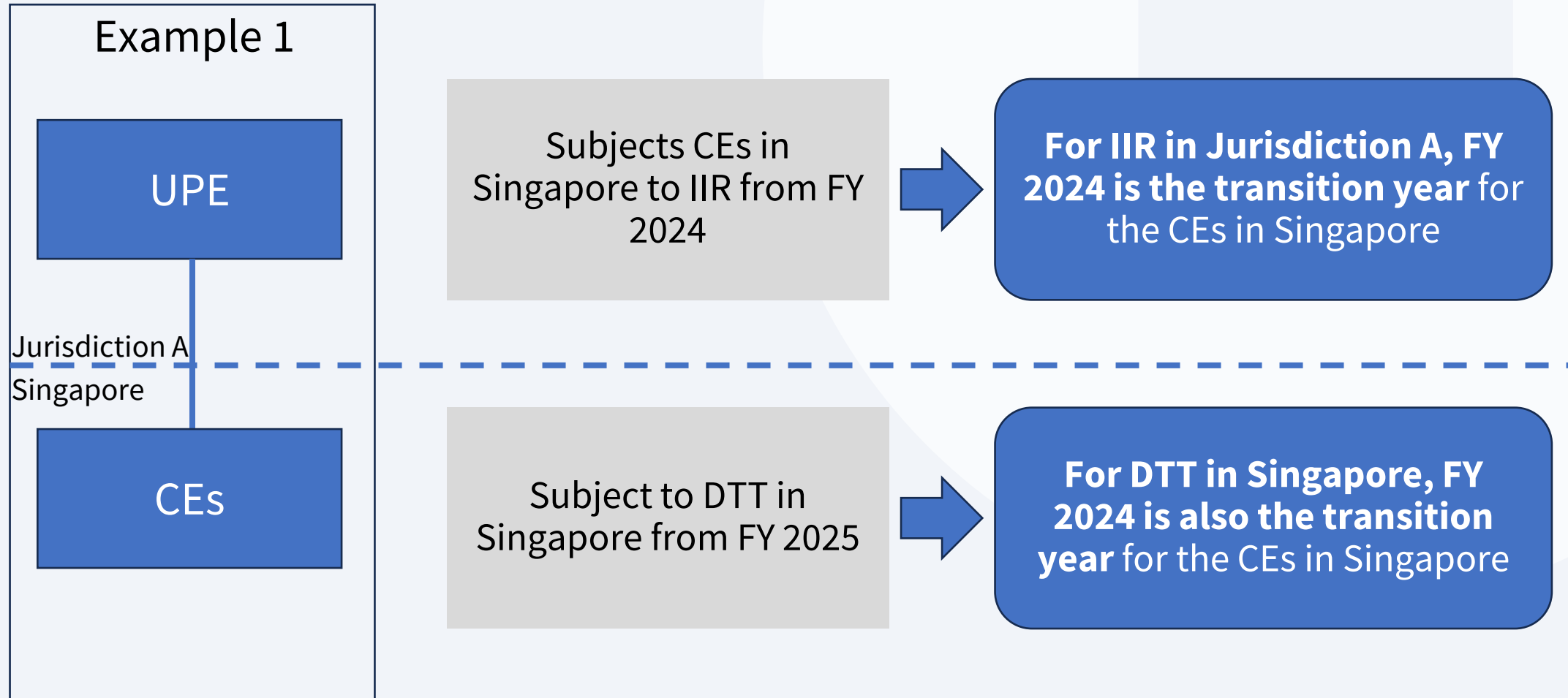
- any CE in the jurisdiction is in-scope of Singapore or a foreign jurisdiction's IIR or UTPR; or
- CEs in a jurisdiction lose their-eligibility for the TCSH, or did not make an election for the TCSH,
whichever is later.

DTT – Regulation 88(2)

