

IRAS e-Tax Guide

Group Relief System (Second Edition)



INLAND REVENUE
AUTHORITY
OF SINGAPORE

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Table of contents

| | Page |
|---|------|
| 1 Aim | 5 |
| 2 At a glance | 5 |
| 3 Glossary | 6 |
| 4 Background | 8 |
| 5 Group Relief System | 8 |
| 6 Definition of group companies | 8 |
| 7 First level test – Ordinary shareholding requirement | 11 |
| 8 Second level test – Profits & assets available for distribution | 12 |
| 9 Same accounting year end requirement | 12 |
| 10 Specific exclusions from group relief | 13 |
| 11 Transfer rules for group relief system..... | 14 |
| 12 Quantum of loss items for transfer under group relief system..... | 16 |
| 13 Transfer/claim loss items to/from more than one companies..... | 17 |
| 14 Administrative requirements for application of group relief | 18 |
| 15 Anti-avoidance measure..... | 21 |
| 16 Payments for benefits of group relief..... | 22 |
| 17 Frequently asked question..... | 22 |
| 18 Contact information | 22 |
| 19 Updates and Amendments | 22 |
| Annex 1 – Illustration of whether two or more Singapore-incorporated companies are members of the same group | 24 |
| Annex 2 – Application of shareholding test | 29 |
| Annex 3 – Illustration of ordinary shareholding requirement and entitlement to profits & assets test | 30 |
| Annex 4 – Illustration of requirement for group companies to have same accounting year end | 34 |

| | |
|---|-----------|
| Annex 5 – Illustration of how loss items are transferred under group relief system | 38 |
| Annex 6 – Quantum of loss transfer under group relief system..... | 46 |
| Annex 7 – Order of priority specified by transferor & claimant..... | 50 |

Group relief system

1 Aim

- 1.1 This e-Tax Guide provides details on the group relief system effective from the Year of Assessment (“YA”) 2003¹.
- 1.2 It would be relevant to a Singapore incorporated company wishing to deduct its unabsorbed capital allowances, losses and donations for the current year against the assessable income of another Singapore incorporated company within the same group.

2 At a glance

- 2.1 For tax purposes, companies within a group are treated as separate legal entities. Each company’s tax liabilities are determined independently from those of other companies within the same group.
- 2.2 Under the group relief system introduced from YA 2003, group companies are recognised as one single company for the purpose of utilising each other’s unabsorbed capital allowances, trade losses and donations. In other words, a company with unabsorbed capital allowances, trade losses and donations for the current year can either:
 - a) keep them for deduction against its future assessable income; or
 - b) deduct them against another group company’s assessable income in the same year under the group relief system.
- 2.3 To enjoy the group relief, the company that transfers its unabsorbed capital allowances, trade losses and donations for the current year and the company that receives such items must:
 - a) be Singapore incorporated companies,
 - b) belong to the same group of companies and maintain ordinary shareholdings of 75% (paragraph 6), and
 - c) have the same accounting year end (paragraph 9).

¹ This e-Tax guide replaces the IRAS’ e-Tax guide on “Loss transfer system of group relief” published on 23 Oct 2002.

3 Glossary

3.1 Assessable income

Assessable income of a company refers to its income from all sources after deducting capital allowance, losses, approved donations and other relevant deductions like incremental research and development expenses or investment allowances.

3.2 Claimant

A claimant is a company that claims loss items from another company in the same group for deduction against its assessable income.

3.3 Commercial loan

Commercial loan refers to any borrowing that entitles the creditor to only a fixed return. This return can be a fixed amount, a fixed rate percentage (including a specified floating rate) of the principal amount of the loan, or a fixed rate percentage of the profits of the borrower.

3.4 Equity holder

Equity holder means any holder of ordinary shares (i.e. all shares excluding shares that carry only a right to fixed dividends) in the company and any creditor of the company in respect of any non-commercial loan.

3.5 Loss items

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

3.6 Non-commercial loan

Non-commercial loan is any borrowing other than commercial loan which entitles the creditor to variable profit participation in a company.

3.7 Residual assets

Residual assets available for distribution to equity holders refer to net assets of the company upon a notional winding up, after distribution to commercial loan creditors and shareholders other than ordinary shareholders.

3.8 Residual profits

Residual profits available for distribution to equity holders refer to the profits of the company that equity holders would be entitled to receive if

there is a distribution of the company's profits. Accordingly, residual profits represent profits of the company:

- a) after deducting any fixed dividends on all shares (including ordinary shares);
- b) but before deducting any non-fixed return on non-commercial loans and any non-fixed dividend on ordinary shares.

3.9 Transferor

A transferor is a company that transfers its loss item to another company in the same group.

3.10 Unabsorbed capital allowances

The capital allowances claimed by a company (under section 16, 17, 18A (repealed), 18B, 18C, 19, 19A, 19B, 19C, 19D or 20 of the ITA) for a YA that exceeds the company's aggregate taxable income for that YA.

3.11 Unabsorbed trade losses

The trade loss incurred by a company for a YA that exceeds the company's income from all sources for that YA.

3.12 Unabsorbed donations

The donations in kind or cash to approved recipients as provided under sections 37(3) (b), (c), (d) or (f) of the ITA for a YA that exceeds the company's statutory income for that YA.

4 Background

- 4.1 Each company within a group is a single corporate legal entity although it may be related to each other through common shareholding. For income tax purposes, the tax liability of each company within the same group is determined separately. Thus, prior to the group relief system, a company could not deduct its unabsorbed capital allowances, trade losses and donations for the current year (collectively known as loss items) against another group company's assessable income. The company could, however carry them forward for setoff against its future assessable income subject to satisfying certain conditions under the Singapore Income Tax Act ("ITA") (e.g. shareholding test, maximum five YAs for carrying forward of donations, etc.).

5 Group Relief System

- 5.1 From YA 2003, the group relief system² allows a company ("transferor") to transfer its loss items of a YA to another company ("claimant") for deduction against the latter's assessable income for the same YA when they satisfy the following conditions:
- a) Both companies are Singapore incorporated companies belonging to the same group of companies, and
 - b) Both companies have the same accounting year end.
- 5.2 The claim for group relief is subject to:
- a) the rules governing the order of transfer of loss items and the quantum to be transferred (paragraphs 11 to 13).
 - b) the administrative procedures spelt out in paragraph 14 and imposed by the Comptroller of Income Tax ("CIT") from time to time.

6 Definition of group companies

- 6.1 For the purpose of group relief, a group must consist of a Singapore incorporated company and its Singapore incorporated group members. The transferor and claimant are members of the same group if:
- a) at least 75% of the total number of issued ordinary shares in one company are beneficially held, directly or indirectly, by the other (i.e. the relevant holding company); or
 - b) at least 75% of the total number of issued ordinary shares in each of the two companies are beneficially held, directly or indirectly, by

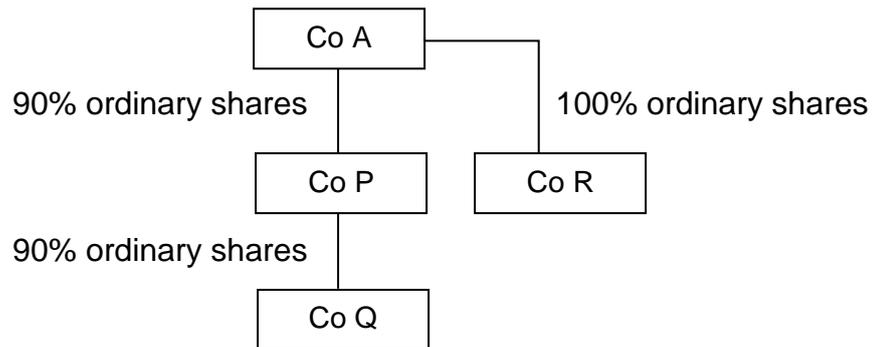
² The group relief system is provided under section 37C of the ITA.

a third Singapore incorporated company (i.e. the relevant holding company)

6.2 In other words, a transferor and claimant are members of the same group so long as the ordinary shareholding level (direct or indirect) of the relevant holding company is at least 75%. This is illustrated in the example below.

Example 1 – Illustration of direct and indirect shareholding

The diagram below shows Co A and its group of companies and their ordinary shareholdings. All the companies are incorporated in Singapore.



| Members | Percentage of ordinary shareholding | 75% met? |
|---------|--|----------|
| A & P | 90% (direct shareholding) [paragraph 6.1(a)] | Yes |
| A & Q | 81% (indirect shareholding) (90% x 90%) ³ [paragraph 6.1(a)] | Yes |
| P & Q | 90% (direct shareholding) [paragraph 6.1(a)] | Yes |
| P & R | Both P and R are at least 75% directly owned by A [paragraph 6.1(b)] | Yes |
| Q & R | Both Q and R are at least 75% directly or indirectly owned by A [paragraph 6.1(b)] | Yes |

³ Where:

- a) A Singapore incorporated company (P) beneficially owns directly or indirectly a fraction of the ordinary shares (X%) of a second Singapore incorporated company (S1);
- b) S1 beneficially owns directly or indirectly a fraction of the ordinary shares (Y%) of a third Singapore incorporated company (S2);

P's beneficial ownership of the ordinary shares of S2 is deemed to be the multiplication of X% and Y%. This process may be followed through any number of companies.

In this example, A has indirect shareholding of 81% in Q. This is determined by multiplying its direct shareholding of 90% in P with P's direct shareholding of 90% in Q.

6.3 In determining the ordinary shareholding level, any direct or indirect shareholdings by:

- a) a company not incorporated in Singapore; or
- b) an entity which is not Singapore incorporated company (e.g. a trade association, an individual, etc.)

would be disregarded. Please refer to Annex 1 for more examples on when two or more Singapore-incorporated companies are considered as members of the same group.

