INLAND REVENUE AUTHORITY OF SINGAPORE

IRAS e-Tax Guide

Filing of Income Tax Computations in Functional Currencies other than Singapore Dollars (Second Edition)

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Table of Contents

1 Aim

1.1 This e-Tax Guide explains the rules for filing income tax computations in non-S$ currencies. It applies to businesses that prepare their financial statements in non-S$ functional currencies.

2 At a glance

2.1 For accounting periods beginning on or after 1 January 2003, companies are required to prepare their financial statements in their functional currencies, which may be non-S$. Sole proprietorships and partnerships may also choose to prepare their financial statements in non-S$ functional currencies.

2.2 Where a company, sole proprietorship or a partnership prepares its financial statements in a non-S$ functional currency, its tax computation should also be prepared in the same functional currency. This applies to all items within the tax computation up to:

(a) the chargeable income (after applying the partial or full tax exemption) for a company;
(b) distributable profit / loss/ other income as well as the capital allowances (“CA”) claimed for a partnership; and
(c) adjusted profit / loss (but before any loss brought forward) and the CA claimed for a sole proprietorship.

These three items will then be converted into S$ at the average rate for the relevant Year of Assessment (“YA”).

2.3 If a business shifts from S$ to a non-S$ currency as its functional currency, it would have to translate its existing S$ balances into the non-S$ functional currencies. Such businesses can opt to use either the changeover rate or average rate method[1] for the purpose of translating the existing S$ balances. The business has to elect its choice of method when the tax computation is first submitted in non-S$ functional currencies and such election is irrevocable. Please refer to paragraphs 5.6 and 5.7 for details.

2.4 In addition to the existing S$ balances, there may be other items for which translation is necessary. A summary of the respective translation methods for these items can be found at paragraph 5.29.

[1] The relevant exchange rates to be used for each of these methods are provided in paragraphs 5.2 and 5.3.

3 Glossary

3.1 Businesses

Businesses include companies, sole proprietorships and partnerships.

3.2 Capital allowances

CA claimed by a business under section 16, 17, 18B, 18C, 19, 19A, 19B, 19C, 19D or 20 of the Income Tax Act 1947 ("ITA") for a YA.

3.3 Current year loss items

Unabsorbed CA, trade losses and donations for the current year are collectively referred to as current year loss items.

3.4 Existing companies

Existing companies are companies that have submitted income tax computations in S$ prior to the relevant first YA.

3.5 Existing S$ balances

Existing S$ balances refer to the following items:
(a) unabsorbed tax items;
(b) tax written down value of existing assets;
(c) cost of the assets granted CA that have yet to be disposed of; and
(d) prior year income / expense items.

These are items originally reflected in S$ in the tax computations prior to the relevant first YA.

3.6 Functional currency

The functional currency is the currency of the primary economic environment in which a business operates. Another term for functional currency is measurement currency.

3.7 Newly incorporated companies

Newly incorporated companies refer to companies that prepare their financial statements in non-S$ functional currency since incorporation.

3.8 **Prior year income / expense items**

Prior year income / expense items are S$ items derived / incurred and included in prior year tax computations but were taxable / allowable only in a subsequent YA, when the financial statements are prepared in non-S$ functional currency.

3.9 **Tax written down value**

Tax written down value ("TWDV") refers to the cost of an asset that has not yet been given tax relief by way of CA. CA will be given on the TWDV in future YAs.

3.10 **The relevant first YA**

The first YA when a business prepares its income tax computation in its non-S$ functional currency.

3.11 **Unabsorbed tax items**

Unabsorbed tax items refer to any unabsorbed CA, trade losses (which include any unabsorbed further deduction), donations and investment allowances.

4 Background

4.1 For accounting periods beginning on or after 1 January 2003, the Company Act 1967 requires companies to comply with the Financial Reporting Standards of Singapore ("FRS") and the Interpretations of FRS ("INT FRS"). The FRS in turn requires a company to determine its functional currency (which may be non-S$) and measure its results and financial position in that currency.

