Notes:

(1) The bond interest income is assessable under s 10(1)(d) for YA 2019.

(2) A deduction of $7,500 ($3,000 × 250%) will be made against the statutory income of the taxpayer in YA 2018 in respect of the $3,000 donation to the Community Chest.

[#] PIC scheme (see ¶4-123c).

(See Chapter 6, Example 1 for further illustration.)

[AAT adapted]

¶4-114

Enhanced deduction of costs for protecting intellectual property

Under s 14A(1) of the ITA, patenting costs incurred between 1 June 2003 and 31 December 2009 or qualifying intellectual property registration costs incurred during the basis period for any year of assessment between YA 2011 and YA 2020 (both years inclusive) by a person for the purposes of his/her trade or business shall be deductible only if:

- there is an undertaking by the person that he/she would be the proprietor of the patent or registered trademark, the registered owner of the registered design or the grantee of the plant variety, as the case may be, when the patent is granted, the trademark or design is registered or the plant variety is granted protection, and
- the claim is made by the person in such manner and subject to such conditions that the Comptroller may impose.

Any patenting costs or qualifying intellectual property registration costs, as the case may be, incurred by a person prior to the commencement of his/her trade or business shall be deemed to have been incurred by that person on the first day he/she carries on that trade or business.

Enhance the tax deduction for costs on protecting intellectual property

To encourage businesses, in particular smaller ones, to register and protect their intellectual property (IP), the Minister has, in Budget 2018 Statement on 19 February 2018, proposed to extend the scheme till YA 2025. In addition, tax deduction will be enhanced from 100% to 200% for the first $100,000 of qualifying IP registration costs incurred for each year of assessment.

This change will take effect from YA 2019 to YA 2025.

Enhanced deduction under Productivity and Innovation Credit Scheme

Under the Productivity and Innovation Credit (PIC) Scheme, where a person carrying on a trade or business incurs qualifying intellectual property registration costs for the purposes of that trade or business during the basis period for each year of assessment between YA 2011 and YA 2018 (both years inclusive), there shall be allowed a deduction to him/her:

- 100% deduction under s 14A(1), and
- 300% enhanced deduction under s 14A(1A), 14A(1B) or 14A(1BA).

on such qualifying expenditure (net of grants and subsidies received from the Government or a statutory board) incurred during the basis period, subject to a cap.

General enhanced PIC deduction cap

Generally, businesses can claim PIC enhanced deduction on qualifying intellectual property registration costs for each year of assessment, subject to the combined expenditure cap for the relevant years of assessment under s 14A(1A), 14A(1B) or 14A(1BA), as follows:

Year of Assessment	*Expenditure Cap*	*Additional 300% Enhanced Deduction*
YA 2011 and YA 2012 (combined)	$800,000 ($400,000 × 2)	$2,400,000 (300% × $800,000)
YA 2013 to YA 2015 (combined)	$1,200,000 ($400,000 × 3)	$3,600,000 (300% × $1,200,000)
YA 2016 to YA 2018 (combined)	$1,200,000 ($400,000 × 3)	$3,600,000 (300% × $1,200,000)

The above combined expenditure cap of $800,000 and $1.2m for the relevant qualifying years of assessment will only apply where a person continues to carry on a trade or business in the basis period relating to each qualifying year of assessment. If the person does not carry on a trade or business in the basis period for all the qualifying years of assessment for which a combined cap applies, the enhanced deduction on the qualifying expenditure will be computed based on an annual or adjusted combined expenditure cap, as the case may be.

For example, if a person does not carry on any business during the basis period for any one year of assessment between YA 2016 and YA 2018 (both years inclusive), the combined qualifying expenditure cap applicable to the other two years of assessment will be $800,000 (ie $400,000 × 2) and not $1.2m.

If a person does not carry on any business during the basis periods for any two years of assessment between YA 2016 and YA 2018 (both years inclusive), the combined qualifying expenditure cap applicable to the remaining year of assessment will be $400,000 and not $1.2m.

Enhanced PIC deduction cap for PIC+ Scheme

From YA 2015 to YA 2018, a qualifying SME can claim an enhanced deduction on qualifying intellectual property registration costs incurred up to $600,000 (instead of $400,000 above) of their expenditure for each year of assessment, subject to the combined expenditure cap for the relevant years of assessment under the PIC+ scheme as follows:

Disposal of patenting costs or qualifying intellectual property registration costs

Where a tax deduction for patenting costs or qualifying intellectual property registration costs has been allowed to the business entity and it sells, transfers or assigns all or any part of the rights for which such patenting costs or qualifying intellectual property registration costs, as the case may be, were incurred, the proceeds at which the rights were sold, transferred or assigned shall be deemed as income and brought to tax in the year of disposal. The amount to be taxed is capped at 100% of the tax deduction previously allowed.

Where the rights are disposed within one year from date of registration and PIC benefits (cash payout/enhanced deduction) have been given previously on the registration costs, such benefits would also be subject to claw back (see ¶9-109b).

The table below summarises the claw-back provisions for intellectual property rights (IPR):

Qualifying deductions comprising	*Claim deduction on registration costs*		*Convert qualifying deductions into cash payout*	
	IPR disposed of within 1 year	*IPR disposed of after 1 year*	*IPR disposed of within 1 year*	*IPR disposed of after 1 year*
Base deduction (cost)	Lower of sale price of IPR or deduction granted previously will be deemed as income in the year of disposal (as per existing tax treatment)		Full cash payout will be recovered by the IRAS	No recovery of cash payout by the IRAS
Enhanced deduction	Deemed as income in the year of disposal and chargeable to tax	No claw back	Claw back of enhanced deduction not applicable	Claw back of enhanced deduction not applicable

"**Patenting costs**" means the fees paid to:

- the Registry of Patents in Singapore or an equivalent registry outside Singapore for the:
  - filing of a patent
  - search and examination report on the application for a patent, or
  - grant of a patent, and
- any registered patent agent for:
  - applying for any patent in Singapore or elsewhere
  - preparing specifications or other documents for the purposes of the *Patents Act* (Cap 221) or the patents law of any other country, or
  - giving advice on the validity or infringement of the patent.