6.4 The 75% ordinary shareholding requirement under paragraph 6.1 is considered met if these two level tests are met:

- a) First Level Test: Ordinary shareholding requirement (paragraph 7)
- b) Second Level Test: Profits and assets available for distribution (paragraph 8)

6.5 To be eligible for group relief, the relevant holding company not only has to maintain direct or indirect ordinary shareholding level of at least 75%, it must also maintain such level on the last day of the basis period for a YA. Please refer to the table below.

Table 1 – Determining eligibility for group relief

| Shareholding level of relevant holding company | Eligible for group relief? |
|--|--|
| At least 75% throughout the basis period for the YA | Yes. This is because the companies are considered as members of the same group for the purpose of the group relief system. |
| At least 75% on the last day of the basis period but had fallen below 75% during the basis period for the YA | <p>Yes, but is limited to the continuous period ending on the last day of the basis period during which the companies were members of the same group (see paragraph 12).</p> <p>The companies are not eligible for group relief relating to the loss items attributable to the period when the ordinary shareholding level falls below 75%. This is because the companies are no longer considered as members of the same group for the purpose of the group relief system. Please see example 1 in Annex 2.</p> |

| Shareholding level of relevant holding company | Eligible for group relief? |
|--|---|
| Below 75% on the last day of the basis period for the YA | No, even though there may be periods during the basis period when the ordinary shareholding level is maintained at or above 75%. Please see example 2 in Annex 2. |

7 First level test – Ordinary shareholding requirement

7.1 Under the group relief system, the 75% ordinary shareholding is determined based on ordinary shares only. Ordinary shares are all shares issued by a company apart from:

- a) Treasury shares [as defined in section 4(1) of the Companies Act (Chapter 50)], and
- b) Shares that carry only a right to fixed dividends, i.e. dividends payable based on:
 - i. a fixed amount;
 - ii. a fixed rate percentage of the value of the shares; or
 - iii. a fixed rate percentage of the profits of the company

7.2 In other words, ordinary shares are shares (other than treasury shares) which carry a right to variable profit participation. The table below illustrates when shares would be considered as ordinary shares

Table 2 – Determining ordinary shares

| Scenario | Ordinary shares? |
|--|--|
| A company with no share capital (e.g. a company limited by guarantee) | No. Since ownership is based on holdings of ordinary shares, the company would not qualify for group relief. |
| Shares which carry rights to fixed dividends and a right to participate in profits of the company remaining after payment of fixed dividends | Yes |
| Shares which carry only a right to a fixed dividend but no right to variable profit participation | No |

| Scenario | Ordinary shares? |
|--|------------------|
| Shares that carry a right to fixed dividends, together with rights other than variable profit participation e.g. rights of conversion to shares of other description or rights to acquire new shares | No |

8 Second level test – Profits & assets available for distribution

- 8.1 The holders of the ordinary shares must also demonstrate that they are beneficially entitled, directly or indirectly, to at least 75% of:
- a) Any residual profits of the company available for distribution to the company's equity holders; and
 - b) Any residual assets of the company available for distribution to the company's equity holders upon winding up of the company.
- 8.2 The holders of ordinary shares must be beneficially entitled to the profits and assets of the company in proportion to their equity interest.
- 8.3 Please refer to Annex 3 which illustrates the application of the first and second level test.
- 8.4 Where a company has positive residual assets, the ordinary shareholders' percentage entitlement to residual assets will be determined based on the actual value of residual assets distributable to them in a notional winding up. Where a company has no residual profits or has negative residual assets, a notional residual profit or residual assets of \$100 is used to calculate equity holders' notional entitlement.
- 8.5 The beneficial entitlement of the equity holders to the notional residual assets of \$100 is determined based on the ratio of sharing residual assets agreed among the equity holders (generally based on the respective values of the ordinary shares held and the principal values of the non-commercial loans).

9 Same accounting year end requirement

- 9.1 Group companies are usually required to have the same accounting year end for financial reporting purposes. Thus, to simplify the claim for group relief, the transferor and claimant must have the same accounting year end to qualify for group relief.
- 9.2 This requirement is only applicable to the transferor and claimant. For example:

- Transferor (A) and claimant (B) are directly or indirectly held by a third company (C) within the same group
- A and B have the same accounting year end
- C has different accounting year end
- C is not claiming or transferring loss items
- A and B are eligible for group relief even though C does not have the same accounting year end

9.3 Please refer to Annex 4 which illustrates the requirement for members of the same group to have the same accounting year end.

10 Specific exclusions from group relief

10.1 Loss items that do not qualify for transfer under the group relief system include:

- a) Losses attributable to the operations of foreign branches.
- b) Loss items of a company's trade or activity which if they were income, are wholly exempt from tax (e.g. income from an activity of a pioneer enterprise approved under the Economic Expansion Incentive (Relief from Income Tax (Amendment) Act 2018 ("EEIA")). Such loss items will continue to be deducted only against such exempt income within the same company. This is so even if there are provisions for such loss items to be deducted against other non-exempt income within the same company at the end of the incentive period (e.g. under the pioneer incentive).
- c) Loss items from specific categories of activities or trade where there are rules limiting the deduction of such loss items to the income from such activities or trade (e.g. income from finance leases under section 10D of ITA, income from business of hiring out motor cars under section 10H of ITA, etc.)
- d) Capital losses which an eligible investor company made upon selling its qualifying shares in start-up companies approved under section 97T of EEIA.

10.2 Investment allowance given under the EEIA will not be available for transfer under the group relief system.

10.3 A start-up companies approved under section 97T of the Income Tax Act cannot transfer their loss items to nor claim loss items from another member of the same group

10.4 A company deriving income from the business of making of investments and subject to tax in accordance with section 10E of the ITA may claim loss items under the group relief system. But it can only transfer its loss items to a limited extent as shown in the table below.

Table 3 – Eligibility of group relief for loss items under S10E

| Type of loss items of company (S10E) | Eligible for group relief? |
|---|------------------------------|
| Excess of a) outgoings and expenses, and b) capital allowance granted under sections 19, 19A, 19B, 19C, 19D, 20 and 21 of ITA over the company's income derived from income-producing investments in any year which are not allowed to be carried forward | No |
| Current year unabsorbed donations | Yes |
| Current year unabsorbed industrial building allowance granted under sections 16, 17, 18B and 18C of the ITA | Yes with effect from YA 2007 |

11 Transfer rules for group relief system

11.1 In determining the income chargeable to tax for a company, capital allowances, losses and donations are set off against its gains or profits from all sources in the following order:

- a) First : Capital allowances brought forward from prior YAs in the order of earliest to later YAs
- b) Second : Capital allowances for the current YA
- c) Third : Trade losses brought forward from prior YAs in the order of earliest to later YAs
- d) Fourth : Trade losses for the current YA
- e) Fifth : Donations brought forward from prior YAs in the order of earliest to later YAs
- f) Sixth : Donations for the current YA

11.2 The same order of setoff applies for the purpose of group relief.

Table 4 – Order of setoff for group relief

| Transferor |
|---|
| <p>1) <u>Determining loss items available for transfer</u> The order of setoff against the transferor's adjusted profit to determine the loss items available for transfer is the same as paragraph 11.1.</p> <p>By applying the order of setoff, a transferor cannot pick and choose the category of loss item to be transferred. Please see the</p> |

example below.

| <u>Transferor</u> | <u>Quantum</u> | <u>Loss items available for transfer</u> |
|---------------------------|----------------|---|
| Adjusted profit | \$100,000 | |
| <u>Capital allowances</u> | | |
| - Prior YA | \$(60,000) | Order of setoff – First Not a loss item |
| - Current year | (35,000) | Order of setoff – Second Net income of \$40,000 (100,000 – 60,000) is more than enough to set off current YA capital allowance of \$35,000. Thus, no loss item available for transfer. |
| <u>Trade losses</u> | | |
| - Prior YA | \$(40,000) | Order of setoff – Third Not a loss item |
| - Current year | - | |

In this example, the company has no loss item to be transferred. The company cannot choose to set off the trade losses brought forward from prior YA against the net trade income of \$40,000 so as to transfer its capital allowance for current YA of \$35,000 under the group relief system.

2) Transferring loss items

The loss items of a transferor are transferred out in the order as follows:

- 1st : Unabsorbed capital allowances for current year
- 2nd : Unabsorbed trade losses for current year
- 3rd : Unabsorbed donations for current year

Where within each category of loss item, there are amounts relating to more than one tax rate, any amount relating to the higher tax rate will be transferred first followed by the amount relating to a lower tax rate (subject to the adjustment under section 37B of the ITA).

Claimant

3) Determining assessable income available for loss items

The order of setoff to determine the claimant's assessable income is the same as paragraph 11.1.

4) Claiming loss items

The loss items are claimed in the same order as item 2 above.

Where the claimant has assessable income subject to tax at more than one rate of tax, the loss items will be deducted first against assessable income subject to tax at the higher tax rate followed by

assessable income subject to tax at the lower tax rate (subject to the adjustment under section 37B of the ITA).

11.3 Other rules:

- a) A claimant's normal chargeable income (i.e. income subject to tax at the normal corporate tax rate) up to \$152,500⁴ or \$200,000⁵ will be exempt from tax. The normal chargeable income is computed after taking into account:
 - i. The setoff of loss items in item 3 in paragraph 11.2; and
 - ii. The setoff of loss items in item 3 in paragraph 11.2 attributed to the Singapore dividend⁶.
- b) When computing balancing charge or allowance for the transferor upon disposal or write-off of its assets, any capital allowances relating to such assets which have been transferred will be taken into account. This is because capital allowances have been made to the transferor.

