IRAS e-Tax Guide

Income Tax: Foreign Tax Credit Pooling

INLAND REVENUE
AUTHORITY
OF SINGAPORE

Published by
Inland Revenue Authority of Singapore

Published on 27 Dec 2013

Table of Contents

Page

1 Aim ……….. 1

2 At a glance...1

3 Glossary 2

4 Background...3

5 Current foreign tax credit system 3

6 New FTC pooling system 4

7 Administrative procedure 5

8 Frequently asked questions 5

9 Contact information..7

Annex A – Computation of FTC for a company that receives foreign income 8

Annex B – Computation of FTC for a company whose foreign income qualify for DTR & UTC 9

Annex C – Computation of FTC for a company whose income is subject to tax at different tax rates 10

Annex D – Computation of FTC for an individual who receives foreign income 11

Income Tax: Foreign Tax Credit Pooling System

1 Aim

1.1 This e-Tax Guide provides details on the foreign tax credit pooling (FTC pooling) system[1]. The e-Tax Guide is relevant to you if you are a Singapore resident receiving foreign income in Singapore. The FTC pooling system is effective from the Year of Assessment ("YA") 2012.

2 At a glance

2.1 Under the FTC pooling system, you may elect to aggregate the foreign taxes paid (including any underlying tax, where applicable) on any items of your foreign income. This applies to foreign income which you receive in Singapore during the basis period for the YA 2012 and for subsequent YAs, and is available if all the following conditions are met:

(a) income tax must have been paid on the income in the foreign tax jurisdiction from which you derived the income;

(b) the headline tax rate of that foreign tax jurisdiction[2] is at least 15% at the time you receive the foreign income in Singapore;

(c) there must be Singapore tax payable on your foreign income; and

(d) you are entitled to claim for FTC under sections 50, 50A or 50B of the Income Tax Act ("ITA") on your foreign income.

2.2 If FTC pooling applies, the amount of FTC granted to you will be based on the lower of the total Singapore tax payable on those foreign income and the total foreign taxes paid on those income.

---

[1] This e-Tax guide replaces the IRAS's e-Tax Guide on "Income Tax: Foreign Tax Credit Pooling" published on 22 Jun 2011.

[2] The headline tax rate of the foreign tax jurisdiction refers to the highest corporate tax rate of that foreign tax jurisdiction.

3 Glossary

3.1 Foreign tax credit (“FTC”)

This refers to a credit for the foreign tax paid on the foreign income that is allowed as an offset against the Singapore tax payable on the same income. The credit to be granted is the lower of the foreign tax paid and Singapore tax payable.

3.2 Double taxation relief (“DTR”)

This refers to the tax credit given for the foreign tax paid on the foreign income from a tax jurisdiction with which Singapore has an Avoidance of Double Taxation Agreement (“tax treaty”) in force. The allowance of DTR is governed by the terms of the tax treaty.

3.3 Unilateral tax credit (“UTC”)

This refers to the tax credit given for the foreign tax paid on the foreign income from a tax jurisdiction with which Singapore does not have a tax treaty. It is also given where that foreign income is not covered in a limited tax treaty concluded between the foreign tax jurisdiction and Singapore.

4 Background

4.1 To further facilitate the remittance of foreign income to Singapore by resident taxpayers, the FTC system was enhanced in Budget 2011. With the enhancement, resident taxpayers are allowed to pool the FTC on foreign income received ("FTC pooling"). This will reduce the Singapore tax payable on the remitted foreign income.

5 Current foreign tax credit system

5.1 Resident taxpayers are subject to tax on foreign income received in Singapore unless the foreign income qualifies for tax exemption under the ITA[3]. Where that income is also subject to tax in the foreign tax jurisdiction in which it is derived, FTC may be claimed against the Singapore tax payable on the same income. This mitigates double taxation on the same income.

5.2 FTC can be in the form of DTR or UTC allowable under sections 50, 50A or 50B of the ITA. Regardless of the type of FTC claimed, the amount of FTC to be granted is the lower of the foreign tax paid and Singapore tax payable on the income. This is computed on a "source-by-source and country-by-country" basis.