"Qualifying intellectual property registration costs" means the fees paid to:

- the Registry of Patents, Registry of Trade Marks, Registry of Designs or Registry of Plant Varieties in Singapore or an equivalent registry outside Singapore for the:
  - filing of an application for a patent, for registration of a trademark or design, or for the grant of protection of a plant variety
  - search and examination report on the application for a patent
  - examination report on the application for grant of protection of a plant variety, or
  - grant of a patent, and
- any person acting as an agent for:
  - applying for any patent, for the registration of a trademark or design, or for the grant of protection of a plant variety, in Singapore or elsewhere
  - preparing specifications or other documents for the purposes of the *Patents Act* (Cap 221), the *Trade Marks Act* (Cap 332), the *Registered Designs Act* (Cap 266), the *Plant Varieties Protection Act* (Cap 232A) or the intellectual property law of any other country relating to patents, trademarks, designs or plant varieties, or
  - giving advice on the validity or infringement of any patent, registered trademark, registered design or grant of protection of a plant variety.

"Qualifying intellectual property right" means the right to do or authorise the doing of anything which would, but for that right, be an infringement of any patent, registered trademark or design, or grant of protection of a plant variety.

"Patenting costs" and **"qualifying intellectual property registration costs"** shall exclude any expenditure to the extent that it is subsidised by grants or subsidies from the Government or a statutory board.

IRAS Practice: IRAS e-Tax Guide: Productivity and Innovation Credit (Fifth Edition) dated 22 November 2016

Law: s 14A, 37IC

¶4-115 Further deduction for approved trade promotion expenses

Under s 14B of the ITA, expenses incurred by the taxpayer in respect of approved local trade fairs, overseas trade fairs, overseas trade offices or market development of approved marketing projects are eligible for further deduction in addition to the deduction allowed under s 14. This is to encourage the export of goods manufactured in Singapore and the promotion of services overseas.

The expenses must be incurred by an approved firm or company resident in or having a permanent establishment (PE) in Singapore for the primary purpose of:

- promoting the trading of goods or the provision of services, or
- the provision of services in connection with the use of any right under a master franchise or master intellectual property licence where the company or firm is the holder of the franchise or licence.

The types of expenses that will qualify for further deduction are as follows:

(a) expenses in establishing, maintaining or otherwise participating in a trade fair, trade exhibition, trade mission or trade promotion activity held outside Singapore, or an approved trade fair or trade exhibition held in Singapore

(b) expenses in maintaining an approved overseas trade office, or

(c) market development expenditure for the carrying out of any approved marketing project.

In respect of expenses referred to in (a) above which are incurred at any time from 1 April 2012 to 31 March 2020 (both dates inclusive) for the primary purpose of promoting the trading of goods or the provision of services, the firm or company claiming the further deduction need not be an approved firm or approved company. However, the expenses eligible for further deduction, including expenditure for which a further deduction is allowed to the firm or company under s 14K(1A) (see ¶4-120), is capped at $100,000 for each year of assessment.

Enhance the Double Tax Deduction for Internationalisation scheme

To further encourage internationalisation, the Minister has proposed in Budget 2018 on 19 February 2018 to raise the $100,000 expenditure cap for claims without prior approval from IE Singapore or STB to $150,000 per year of assessment. Businesses can continue to apply to IE Singapore or STB on qualifying expenses exceeding $150,000, or on expenses incurred on other qualifying activities.

All other conditions of the scheme remain the same.

This change will apply to qualifying expenses incurred on or after YA 2019.

IE Singapore and STB will release further details of the change by April 2018.

Restrictions

No deduction will be allowed in respect of:

(a) expenses disallowed under s 14

(b) travelling, accommodation and subsistence expenses or allowances for:

  (i) more than two employees taking part in the trade fair, trade exhibition, trade mission or trade promotion activity, being one held or conducted overseas, or

  (ii) more than the approved number of employees taking part in the approved marketing project

(c) any expenses relating to an approved overseas trade office:

  (i) which are incurred in the establishment of the approved overseas trade office

  (ii) by way of remuneration, travelling, accommodation and subsistence expenses or allowances for more than the approved number of employees of the approved overseas trade office

  (iii) which are specifically excluded as a condition for the approval of the overseas trade office under this section

(aa) expenditure incurred during the basis period for any year of assessment between YA 2009 and YA 2025 (both years inclusive) on R&D undertaken in Singapore directly by him/her and not related to that trade or business (except to the extent that it is capital expenditure on plant, machinery, land or buildings or on alterations, additions or extensions to buildings or in the acquisition of rights in or arising out of R&D)

(b) payments made by that person to an R&D organisation for undertaking on his/her behalf in Singapore R&D related to that trade or business

(c) payments made during the basis period for any year of assessment between YA 2009 and YA 2025 (both years inclusive) by that person to an R&D organisation for undertaking on his/her behalf in Singapore R&D not related to that trade or business

(d) payments made by that person to an R&D organisation for undertaking on his/her behalf outside Singapore R&D related to that trade or business

(e) payments made by that person under any cost sharing agreement during the basis period for YA 2012 or a subsequent year of assessment, in respect of R&D that is related to that trade or business (excluding any payment made by him/her for the right to become a party to the cost-sharing agreement), regardless of who undertakes the R&D so long as it is undertaken wholly or partly for himself/herself or on his/her behalf

(f) payments made by that person during the basis period for any year of assessment between YA 2012 and YA 2025 (both years inclusive), under any cost-sharing agreement in respect of R&D that is undertaken in Singapore and is not related to that trade or business (excluding any payment made by him/her for the right to become a party to the cost-sharing agreement), regardless of who undertakes the R&D so long as it is undertaken wholly or partly for himself/herself or on his/her behalf.

The allowable expenditure is net of grants or subsidies received from the Government or a statutory board. In respect of R&D that is undertaken outside Singapore relating to (d) and (e) above, tax deduction will only be allowed to a person if:

- there is an undertaking by the person that any benefit which may arise from the conduct of the R&D shall accrue to the person, and
- the claim is made by the person in such manner and subject to such conditions as the Comptroller may require.

Deduction of expenditure against income subject to different tax rates

Where a person whose income for any year of assessment is subject to tax at different rates, the tax deduction in respect of the expenditure and payments pertaining to s 14D(1)(aa), 14D(1)(c) and 14D(1)(f) above will be as follows:

¶5-101 Capital allowances for fixed assets

Fixed assets are used in a business to generate income. However, expenditure incurred on the acquisition of fixed assets is capital expenditure which does not qualify for tax deduction. Although accounting depreciation is not given as a deduction for tax purposes, tax depreciation or wear and tear allowances or capital allowances are granted instead.

Capital allowances can be claimed in respect of the following tangible and intangible assets:

- plant and machinery (see ¶5-102 – ¶5-111)
- industrial buildings and structures (see ¶5-112 – ¶5-116)
- intellectual property rights (see ¶5-117), and
- approved cost-sharing agreements for research and development activities (see ¶5-118).