11.4 Please refer to the examples in Annex 5 on the application of the transfer rules.

12 Quantum of loss items for transfer under group relief system

12.1 The quantum of loss items that can be transferred is lower of:

- a) available assessable income of the claimant based on:

$$A/B \times C; \text{ or}$$

- b) available quantum of loss item of the transferor based on:

$$A/D \times E$$

where A is the number of days in the continuous period ending on the last day of the basis period for that year of assessment during which the companies were members of the same group. Where the continuous periods of the transferor and claimant are different, it will be the number of days in the shorter continuous period.

** Applicable to all companies from YA 2008 (S43(6) of ITA). Prior to YA 2008, the amount was \$52,500.

⁵ Applicable to a qualifying start-up company from YA 2008 (S43(6A) of ITA).

⁶ This is no longer applicable from 1 Jan 2008 when companies moved to the One-Tier Corporate Tax System.

- B is the number of days in the basis period of the claimant for that year of assessment.
- C is the assessable income of the claimant for that year of assessment.
- D is the number of days in the basis period of the transferor for that year of assessment.
- E is the amount of loss items of the transferor for that year of assessment.

Please see example 1 in Annex 2 on the continuous period.

- 12.2 Any current year loss items that cannot be transferred due to insufficient available assessable income of the claimants will be retained by the transferor. Such loss items may be carried back to set off against income of the immediate preceding YA or forward by the transferor for setoff in future YAs, subject to the conditions imposed under the ITA (e.g. shareholding test, maximum five YAs for carrying forward of donations, etc.).

13 Transfer/claim loss items to/from more than one companies

- 13.1 A claimant may claim loss items from more than one transferor by specifying the priority of the transferors. The loss items transferred from the first transferor must be fully deducted against its available assessable income before loss items from a second transferor can be deducted against its remaining available assessable income and so on.
- 13.2 As a result, the assessable income of the claimant available to utilise loss items from any transferor, for the purpose of paragraph 12.1(a) will be:

$$(A/B \times C) - F$$

where F is the total loss items previously claimed from any other transferor for the same year of assessment

- 13.3 Similarly, a transferor may transfer its loss items to more than one claimant by specifying the priority of the claimants. The loss items must be fully set off against the available assessable income of the first claimant according to the transfer rules before any excess loss items can be set off against the available assessable income of the second claimant and so on.
- 13.4 As a result, the loss items of the transferor available for transfer to any claimant, for the purpose of paragraph 12.1(b) will be:

$$(A/D \times E) - G$$

where G is the total loss items previously transferred to any other claimant for the same year of assessment

13.5 Please refer to the illustrations in Annex 6.

14 Administrative requirements for application of group relief

14.1 Companies wishing to transfer or claim loss items under the group relief system would need to observe the following administrative requirements:

Table 5 – Administrative requirements for group relief system

| | Questions | Administrative requirements |
|---|--|--|
| 1 | How to claim? | The company is required to make an application by submitting a prescribed form. |
| 2 | Which prescribed form? | There are two types of forms: 1) Form GR-A for transferor 2) Form GR-B for claimant The forms are available on the IRAS website. |
| 3 | When to submit? | The company is to submit the Form GR-A or GR-B together with its annual tax returns. |
| 4 | Can company change its application? | The application is final and irrevocable. The company is not allowed to make changes to its application once it is submitted. |
| 5 | If company fails to submit Form GR-A or GR-B with its annual tax return? | The company will be disqualified from claiming group relief. |
| 6 | How to transfer loss items to more than one claimant? | <ul style="list-style-type: none"> • The company is to specify the priority of the claimants in the Form GR-A. • The company cannot alter the priority once the form is submitted. • This is to ensure that the transfer is done according to the priority. |
| 7 | How to claim loss items from more than one transferor? | <ul style="list-style-type: none"> • The company is to specify the priority of the transferors in the Form GR-B. • The company cannot alter the priority once the form is submitted. • This is to ensure that the claim is done |

| | Questions | Administrative requirements |
|----|---|---|
| | | according to the priority. |
| 8 | What if company is unable to establish exact number of claimants when submitting Form GR-A (as their final tax positions are subject to agreement)? | <p>The transferor may specify a list of claimants in the Form GR-A even though their combined provisional assessable income is higher than its provisional quantum of loss items available for setoff.</p> <p>This will ensure that where:</p> <p>a) the quantum of loss items of the transferor is subsequently increased, or b) the assessable income of any of the claimant is subsequently reduced,</p> <p>the transferor may be able to transfer its loss items to the extent possible to the remaining claimants in the order of priority listed in its Form GR-A.</p> |
| 9 | What if company is unable to establish exact number of transferors at the time of submitting Form GR-B (as their final tax positions are subject to agreement)? | <p>The claimant may specify a list of transferors in the Form GR-B even though their combined provisional quantum of loss items available for set off is higher than its provisional assessable income.</p> <p>This will ensure that where:</p> <p>a) the assessable income of the claimant is subsequently increased, or b) the quantum of loss items of any of the transferors is subsequently reduced,</p> <p>the claimant may be able to claim loss items to the extent possible from the remaining transferors in the order of priority listed in its Form GR-B.</p> |
| 10 | What if there is inconsistency in the order of priority specified by the transferor and claimant? | <p>If a transfer of loss items cannot be done based on the priority specified by both parties because of inconsistency, the order of priority specified by the transferor will take precedence over that specified by the claimant.</p> <p>See Annex 8 for an illustration on this scenario.</p> |
| 11 | Can estimated chargeable income ("ECI") take into effect | <ul style="list-style-type: none"> • Companies that qualify for group relief may include group relief in their computation of ECI for each YA. • The quantum of group relief may be based on |

| | Questions | Administrative requirements |
|----|---|---|
| | group relief? | <p>the provisional tax computations of both the claimant and transferor at the time of submission of ECI.</p> <ul style="list-style-type: none"> Form GR-A and Form GR-B are not required to be submitted. |
| 12 | How to determine the quantum of loss items when filing Form GR-A and annual tax returns? | The quantum of loss items to be transferred may be based on the tax computations of each company within the group submitted to the CIT. |
| 13 | What if there are changes to the loss items and assessable income when assessments are completed or reviewed? | <ul style="list-style-type: none"> The quantum of group relief may have to be adjusted whenever the tax assessments of the transferors and claimants are revised. Once the tax assessment of the transferor has been completed and the quantum of loss items is ascertained, CIT will revise the assessments of the claimants based on the priority specified in Form GR-A or GR-B. Similarly, if the assessments of the claimants are revised, CIT will revise the quantum of loss items to be transferred by the transferor to each claimant based on the priority specified in Form GR-A or GR-B. The transferors and claimants need not submit revised Form GR-A or GR-B whenever there is a revision of an assessment. |

14.2 A company reporting assessable income in its tax return would not have submitted a Form GR-A with the tax return. However, if the assessable income is reduced to loss items upon completion of its tax assessment by the CIT, the company may transfer its loss items to another company within the same group. In such a case,

- a) The company (“new transferor”) is allowed to submit Form GR-A within 2 months from the date of the notice of assessment which shows that it has loss items available for transfer for that YA.
- b) Claimants claiming the loss items from the new transferor must submit Form GR-B within 2 months from the date of the said notice of assessment.
- c) If the claimants had previously submitted Form GR-B specifying the priority of other transferors for that YA, they cannot alter the original

priority specified in their Form GR-B. They can only add the new transferor to this list after the transferors originally specified.

- d) If either Form GR-A or Form GR-B (new or revised) is not submitted within 2 months, CIT would not allow the transfer of loss items from the new transferor to the claimants.

14.3 A company reporting loss items in its tax return would not have submitted Form GR-B with the tax return. However, if CIT determined that the company has assessable income upon completion of its tax assessment, the company may also receive loss items from another company within the same group. In such a case,

- a) The company (“new claimant”) is allowed to submit Form GR-B within 2 months from the date of the notice of assessment showing that it has assessable income for that YA.
- b) Any Form GR-A previously submitted by the new claimant for that YA would be set aside.
- c) Transferors from which loss items will be claimed by the new claimant must submit Form GR-A within 2 months from the date of the said notice of assessment.
- d) If the transferors had previously submitted Form GR-A specifying the priority of other claimants for that YA, they cannot alter the original priority specified in the form. They can only add the new claimant to this list after the claimants originally specified.
- e) If either Form GR-A (new or revised) or Form GR-B is not submitted within 2 months, CIT would not allow the transfer of loss items from the transferors to the new claimant.

15 Anti-avoidance measure

15.1 Notwithstanding the above paragraphs, where CIT discovers that any transfer or claim of loss items under the group relief system has become excessive, he may make an assessment on the amount which should rightly be charged to tax.

15.2 For example, Company A anticipates losses on some of its existing projects that have not been recognised in the profit and loss accounts. Company B acquires Company A with the intent of claiming the loss items that Company A will recognise after the acquisition. In such instances, CIT may, according to the best of his judgement, determine the quantum of loss items that have already been incurred by the Company A prior to being acquired and deny the transfer of this amount. This is for purposes of countering tax avoidance schemes aimed at exploiting the group relief system

16 Payments for benefits of group relief

- 16.1 For tax purposes, there is no requirement that a claimant receiving the benefit of a deduction under group relief should pay for such a benefit. Nevertheless, a compensatory payment may be made by the claimant in recognition of the rights of minority shareholders of the transferor. Where a claimant makes such payment to the transferor for the benefit of claiming loss items from the transferor under the group relief system, it would not be entitled to claim a tax deduction for such payment. Likewise, the transferor would not be subject to tax on such a payment.

17 Frequently asked question

- 17.1 You may refer to the list of frequently asked questions provided in the group relief system guide which is available on IRAS website

18 Contact information

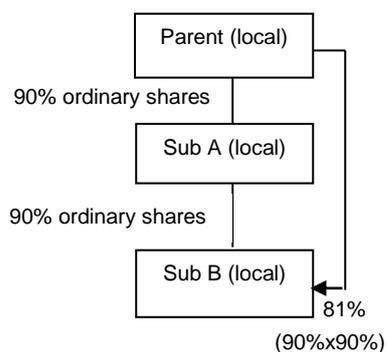
- 18.1 If you have any enquiries or need clarification on this Guide, please call 1800-356 8622.