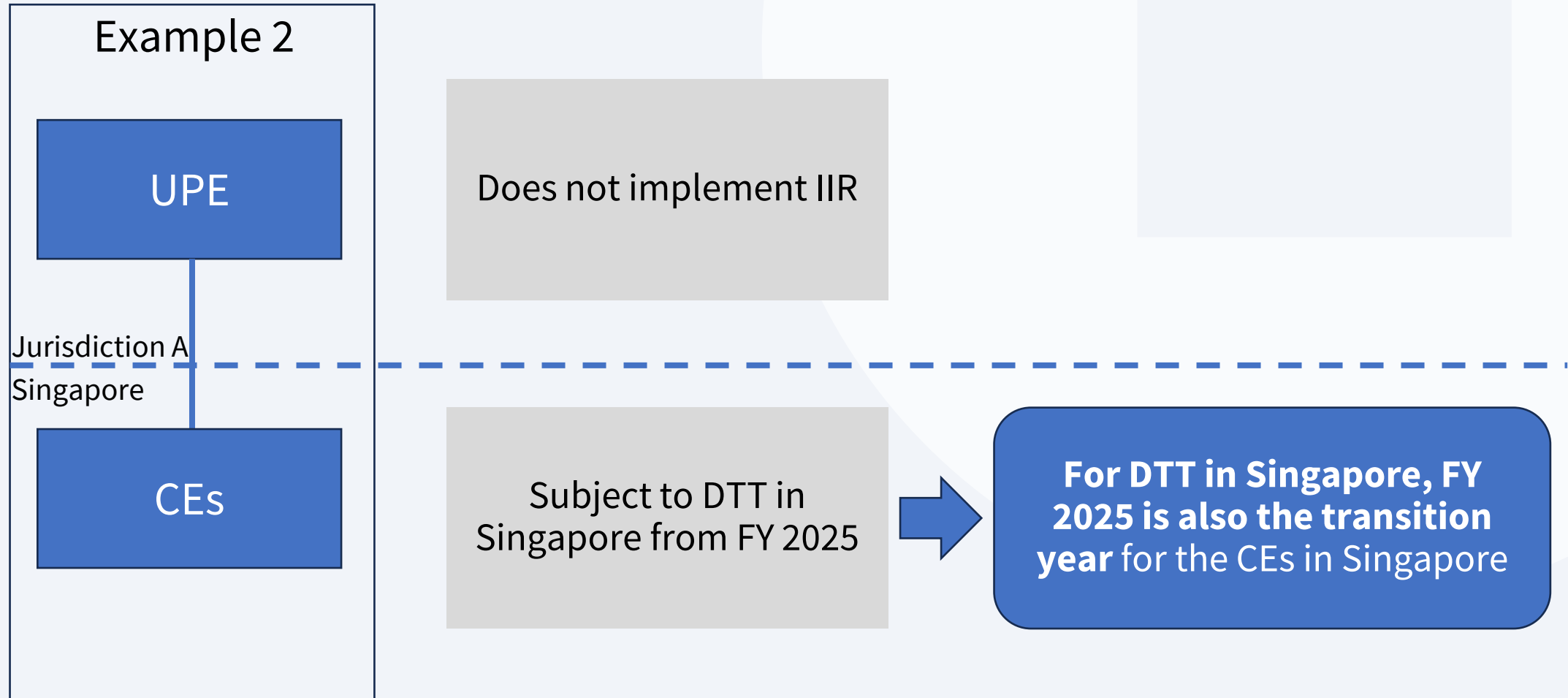
First FY that:

- any CE in Singapore is in-scope of Singapore's DTT or a foreign jurisdiction's IIR or UTPR; or
- CEs in Singapore lose their eligibility for the TCSH, or did not make an election for the TCSH,
whichever is later.