Only qualifying capital expenditure incurred by a person carrying on a trade, business or profession under s 10(1)(a) of the *Income Tax Act* (ITA) is eligible for capital allowances claim. The basis period is the preceding accounting year. Where capital expenditure is incurred before the commencement of business, it is deemed to be incurred on the date of commencement of business.

Law: Pt VI

¶5-102 Plant and machinery

The ITA does not provide a definition of ''plant and machinery''. **''Machinery''** basically refers to the ordinary person's understanding of the term, eg factory machines. The term ''plant'' is, however, more difficult to define although Sch 6 to the ITA identifies certain assets qualifying as plant and machinery (see ¶5-103).

For taxation purposes, the term **''plant''** encompasses a very wide definition that includes office equipment, furniture, motor vehicles including commercial vehicles, etc. Sometimes, there is a need to look at case law to decide whether an item is plant. Some examples of case law include:

- *Jarrold v John Good & Sons* 40 TC 681 where movable partitions were held to be plant. Fixed partitions, on the other hand, are not plant.
- *Munby v Furlong* STC 72 where the books in a library were held to be plant for a lawyer.
- *Beach Station Caravans Ltd v Cooke* 49 TC 514 where a swimming pool constructed by a caravan park was held to be plant.

In *Yarmouth v France* (1887) 19 QBD 647, plant was defined as follows:

> ''. . . in its ordinary sense includes whatever apparatus is used by a businessman in carrying on his business, not his stock in trade which he buys or makes for sale; but all goods and chattels fixed or movable, live or dead, which he keeps for permanent employment in his business.''

It is important to realise that an asset could be plant for one type of business and it may not be for another type of business. To decide whether an asset qualifies as plant, there is a need to examine whether the asset is used in the business or whether it merely provides a setting in which a business is carried on.

If the capital expenditure does not qualify as plant, no capital allowances can be claimed but deduction may be claimed under s 14(1)(c) of the ITA (see ¶4-104). For example, new fixed partitions, which do not qualify as plant, are not deductible but the subsequent replacement of the partitions will qualify as a deduction under s 14(1)(c).

Capital allowances can only be claimed for qualifying capital expenditure incurred on plant and machinery. Any capital expenditure on alterations to an existing building that is incidental to the installation of the plant and machinery will be considered as part of the qualifying cost of acquiring the plant and machinery, eg strengthening the floor for the installation of a mainframe computer.

IRAS's clarification on definition of plant

To provide greater clarity and certainty of what the Comptroller would accept as plant for the purposes of claiming capital allowances, the IRAS has issued an e-Tax Guide on Machinery and Plant on 1 July 2009. The e-Tax Guide spells out what constitutes plant for the purposes of claiming capital allowances under s 19 and 19A of the ITA.

The following are general principles for considering whether assets qualify as plant:

- The words ''plant and machinery'' must be given their ordinary meaning.
- Equipment used in a business will generally qualify as ''plant'' provided it has some degree of durability.
- Plant does not include the place or setting in which the business is carried on.
- To determine whether an item is ''plant'' or ''setting'', it is necessary to ascertain the functions it performs in the context of the trade in question.
- Building or structure may be considered as plant if it performs an operational function in the business.
- Items of decoration may be plant if the facts show that they create an atmosphere which is an important function for the particular trade to provide.
- An installation may be plant if it is not for general purpose and is designed to meet the requirements of the specific trade.

Carpets and blinds

Following representations made, the Comptroller has agreed to treat carpets and venetian blinds as plant as they are assets which are necessities in today's modern office. This means that capital allowances can now be claimed on expenditure incurred on carpets and venetian blinds.

Certificate of Entitlement

The Certificate of Entitlement (COE) cost is treated as part of the cost of acquiring the vehicle and is a qualifying capital expenditure. If, however, the COE is obtained without the subsequent acquisition of a vehicle, no capital allowance is granted and no deduction is available as well.

IRAS Practice: IRAS e-Tax Guide: Machinery and Plant: Section 19/19A of the *Income Tax Act* published on 1 July 2009

¶5-103 Initial and annual allowances for plant and machinery

Under s 19 of the ITA, IA and AA are given on due claim to the person who incurs the qualifying capital expenditure in the basis period. The working life of the asset is set out in Sch 6 of the ITA (see below).

IA can be claimed as long as cost has been incurred in the basis period for the year of assessment in which the IA is to be claimed. Therefore, the asset does not have to be in use. The taxpayer can choose not to claim the IA but cannot choose to defer the claim.

IA = 20% of the qualifying capital expenditure

For AA, the asset must be in use at the end of the basis period. The taxpayer can choose to defer the claim.

$$AA = \frac{\text{Cost} - \text{IA}}{\text{Working life (Sch 6)}}$$

Working life

Item	*Number of years of working life of asset*
Aircraft	5
Bank vaults	16
Building and construction equipment (including assets such as rollers, mixers, piling and drilling plants, loaders, dumpers, excavators, bulldozers and support structure)	6
Cable cars and equipment	12
Cables and related assets	16
Containers used for the carriage of goods by any mode of transportation	10
Electric, gas, water and steam, utility plant (including tanks and generators)	16
Electrical equipment (including assets such as electrical and industrial apparatus, domestic and commercial appliances, air conditioning and ventilating equipment)	8
Electronic equipment (including assets such as electronic detection, guidance, control, radiation, computation, test and navigation equipment)	8

- installation of any new certified machine, equipment or system which reduces or eliminates exposure to chemical risk or effective chemical hazard control device or measure for any new or existing machine, equipment or process, and
- capital expenditure incurred on a new goods vehicle or bus as a replacement for an existing goods vehicle or bus
- website.

Withdrawing the Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology scheme

To streamline incentives that promote energy efficiency, the Minister has proposed in his 2017 Budget Statement on 20 February 2017 to withdraw after 31 December 2017 the Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology (''ADA-EEET'') scheme introduced in 1996. No ADA-EEET will be granted for equipment installed on or after 1 January 2018.

''Computer'' means any computer used for automatic data processing and includes any part thereof.

''Automation equipment'' means any machinery or plant designed for the automation of functions or services in any office or factory.

''Efficient pollution control equipment or device'' means any equipment or device for the purposes of preventing, controlling or reducing air pollution or water pollution which satisfies the prescribed criteria.

''Certified energy-efficient equipment'' means any:

- air conditioning system
- boiler
- water pumping system
- washing or dry-cleaning machine system
- refrigeration system
- lift or escalator, or
- instant hot water system,

which has been certified by a professional engineer registered under the *Professional Engineers Act* to be more energy-efficient than the equipment which it replaces.