5.3 Under the "source-by-source and country-by-country" basis of FTC computation, any excess of foreign tax paid over the Singapore tax payable on <u>one type of foreign income</u> from a country cannot be used to reduce the Singapore tax payable on <u>another type of foreign income</u> from the same country. For example, any excess of foreign tax paid over the Singapore tax payable on dividend from China cannot be used to reduce the Singapore tax payable on interest from China.

5.4 Similarly, any excess of foreign tax paid over the Singapore tax payable on one type of foreign income from <u>a foreign country</u> is not available for offset against the Singapore tax payable on the same type of income from <u>another foreign country</u>. For example, any excess of foreign tax paid over the Singapore tax payable on dividend from China cannot be used to reduce the Singapore tax payable on dividend from Thailand. The excess foreign tax paid is disregarded for tax purposes.

5.5 In addition, any excess of foreign tax paid over the Singapore tax payable on one type of foreign income from a foreign country cannot be used to reduce the Singapore tax payable on a different type of foreign income from a different foreign jurisdiction. For example, any excess of foreign tax paid over the Singapore tax payable on dividend from China cannot be used to reduce the Singapore tax payable on interest from Thailand.

---

[3] Tax exemption is currently granted, subject to certain conditions, under the Foreign-Sourced Income Exemption (FSIE) regime pursuant to sections 13(7A) and 13(8) of the ITA.

6 New FTC pooling system

6.1 Under the FTC pooling system, you may elect to aggregate the foreign taxes paid (including any underlying tax, where applicable) on any items of your foreign income. This applies to foreign income which you receive in Singapore during the basis period for the YA 2012 and for subsequent YAs, and is provided that all the following conditions are met:

(a) income tax must have been paid on the income in the foreign tax jurisdiction from which you derived the income;

(b) the headline tax rate of that foreign tax jurisdiction is at least 15% at the time you receive the foreign income in Singapore;

(c) there must be Singapore tax payable on your foreign income; and

(d) you are entitled to claim for FTC under sections 50, 50A or 50B of the Income Tax Act ("ITA") on your foreign income.

6.2 If FTC pooling applies, the amount of FTC granted to you will be the lower of the total Singapore tax payable on those foreign income and the pooled foreign taxes paid on those income.

6.3 All other existing conditions applicable to FTC claims under sections 50, 50A or 50B of the ITA remain unchanged. The existing method of computing the amount of Singapore tax payable on your foreign income continues to apply under the FTC pooling system.

6.4 If your foreign income does not qualify for FTC pooling or you do not elect for the pooling of FTC, the "source-by-source and country-by-country" basis of FTC computation continues to apply.

6.5 Your election for claiming FTC under the FTC pooling system on any item of your foreign income is to be made for each YA. In other words, your pool of foreign income under FTC pooling in one YA need not be the same as that in another YA.

6.6 Annexes A to D illustrate the computation of FTC under the FTC pooling system:

(a) Annex A – Computation of FTC for a company that receives foreign income

(b) Annex B – Computation of FTC for a company whose foreign income qualify for DTR and UTC

(c) Annex C – Computation of FTC for a company whose income is subject to different tax rates

(d) Annex D – Computation of FTC for an individual who receives foreign income

7 Administrative procedure

7.1 If you wish to elect for FTC pooling to apply for a YA, you must do so[4] in the tax computation submitted to IRAS together with your annual income tax return for that YA. You should also show clearly the details[5] of the foreign income on which you are claiming FTC under FTC pooling and your computation of the FTC.

7.2 In the absence of an election and your computation of the FTC under FTC pooling, IRAS will compute the FTC on your foreign income using the "source-by-source and country-by-country" basis of computation.

7.3 You are required to maintain relevant supporting documents (for example, withholding tax receipts) to substantiate that foreign income tax had been paid on your foreign income. You need not submit these documents to IRAS unless we ask you to do so.

8 Frequently asked questions

8.1 **Is there any restriction on the types of foreign income or country (from which the foreign income is derived) which can qualify for FTC pooling?**

There is no restriction on the types of foreign income or the foreign tax jurisdictions from which the income is derived under the FTC pooling system. However, the foreign income must meet the conditions stated in paragraph 6.1.