4.2 Consequently, the ITA was amended[2] to provide for the filing of income tax computations in the same non-S$ functional currency as that used for the financial statements. The earliest YA for this change is[3]:

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[2] Please refer to section 62B of the ITA and the Income Tax (Functional Currency) Regulations 2004 for details of the requirements. Section 62B will not apply to a company licensed under the Insurance Act 1966 to carry on insurance business in Singapore in respect of accounting periods beginning on or after 1 January 2023. Please refer to IRAS e-Tax Guide – Taxation of Insurers Arising from Adoption of FRS 117 – Insurance Contracts for more details.

[3] Businesses that have been given approval to file their tax computations in their non-S$ functional currencies are allowed to do so from such earlier YA as approved by the Comptroller of Income Tax.

(a) YA 2004 for a business with accounting period beginning on 1 January 2003; and

(b) YA 2005 for a business with accounting period beginning after 1 January 2003.

4.3 For sole proprietorships and partnerships that have chosen to prepare their financial statements in non-S$ functional currencies, they should file their tax computations in the same non-S$ functional currencies. Such financial statements should continue to be certified true and correct by the sole proprietors or precedent partners.

5 Rules governing the filing of income tax computations in non-S$ functional currencies

5.1 The general rules are as follow:

(a) For companies, all items in their tax computations up to the chargeable income (after applying the partial or full tax exemption, where applicable), should be in their non-S$ functional currencies;

(b) For partnerships, all items in their computations up to the distributable profit / loss/ other income as well as the CA claimed, should be in their non-S$ functional currencies; and

(c) For sole proprietors, all items in their tax computations up to the adjusted profit / loss (but before any loss brought forward), as well as the CA for that trade or business, should be in their non-S$ functional currencies.

5.2 Businesses have an irrevocable option of translating all the existing S$ balances into the non-S$ functional currency using the average of the exchange rates[4] of:

(a) the 12 months before the end of the last accounting period in which the financial statements are submitted in S$ - “changeover rate”; or

(b) the accounting period that constitutes the basis period for that YA - “average rate”.

[4] This is computed using the aggregate of the end of each month’s exchange rate for the accounting period divided by the number of months in that accounting period. The average rates, as made available by the Monetary Authority of Singapore, should be used for this purpose. Otherwise, the applicable rate will be that as deemed reasonable by the Comptroller.

5.3 For example, if the company's basis period for YA 2021 is 1 January 2020 to 31 December 2020, the relevant exchange rates to be used for the two options would be:

(a) the average of the exchange rates from 1 January 2019 to 31 December 2019 for the "changeover rate"; or

(b) the average of the exchange rates from 1 January 2020 to 31 December 2020 for the "average rate".

This is illustrated in the timeline below:

A company with basis period 1 Jan 2020 to 31 Dec 2020 (for YA 2021):

1 Jan 2019 to 31 Dec 2019	1 Jan 2020 to 31 Dec 2020
<u>Changeover rate</u>: the average exchange rate over this period	<u>Average rate</u>: the average exchange rate over this period

5.4 Additional rules that apply to specific items of a tax computation are set out below.

(A) Companies

5.5 The rules below apply to existing companies and newly incorporated companies. Illustrations of income tax computations of existing companies using the changeover rate method and average rate method can be found in Annex A and Annex B respectively. An example of a newly incorporated company's tax computation with non-S$ functional currency is provided in Annex C.

<u>Existing S$ balances</u>

5.6 The existing S$ balances for existing companies should be translated into the non-S$ functional currencies using either the changeover rate method or the average rate method[5]. Companies must make an irrevocable election to apply one method in the first YA when they submit their tax return in their non-S$ functional currency.

[5] For the purpose of computing the balancing charge or balancing allowances on an asset that has been granted capital allowances previously, the cost of the asset should also be translated using either the changeover rate method or the average rate method.