''Certified energy-saving equipment'' means any:

- solar heating or cooling system
- solar energy collection system
- heat recovery system
- power factor controller
- high efficiency electric motor
- variable speed drive motor control system
- high frequency lighting system
- computerised energy management system, or

- other energy-saving equipment or device,

which has been certified by any person approved by either the Minister or such person as the Minister may appoint to be an energy-saving equipment.

"**Certified low-decibel machine, equipment or system**" means any:

- concrete crusher or splitter
- plastic granulator or crusher
- automatic sawing machine
- metal press or stamping machine
- machine with active noise control feature, or
- other machine, equipment or system,

which has been certified by any person approved by either the Minister or such person as the Minister may appoint to have satisfied the prescribed criteria.

"**Certified effective noise control device**" means any:

- acoustic enclosure for machine, equipment or process
- acoustic silencer or muffler
- vibration absorption, isolation or damping device, or
- active noise control device,

which has been certified by any person approved by either the Minister or such person as the Minister may appoint to have satisfied the prescribed criteria.

"**Certified effective engineering noise control measure**" means any:

- detachable personnel acoustic enclosure
- acoustic barrier or shield
- acoustic absorption device, or
- modification to machine, equipment or process,

which has been certified by any person approved by either the Minister or such person as the Minister may appoint to have satisfied the prescribed criteria.

"**Certified machine, equipment or system which reduces or eliminates exposure to chemical risk**" means any:

- water-based degreasing machine or system
- automatic bagging or packing machine or system
- automatic degreasing machine or system, or
- other machine, equipment or system,

which has been certified by any person approved by either the Minister or such person as the Minister may appoint to have satisfied the prescribed criteria.

"**Certified effective chemical hazard control device**" means any:

- local exhaust ventilation system
- fugitive emission control equipment or system, or
- dilution ventilation system,

which has been certified by any person approved by either the Minister or such person as the Minister may appoint to have satisfied the prescribed criteria.

"Certified effective chemical hazard control measure" means any:

- enclosed or automated system, or
- modification to machine, equipment or process,

which has been certified by any person approved by either the Minister or such person as the Minister may appoint to have satisfied the prescribed criteria.

"Existing vehicle" means any goods vehicle or bus using diesel oil as fuel, and registered before 1 January which:

- is not registered under the RU index marks
- is deregistered on or after 27 February 1999 but not later than one year before the last day on which a renewal of registration licence can be issued under the *Road Traffic Act* (Cap 276) in respect of the vehicle, and
- has, unless the vehicle has been exempted from obtaining a COE, at the date of deregistration of the vehicle:
  - at least one year remaining in its COE, or
  - a COE which can be renewed after its expiration.

"New vehicle" means any new goods vehicle or new bus which:

- is registered within one month before, or within six months after, the deregistration of the existing vehicle, and
- bears an index mark which is the same as that of the index mark of the existing vehicle, and for this purpose, where the new goods vehicle and the existing vehicle have a maximum laden weight exceeding three metric tons but not exceeding 3.5 metric tons, the new goods vehicle shall be deemed to bear an index mark which is the same as that of the existing vehicle.

"Website" means a collection of programmes, data and images which is accessible over the Internet or any network using a browser or any other form of access.

Example 5

An air conditioner was purchased for $3,900 in the basis period for YA 2018. The options for the taxpayer are:

	s 19	*s 19A*
	8 years	*3 years*
	$	$
YA 2018		
– IA (20% × $3,900)	780	–
– AA (80% × $3,900)/8	390	1,300
	1,170	1,300

	s 19	*s 19A*
	8 years	*3 years*
	$	$
YA 2019 AA	390	1,300
YA 2020 AA	390	1,300
YA 2021 AA	390	
YA 2022 AA	390	
YA 2023 AA	390	
YA 2024 AA	390	
YA 2025 AA	390	

Generally, for capital allowance claim, s 19A(1) would be preferred to s 19 as capital allowance claim is maximised for set-off against the taxpayer's income.

IRAS Practice: IRAS e-Tax Guide: One-Year Write-Off for New Diesel-Driven Goods Vehicles and Buses dated 29 June 2012

Law: s 19A(2)–19A(15)

¶5-106a Allowance against income

Where machinery or plant is being used for the trade, profession or business which produces income that is exempt from tax as well as income subject to concessionary tax rate or normal tax rate, the allowances for that year of assessment will be made against each category of income for that year of assessment in such proportion as appears reasonable to the IRAS in the circumstances.

With the necessary modifications, the above will also apply to a person carrying on any trade or business who incurs capital expenditure on machinery or plant between YA 2009 and YA 2018 (both years inclusive) for any research and development undertaken by him/her directly in Singapore or by a research organisation on his/her behalf in Singapore, even though the machinery or plant is not for the purpose of that trade or business.

¶5-107 Enhanced allowance for PIC automation equipment

All businesses (including Singapore branches or subsidiaries of foreign corporations) are eligible to claim the additional 300% enhanced allowances on their investments in PIC automation equipment during the basis period for each year of assessment from YA 2011 to YA 2018 (both years inclusive).

The PIC automation equipment which qualifies for the additional 300% enhanced allowances under the PIC scheme is based on the list of automation equipment specified in the Income Tax (PIC Automation Equipment) Rules 2012 and the Income Tax (PIC Automation Equipment) (Amendment) Rules 2015 which have effect for YA 2011 and subsequent years of assessment as well as the IRAS PIC Information Technology (IT) and Automation Equipment List updated as at 6 August 2015. Examples of IT and automation equipment qualifying for PIC by industry are as follows:

Where the person has incurred expenditure on both the leasing under a qualifying lease (see ¶4-123c) and the purchase of one or more PIC automation equipment during the basis period for any year of assessment between YA 2011 and YA 2018 (both years inclusive), the aggregate of the additional 300% enhanced deduction under s 14T(1), 14T(2), 14T(2A), 14T(4) or 14T(4A) (as the case may be) and the additional 300% enhanced allowance under s 19A(2A) or 19A(2B) or 19A(2BAA) (as the case may be) in respect of all such qualifying expenditure will be subject to a combined qualifying expenditure cap on both purchase and leasing of one or more PIC automation equipment for the relevant years of assessment.

The additional 300% enhanced capital allowance on the purchase of one or more PIC automation equipment is generally granted on the full cost of the equipment.