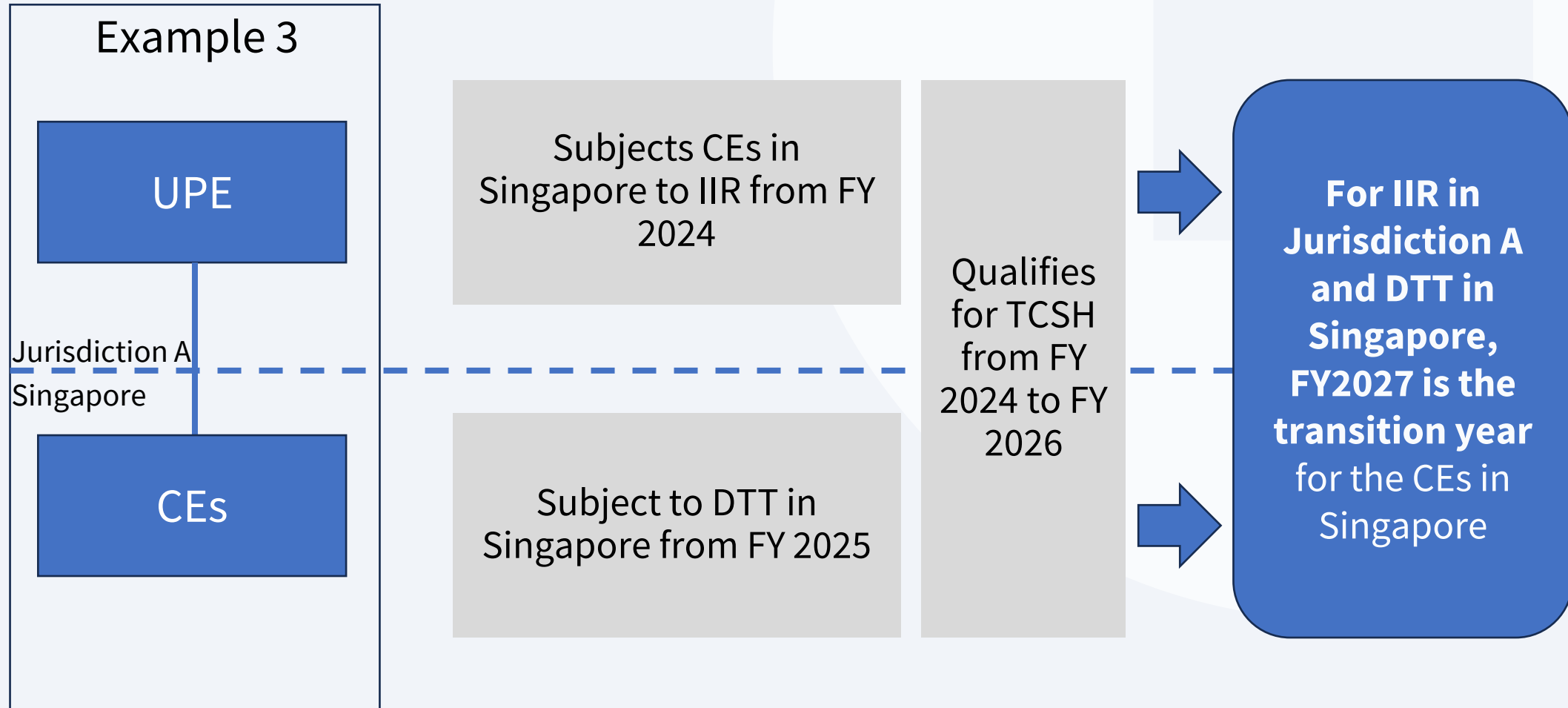
Transition Year for DTT – Example



Transition Year for DTT – Example



Transition Year for DTT – Example





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Importing Tax Attributes upon Transition

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)

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

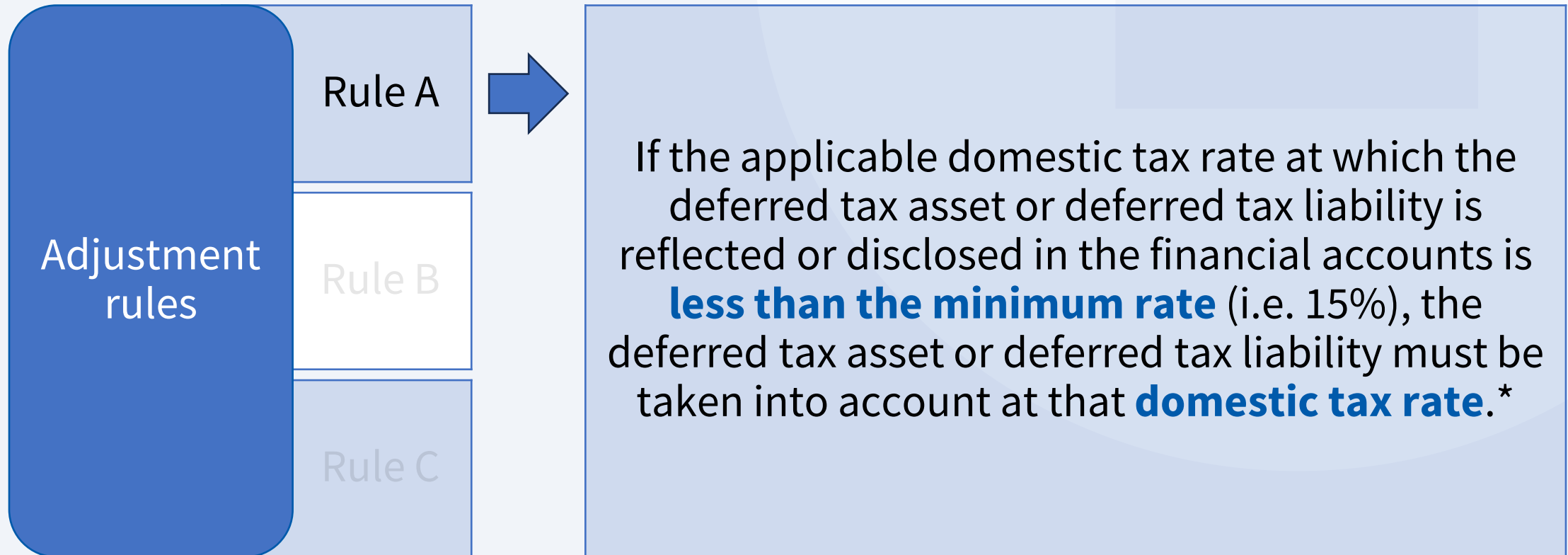
CE's Deferred Tax Assets or Liabilities

- Each deferred tax asset or liability of a CE that is disclosed in the financial accounts of the CE **as at the start of the transition year** may be taken into account when computing the adjusted covered taxes of the CE for the transition year and the subsequent FYs.*
- Adjustments may apply based on the applicable domestic tax rate.
- The term “applicable domestic tax rate” refers to the rate at which an item of deferred tax expense is recorded in the financial accounts.