5.7 The existing S$ balances of TWDV of existing assets[5] and prior year income/ expenses translated into the non-S$ functional currency amounts should be used to compute the current year CA and deduction in that non-S$ functional currency. Any unabsorbed non-S$ balances[6] will be carried forward to subsequent YAs in the following ways:

(a) If the changeover rate method is used, such balances will be carried forward to subsequent YAs in the non-S$ functional currency;

(b) If the average rate method is used, such balances will be carried forward to the subsequent YA in S$. This is done by translating the unabsorbed non-S$ balances into S$ amounts using the same average rate for that YA. This translation cycle will continue until the existing S$ balances are fully utilised.

The table below summarises the respective treatment under these two methods.

Table 1 – Translation of existing S$ balances using the changeover rate method or average rate method

Changeover rate method	Average rate method
• The changeover rate is used to translate existing S$ balances into non-S$ balances • Current year CA and deduction is computed based on the non- S$ functional currencies • Any unabsorbed non-S$ balances are carried forward in non-S$ functional currencies without further translation.	• The average rate is used to translate existing S$ balances into non-S$ balances • Current year CA and deduction is computed based on the non-S$ functional currencies • Any unabsorbed non-S$ balances are translated back to S$ amount to be carried forward in S$, using the same average rate for that YA.

[6] These include unabsorbed S$ tax items that were brought forward from previous years and remained unabsorbed, and unabsorbed current year CA arising from existing assets that were in S$.

Other current year items

5.8 All other current year items of companies[7] will be reflected in the companies' tax computations in the non-S$ functional currencies as shown in the companies' financial statements.

5.9 Further tax deduction and investment allowance given based on current year expenditure will be shown in the companies' tax computations in the non-S$ functional currencies. There is no need to translate these current year items.

Election of section 24 for sale of property

5.10 A sale of property between related parties may be eligible for an election under section 24 of the ITA[8]. In this case, if the buyer and the seller have different functional currencies, the TWDV of the property in the seller's functional currency must be translated to the buyer's functional currency. The translation is to be done using the exchange rate prevailing at the date of the sale.

5.11 For example, the seller's functional currency is S$ while the buyer's functional currency is US$. The TWDV of the property transferred to the buyer must be translated into US$ using the exchange rate prevailing at the date of sale.

[7] These include:
- current year tax adjusted profit/loss from trade, business, profession or vocation;
- current year CA in respect of assets acquired and costs incurred on industrial buildings on or after the year the companies are allowed to file financial statements in their non-S$ functional currencies;
- other sources of income like interest income, dividend income and rental income etc; and
- current year donation.

[8] To qualify for section 24, the transaction must be one where:
(i) the buyer has control over the seller, or
(ii) the seller has control over the buyer; or
(iii) a third party has control over both the seller and buyer.

Election of section 25 for transfer of property

5.12 A transfer of property without consideration as a result of business conversion may be eligible for an election under section 25 of the ITA[9]. The transferor and transferee can elect for the transferee to claim allowances on the capital expenditure incurred by the transferor in respect of the property, which remained unallowed at the time of the transfer.

5.13 If the transferor and transferee have different functional currencies, the TWDV of the property in the transferor's functional currency must be translated to the transferee's functional currency using the exchange rate prevailing at the date of transfer.

Loss items under the group relief system

5.14 Current year loss items that qualify for transfer under the group relief system[10] will be transferred out based on the non-S$ functional currency of the transferor. Where the functional currency of the transferor is different from the claimant, the current year loss items will be translated into the claimant's functional currency at the average rate.

5.15 A revision to claimant companies' tax assessments may result in reduced amount of loss items claimed by the claimant companies. In this case, the excess of the loss items previously claimed will be retained by the transferor companies, in the transferor companies' functional currencies.

Unrealised foreign exchange gains / losses

5.16 Exchange gains / losses of a revenue nature might have been recognised in the companies' accounts but were regarded as "unrealised" for tax purposes. These exchange gains / losses would have been excluded from the tax computation of the relevant YA, and would be treated as taxable / deductible only in a subsequent YA when the gains / losses are realised or deemed realised for tax purposes.