If the total qualifying capital expenditure incurred on the purchase of one or more PIC automation equipment exceeds the qualifying expenditure cap on both the leasing under a qualifying lease and the purchase of one or more PIC automation equipment during the basis period for any year of assessment between YA 2011 and YA 2018 (both years inclusive), the additional 300% enhanced capital allowance can be claimed on the partial cost of one piece of PIC automation equipment which makes up to the total expenditure cap for the year of assessment concerned.

The balance of the capital expenditure on that particular piece of PIC automation equipment exceeding the combined qualifying expenditure cap incurred in the basis period will continue to enjoy the normal capital allowance based on the current tax rules.

Enhanced allowance cap for PIC+ Scheme

From YA 2015 to YA 2018, a qualifying SME can claim the additional 300% enhanced allowance on the qualifying capital expenditure incurred on the purchase of PIC automation equipment for each year of assessment up to $600,000 (instead of $400,000 above), subject to the combined qualifying expenditure cap for the relevant years of assessment under the PIC+ scheme as follows:

Year of Assessment	*Expenditure Cap*	*Additional Enhanced Allowance*
YA 2013 to YA 2015 (combined)	$1,400,000[#] ($400,000 × 2 + $600,000)	$4,200,000 (300% × $1,400,000)
YA 2016 to YA 2018 (combined)	$1,800,000 ($600,000 × 3)	$5,400,000 (300% × $1,800,000)

[#] $400,000 each for YA 2013 and YA 2014, and $600,000 for YA 2015, as the additional $200,000 expenditure cap applies only to YA 2015.

An entity is a qualifying SME if its annual turnover is not more than $100m or its employment size is not more than 200 workers. This criterion will be applied at the group level if the entity is part of a group. Businesses will self-assess their eligibility for the scheme. Businesses that meet the qualifying criteria can claim the expenditure similar to the current PIC application process.

With the Government's shift away from a more broad-based support approach to a more targeted, sector-focused approach under the Industry Transformation Programme, the PIC scheme will be allowed to lapse after YA 2018, ie it will not be available from YA 2019.

Hire purchase

Under s 19A(2C), where the qualifying PIC automation equipment is acquired on hire purchase that is signed during the basis period for any year of assessment between YA 2011 and YA 2018 (both years inclusive), the capital expenditure cap for the computation of the additional 300% enhanced allowance under s 19A(2A), 19A(2B) or 19A(2BAA) will be determined upfront based on the full cost of the PIC automation equipment.

Thereafter, the additional 300% enhanced allowance will be allowed based on the actual amount of the principal repayments (ie both deposit and instalments, but excluding the finance interest charges) paid during the basis period for the relevant year of assessment.

The additional 300% enhanced capital allowance (CA) on any qualifying PIC automation equipment acquired on hire purchase may be claimed under s 19, 19A(1) or 19(2) as follows:

Type of CA claim	*Computation of IA and AA*
Claim over 1 year under s 19A(2) of the ITA	AA = 100% × A/B × (Base allowance + 300% Enhanced allowance)
Claim over 3 years under s 19A(1) of the ITA	AA = 33⅓% × A/B × (Base allowance + 300% Enhanced allowance)
Claim over tax working life of asset under s 19 of the ITA (Sixth Schedule)	IA = 20% × A/B × (Base allowance + 300% Enhanced allowance) AA = 80% × (Base allowance + 300% Enhanced allowance) / Tax working life
where	A = principal repayments during the basis period (including deposits) B = cost of the qualifying equipment

Where the hire purchase repayment schedule straddles more than one basis period or extends beyond the basis period for the last qualifying year of assessment, the taxpayer can continue to claim the enhanced allowance based on the repayment schedule.

Conversion of qualifying expenditure to cash payout

A qualifying person can opt to convert the qualifying capital expenditure on the purchase of one or more PIC automation equipment into a non-taxable cash payout.

The conversion has to be made on a "per equipment basis" on the full amount of the qualifying expenditure. Partial conversion is not allowed.

Where the capital expenditure is greater than the cash payout cap, the excess capital expenditure for that PIC automation equipment will be forfeited and will not be available for the base capital allowance claim against the business income concerned.

Conversion of qualifying expenditure to cash payout for assets on hire purchase

A qualifying person can opt for cash payout on any qualifying PIC automation equipment acquired on hire purchase. The amount of cash payout for each year of assessment is computed based on the principal amount paid during the basis period for that year of assessment.

For YA 2011, the cash payout was not available for asset acquired on hire purchase with a repayment schedule straddling over two or more basis periods. For YA 2012 to YA 2018 (both years inclusive), the cash payout is available for asset acquired on hire purchase with a repayment schedule straddling over two or more basis periods.

The expenditure conversion cap will be applied on the price of the PIC automation equipment (excluding finance charges).

The option for cash payout has to be done in the year of acquisition and the cash conversion rate is "locked-in" in the same year.

Hire purchase agreement entered in YA 2015	*Repayment of equipment costing $100,000*			
	YA 2015	*YA 2016*	*YA 2017*	*YA 2018*
	$25,000	$25,000	$25,000	$25,000
Conversion rate	60%	60%	60%	60%
Cash payout	$15,000	$15,000	$15,000	$15,000

It is important to note that a business' eligibility for the cash payout is locked in as long as the hire purchase agreement is signed during any of the basis periods relating to YA 2012 to YA 2018. The cash payout on the principal sum repaid (subject to the qualifying expenditure cap) will be granted even beyond YA 2018.

The cash payout rate to be applied is tied to the year of assessment relating to the period in which the hire purchase agreement is signed. For example, the cash payout rate for a hire purchase agreement signed during the basis period relating to YA 2012 is 30%. For agreements signed during the basis period relating to YA 2013 and up to 31 July 2016, the applicable cash payout rate is 60%. For those agreements signed on or after 1 August 2016, the applicable cash payout rate is 40%.

Disposal of prescribed automation equipment

For qualifying PIC automation equipment purchased and disposed of within a year with enhanced allowance claimed:

- a balancing adjustment will be computed based on the base allowance of 100%, and

Section 10(25) of the ITA clarifies the meaning of the words ''received in Singapore'' (see ¶1-101).

Administrative practice on application of s 10(25)

IRAS Interpretation and Practice Note No 20, 1995 sets out the administrative practice which will be adopted when applying s 10(25). Such administrative practice would now have to take into account the tax exemption on all foreign-sourced income received in Singapore by resident individuals:

- As a general rule, s 10(25) will be applied to tax overseas income received in Singapore unless specifically exempt such as the income received in Singapore by an individual, or the specified foreign-sourced income received in Singapore by a resident person (not being an individual) subject to satisfying qualifying conditions. Non-resident foreign businesses that are not operating in or from Singapore can bring their overseas income into Singapore without any Singapore tax exposure.