* Regulation 89(1) of the MMT Regulations.

CE's Deferred Tax Assets or Liabilities

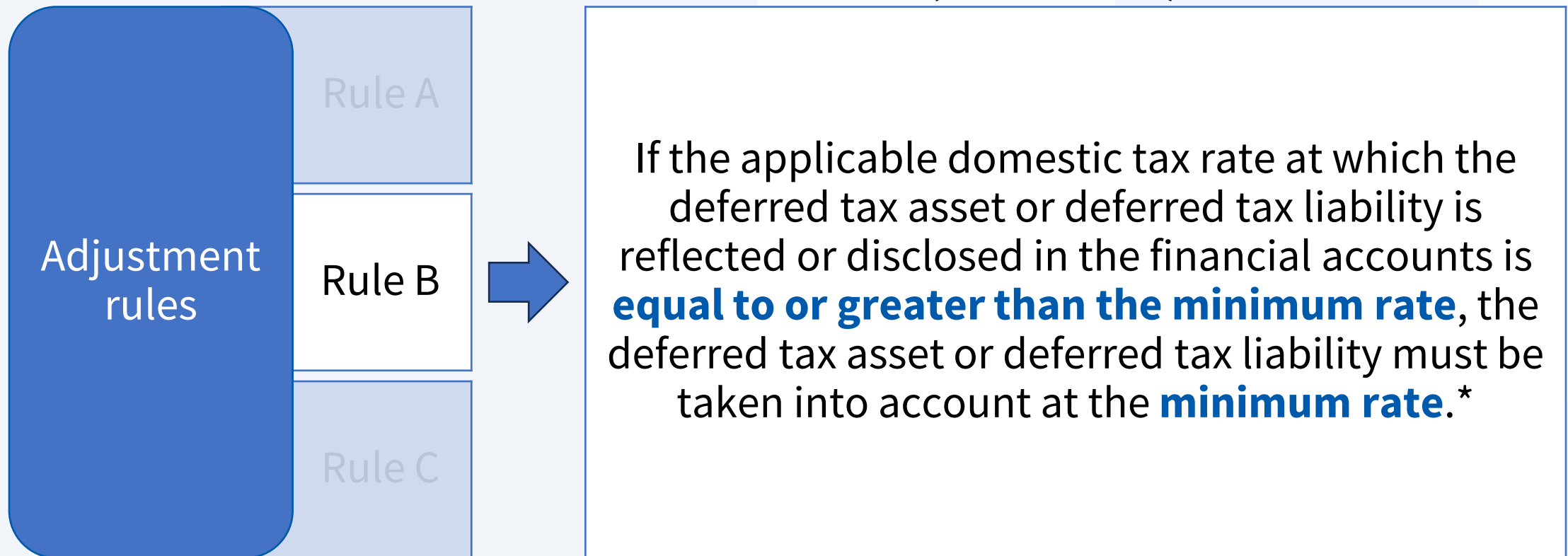
The following adjustment rules apply when taking into account the deferred tax assets or liabilities of the CE:



* Regulations 89(2)(a) and 89(2)(b) of the MMT Regulations.