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[9] The transfer of property may arise from specified circumstances such as the conversion of a firm to a limited liability partnership. For further details of the specified circumstances, please refer to section 25 of the ITA.

[10] For further details, please refer to IRAS e-Tax Guide – Group Relief System.

5.17 With effect from YA 2004, businesses have to align the tax treatment of foreign exchange gains / losses of a revenue nature with the accounting treatment unless an election was made to opt out of the tax treatment in YA 2004.[11] Any unrealised foreign exchange gains / losses of these businesses which have not been taxed or deducted before YA 2004 would be deemed realised in YA 2004.

5.18 These unrealised exchange gains / losses in S$ may be realised or deemed realised in a YA where the reporting was in non-S$ functional currency. In this case, the gains / losses shall be translated to the non-S$ functional currency using the same exchange rate used for the purpose of translating the existing S$ balances.

<u>Exchange gains / losses arising from a change of functional currency</u>

5.19 Foreign exchange gains / losses arising from a change in functional currency are not taxable or deductible for income tax purposes.

<u>Income under tax incentives</u>

5.20 Companies granted tax incentives under the Economic Expansion Incentives (Relief from Income Tax) Act 1967 ("EEIA") may be subjected to a preferential tax rate on their income exceeding S$X[12]. This amount in S$ should be translated into the non-S$ functional currency, using the average rate for the relevant YA.

<u>Partial or full tax exemption</u>

5.21 Any tax exemption granted under sections 43(6A), 43(6B) or 43(6D) of the ITA should be translated into the companies' non-S$ functional currency using the average rate for that YA.

<u>Tax payable</u>

5.22 Tax payable by companies shall be in S$. This is computed by multiplying the companies' chargeable income in their non-S$ functional currencies (after applying the partial or full tax exemption) with the corporate tax rate and translating the tax payable into S$ using the average rate.

[11] From 12 November 2008, businesses that had previously opted out of the tax treatment in YA 2004 could make an irrevocable election to the Comptroller to align the tax treatment of revenue foreign exchange gains / losses with the accounting treatment. Please refer to IRAS e-Tax Guide - Income Tax Treatment of Foreign Exchange Gains or Losses for Businesses for more details.

[12] This amount of S$X is commonly referred to as the base income.

Double taxation relief and unilateral tax credit

5.23 Double taxation relief or unilateral tax credit is to be allowed at the lower of Singapore tax payable on the foreign sourced income (after allowable deductions under the ITA) or the foreign tax paid. The Singapore tax payable on the relevant foreign sourced income should be translated into S$ using the average rate of the same YA.

5.24 The foreign tax paid in non-S$ functional currency (actual amount paid or as reflected in the financial statements) should be translated into S$ using the average rate of the same YA.

Singapore interest/ distribution from Real Estate Investment Trust (REIT)

5.25 Tax deducted at source in respect of Singapore interest from loan stocks or distributions from REIT will be allowed based on the actual S$ amount withheld by the payer company. The amount withheld should be shown on the Singapore dividend statements.

Payment of dividends in non-S$ functional currency

5.26 Resident companies that pay dividends in their non-S$ functional currencies must provide the S$ equivalent of the dividend paid in the dividend voucher / notification, where applicable. The non-S$ functional currencies should be translated into S$ equivalent amount using the exchange rate prevailing at the date of payment of each dividend.

S$ dividend received from Singapore resident companies and S$ interest received from loan stocks

5.27 Any S$ interest received from loan stock where Singapore tax has been deducted at source, should be translated into the company's functional currency for the purposes of income tax filing. This translation is to be done using the average rate for the YA concerned.

5.28 Where the dividend/interest is received in non-S$[13], the recipient has to translate the S$ equivalent of the dividend/interest, as stated in the dividend voucher / notification, where applicable[14], into its own non-S$ functional currency using the average rate. The translation has to be done even if the recipient and payer companies of the dividend/interest used the same non-S$ functional currency.