- As an administrative concession, overseas income applied towards additional investments overseas without being repatriated to Singapore will not be treated as having been received in Singapore at the point of reinvestment.

- Where tax exemption on foreign-sourced income received in Singapore is not applicable, taxpayers with funds outside Singapore, which were derived from both overseas income and non-income sources, wishing to remit only the non-income funds into Singapore may face difficulties convincing the Comptroller that only the non-income funds were remitted into Singapore.

  The Comptroller will, as an administrative concession, be prepared to accept such claims if such claims are supported using either of the following:

  – The taxpayer will have to provide an account of the funds from income and non-income (ie capital) sources on the date before repatriation and demonstrate that after repatriation, the funds remaining outside Singapore is no less than the amount from the overseas income sources which have yet to be repatriated, or

  – The taxpayer can demonstrate that the amount repatriated is not more than the capital sent out net of any losses incurred on capital account.

Example 1

Date before repatriation	$
Overseas income sources	1,000
Overseas non-income sources	2,000
	3,000

Date after repatriation	$
Income	1,000
Non-income	200
	1,200

Amount remitted = $1,800

Since the balance of $1,200 remaining outside Singapore is greater than the amount from overseas income sources, the amount remitted is deemed to be from non-income funds.

Example 2

Facts as in Example 1.

Capital sent out = $2,000.

Amount repatriated = $1,800.

As the amount repatriated is less than the capital sent out, the repatriation is only of capital.

Example 3

Date before repatriation	$
Capital	1,000
Income	800
	1,800

Amount repatriated = $1,100.

As the concession deems capital to be remitted before income, the $1,100 repatriated will consist of capital of $1,000 and income of $100, ie the amount of $700 remaining outside Singapore consists entirely of income.

As an administrative concession, losses incurred overseas on revenue account can be set off against the foreign income derived.

IRAS Practice: IRAS e-Tax Guide: Measures To Facilitate Repatriation of Foreign Income updated on 15 March 2005 (formerly Interpretation and Practice Note No 20, 1995)

Exemption of foreign-sourced income

Under s 13(8) and 13(9) of the ITA, tax exemption will be granted to specified foreign income received or deemed received in Singapore by any person (not being an individual) resident in Singapore on or after 1 June 2003, or by any individual resident in Singapore through a partnership in Singapore on or after 1 January 2004 provided that:

(a) at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) of the foreign jurisdiction from which the income is received is at least 15%

(b) the specified foreign income has been subject to tax of a similar character to income tax (by whatever name called) in the foreign jurisdiction from which the income is received

(c) the Comptroller is satisfied that the tax exemption would be beneficial to the person resident in Singapore.

The highest rate of tax referred to in (a) above need not be the actual rate of tax imposed by the foreign jurisdiction on the specified foreign income. Income tax on the specified foreign income must have been paid or is payable in the foreign jurisdiction from which the income is received.

Additionally, the specified foreign income received in Singapore can be exempted from tax if it was not subject to tax in the foreign jurisdiction due to a direct consequence of that foreign jurisdiction granting a tax incentive for the carrying out of substantive activities in that jurisdiction.

In the case of foreign-sourced dividends, tax referred to under s 13(9)(a) shall cover only:

- the income tax paid (ie underlying tax) in that foreign jurisdiction by the company in respect of its income out of which the dividends are paid, and
- the tax paid (ie withholding tax) on the dividends in that foreign jurisdiction from where the dividends are received.

Definition of "foreign-sourced"

The tax exemption is only for the following specified foreign income:

- *Foreign-sourced dividend*

  A dividend is considered foreign-sourced if paid by a company that is not tax resident in Singapore. This treatment applies even though the dividend received may constitute the income of a trade or business carried on in Singapore by a resident of Singapore.

  There is no shareholding requirement to be met for the tax exemption on foreign-sourced dividends.

- *Foreign branch profits*

  A foreign branch refers to a business operation of a Singapore company registered as a branch in a foreign jurisdiction (ie not a foreign incorporated company).

  Profits of a foreign branch (that qualify for the tax exemption) refer to profits arising from a trade or business carried on by the foreign branch.

  It does not cover non-trade or non-business income (such as interest income or royalty income) of the foreign branch.

- *Foreign-sourced service income*

  Service income refers to professional, technical, consultancy or other services provided by a person in the course of its trade, profession or business.

  Service income is considered foreign-sourced if the service is rendered in the course of a person's trade, business or profession, through a fixed place of operation in a foreign jurisdiction.

In other words, the income from a service will be considered Singapore-sourced if it is not rendered through a fixed place of operation in a foreign jurisdiction and the person rendering the service carries on a trade, business or profession of providing such a service in Singapore notwithstanding that the income is derived from services rendered outside Singapore and that tax is payable on such income in the foreign jurisdiction in accordance with the provisions of a double taxation agreement with that foreign jurisdiction or under the domestic legislation of the foreign jurisdiction.

It should be noted that the specified foreign income received in Singapore can be exempted from tax if it was not subject to tax in the foreign jurisdiction due to a direct consequence of that foreign jurisdiction granting a tax incentive for the carrying out of substantive activities in that jurisdiction.

IRAS e-Tax Guide: Tax Exemption for Foreign-sourced Income (Second Edition) dated 31 May 2013

This IRAS e-Tax Guide sets out:

- two methods that taxpayers can adopt to prove that their foreign-sourced dividends, foreign branch profits and foreign-sourced service income satisfy the ''subject to tax'' condition stipulated under s 13(9)(a) of the ITA, and
- how s 13(9)(b) of the ITA would apply to foreign-sourced dividends, foreign branch profits and foreign-sourced service income received from a foreign jurisdiction that has special tax legislation imposing tax on such income at a rate lower than the highest rate of tax stipulated in its main legislation.

The above administrative concessions are detailed below.

Section 13(9)(a) of the ITA

To further simplify compliance and to give more tax certainty to taxpayers, persons to whom s 13(8) of the ITA applies may adopt any of the following two administrative methods to prove that their foreign-sourced dividend satisfies the ''subject to tax'' condition:

- *Method 1 — Comparison of total dividend paid with total taxed profits*

  For this method, the person receiving the foreign-sourced dividend has to keep track of the total dividends paid by the payer company and the total taxed income (which includes capital gains derived by the payer company which are subject to capital gains tax) of the payer company. If the total amount of taxed income of the payer company is equal to or greater than the total amount of dividends paid by the payer company, up to and including the year of payment of the dividend in question, the Comptroller will consider the ''subject to tax'' condition met.