19 Updates and Amendments

| | Date of amendment | Amendments made |
|---|--------------------------|--|
| 1 | 29 Mar 2019 | <ul style="list-style-type: none">• Revised former paragraphs 10.1(d) and deleted paragraphs 10.1(e) and 10.3(a), (c) and (d) relating to repealed EEIA provisions• Amended paragraph 12.2 to clarify that GR is allowed before loss carry back relief• Amended paragraph 14.2 and 14.3 to reflect the changed timelines for filing of new/revised Form GR-A or GR-B, which had been aligned with the time frame for objection against tax assessment. |

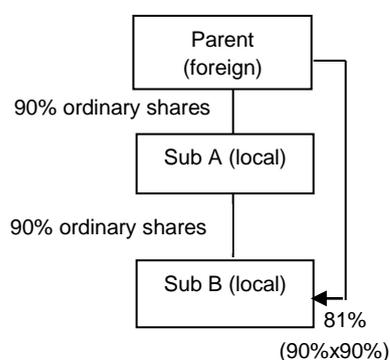
Annex 1 – Illustration of whether two or more Singapore-incorporated companies are members of the same group

Example 1



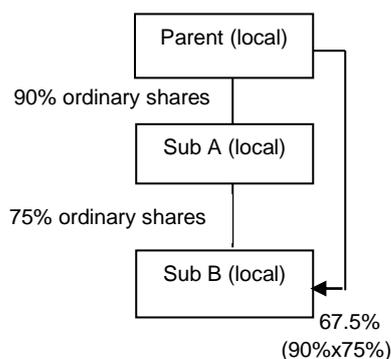
| Companies | Same group? | Rationale |
|------------------------|-------------|--|
| Parent (L) & Sub A (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Parent (L) & Sub B (L) | Yes | Meet threshold limit of indirect shareholding of 75% ordinary shares |
| Sub A (L) & Sub B (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |

Example 2



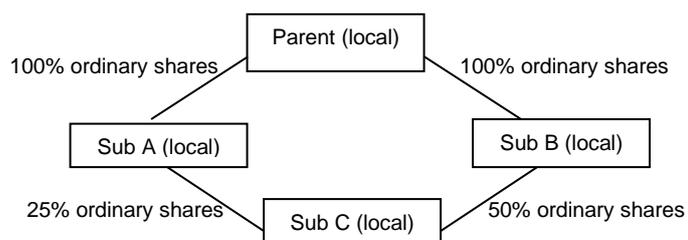
| Companies | Same group? | Rationale |
|------------------------|-------------|---|
| Parent (F) & Sub A (L) | No | Direct shareholding of the parent (F), being a direct shareholding by a foreign incorporated company, is disregarded |
| Parent (F) & Sub B (L) | No | Indirect shareholding of the parent (F), being an indirect shareholding by a foreign incorporated company, is disregarded |
| Sub A (L) & Sub B (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |

Example 3



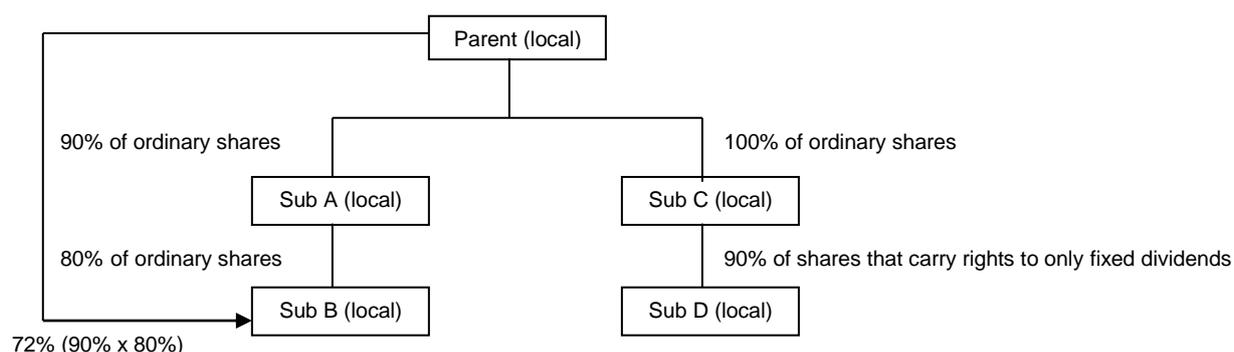
| Companies | Same group? | Rationale |
|------------------------|-------------|---|
| Parent (L) & Sub A (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Parent (L) & Sub B (L) | No | Does not meet threshold limit of indirect shareholding of 75% ordinary shares |
| Sub A (L) & Sub B (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |

Example 4



| Companies | Same group? | Rationale |
|--|--------------------|---|
| Parent (L) & Sub A (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Parent (L) & Sub B (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Parent (L) & Sub C (L) [Shareholding = (100% \times 25%) + (100% \times 50%) i.e. 75%] | Yes | Meet threshold limit of indirect shareholding of 75% ordinary shares |
| Sub A (L) & Sub C (L) | Yes | Both Sub A (L) and Sub C(L) are at least 75% owned, directly or indirectly, by Parent (L) |
| Sub B (L) & Sub C (L) | Yes | Both Sub B (L) and Sub C(L) are at least 75% owned, directly or indirectly, by Parent (L) |
| Sub A (L) & Sub B (L) | Yes | Both Sub A (L) and Sub B(L) are at least 75% owned by Parent (L) |

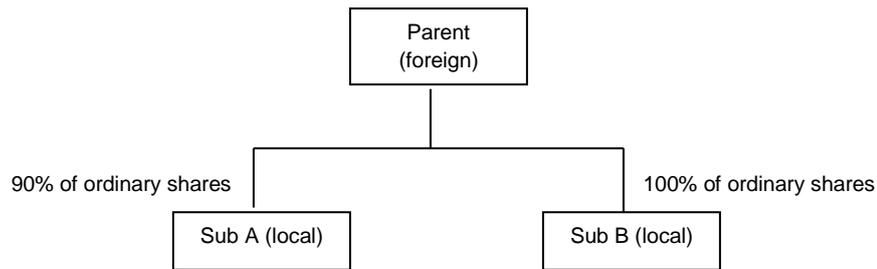
Example 5



- Sub D (local) is not part of the group for the purpose of the Group Relief system as its relationship with the Sub C (local) is via shareholdings in shares that carry rights to only fixed dividends and not via shareholdings in ordinary shares.

| Companies | Same group? | Rationale |
|------------------------|-------------|---|
| Parent (L) & Sub A (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Parent (L) & Sub B (L) | No | Does not meet threshold limit of indirect shareholding of 75% ordinary shares |
| Parent (L) & Sub C (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Parent (L) & Sub D (L) | No | Parent(L)'s indirect shareholding in Sub D (L) is not considered under the group relief system since Sub D (L) is owned by Sub C (L) via shares other than ordinary shares |
| Sub A (L) & Sub B (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Sub A (L) & Sub C (L) | Yes | Both Sub A (L) & Sub C (L) are at least 75% owned by Parent (L). |
| Sub A (L) & Sub D (L) | No | Parent(L)'s indirect shareholding in Sub D (L) is not considered under the group relief system since Sub D (L) is owned by Sub C (L) via shares other than ordinary shares |
| Sub B (L) & Sub C (L) | No | Sub B (L) is not owned indirectly by Parent (L) by 75% or more through Sub A(L) |
| Sub B (L) & Sub D (L) | No | Parent(L)'s indirect shareholding in Sub D (L) is not considered under the group relief system since Sub D (L) is owned by Sub C (L) via shares other than ordinary shares. In addition, Sub B (L) is not owned indirectly by Parent (L) by 75% or more through Sub A (L) |
| Sub C (L) & Sub D (L) | No | Sub C(L)'s direct shareholding in Sub D (L) via shares other than ordinary shares is not considered under the group relief system. |

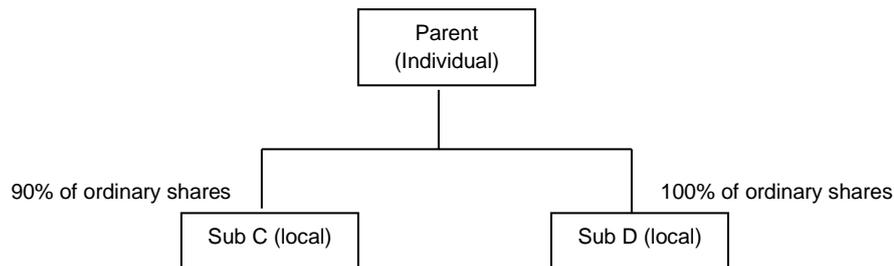
Example 6



Explanation

Sub A (local) and Sub B (local) are not members of the same group as they are not owned by a Singapore incorporated company.

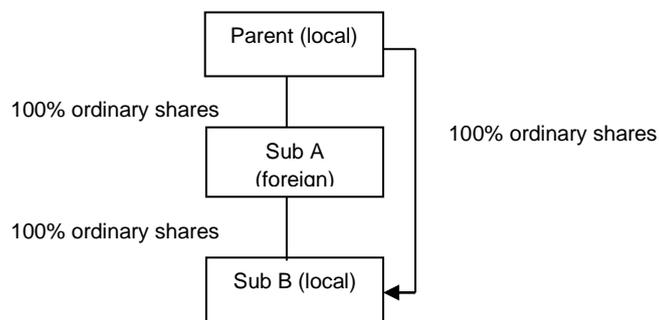
Example 7



Explanation

Sub C (local) and Sub D (local) are not members of the same group as they are not owned by a Singapore incorporated company.