5.29 A summary of the translation method for the respective tax items can be found below:

Table 2 – Summary of translation method

S/N	Items	Translation method
a.	TWDV of assets transferred under section 24	The TWDV of the assets should be translated into the buyer's functional currency from the seller's functional currency, using the exchange rate prevailing at the date of sale.
b.	Election of section 25 for transfer of property	The TWDV of the assets should be translated into the transferee's functional currency from the transferor's functional currency using the exchange rate prevailing at the date of transfer.
c.	Loss items under group relief system	These items should be translated into the claimant's functional currency from the transferor's functional currency, using the average rate for the relevant YA.
d.	Unrealised foreign exchange gains / losses	These gains/losses (reflected in S$) should be translated into non-S$ when they are realised, or deemed realised in the YA when the tax computation is prepared in non-S$. The rate to be used is the exchange rate used for the purpose of translating existing S$ balances.

[13] This could be because the payer is a Singapore resident company that conducts its business in a non-S$ functional currency.

[14] Refer to paragraphs 5.26 which set out the requirements for companies paying dividend in their non-S$ functional currencies to state the S$ equivalent in the dividend voucher / notification, where applicable.

S/N	Items	Translation method
e.	Income under tax incentives	The S$ base income should be translated into non-S$ using the average rate for the relevant YA.
f.	Partial or full tax exemption	These S$ amounts should be translated into non-S$ using the average rate for the relevant YA.
g.	Tax payable	The tax payable in S$ should be computed by multiplying the companies' chargeable income in non-S$ with the corporate tax rate and translating it into S$ using the average rate for the relevant YA.
h.	Double taxation relief and unilateral tax credit	The Singapore tax payable on the relevant foreign sourced income (reflected in non-S$) should be translated into S$ using the average rate for the relevant YA. The foreign tax paid in non-S$ should be translated into S$ by multiplying the actual amount paid or as reflected in the financial statements with the average rate for the relevant YA.
i.	Receipt of S$ interest from loan stocks	These S$ amounts should be translated into the recipient's functional currency, using the average rate for the relevant YA.

(B) Partners & partnerships

5.30 For partnerships whose financial statements are prepared in non-S$ functional currencies, all items up to the distributable profit / loss/ other income as well as the CA claimed should be in their non-S$ functional currencies. The rules applicable to companies will similarly apply to partnerships, except for those in relation to the transfer of loss items under the group relief system, income under tax incentives, partial or full tax exemption and tax payable.

5.31 The precedent partner of the partnership must make an irrevocable election in writing, in the first tax return submitted in non-S$ functional currency. The election shall specify the method of translating the existing S$ balances (which exclude unabsorbed tax items as there will not be any unabsorbed tax items at the level of the partnership). The amount of profit / loss/ other income and CA allocated to each partner will then be translated into S$ at the average rate for inclusion in the tax computation of each partner.

5.32 Any loss and CA that cannot be absorbed or fully absorbed by a partner will be carried forward to the next YA or carried back to the preceding YA in S$ in that individual partner’s tax computation.

(C) Sole proprietors

5.33 For sole proprietors, all items in their tax computations up to the adjusted profit / loss (but before any loss brought forward) should be in their non-S$ functional currencies. CA for the trade or business should also be reflected in the non-S$ functional currencies.

5.34 A sole proprietor should make an irrevocable election in writing on the method of translating any existing S$ balances (which exclude any unabsorbed tax items). Such an election must be made in the first year when the sole proprietor submit the tax return and financial statements of the sole proprietorship in non-S$ functional currency.

5.35 The adjusted profit / loss, and CA for the current year, as reflected in the non-S$ functional currency should be translated into S$ at the average rate. Unabsorbed losses brought forward in S$ from the previous YA can then be set off against the current year adjusted profit that is translated into S$.

5.36 If the sole proprietorship incurs adjusted loss for the current year, such loss (and the CA) for the YA, as translated into S$, can be set-off against other sources of income of the sole proprietor. Any loss and CA that remain unabsorbed can be carried forward to the following YA or carried back to the preceding YA in S$.