8.2 **Can I change the pool of foreign income after I have made the selection in my income tax return?**

You can submit a revised tax computation showing your revised selection of the pool of foreign income. However, if the revised selection is submitted after a Notice of Assessment is issued, any change in the pool of foreign income under FTC pooling is subject to the normal objection period and procedures.

8.3 **What if my foreign income qualifies for both the FTC pooling system and Foreign-Sourced Income Exemption (FSIE) scheme?**

---

[4] For partners receiving foreign income through partnerships, the partners have to make the election in their respective tax computations.

[5] The details include nature of income, gross income, country in which foreign income is derived, headline tax rate of that country, amount of foreign tax paid and foreign tax rate applicable to the foreign income and net income received.

If your foreign income meets the conditions for both FTC pooling and the tax exemption under the FSIE scheme[6] [under sections 13(7A) or 13(8) of the ITA], you may choose, for that YA, any of the following to apply to your foreign income:

(a) Tax exemption under the FSIE regime; or

(b) FTC under the FTC pooling system; or

(c) FTC under the "source-by-source and country-by-country" basis of computation.

8.4 **I received dividend from a foreign company which had paid income tax on the income out of which the dividend is declared (i.e. the underlying tax). Is such income tax included as "foreign tax paid" on that dividend?**

For FTC pooling purposes, the "foreign tax paid" includes the proportionate amount of the underlying tax paid by the foreign company on the dividend. This is provided that the conditions under the relevant tax treaty or section 50A(3) for claiming FTC on the underlying tax are met.

8.5 **I have foreign income that qualifies for tax sparing credit under a tax treaty. Can this foreign income be pooled with my other items of foreign income under FTC pooling?**

No. Tax sparing credit is generally granted under a tax treaty on foreign income which has not been subject to tax in the foreign tax jurisdiction. Hence, the foreign income does not meet the condition in paragraph 6.1. Tax sparing credit on foreign income continues to be computed using the "source-by-source and country-by-country" basis.

8.6 **How does FTC pooling apply to a company whose income is subject to tax at more than one tax rate?**

Where a company derives foreign income subject to tax at different tax rates (i.e. concessionary and normal tax rates), FTC pooling applies as follows:

(a) the Singapore tax payable on the foreign income (for which the company elects for FTC pooling) under the concessionary and normal tax categories is aggregated; and

(b) the amount of FTC to be given is based on the lower of the total Singapore tax payable and the total foreign taxes paid on the same pool of foreign income.

---

[6] Please refer to the IRAS e-Tax Guide on "Tax exemption for foreign-sourced income" published on 6 Sep 2011.

Annex C illustrates the application of FTC pooling under this scenario.

8.7 Can I elect for FTC pooling if I suffer a loss on the foreign income received?

Where a business suffers a loss (under a tax rate category), the foreign tax paid on the foreign income falling under that tax category is not allowed to be pooled. This is because there is no Singapore tax payable on that foreign income.

8.8 Can FTC pooling apply to my foreign income that is exempt from tax in Singapore?

FTC pooling does not apply to foreign income which is specifically exempt from tax in Singapore (e.g. exemption given under section 13H of ITA), as there is no Singapore tax payable on the foreign income.

An exception is where the foreign income only qualifies for tax exemption under the FSIE regime. In this case, you may still elect to claim FTC on the foreign income under FTC pooling. Upon election, the tax exemption under the FSIE regime does not apply. Instead, the said foreign income will be brought to tax, with FTC granted under FTC pooling.

8.9 Can FTC pooling apply to my foreign income that is subject to the quarantine rules under the ITA?

Where your foreign income is subject to quarantine rules specified under the ITA (e.g. section 10D, 10E, 10H, 26, 43I, 43Y, 43ZA etc.), you may still elect for FTC pooling to apply. This is provided that the conditions for FTC pooling are satisfied. However, if you suffer a loss under a particular tax category, the foreign income under that tax category will not qualify for FTC pooling.

9 Contact information

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

(a) 1800-3568622 (Corporate)

(b) 1800-3568300 (Individual).