CE's Deferred Tax Assets or Liabilities

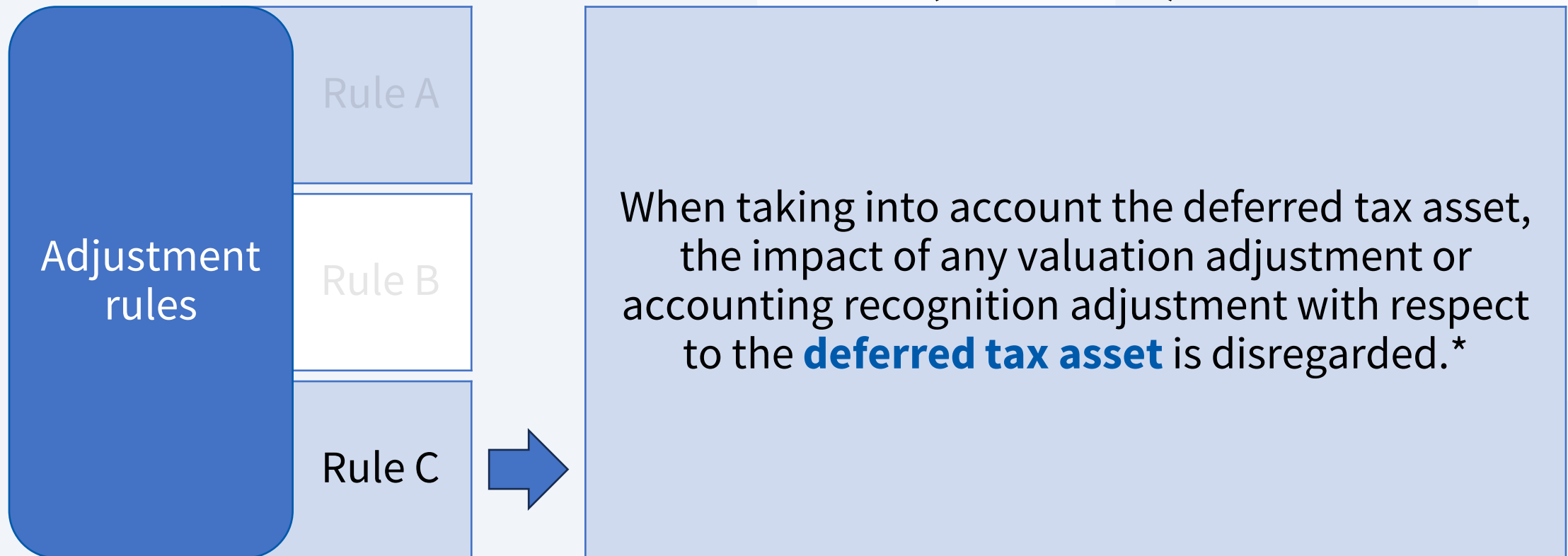
The following adjustment rules apply when taking into account the deferred tax assets or liabilities of the CE (continued):



* Regulation 89(2)(c) of the MMT Regulations.

CE's Deferred Tax Assets or Liabilities

The following adjustment rules apply when taking into account the deferred tax assets or liabilities of the CE (continued):



* Regulation 89(2)(d) of the MMT Regulations.

CE's Deferred Tax Assets or Liabilities

However, in the case of **Rule A**, if the CE is able to demonstrate that the deferred tax asset is attributable to a GloBE loss for any year before the transition year, then the deferred tax asset is taken into account at 15%.*

Example

- A CE comes within the scope of DTT in FY 2025.
- As at the transition year, the CE had \$1 mil deferred tax asset which is attributable to a loss in FY 2024 (when the MNE group was not within the scope of the GloBE Rules) that would have been a GloBE loss.
- The applicable domestic tax rate is 10%.
- The \$1 mil deferred tax asset is to be taken into account in the transition year as follows:

$$\frac{\text{Value of Deferred Tax Asset}}{\text{Applicable Domestic Tax Rate}} \times \text{Minimum Rate} = \frac{\$1 \text{ mil}}{10\%} \times 15\% = \$1.5 \text{ mil}$$

* Regulations 89(3) and 90(2) of the MMT Regulations.

Pre-Transition Year Deferred Tax Asset – Example

	Year 1	Year 2	Year 3
	Pre-transition year	Transition year	
	CE recognises a \$1.5 mil deferred tax asset at a tax rate of 15%.	CE comes within the scope of GloBE in Year 2. In Year 2, the deferred tax asset is not utilised.	In Year 3, the deferred tax asset is utilised and reverses in full.
Accounting	Impact to deferred tax expense -\$1.5 mil	Impact to deferred tax expense None, as the deferred tax asset is not utilised in Year 2 (i.e. no reversal).	Impact to deferred tax expense +\$1.5 mil
MTT / DTT	Impact to adjusted covered taxes N/A (CE is not yet within scope of MTT or DTT)	Impact to adjusted covered taxes Deferred tax asset of \$1.5 mil is taken into account based on Rule B. No impact to adjusted covered tax because there is no deferred tax expense.	Impact to adjusted covered taxes +\$1.5 mil (a qualifying deferred tax expense in respect of the deferred tax asset taken into account in Year 2)

Pre-Transition Year Deferred Tax Liability – Example

	Year 1	Year 2	Year 3
	Pre-transition year	Transition year	
	CE recognises a \$1.5 mil deferred tax liability at a tax rate of 15%.	CE comes within the scope of GloBE in Year 2. In Year 2, the deferred tax liability is not reversed.	In Year 3, \$1.5 mil of tax is paid and the deferred tax liability reverses in full.
Accounting	Impact to deferred tax expense +\$1.5 mil	Impact to deferred tax expense None, as the deferred tax liability is not reversed in Year 2.	Impact to current tax expense +\$1.5 mil Impact to deferred tax expense -\$1.5 mil
MTT / DTT	Impact to adjusted covered taxes N/A (CE is not yet within scope of MTT or DTT)	Impact to adjusted covered taxes Deferred tax liability of \$1.5 mil is taken into account based on Rule B. No impact to adjusted covered tax because there is no deferred tax expense.	Impact to adjusted covered taxes +\$1.5 mil (qualifying current tax expense) -\$1.5 mil (qualifying deferred tax expense in respect of the deferred tax liability taken into account in Year 2)