5.37 Any foreign sourced income received by the sole proprietorship should be translated into S$ using the average rate. All reliefs including double taxation relief, unilateral tax credit or personal relief will be computed and allowed in S$. Tax deducted at source in respect of interest from loan stocks will be allowed based on the actual S$ amount withheld by the payer company, as shown on the Singapore tax voucher.

5.38 An example of the tax computation of an individual taxpayer whose sole proprietorship business is carried on in non-S$ functional currency is provided in Annex D.

6 Income tax return filing procedures

6.1 Businesses are required to complete their income tax return and the appendices in S$. This is so even if they conduct their operations and submit their tax computations in non-S$ functional currencies.

6.2 To comply with this requirement, businesses need to translate the relevant non-S$ items into S$ equivalent amounts for the purpose of completing the tax return and its appendices. This can be done using the average rate or changeover rate, whichever is applicable.

7 Contact information

7.1 If you have any enquiries or need clarification on this Guide, please call:

(a) 1800-3568622 (Corporate)
(b) 1800-3568300 (Individual)

8 Updates and Amendments

	Date of amendment	Amendments made
1	12 Aug 2024	• Removed the following as they are no longer relevant: - “incorporated before 1 January 2003” in paragraph 3.4; - “incorporated on or after 1 January 2003” in paragraph 3.7; and - paragraph 3.6 on “Franked dividend” • Updated footnote 2 to indicate s62B of ITA will not apply to company licensed under the Insurance Act 1966 to carry on insurance business in Singapore in respect of accounting periods beginning on or after 1 January 2023. • Inserted new paragraphs 5.12 and 5.13 on “Election of section 25 for transfer of property”. • Removed paragraphs 5.23 and 5.25 as payment of dividends under the imputation system is no longer relevant. • Inserted new paragraph 5.25 on Singapore interest / distributions from REIT. • Updated Table 2 - Summary of translation method in para 5.29 to incorporate the above changes. • Updated examples in the Annex to more recent YAs. • Made editorial changes to various paragraphs.

Annex A – A sample tax computation for an existing company which opt for the "changeover rate method"

- Company ABC with trade profits, interest income and investment allowance.
- Company ABC's non-S$ functional currency is US$ and accounting year end ("y/e") is 31 Mar.
- YA 2021 is the first YA Company ABC is submitting its tax computation in US$ as its functional currency.
- Company ABC elected to use the changeover rate method.

- Average exchange rate from Apr 2019 to Mar 2020 is S$1.36:US$1 – "average rate"
- Average exchange rate from Apr 2018 to Mar 2019 is S$1.37:US$1 – "changeover rate"

Computation of tax payable for Company ABC for the YA 2021 +

	US$	
Trade - Adjusted profit	100,000	
Less: Capital allowance		
- unabsorbed CA b/f	(21,898)	(S$30,000* @ S$1.37:US$1)
- current year CA (for assets existing as at 31 Mar 2019)	(36,496)	(S$50,000** @ S$1.37:US$1)
- current year CA (for assets acquired in y/e 31 Mar 2020)	(10,000)	
	31,606	
Less: Unabsorbed losses b/f	(18,248)	(S$25,000* @ S$1.37:US$1)
	13,358	
Interest Income	10,000	
	23,358	
Less: Donation	(1,200)	
	22,158	
Less: Investment allowance***	(11,111)	
Chargeable Income ("CI") (before exempt amount)	11,047	
Less: Exempt amount (Note 1)	(7,362)	
CI (after deducting exempt amount)	3,685	
	S$	
Tax assessed at 17% (@ S$1.36:US$1)	851.97	

+ Assuming that the tax treatment and tax rate in YA 2021 are the same as those in YA 2020.

* Amounts in S$ as per tax computation for YA 2020.

** TWDV of existing assets in S$ b/f from YA 2020. This represents the remaining 1/3 CA to be given in YA 2021 (section 19A of the ITA). If for instance, there is TWDV to be carried forward to YA 2022, the TWDV to be carried forward to YA 2022 would be in the non-S$ functional currency.