  This method is suitable for holding companies with newly incorporated foreign subsidiary companies as these holding companies would be in a position to keep track of the taxed income of each foreign subsidiary company and the dividends that each has paid.

- *Method 2 — Use of audited accounts of payer company*

  This method is suitable for portfolio investor. The Comptroller will consider the ''subject to tax'' condition met as long as the audited accounts of the payer company for the financial period ending in the year the dividend (which is not subject to dividend withholding tax in the foreign tax jurisdiction) is received shows a positive current year tax expense.

The above two methods are non-prescriptive. In other words, persons to whom s 13(8) of the ITA applies may choose either of the two methods, or any other method that can prove to the Comptroller satisfactorily that the ''subject to tax condition'' is met. For consistency, taxpayers have to use the same method for all years of assessment. Where there are exceptional changes to the circumstances of the taxpayers to warrant a switch to another method, the taxpayers may seek the Comptroller's approval to change the method used to prove the ''subject to tax'' condition.

Under s 13(9A) of the ITA, it is stated that for the avoidance of doubt, in s 13(9)(a), income is subject to tax if tax has been paid, or tax (not being deferred tax) is to be paid on that income. In addition, the Minister may, in any particular case, waive the conditions referred to in s 13(9)(a) subject to such conditions as he may impose.

Section 13(9)(b) of the ITA

It is hereby clarified that where the specified foreign income is received in Singapore:

- it is chargeable to tax under a special tax legislation of the foreign jurisdiction that is independent of its main legislation which charges tax on income
- the special tax legislation imposes tax at a rate lower than the highest rate applicable to other companies in that tax jurisdiction under the main legislation, and
- the application of the lower rate of tax is not pursuant to a tax incentive granted for carrying out substantive activities in that foreign jurisdiction (eg special tax legislation enacting incentive for income derived from carrying out manufacturing activities in Special Economic Zones),

the headline tax rate for the purposes of s 13(9)(b) of the ITA is the highest of the tax rate stipulated in this special legislation instead of the highest rate of tax specified in the main tax legislation.

Additionally, under s 13(12) of the ITA, the Minister may by order:

- exempt from tax wholly or in part, or
- provide that tax at such concessionary rate of tax be levied and paid on,

the income received by a person resident in Singapore from such source in any country outside Singapore as may be specified in the order.

IRAS e-Tax Guide: Tax Exemption under Section 13(12) for Specified Scenarios and Real Estate Investment Trusts and Qualifying Offshore Infrastructure Project/Asset (Fifth Edition) dated 31 March 2017

This IRAS e-Tax Guide specifies that tax exemption under s 13(12) of the ITA will be granted for specified foreign income received in Singapore under specific scenarios which do not qualify for tax exemption under s 13(8) if:

- the taxpayer is able to track the source of income
- the Comptroller is satisfied that there is no round tripping of locally-sourced income via the overseas investment, and
- the taxpayer in Singapore receiving the specified foreign income is not a shell company.

The specified scenarios are as below.

Scenario A

Where the specified foreign income received in Singapore originated in the foreign tax jurisdiction from which the income was received, and that tax jurisdiction has a headline tax rate of at least 15%, but no tax was paid in that tax jurisdiction because:

- Dividend

  The foreign-sourced dividend was paid out of:

  – capital gains which were not subject to tax in that tax jurisdiction

  – underlying profits derived from carrying out substantive business activities in that tax jurisdiction but were not subject to tax due to:

  (i) set-off of unutilised losses or capital allowances, or

  (ii) the rules under a consolidation regime of that tax jurisdiction.

- Branch profits

  The branch profits were not subject to tax in that tax jurisdiction because:

  – the profits were capital gains which are not subject to tax in that tax jurisdiction, or

  – of set-off of unutilised losses or capital allowances.

- Service income

  The service income was not subject to tax in that tax jurisdiction due to set-off of unutilised losses and capital allowances.

Scenario B

Where:

- the specified foreign income received in Singapore originated from carrying out substantive business activities in the foreign tax jurisdiction from which the income was received
- tax was paid in that tax jurisdiction
- that tax jurisdiction has a headline tax rate of lower than 15%

- that tax jurisdiction is a party to an Avoidance of Double Taxation Agreement (DTA) concluded and signed with Singapore but pending ratification, ie has not been effected in law, and
- when ratified, the DTA provides for exemption of tax on specified foreign income.

Scenario C

Where:

- the specified foreign income received in Singapore originated from carrying out substantive business activities in the foreign tax jurisdiction from which the income was received
- that tax jurisdiction has a headline tax rate of lower than 15%
- that tax jurisdiction is a party to a DTA concluded and signed with Singapore but pending ratification, ie has not been effected in law
- when ratified, the DTA provides for exemption of tax on specified foreign income, and
- no tax was paid in that jurisdiction because:
  - Dividend

    The foreign-sourced dividend was paid out of:

    (i) capital gains which were not subject to tax in that tax jurisdiction

    (ii) underlying profits derived from carrying out substantive business activities in that tax jurisdiction but were not subject to tax due to:

    (a) set-off of unutilised losses or capital allowances

    (b) the rules under a consolidation regime of that tax jurisdiction, or

    (c) the foreign tax jurisdiction granting tax incentive for carrying out substantive activities in that tax jurisdiction
  - Branch profits

    The branch profits were not subject to tax in that tax jurisdiction because:

    (i) the profits were capital gains which are not subject to tax in that tax jurisdiction

    (ii) of set-off of unutilised losses or capital allowances, and

    (iii) the foreign tax jurisdiction granting tax incentive for carrying out substantive activities in that tax jurisdiction
  - Service income

    The service income was not subject to tax in that tax jurisdiction due to:

    (i) set-off of unutilised losses and capital allowances, or

    (ii) the foreign tax jurisdiction granting tax incentive for carrying out substantive activities in that tax jurisdiction.

Scenario D

Where the specified foreign income received in Singapore originated from carrying out substantive business activities in a foreign tax jurisdiction (say Country A) with a headline tax rate of at least 15% and tax was paid in this jurisdiction, but was moved to or invested in another foreign tax jurisdiction(s) (say Country B and then Country C) that did not levy any tax on such income before or when the income was remitted back to Singapore from the other tax jurisdiction (ie Country C).