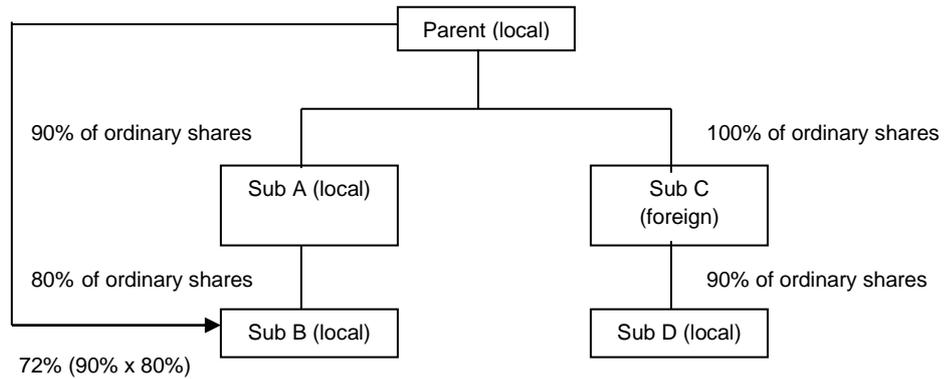
Example 8



Explanation

As there is a foreign incorporated company in the ownership chain, shareholdings by the foreign incorporated company [i.e. Sub A (F)] will not be considered when determining direct shareholding of Sub A (F) in Sub B (L) or indirect shareholding of Parent (L) in Sub B (L) via Sub A (F). Therefore, Parent (L) and Sub B (L) are not members of the same group under the group relief system.

Example 9

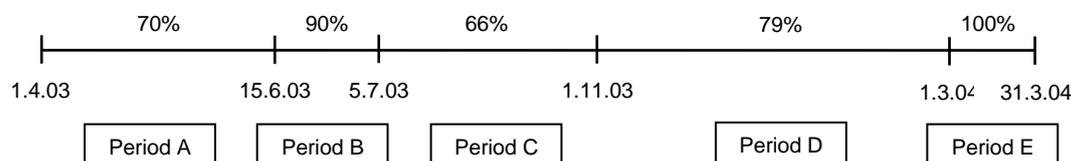


| Companies | Same group? | Rationale |
|------------------------|-------------|---|
| Parent (L) & Sub A (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Parent (L) & Sub B (L) | No | Does not meet threshold limit of indirect shareholding of 75% ordinary shares |
| Parent (L) & Sub C (F) | No | Sub C (F) cannot be a member of the same group as Parent (L) for the purpose of the group relief system as it is not a Singapore incorporated company |
| Parent (L) & Sub D (L) | No | Parent (L)'s indirect shareholding in Sub D (L) via Sub C (F) is disregarded as Sub C (F) is a foreign incorporated company |
| Sub A (L) & Sub B (L) | Yes | Meet threshold limit of direct shareholding of 75% ordinary shares |
| Sub A (L) & Sub C (F) | No | Sub C (F) cannot be a member of same group as Sub A (L) for the purpose of the group relief system as it is not a Singapore incorporated company |
| Sub A (L) & Sub D (L) | No | Parent (L)'s indirect shareholding in Sub D (L) via Sub C (F) is disregarded as Sub C (F) is a foreign incorporated company. |
| Sub B (L) & Sub C (F) | No | Sub C (F) cannot be a member of the same group as Sub B (L) for the purpose of the group relief system as it is not a Singapore incorporated company. In addition, Sub B (L) is not owned indirectly by Parent (L) by 75% or more through Sub A (L) |
| Sub B (L) & Sub D (L) | No | Parent (L)'s indirect shareholding in Sub D (L) via Sub C (F) is disregarded as Sub C (F) is a foreign incorporated company. In addition, Sub B (L) is not owned indirectly by Parent (L) by 75% or more through Sub A (L) |
| Sub C (F) & Sub D (L) | No | Sub C (F) cannot be a member of the same group as Sub D (L) for the purpose of the group relief system as it is not a Singapore incorporated company |

Annex 2 – Application of shareholding test

Example 1

Relevant holding company's (Company A) levels of ordinary shareholding in Company B (with loss items) for the accounting year end Mar 04 are as follows (both companies have the same accounting year end):

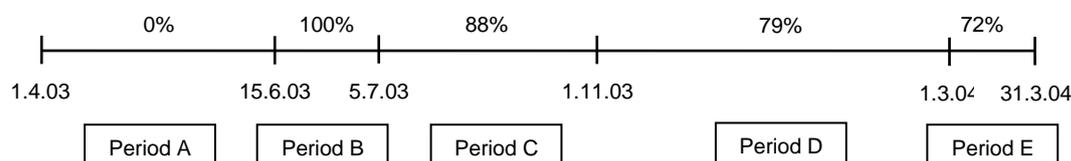


The ordinary shareholding level of the relevant holding company (i.e. Company A) on the last day of the basis period for YA 2005 is at or above 75%. However, the ordinary shareholding level of Company A is not maintained at or above 75% throughout the basis period for the YA. Thus, Company B is allowed to transfer to Company A the amount of loss items* (generally determined on a pro-rated basis) applicable to the continuous period ending on 31.3.04 within which Company A's ordinary shareholding level is maintained at or above 75% (i.e. periods D and E).

* limited to the assessable income of Company A applicable to the same continuous period, if this is lower.

Example 2

Relevant holding company (Company C) acquires ordinary shares in Company D (with loss items) on 15.6.03 and its level of ordinary shareholding in Company D for the accounting year end Mar 04 are as follows (both companies have the same accounting year end):



Since the ordinary shareholding level of the relevant holding company (i.e. Company C) on the last day of the basis period for YA 2005 is below 75%, Company D is not allowed to transfer any loss item to Company C notwithstanding that there were periods during the basis period for which the ordinary shareholding level of Company C was maintained at or above 75% (i.e. periods B, C and D).

Annex 3 – Illustration of ordinary shareholding requirement and entitlement to profits & assets test

Example 1

Company X is a Singapore incorporated company with accounting profits of \$100 for YA 2007. The table below shows the shareholding structure of Company X:

| | Type I shares which carry right to share in profits based on number of shares held | | Type II shares yielding fixed dividend at 10% on value of shares | | Type III shares yielding fixed dividend at 8% on value of shares, with right to share in profits based on number of shares held | |
|-----------------------------|--|-------------------------|--|-------------------------|---|------------------------|
| | Company A 600 shares | Company B 200 shares | Company A 120 shares | Company B 120 shares | Company A 150 shares | Company C 50 shares |
| Ordinary share [@] | Yes | Yes | No# | No# | Yes | Yes |
| Shareholding Percentage | 600/1000** = 60% | 200/1000 = 20% | - | - | 150/1000 = 15% | 50/1000 = 5% |

@ does not include treasury shares.

this is not an ordinary share since it only carries a right to fixed dividend (i.e. in this case, dividend at a fixed rate percentage of the value of shares).

** 1000 ordinary shares made up of Type I shares (600+200) and Type III shares (150+50).

To determine whether Company A and X are members of the same group for YA 2007:

Ordinary Shareholding Requirement

Company A owns (60% + 15%) = 75% of the ordinary shares issued by Company X. Therefore, it satisfies the ordinary shareholding requirement.

Profits/Assets Test

Assume that Company X has taken 2 loans as follows:

| | Principal Amount | Rate of Return | Annual Return |
|--------------------|------------------|--|------------------------|
| Loan 1 (from Co Y) | \$400 | 5% p.a. | \$20 |
| Loan 2 (from Co Z) | \$500 | 3% p.a. + right to share in profits based on principal value of loan | \$15 + variable profit |

Loan 1 is a commercial loan whilst Loan 2 is a non-commercial loan since in addition to a fixed return, the creditor is also entitled to a right to share in profits of the company.

Example 1 (continued)

Company X's profits of \$100 is distributed to shareholders in the following manner:

| | |
|---|-------------------------------------|
| Accounting Profit (after deduction of fixed return on loans i.e. \$20-Loan 1 and \$15-Loan 2 but before deducting non-fixed return on non-commercial loans) | \$100 |
| Less: Distribution of fixed dividend on shares other than ordinary shares (i.e. Type II shares) | |
| (a) Shareholder A \$120 at 10% | \$120 x 10% \$12 |
| (b) Shareholder B \$120 at 10% | \$120 x 10% <u>\$12</u> <u>\$24</u> |
| | \$76 |
| Less: Distribution of fixed dividend on ordinary shares | |
| (a) Shareholder A 150 Type III shares at 8% (fixed dividend) | \$150 x 8% \$12 |
| (b) Shareholder C 50 Type III shares at 8% (fixed dividend) | \$ 50 x 8% <u>\$ 4</u> <u>\$16</u> |
| Residual Profits distributed to equity holders based on the ratio agreed* among the equity holders: | \$60 |
| (a) Shareholder A (600 + 150)/1500@ x \$60 (note 1) | \$30 |
| (b) Shareholder B 200/1500 x \$60 (note 2) | \$ 8 |
| (c) Shareholder C 50/1500 x \$60 (note 3) | \$ 2 |
| (d) Non-commercial loan creditor (Loan 2) (note 4) 500/1500 x \$60 | \$20 |

* For this example, it is assumed that the agreed ratio is the ratio determined using the value of the ordinary shares and the value of the non-commercial loans.

| | | | |
|---------|-----------------------|-----------------------------|----------------------------------|
| Note 1 | Shareholder A | Share value = \$600 + \$150 | = \$ 750 (Type I and III shares) |
| Note 2: | Shareholder B | Share value | = \$ 200 (Type I shares) |
| Note 3: | Shareholder C | Share value | = \$ 50 (Type III shares) |
| Note 4: | Creditor (Loan 2) | Loan value | = \$ 500 |
| | (non-commercial loan) | | <u>\$ 1,500 @</u> |

(a) Residual Profits

Company A's percentage entitlement to the residual profits of Company X
= $\$30/\$60 = \underline{50\%}$

(a) Residual Assets

If Company X has negative residual assets, notional residual assets of \$100 will be used to compute Company A's beneficial entitlement to residual assets⁷. In this example, it is assumed that Company A's agreed percentage entitlement to the notional residual assets of \$100 is based on the same proportion as its percentage entitlement to the residual profits of Company X. Therefore, Company A fails to satisfy the profits/assets test of being entitled to at least 75% of the residual profits and assets of Company X available for distribution to equity holders of Company X.