*** Qualifying assets cost of S$90,000 is approved by EDB in 2018, and investment allowance is granted at 30% for 5 years. The qualifying cost is translated to US$ using the changeover rate, which gives US$65,693. Company incurred US$37,037 on qualifying assets in y/e 31 Mar 2020. Thus, it is entitled to claim investment allowance of US$11,111 (US$37,037 x 30%), which is less than US$19,708 (US$65,693 x 30%). Please note that the total amount of investment allowance in S$ should not exceed S$27,000.

Note 1 - Computation of exempt amount for normal chargeable income

[S$100,000 translated into US$ @ S$1.36:US$1 (average rate) is US$73,529. This is the maximum amount of CI in US$ which qualifies for partial tax exemption]

On the first US$7,353 (S$10,000 @ S$1.36:US$1)	**US$**
75% of the income	5,515
On the next US$3,694, 50% of the income	
(US$11,047 - US$7,353) x 50%	1,847
Total exempt amount	7,362

Annex B – A sample tax computation for an existing company which opt for the "average rate method"

- Company ABC with trade profits, interest income, and investment allowance.
- Company ABC's non-S$ functional currency is US$ and accounting year end ("y/e") is 31 Mar.
- YA 2021 is the first YA Company ABC is submitting its tax computation in US$ as its functional currency.
- Company ABC elected to use the average rate method.

- Average exchange rate for the accounting year 2020 (i.e. Apr 2019 to Mar 2020) is S$1.36:US$1 – "average rate"

Computation of tax payable for Company ABC for the YA 2021+

	US$	
Trade - Adjusted profit	100,000	
Less: Capital allowance		
- unabsorbed CA b/f	(22,059)	(S$30,000* @ S$1.36:US$1)
- current year CA (for assets existing as at 31 Mar 2019)	(36,765)	(S$50,000** @ S$1.36:US$1)
- current year CA (for assets acquired in y/e 31 Mar 2020)	(10,000)	
	31,176	
Less: Unabsorbed losses b/f	(18,382)	(S$25,000* @ S$1.36:US$1)
	12,794	
Interest Income	10,000	
	22,794	
Less: Donation	(1,200)	
	21,594	
Less: Investment allowance***	(11,111)	
Chargeable Income ("CI") (before exempt amount)	10,483	
Less: Exempt amount (Note 1)	(7,080)	
CI (after deducting exempt amount)	3,403	
	S$	
Tax assessed at 17% (@ $1.36:US$1)	786.77	

+ Assuming that the tax treatment and tax rate in YA 2021 are the same as those in YA 2020.

* Amounts in S$ as per tax computation for YA 2020.

** TWDV of existing assets in S$ b/f from YA 2020. This represents the remaining 1/3 capital allowance to be given in YA 2021 (section 19A of the ITA). If for instance, there is any remaining TWDV to be carried forward to YA 2022, the remaining TWDV would be translated back to S$ using the average rate for YA 2021 and carried forward in S$. The remaining TWDV would then be translated to the non-S$ functional currency in YA 2022 based on the average rate for YA 2022 and set off against the adjusted profits for YA 2022.

*** Qualifying assets costs of S$90,000 is approved by EDB in 2018, and investment allowance is granted at 30% for 5 years. The qualifying cost is translated to US$ using the average rate, giving US$66,176. Company incurred US$37,037 on qualifying assets in y/e 31 Mar 2020. Thus, it is entitled to claim investment allowance of US$11,111 (US$37,037 x 30%), which is less than US$19,853 (US$66,176 x 30%). Please note that the total amount of investment allowance in S$ should not exceed S$27,000.