Annex A – Computation of FTC for a company that receives foreign income

	Headline tax rate of country	Amount	Foreign tax paid	Deductible expenses
Trade income (net of deductible exp. & CA)		2,190,000		
Foreign income - dividend (Country X)	20%	80,000	16,000	1,000
Foreign income - dividend (Country Y)	10%	100,000	10,000	1,000
Foreign income - interest (Country Z)	15%	200,000	20,000	20,000

Company A derives and receives the above income during the basis period for YA 2013. It elects for FTC pooling on dividend from Country X and interest from Country Z (both income qualifying for DTR). Dividend from Country Y does not qualify for FTC pooling as the headline tax rate condition is not met.

Tax computation for YA 2013:

Trade income (net of deductible expenses and capital allowances)	2,190,000	
Dividend (Country X) (net of deductible expenses of $1,000)	79,000	(A)
Dividend (Country Y) (net of deductible expenses of $1,000)	99,000	(B)
Interest (Country Z) (net of deductible expenses of $20,000)	180,000	(C)
Total statutory income	2,548,000	(D)
Less : deductible donations (assumed)	-8,000	
	2,540,000	
Less : investment allowance (assumed)	-140,000	
	2,400,000	
Less : group relief transferred in under section 37C (assumed)	-200,000	
	2,200,000	
Less: partial tax exemption amount	-152,500	
Chargeable income after exempt amount	2,047,500	
Tax @ 17%	348,075.00	(E)
Less : FTC under pooling system	-35,381.25	
FTC not under pooling system	-10,000.00	
	302,693.75	
Less: corporate tax rebate*	-30,000.00	
Net tax payable	272,693.75	

* A 30% corporate tax rebate, subject to a cap of $30,000 per YA, is available for YA 2013 to YA 2015.

Computation of FTC under FTC pooling system

Singapore tax payable on foreign income	
-- dividend (Country X) (A/D x E)	10,791.96
-- interest (Country Z) (C/D x E)	24,589.29
Total Singapore tax payable on income qualifying for FTC pooling	35,381.25
Total foreign tax paid	36,000.00
FTC = lower of total Singapore tax payable and total foreign tax paid	**35,381.25**

Computation of FTC on dividend from Country Y

Singapore tax payable on dividend (B/D x E)	13,524.11
Foreign tax paid	10,000.00
FTC = lower of total Singapore tax payable and foreign tax paid	**10,000.00**

Annex B – Computation of FTC for a company whose foreign income qualify for DTR & UTC

	Headline tax rate of country	Amount	Foreign tax paid	Expenses applicable to foreign income
Service income – local		3,000,000		
Service income - from Country X	20%	500,000	100,000	
Deductible expenses & CA for service income		2,000,000		
Foreign income - interest (Country Y)	30%	200,000	20,000	1,000
Total foreign tax paid			120,000	

Company B is engaged in the business of providing consultancy services in Singapore and derives the above income during YA 2013. It elects for the FTC pooling on service income from Country X (qualifying for UTC) and interest income from Country Y (qualifying for DTR).

Tax computation for YA 2013:

Service income - local		3,000,000	
Service income - Country X		500,000	(A)
Total service income		3,500,000	(B)
Less: deductible expenses & capital allowances		-2,000,000	
		1,500,000	(C)
Interest (Country Y)	200,000		
Less: expenses	-1,000	199,000	(D)
		1,699,000	(E)
Less: deductible donations (assumed)		-100,000	
Less: partial tax exemption amount		-152,500	
Chargeable income after exempt amount		1,446,500	
Tax @ 17%		245,905.00	(F)
Less : FTC under pooling system		-59,816.96	
		186,088.04	
Less: corporate tax rebate*		-30,000.00	
Net tax payable		156,088.04	

* A 30% corporate tax rebate, subject to a cap of $30,000 per YA, is available for YA 2013 to YA 2015.