⁷ If residual assets of Company X amount to \$1,200 (i.e. a positive residual asset) and the non-commercial loan creditors are entitled to distribution of residual assets in priority to ordinary shareholders. \$500 is returned to non-commercial loan creditors, with the remaining amount of \$700 (\$1,200-\$500) being returned to ordinary shareholders based on their percentage shareholdings. The entitlement of Company A to residual assets = $\$750/\$1,000 \times \$700 = \underline{\$525}$. The percentage entitlement of Company A to residual assets = $\$525/\$1,200 = 43.8\%$. Therefore, Company A also fails to satisfy the assets test.

Example 2

Assuming that all the facts remain the same as example 1, but Company A (instead of Company Z) is now the party to Loan 2.

(a) Residual Profits

The percentage entitlement of A to residual profits of Company X
= $[\$30 + \$20 \text{ (return on non-commercial loan)}] / \$60 = \underline{83.3\%}$

(b) Residual Assets

The percentage entitlement of A to residual assets⁸ of Company X
= $[\$750 \text{ (value of ordinary shares)} + \$500 \text{ (value of non-commercial loan)}] / \$1,500$
= $\underline{83.3\%}$

Company A would now satisfy the profits/assets test of being entitled to at least 75% of the residual profits/assets of Company X available for distribution to equity holders of Company X.

⁸ If residual assets of Company X amount to \$1,200 (i.e. a positive residual asset) and the non-commercial loan creditors are entitled to distribution of residual assets in priority to ordinary shareholders. \$500 is returned to non-commercial loan creditors, with the remaining amount of \$700 (\$1,200 - \$500) being returned to ordinary shareholders based on their percentage shareholdings. The entitlement of Company A to residual assets = $(\$750/\$1,000 \times \$700) + \$500 = \$1,025$. The percentage entitlement of Company A to residual assets = $\$1,025/\$1,200 = 85.4\%$. Company A's percentage entitlement to residual profits = $(\$30+\$20)/\$60 = 83.3\%$. Therefore, Company A would satisfy the profits/assets test.

Example 3

Assume Company X has no profits and negative residual assets for the YA 2007. Notional residual profit of \$100 and notional residual assets of \$100 are used.

| | |
|--|--------------|
| Residual Profit available for distribution to equity holders i.e. after deduction of (a) fixed dividends and (b) fixed return on loans i.e. \$20-Loan 1 and \$15-Loan 2 | \$100 |
| Residual Profits distributed to equity holders based on the ratio agreed* among the equity holders | \$100 |
| (a) Shareholder A $(600 + 150)/1500 \times \100 | \$50.00 |
| (b) Shareholder B $200/1500 \times \$100$ | \$13.30 |
| (c) Shareholder C $50/1500 \times \$100$ | \$ 3.30 |
| (d) Non-commercial loan creditor (Loan 2) $500/1500 \times \$100$ | \$33.40 |

* For this example, it is assumed that the agreed ratio is the ratio determined using the value of ordinary shares and the value of the non-commercial loans.

(a) Residual Profits

Company A's percentage entitlement to the residual profits/assets of Company X
= $\$50/\$100 = \underline{50\%}$

(b) Residual Assets

In this example, it is assumed that Company A's agreed percentage entitlement to the notional residual assets of \$100 is based on the same proportion as its percentage entitlement to the residual profits of Company X.

The percentage entitlement of A to residual assets of Company X
= $\$750/\$1500 = 50\%$.

Therefore, Company A fails to satisfy the profits/assets test of being entitled to at least 75% of the residual profits/assets of Company X available for distribution to equity holders of Company X.

Example 4

Assuming that all the facts remain the same as example 3, but Company A (instead of Company Z) is now the party to Loan 2.

(a) Residual Profits

Company A's percentage entitlement to the residual profits/assets of Company X
= $[\$50 + \$33.40 \text{ (return on non-commercial loan)}] / \$100 = \underline{83.4\%}$

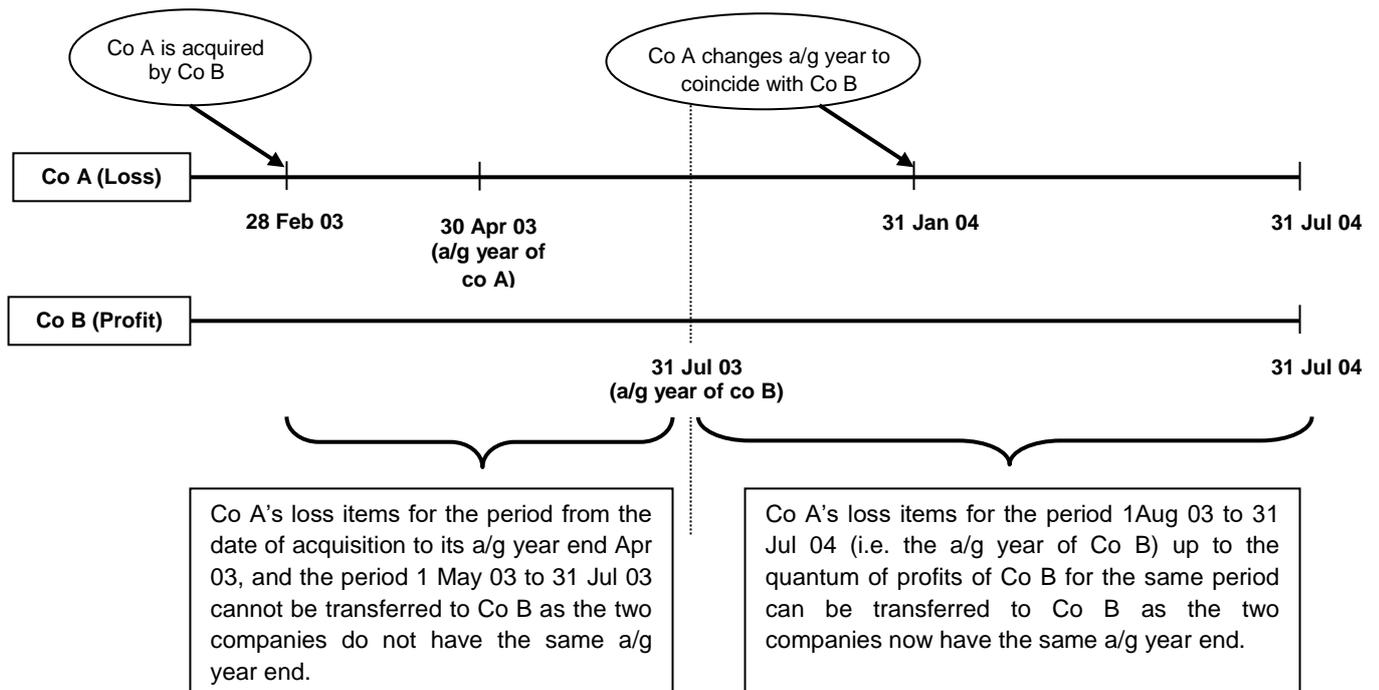
(b) Residual Assets

The percentage entitlement of A to residual assets of Company X
= $[\$750 \text{ (value of ordinary shares)} + \$500 \text{ (value of non-commercial loan)}] / \1500
= $\underline{83.3\%}$

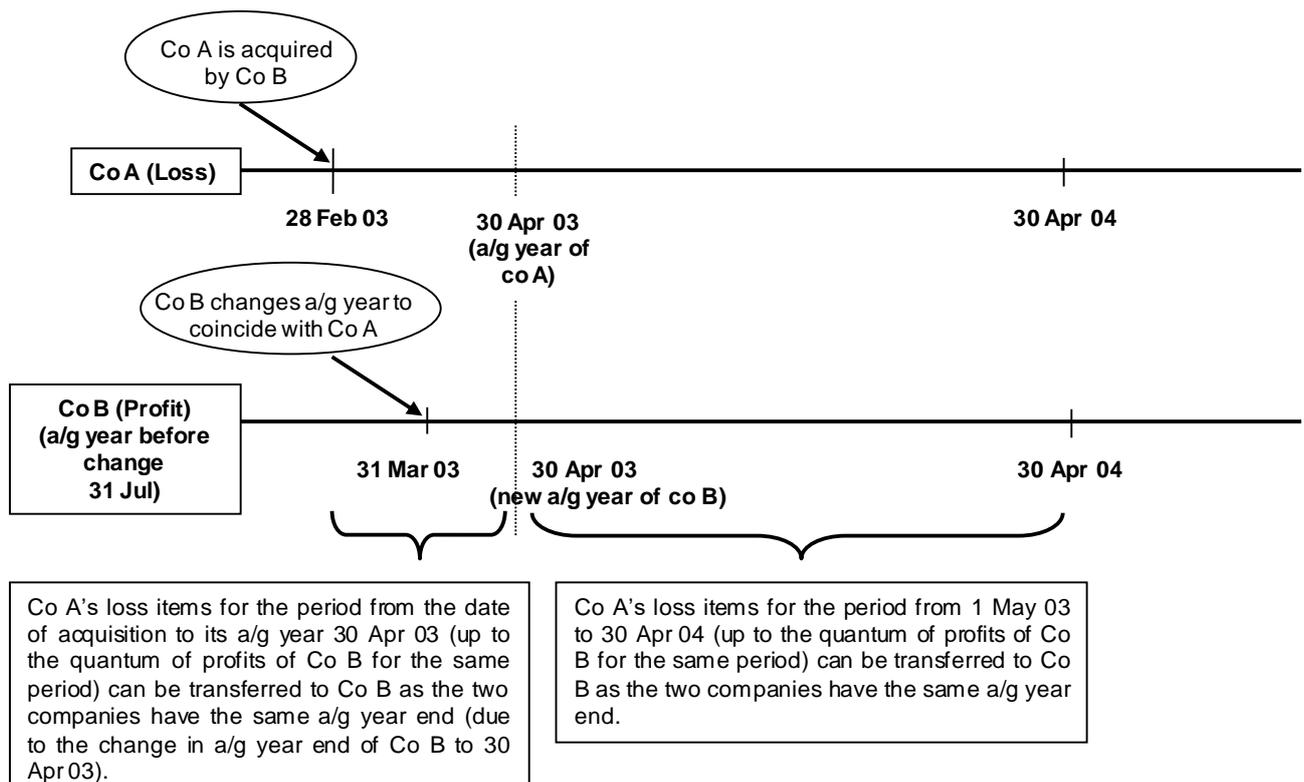
Company A would now satisfy the profits/assets test of being entitled to at least 75% of the residual profits/assets of Company X available for distribution to equity holders of Company X.