Note 1 - Computation of exempt amount for normal chargeable income

[S$100,000 translated into US$ @ S$1.36:US$1 (average rate) is US$73,529. This is the maximum amount of CI in US$ which qualifies for partial tax exemption]

On the first US$7,353 (S$10,000 @ S$1.36:US$1)	**US$**
75% of the income	5,515
On the next US$3,130, 50% of the income	
(US$10,483 - US$7,353) x 50%	1,565
Total exempt amount	7,080

Annex C – A sample tax computation for a newly incorporated company

- Company DEF with interest income, current year unabsorbed losses and capital allowances to be carried forward.
- Company DEF's foreign functional currency is US$ and a/c year end is 31 Dec.
- Average exchange rate for the accounting year 2020 (i.e. Jan 2020 to Dec 2020) is S$1.38:US$1
- Company DEF and its related company (i.e. Company X) qualify as a group for YA 2021 for the purpose of group relief.
- Both Company DEF and its related company, Company X are incorporated on the same day.

Computation of tax payable for Company DEF for the YA 2021

	US$
Interest income	10,000
Less: Current year CA	(20,000)
	(10,000)
Less: Current year unabsorbed CA transferred to claimant Co X (see Note 1)	10,000
Unabsorbed CA c/f	-
Adjusted profit/ (loss)	(100,000)
Less: Current year unabsorbed loss transferred to claimant Co X (see Note 1)	28,696
Unabsorbed loss for y/e 31 Dec 2020 c/f (see Note 2)	(71,304)
Chargeable income	Nil

Note 1
Claimant Co X's functional currency is S$ and for YA 2021, its assessable income is S$53,400. The amount to be transferred from Company DEF in US$ equivalent is US$38,696 (S$53,400 @ S$1.38:US$1). Based on the set off rules under the group relief system, Company DEF's current year unabsorbed capital allowance must be transferred out before its current year unabsorbed loss can be transferred.

Note 2
The amount of unabsorbed loss for y/e 31 Dec 2020 will be carried forward to YA 2022 in US$.

Annex D – A sample tax computation for an existing sole proprietor who opts for the "changeover rate method"

- Mr XYZ has a sole proprietorship XYZ and receives partnership income, employment income and interest income.
- Sole proprietorship prepares its financial statements in US$ functional currency and accounting year end ("y/e") is 31 Dec while the partnership prepares its financial statements in Euro functional currency.

• Average exchange rate for year ended 31 Dec 2020 is S$1.38:US$1 – "average rate"
• Average exchange rate for year ended 31 Dec 2019 is S$1.36:US$1 – "changeover rate"

Computation of tax payable for Mr XYZ for the YA 2021

	US$	
Trade - Adjusted profit before capital allowance & loss b/f	100,000	
Less: Capital allowance		
- unabsorbed CA b/f	(22,059)	(S$30,000* @ S$1.36:US$1)
- current year CA (for assets existing as at 31 Dec 2019)	(36,765)	(S$50,000** @ S$1.36:US$1)
- current year CA (for assets acquired in y/e 31 Dec 2020)	(10,000)	
	31,176	
	S$	
Translate to S$	43,023	(US$31,176 @ S$1.38:US$1)
Less: Unabsorbed losses b/f	(25,000)	
Adjusted profit after CA and losses b/f in S$	18,023	
Share of partnership income	100,000	***
Employment income	100,000	
Interest income	10,000	
	228,023	
Less: Donation	(1,200)	
Assessable income	226,823	
Less: Reliefs	(50,000)	
Chargeable income	176,823	
Tax assessed	16,978.14	(Tax on first S$160,000 is S$13,950; balance of S$16,823 @ 18% ****)

* Amounts in S$ as per tax computation for YA 2020.

** TWDV of existing assets in S$ b/f from YA 2020. This represents the remaining 1/3 capital allowance to be given in YA 2021 (section 19A of the ITA). If for instance, there is another 1/3 capital allowance to be given in YA 2022, then under the changeover rate method, US$36,765 will be carried forward to be given in YA 2022. Under the average rate method, the amount carried forward will be S$50,000. This amount will be converted to US$ based on the average rate for the calendar year 2021 (for YA 2022) to be set off against the trade income for YA 2022.

*** This is arrived at based on 1/5 share of adjusted income after capital allowances. This amount is translated from the partnership's functional currency in Euro into S$ based on the average rate.

**** Based on tax rates for YA 2021