Computation of FTC under FTC pooling system

Singapore tax payable on:	
-- service income (A/B x C/E x F)	31,014.67
-- interest (D/E x F)	28,802.29
Total Singapore tax payable on income qualifying for FTC	59,816.96
Total foreign tax paid	120,000.00
FTC = lower of total Singapore tax payable and total foreign tax paid	**59,816.96**

Annex C – Computation of FTC for a company whose income is subject to tax at different tax rates

	Concessionary tax rate 10%	Normal tax rate 17%	Total foreign tax paid
Trade income (net of deductible expenses and capital allowances)	800,000	1,200,000	
Royalty (Country X) (net of expenses)	300,000	200,000	
Foreign tax paid on royalty	45,000	10,000	55,000

Company C enjoys the concessionary tax rate of 10% on its qualifying trade income and royalty income from foreign countries. It elects for FTC pooling on all its royalty income received in Singapore (which qualifies for DTR).

(Assume headline tax rate condition met.)

Tax computation for YA 2013:

	10%		17%		Total
Trade income (net of deductible exp. & CA)	800,000		1,200,000		2,000,000
Foreign income – royalty	300,000	(A)	200,000	(D)	500,000
	1,100,000	(B)	1,400,000	(E)	2,500,000
Less: partial tax exemption amount	-		-152,500		-152,500
Chargeable income after exempt amount	1,100,000		1,247,500		2,347,500
Tax @ 10% / 17%	110,000.00	(C)	212,075.00	(F)	322,075.00
Less : FTC under pooling system					-55,000.00
					267,075.00
Less: corporate tax rebate*					-30,000.00
Net tax payable					237,075.00

* A 30% corporate tax rebate, subject to a cap of $30,000 per YA, is available for YA 2013 to YA 2015.

Computation of FTC under FTC pooling system	
Singapore tax payable on:	
-- royalty under 10% concessionary tax rate (A/B x C)	30,000.00
-- royalty under 17% normal tax rate (D/E x F)	30,296.43
Total Singapore tax payable on income qualifying for FTC	60,296.43
Total foreign tax paid	55,000.00
FTC = lower of total Singapore tax payable and total foreign tax paid	**55,000.00**

Annex D – Computation of FTC for an individual who receives foreign income

Mr. David is a partner in ABC partnership. He is 40 years old. For YA 2013, his share of partnership income is $500,000. ABC partnership also receives foreign income in the form of service income (from services rendered overseas), interest and dividend from countries X, Y and Z respectively. Mr. David's share of the foreign income and the headline tax rates are summarized in the table below.

	Headline tax rate	Share of income[1]	Share of foreign tax paid
Share of partnership income		500,000	
Foreign income – Service income (Country X)	15%	60,000	6,000
Foreign income – Interest (Country Y)	20%	50,000	10,000
Foreign income – Dividend (Country Z)	20%	100,000	20,000

Mr. David elects for FTC pooling on his service income (not qualifying for tax exemption under section 13(8) but qualifying for UTC) and interest income (qualifying for DTR). His dividend income from country Z qualifies for tax exemption under section 13(8) of the ITA.

<u>Tax computation for YA 2013:</u>

Share of partnership income	500,000	
Share of service income (Country X)	60,000	(A)
Share of interest income (Country Y)	50,000	(B)
	610,000	(C)
Less : Personal reliefs (assumed)	-50,000	
Chargeable income	560,000	
Tax payable on: first $320,000	42,350.00	
next $240,000 @ 20%	48,000.00	
Gross tax payable	90,350.00	(D)
Less : FTC (see computation below)	-16,000.00	
	74,350.00	
Less : Personal income tax rebate*	1,500.00	
	72,850.00	
Less : Parenthood tax rebate (say 4th child)	-20,000.00	
Net tax payable	52,850.00	

* A 30% personal income tax rebate of up to $1,500 is available to individuals aged below 60 for YA 2013.

<u>Computation of FTC under FTC pooling system</u>	
Singapore tax payable on foreign income	
-- Service income (Country X) (A/C x D)	8,886.89
-- Interest income (Country Y) (B/C x D)	7,405.74
Total Singapore tax payable on income elected for FTC pooling	16,292.63
Total foreign tax paid (6,000 + 10,000)	16,000.00
FTC = lower of total Singapore tax payable and total foreign tax paid	**16,000.00**

[1] Income shown is net of all relevant deductible expenses.