Importing Tax Attributes upon Transition

Rules for Deferred Tax Asset that Relates to
Tax Credit Carry-Forward

Circumstances Where Deferred Tax Assets
Cannot be Taken into Account

Value of Deferred Tax Assets and Liabilities
Arising from Transfer of Assets



Deferred Tax Asset from Tax Credit Carry-Forward

- The rule applies where:^{*}
 - the deferred tax asset relates to a tax credit carry-forward; and
 - the applicable domestic tax rate at which the deferred tax asset is reflected or disclosed in the financial accounts is equal to or greater than the minimum rate.

^{*} Regulation 90(1) of the MMT Regulations.

Deferred Tax Asset from Tax Credit Carry-Forward

- The amount of deferred tax asset to be taken into account is determined as follows:*

$$[(\text{Deferred tax asset}) \div (\text{Applicable domestic tax rate in the FY preceding the transition year})] \times (\text{Minimum rate})$$

- If the **applicable domestic tax rate changes in any year after the transition year** (i.e. re-application year), the above formula must be reapplied:
 1. to the outstanding balance of the deferred tax asset reflected in the financial accounts at the beginning of the re-application year; and
 2. using the tax rate applied in the financial accounts of the CE in the re-application year.

* Regulations 90(2) to 90(4) of the MMT Regulations.

Importing Tax Attributes upon Transition

Rules for Deferred Tax Asset that Relates to
Tax Credit Carry-Forward

Circumstances Where Deferred Tax Assets
Cannot be Taken into Account

Value of Deferred Tax Assets and Liabilities
Arising from Transfer of Assets

Excluded Deferred Tax Assets

Deferred tax assets cannot be taken into account if **both** of the following criteria are met: *

1.

Deferred tax asset is generated in a transaction entered between 1 Dec 2021 and the last day of a FY before the start of the transition year of the CE.

2.

Deferred tax asset arose in respect of an item that would not be taken into account in computing the GloBE income or loss.

* Regulation 91 of the MMT Regulations.

Excluded Deferred Tax Assets

Example 1

- A CE is within scope of DTT from FY 2025, and FY 2025 is the transition year for the CE.
- In FY 2023, the CE generated a deferred tax asset arising from tax losses incurred in the FY.

- While the deferred tax asset was generated between 1 Dec 2021 and 31 Dec 2024 (i.e. the last day of a FY before the start of the transition year of the CE), the deferred tax asset is in respect of an item that would be taken into account in computing the GloBE income or loss.
- As such, the **deferred tax asset is not excluded from being taken into account when computing the adjusted covered taxes of the CE for FY 2025 and the subsequent FYs.**

Excluded Deferred Tax Assets

Example 2

- Assuming the same scenario as Example 1 where FY 2025 is the transition year for the CE.
- The CE generated a deferred tax asset in FY 2023 arising from losses attributable to additional tax deduction for R&D expenditure.
- The additional tax deduction is excluded from the computation of GloBE income or loss.

- The deferred tax asset was generated between 1 Dec 2021 and 31 Dec 2024 (i.e. the last day of a FY before the start of the transition year of the CE), and is in respect of an item that would **not** be taken into account in computing the GloBE income or loss.
- The **deferred tax asset is excluded from being taken into account when computing the adjusted covered taxes of the CE for FY 2025 and the subsequent FYs.**

Importing Tax Attributes upon Transition

Rules for Deferred Tax Asset that Relates to
Tax Credit Carry-Forward

Circumstances Where Deferred Tax Assets
Cannot be Taken into Account

Value of Deferred Tax Assets and Liabilities
Arising from Transfer of Assets

Value of Deferred Tax Attributes*

- The value of the deferred tax asset or liability arising from a transfer of assets (not being inventory) between CEs of an MNE group after 30 Nov 2021, and before the commencement of the first year that the transferor is subject to a global minimum tax (IIR, UTPR or QDMTT), must be based on the transferor's carrying value of the transferred assets upon the transfer.
 - If the transferee records the transferred asset at cost in its financial accounts, the transferee may be disallowed from taking into account any deferred tax asset in connection with the transferred asset when computing the adjusted covered tax of the CE for the transition year and subsequent FYs.
- The transferee's GloBE income or loss from the transfer of an asset is based on the transferor's carrying value of the transferred asset upon the transfer.
- An asset transfer includes a transaction between CEs of an MNE group, and a transaction within the same CE, that does not result in a change in the ownership of the asset.