Annex 4 – Illustration of requirement for group companies to have same accounting year end

Example 1

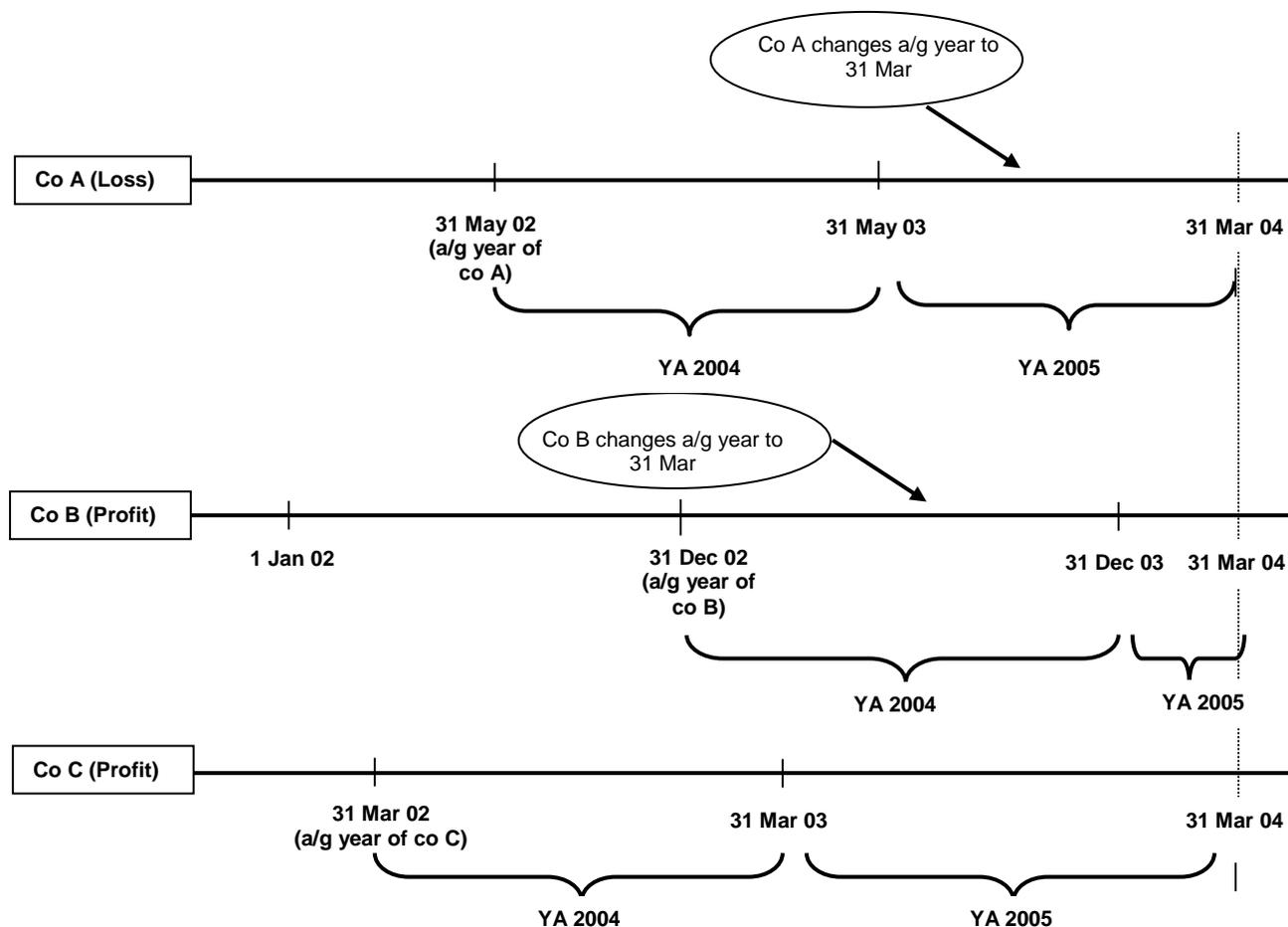


Example 2



Example 3

Companies A, B and C are members of the same group since 1.1.2002 and they satisfy all conditions to be members of the same group for periods stated below. Company A has indicated that it will transfer loss items in priority to Company B first, followed by Company C.



(a) Transfer of Loss Items between Company A and Company B for YA 2004

Loss items of Company A cannot be transferred to Company B because they have different accounting year end for YA 2004.

(b) Transfer of Loss Items between Company A and Company C for YA 2004

Loss items of Company A cannot be transferred to Company C because they have different accounting year end for YA 2004.

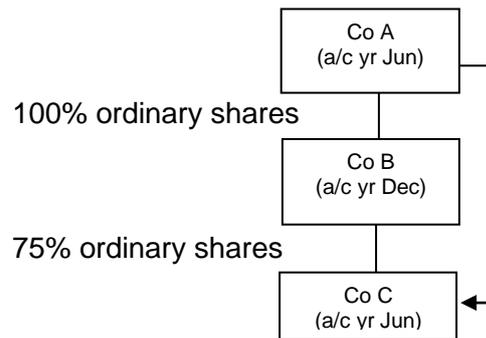
(c) Transfer of Loss Items between Company A and Company B for YA 2005

| | Company A | Company B |
|--|---|-----------------------------------|
| Basis period | 1.6.03 to 31.3.04 i.e. 304 days | 1.1.04 to 31.3.04 i.e. 90 days |
| Continuous period ending on the last day of the basis period for YA 2005 during which company A was in the same group as company B | 1.6.03 to 31.3.04 i.e. 304 days | 1.1.04 to 31.3.04 i.e. 90 days |
| Common continuous period for Company A and B | Shorter of the two continuous periods i.e. 90 days | |
| Available quantum of loss item of Company A | 90/304 x loss item | - |
| Available assessable income of Company B | - | 90/90 x assessable income of Co B |
| Quantum of loss item of Company A allowed to be transferred to Company B | Limited to available assessable income of Company B | |

(d) Transfer of Loss Items between Company A and Company C for YA 2005

| | Company A | Company B |
|--|--|-------------------------------------|
| Basis period | 1.6.03 to 31.3.04 i.e.304 days | 1.4.03 to 31.3.04 i.e. 365 days |
| Continuous period ending on the last day of the basis period for YA 2005 during which company A was in the same group as company C | 1.6.03 to 31.3.04 i.e. 304 days | 1.4.03 to 31.3.04 i.e. 365 days |
| Common continuous period for Company A and C | Shorter of the two continuous periods i.e. 304 days | |
| Available quantum of loss item of Company A | (304/304 x loss item) less amount of loss item transferred to Co B | |
| Available assessable income of Company C | | 304/365 x assessable income of Co C |
| Quantum of loss item of Company A allowed to be transferred to Company C | Limited to available assessable income of Company C | |

Example 4



In this example, Company A is the transferor and Company C is the claimant. Company A and Company C must therefore have the same accounting year end.

For the purpose of determining Company A's indirect ordinary shareholding in Company C (through Company B) as at any date within any basis period of Companies A and C (e.g. 1 Jul 02 to 30 Jun 03 for YA 2004), Company A's ordinary shareholding in Company B, and in turn, Company B's ordinary shareholding in Company C as at the respective dates will be considered, even though Company B has a different accounting year end from Companies A and C.