Scenario E

Where the foreign-sourced dividend received in Singapore was paid out of income that did not originate in the foreign tax jurisdiction from which the dividend income was received (say Country A), but out of income that originated from carrying out substantive business activities in another foreign tax jurisdiction that has a headline tax rate of at least 15% (say Country E) and tax was paid on the originating income in Country E.

The dividend was paid out of the originating profit to another company in another foreign tax jurisdiction (say Country D) that in turn paid dividend to another company in another foreign tax jurisdiction, and so on (say Countries C and B) before being used to pay dividend to the payer company in Country A.

Scenario F

Where the foreign-sourced dividend received in Singapore was paid out of income that did not originate in the foreign tax jurisdiction from which the dividend income was received (say Country A), but out of originating profit derived from carrying out substantive business activities in another foreign tax jurisdiction that has a headline tax rate of at least 15% (say Country E).

The dividend was paid out of the originating profit to another company in another foreign tax jurisdiction (say Country D) which in turn paid dividend to another company in other foreign tax jurisdiction, and so on (say countries C and B) before being used to pay dividend to the payer company in Country A.

Tax was not paid on this income in all these foreign tax jurisdictions (ie Countries A to E) as:

- the originating profit was not subject to tax in Country E because:
  - it was a capital gain
  - of the set-off of unutilised losses or capital allowances
  - of the rules under a consolidation regime of Country E, or
  - it was exempt from tax as a consequence of Country E granting a tax incentive for carrying out substantive activities in Country E, and
- the dividend received in Countries A, B, C and D which was paid out of the originating profit from carrying out substantive business activities (and thereafter used to pay the foreign-sourced dividend received in Singapore) was not subject to tax in Countries A, B, C and D respectively due to:
  - the participation exemption regime of Country A, B, C or D, or

– the tax system of Countries A, B, C and D not taxing foreign-sourced dividend received in Countries A, B, C and D respectively.

IRAS Practice: IRAS e-Tax Guide: Tax Exemption for Foreign-Sourced Income (Fourth Edition) dated 31 May 2013; IRAS e-Tax Guide: Income Tax Exemption under Section 13(12) for Specified Scenarios and Real Estate Investment Trusts and Qualifying Offshore Infrastructure Project/Asset (Fifth Edition) dated 31 March 2017

Law: s 10(25), 13(7A), 13(8), 13(9), 13(12)

¶10-102 Double taxation

Double taxation arises when the same income is taxed more than once; once in the source country and again in the country of residence. Double taxation can be due to:

- **Dual residence**. The same taxpayer may be resident in two or more countries at the same time because different countries have different tests for determining residency, eg place of incorporation and place of effective management.
- **Worldwide tax system**. Many countries impose tax on a worldwide basis. Therefore, income sourced overseas would be taxed once in that source country and then again in the country of residence.

¶10-103 Methods of double taxation relief

To encourage the remittance of foreign-sourced income, relief from double taxation is granted through:

- **treaty relief (bilateral relief)** which can be claimed when there is a tax treaty between Singapore and the foreign country (see ¶10-104–¶10-109), and
- **unilateral relief** which can be claimed for all types of foreign-sourced income received in Singapore from treaty and non-treaty countries (see ¶10-110).

¶10-104 Tax treaties

A tax treaty is an agreement negotiated between the governments of two countries to alleviate double taxation and prevent tax evasion. Singapore currently has comprehensive treaties with 84 countries. For certain countries that have no comprehensive tax treaties with Singapore, ''limited'' agreements for specific types of income (mainly international air transport and shipping income) have been signed instead.

A treaty will state the type of relief available, eg underlying tax relief or tax sparing relief. In situations where the tax treaty provisions conflict with the domestic tax law provisions, the tax treaty provisions will prevail. For example, Singapore domestic laws may provide for withholding tax at 15% while the tax treaty may provide for a 10% withholding tax; in that case, the treaty rate of 10% will prevail. The method of relief is normally dependent on the domestic tax laws.

The claim for tax credit relief must be made not later than two years after the end of the year of assessment in which the overseas income is chargeable to tax in Singapore.

Law: s 50

¶10-105 Relief provisions in tax treaties

Tax treaties usually provide the following alternative methods of achieving relief from double taxation:

- **Deduction method** — The net overseas income received in Singapore is subject to tax.
- **Exemption method** — The overseas income is either wholly or partially exempt from tax.
- **Credit method** — A tax credit is granted based on the lower of:
  - the actual overseas tax suffered, or
  - the Singapore tax payable on the overseas income (net of deductible expenses).

Example 4

On 1 December 2017, a Singapore resident company remitted overseas income of $8,500 (net of foreign tax of 15%) into Singapore. Its Singapore-sourced income is $90,000.

If relief is granted (ignoring partial exemption and tax rebate) under the various methods, the tax payable is as follows:

		$
(a)	**Deduction method**	
	Singapore income	90,000
	Net amount received ($10,000 – $1,500)	8,500
	Chargeable income	98,500
	Tax at 17%	16,745
(b)	**Exemption method**	
	Singapore income	90,000
	Foreign income	Exempt
	Chargeable income	90,000
	Tax at 17%	15,300
(c)	**Credit method**	
	Singapore income	90,000
	Gross foreign income	10,000
	Chargeable income	100,000
	Tax at 17%	17,000
	Less: Double taxation relief	
	(Lower of foreign tax $1,500 or Singapore tax payable $17,000 × $10,000/$100,000)	(1,500)
	Tax payable	15,500

¶10-106

Limit to tax credit

Generally, under the tax credit method of double taxation relief (DTR), no additional Singapore tax is suffered on the remittance of the overseas income if the overseas tax rate is equal to or higher than the Singapore effective tax rate. Should the overseas tax rate be lower than the Singapore effective tax rate, Singapore tax will be payable on the overseas income remitted based on the difference between Singapore tax and the overseas tax.

Example 5

S Pte Ltd received net interest income of $90,000 from a related company in Malaysia on 30 December 2017. The Malaysian withholding tax on the interest was at 10%. S Pte Ltd incurred interest expense of $60,000 in funding this investment.

Question

What is the DTR available to S Pte Ltd?

Solution

	$	
Gross interest income	100,000	
Less: Interest expense	(60,000)	(deductible as it is incurred in the production of income)
Chargeable income	40,000	
Less:		
Partial exemption		
First $10,000 at 75% = $7,500		
Next $30,000 at 50% = $15,000	(22,500)	
Net chargeable income	17,500	
Tax at 17%	2,975	
Less: DTR	(2,975)*	
Tax payable	NIL	

* Lower of (a) $100,000 × 10% = $10,000 or (b) $17,500 × 17% = $2,975