* Regulations 92(1), 92(2) and 92(6) of the MMT Regulations.

Value of Deferred Tax Attributes*

- However, the transferee may take into account a deferred tax asset to the extent that the transferor has **paid tax** in respect of the transfer of asset.
- The transferor is considered to have “paid tax” if:
 - a. covered tax in relation to the transfer of assets has been paid by the transferor in any jurisdiction, or would have been taken into account in computing the transferor’s adjusted covered taxes had the transfer taken place after the transferor’s transition year commenced; and
 - b. any loss of the transferor arising in or at the beginning of the FY in which the transfer took place is offset against any taxable income, and a deferred tax asset attributable to the loss would have been taken into account if not for the offset,

then:

$$\begin{array}{|c|} \hline \text{Value of the} \\ \text{deferred asset} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Covered taxes} \\ \text{in (a)} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Value of the deferred} \\ \text{tax asset attributable} \\ \text{to the loss in (b)} \\ \hline \end{array}$$

* Regulation 92(3) of the MMT Regulations.

Value of Deferred Tax Attributes

- The value of deferred tax asset computed based on the formula set out on the preceding slide is limited to the amount computed by the following formula:*

$$\left(\begin{array}{c} \text{Transferor's} \\ \text{carrying value} \\ \text{of the asset} \\ \text{upon transfer} \end{array} - \begin{array}{c} \text{Value of the asset} \\ \text{the transferee} \\ \text{based its} \\ \text{computation of the} \\ \text{covered tax} \end{array} \right) \times 15\%$$

- Where the value of deferred tax asset computed based on the formula in the preceding slide is more than the limit computed above, then the transferee may instead use the carrying value of the asset reflected in its financial accounts (instead of the transferor's carrying value) for GloBE purposes in all subsequent years.

* Regulations 92(3) and 92(5) of the MMT Regulations.

Value of Deferred Tax Attributes

- Where the transition year of the transferee begins after the date of the transfer of assets, the value of the deferred tax asset must reflect:^{*}
 - any subsequent capitalised expenditure incurred in respect of the assets; and
 - amortisation and depreciation of the assets that would have been recognised by the transferor had the transfer not occurred.

^{*} Regulation 92(4) of the MMT Regulations.



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Adjustments for DTT Where There is a New Transition Year

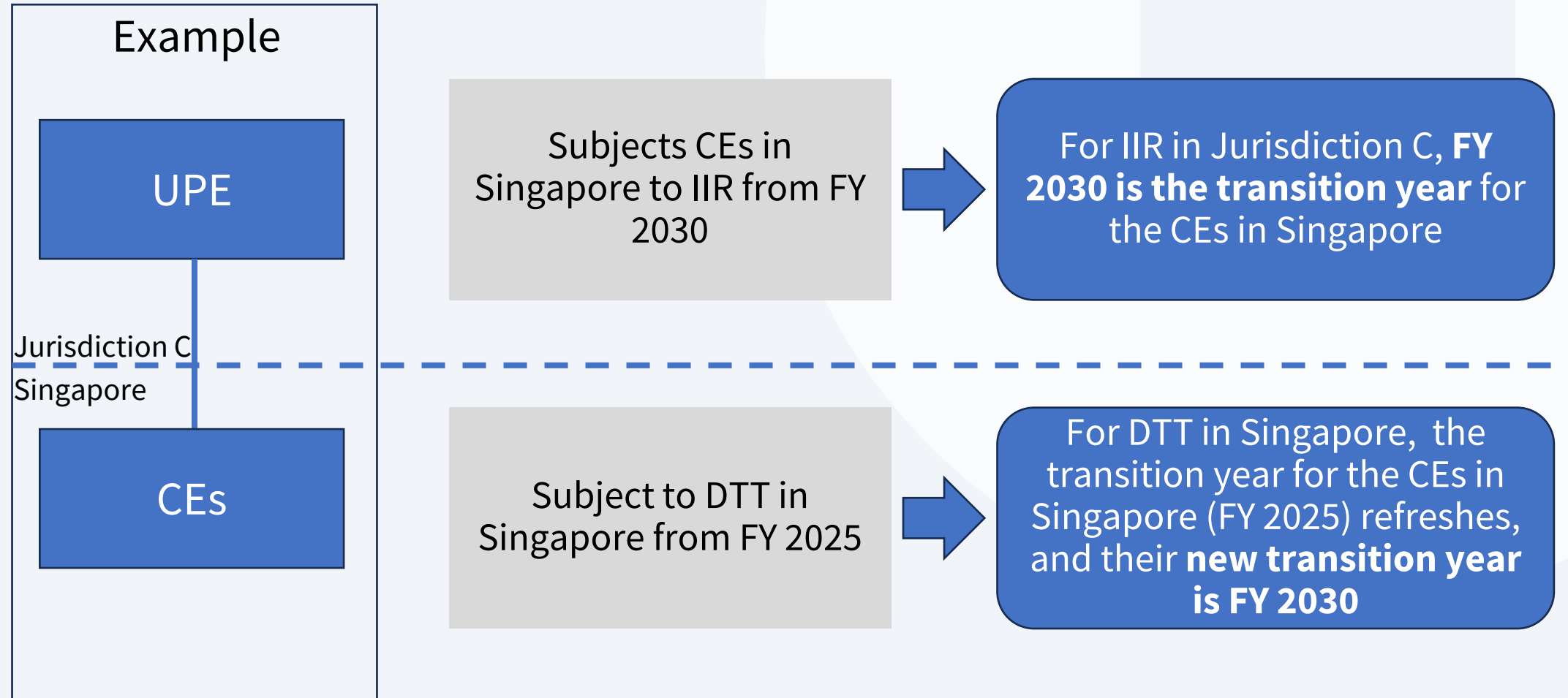


Adjustments for DTT

- The transition year for DTT refreshes if a CE of an MNE group becomes in-scope of DTT in Singapore and, subsequently, any CE of the MNE group in Singapore comes within the scope of a foreign jurisdiction's IIR or UTPR for the first time.*
 - When the transition year refreshes, the CE has a new transition year.
- The refreshing of transition year applies to a JV group separately from the MNE group that it is connected to.

* Regulations 93(1) and 93(2) of the MMT Regulations.

New Transition Year for DTT



Adjustments for DTT

The following adjustments to tax attributes must be made to the DTT computation for the new transition year to reset the tax attributes:*

1. Deferred tax assets and deferred tax liabilities are determined afresh at the beginning of the new transition year, for the purpose of taking them into account when computing the adjusted covered tax of a CE for the new transition year and subsequent FYs.

Adjustments for DTT

The following adjustments to tax attributes must be made to the DTT computation for the new transition year to reset the tax attributes (continued):*

2. However, any deferred tax asset:

- a. reflected in the financial accounts of the CE because of a transaction entered after 30 Nov 2021 and before the beginning of the new transition year; and
- b. in respect of an item that would not be taken into account in computing the GloBE income or loss

cannot be taken into account in determining that CE's adjusted covered taxes for the new transition year and subsequent FYs.

- The above does not apply to a deferred tax asset that is attributable to a tax loss that gives rise to an additional current top-up amount in prior FYs under section 21(1) of the MMT Act, for which DTT is payable in Singapore.

* Regulations 93(7) and 93(8) of the MMT Regulations.

Adjustments for DTT

Example

- A Singapore CE recognises a deferred tax asset arising from a tax loss in FY 2025.
- As the tax loss is attributable to permanent differences (resulting in a tax loss in excess of the GloBE loss), an additional current top-up amount arises under section 21(1) of the MMT Act.
- The CE, which does not elect for excess negative tax carried forward, pays the additional current top-up amount as DTT in Singapore.
- The transition year for the CE refreshes in FY 2027.

- Adjustment Two (set out in the preceding slide) does not apply because the deferred tax asset is attributable to a tax loss that gives rise to an additional current top-up amount in the prior FYs, for which DTT is payable in Singapore.
- As such, the deferred tax asset is taken into account in determining that CE's adjusted covered taxes for the new transition year and the subsequent FYs.

Adjustments for DTT

The following adjustments to tax attributes must be made to the DTT computation for the new transition year to reset the tax attributes (continued):*

3. The rules on recaptured deferred tax liabilities provided in regulation 46(2) of the MMT Regulations do not apply to any deferred tax liability taken into account for DTT computation for a FY prior to the new transition year if it has not been recaptured.
 - The rules on recaptured deferred tax liabilities applies only to new deferred tax liabilities incurred in and taken into account for DTT computation for the new transition year and the subsequent FYs.

* Regulation 93(4) of the MMT Regulations.

Adjustments for DTT

The following adjustments to tax attributes must be made to the DTT computation for the new transition year to reset the tax attributes (continued):*

4. Any excess negative tax carried forward for the CE is eliminated at the beginning of the new transition year.
5. Any amount treated as a special loss deferred tax asset under regulation 47(3)(b) of the MMT Regulations for a FY preceding the new transition year is eliminated.
 - The filing entity of the MNE group may make a new election for special loss deferred tax asset from the new transition year.

* Regulations 93(3) and 93(5) of the MMT Regulations.



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