Annex 5 – Illustration of how loss items are transferred under group relief system

Example 1

Tax computation of company A (transferor with accounting year end 30 June) for YA 2003:

| NORMAL INCOME (TAXED AT 22%) | | CONCESSIONARY INCOME (TAXED AT 10%) | |
|--|---------------------------|---|------------------|
| | \$ | | \$ |
| Interest | | Adjusted profit/(loss) | 520,000 |
| Rental income | | Less: | |
| Royalty income | | Unabsorbed capital allowance b/f | (10,000) |
| | <u>80,000</u> | Current year capital allowance | <u>(6,000)</u> |
| Less: | | | 504,000 |
| Unabsorbed capital allowance b/f | (50,000) | Less: | |
| Current year capital allowance | <u>(100,000)</u> | Donation made in y/e 31.12.2002 - \$10,000* | <u>(20,000)</u> |
| | (70,000) | | 484,000 |
| Section 37B set off | <u>70,000</u> | Section 37B set off | |
| Unabsorbed capital allowance c/f | <u>0</u> | (a) 70,000 x 22/10 | (154,000) |
| Adjusted profit/(loss) | (60,000) | (b) 150,000 x 22/10 | <u>(330,000)</u> |
| Add unabsorbed loss b/f | <u>(120,000)</u> | CI | Nil |
| | (180,000) | | |
| Section 37B set off | <u>150,000</u> | | |
| Current year unabsorbed loss | (30,000) | | |
| Less: Amt transferred to claimant | (X) <u>30,000</u> | | |
| Unabsorbed loss c/f | <u>0</u> | | |
| Donation made in y/e 31.12.2002 - \$4,000* | 8,000 | | |
| Less: Amt transferred to claimant | (Y) <u>(5,000)</u> | | |
| Unabsorbed donation c/f | <u>3,000</u> | | |
| Investment allowance for YA 2003 c/f | <u>30,000</u> | | |
| Chargeable Income (CI) | Nil | | |

* Donation made qualifies for double tax deduction under S37(3) of ITA and is apportioned using basis of allocating common expenses

Example 1 (continued)

Tax computation of company B (claimant with accounting year end 30 June) for YA 2003:

| NORMAL INCOME (TAXED AT 22%) | | CONCESSIONARY INCOME (TAXED AT 10%) | | |
|---------------------------------------|-----------------|-------------------------------------|----------------------------------|------------------|
| | \$ | \$ | \$ | |
| Adjusted profit/(loss) | | 630,000 | Adjusted profit/(loss) | 500,000 |
| Less: | | | Less: | |
| Unabsorbed capital allowance b/f | (10,000) | | Unabsorbed capital allowance b/f | (480,000) |
| Current year capital allowance | <u>(40,000)</u> | <u>(50,000)</u> | Current year capital allowance | <u>(880,000)</u> |
| | | 580,000 | | <u>(860,000)</u> |
| Less: | | | Section 37B set off | 860,000 |
| Unabsorbed loss b/f | | <u>(100,000)</u> | CI | Nil |
| | | 480,000 | | |
| Singapore franked dividend | | 20,000 | Donation made in year ended | |
| Rental income | | <u>35,000</u> | 31.12.2002 - \$10,000* | (20,000) |
| | | 535,000 | Section 37B set off | <u>20,000</u> |
| Less: Donation made in y/e | | | | Nil |
| 31.12.2002 - \$10,000* | | <u>(20,000)</u> | | |
| | | 515,000 | | |
| Section 37B set off (860,000 x 10/22) | | <u>(390,909)</u> | | |
| Section 37B set off (20,000 x 10/22) | | <u>(9,091)</u> | | |
| | | 115,000 | | |
| Less: Investment allowance | | <u>(80,000)</u> | | |
| | | 35,000 | | |
| Less: | | | | |
| Loss transferred from transferor | (X) | (30,000) | | |
| Donation transferred from transferor | (Y) | <u>(5,000)</u> | | |
| CI | | Nil | | |
| Tax at 22% | | 0.00 | | |
| Less Tax at source (20,000 x 22%) | | <u>(4,400.00)</u> | | |
| Tax repayable | | <u>(4,400.00)</u> | | |

* Donation made qualifies for double tax deduction under S37(3) of ITA and is apportioned using basis of allocating common expenses

Example 2

Tax computation of company C (transferor with accounting year end 30 Apr) for YA 2003:

| NORMAL INCOME (TAXED AT 22%) | | CONCESSIONARY INCOME (TAXED AT 10%) | | |
|--|------------------|-------------------------------------|--|-------------------|
| | \$ | \$ | \$ | |
| Interest | | 20,000 | Adjusted profit/(loss) | 504,000 |
| Rental income | | 50,000 | Less: | |
| Royalty income | | 10,000 | Unabsorbed capital allowance b/f | (10,000) |
| | | <u>80,000</u> | Current year capital allowance | <u>(6,000)</u> |
| Less: | | | | 488,000 |
| Unabsorbed capital allowance b/f | (50,000) | | Less: | |
| Current year capital allowance | <u>(100,000)</u> | <u>(150,000)</u> | Donation made in y/e 31.12.2002 - \$2,000* | <u>(4,000)</u> |
| | | (70,000) | | 484,000 |
| Section 37B set off | | <u>70,000</u> | Section 37B set off | |
| Unabsorbed capital allowance c/f | | <u>0</u> | (a) 70,000 x 22/10 | (154,000) |
| | | | (b) 150,000 x 22/10 | <u>(330,000)</u> |
| Adjusted profit/(loss) | | (60,000) | CI | <u>Nil</u> |
| Add unabsorbed loss b/f | | <u>(120,000)</u> | | |
| | | (180,000) | | |
| Section 37B set off | | <u>150,000</u> | | |
| Current year unabsorbed loss | | (30,000) | | |
| Less: Amt transferred to claimant | (X) | <u>30,000</u> | | |
| Unabsorbed loss c/f | | <u>0</u> | | |
| | | | | |
| Donation made in y/e 31.12.2002 - \$4,000* | | 8,000 | | |
| Less: Amt transferred to claimant | (Y) | <u>(8,000)</u> | | |
| Unabsorbed donation c/f | | <u>0</u> | | |
| | | | | |
| Investment allowance for YA 2003 c/f | | <u>30,000</u> | | |
| CI | | <u>Nil</u> | | |

* Donation made qualifies for double tax deduction under S37(3) of ITA and is apportioned using basis of allocating common expenses

Example 2 (continued)

Tax computation of company D (claimant with accounting year end 30 Apr) for YA 2003:

| NORMAL INCOME (TAXED AT 22%) | | CONCESSIONARY INCOME (TAXED AT 10%) | |
|---|----------|-------------------------------------|------------------|
| | \$ | \$ | \$ |
| Adjusted profit/(loss) | | 830,000 | 505,000 |
| Less: | | | |
| Unabsorbed capital allowance b/f | (10,000) | | (480,000) |
| Current year capital allowance | (40,000) | (50,000) | (900,000) |
| | | <u>780,000</u> | <u>(875,000)</u> |
| Less: | | | |
| Unabsorbed loss b/f | | (100,000) | |
| | | <u>680,000</u> | |
| Singapore franked dividend | | 20,000 | |
| Rental income | | 35,000 | |
| | | <u>735,000</u> | <u>875,000</u> |
| Less: Donation made in y/e 31.12.2002 - \$10,000* | | (20,000) | (5,000) |
| | | <u>715,000</u> | <u>870,000</u> |
| Section 37B set off (880,000 x 10/22) | | (400,000) | 5,000 |
| | | <u>315,000</u> | <u>875,000</u> |
| Less: Investment allowance | | (80,000) | |
| | | <u>235,000</u> | |
| Less: | | | |
| Loss transferred from transferor | (X) | (30,000) | |
| Donation transferred from transferor | (Y) | (8,000) | |
| CI before deducting exempt amount | | 197,000 | |
| Less exempt amount (See note) | | 52,500 | |
| CI | | <u>144,500</u> | |
| Tax at 22% | | 31,790.00 | |
| Less Tax at source (20,000 x 22%) | | 4,400.00 | |
| Tax repayable | | <u>27,390.00</u> | |
| * Donation made qualifies for double tax deduction under S37(3) of ITA and is apportioned using basis of allocating common expenses | | | |

| | |
|--|-------------------|
| Adjusted profit/(loss) | 505,000 |
| Unabsorbed capital allowance b/f | (480,000) |
| Current year capital allowance | (900,000) |
| | <u>(875,000)</u> |
| Section 37B set off | 875,000 |
| CI | <u>Nil</u> |
| Donation made in year ended 31.12.2002 - \$2,500* | (5,000) |
| Section 37B set off | 5,000 |
| | <u>Nil</u> |

Note: Computation of exempt amount for normal CI, excluding Singapore dividend, amounting to \$191,640 (see below), limited to \$100,000.

| | |
|--|------------------|
| On the first \$10,000, 75% of the income | \$ 7,500 |
| On the next \$90,000, 50% of the income | \$ 45,000 |
| Total exempt amount | <u>\$ 52,500</u> |

The amount of \$191,640 is computed as follows:

| | |
|------------------------------------|-------------------|
| (a) Gross dividend | \$20,000 |
| (b) Donation | \$ 20,000 |
| Investment allowance | \$ 80,000 |
| Section 37B loss set off | \$ 400,000 |
| Loss & donation from transferor Co | \$ 38,000 |
| Total | <u>\$ 538,000</u> |

(c) Amount in (b) attributable to Singapore dividend
= 20,000/(680,000+20,000+35,000) x 538,000 = \$14,640

(d) Singapore dividend net of amount in (c)
= \$20,000 - \$14,640 = \$5,360

(e) Normal CI excluding net Singapore dividend
= \$197,000 - \$5,360 = \$191,640

Example 3

Tax computation of company E (transferor with accounting year end 31 Dec, acquired by Co F on 1 Jul) for YA 2003:

| NORMAL INCOME (TAXED AT 22%) | | CONCESSIONARY INCOME (TAXED AT 10%) | |
|--|------------------|-------------------------------------|------------|
| | \$ | \$ | \$ |
| Interest | | 20,000 | 520,000 |
| Rental income | | 50,000 | |
| Royalty income | | 10,000 | |
| | | <u>80,000</u> | |
| Less: | | | |
| Unabsorbed capital allowance b/f | (50,000) | | |
| Current year capital allowance | <u>(100,000)</u> | <u>(150,000)</u> | |
| | | (70,000) | |
| Section 37B set off | | <u>70,000</u> | |
| Unabsorbed capital allowance c/f | | <u>0</u> | |
| Adjusted profit/(loss) | | (60,000) | |
| Add unabsorbed loss b/f | | <u>(120,000)</u> | |
| | | (180,000) | |
| Section 37B set off | | <u>150,000</u> | |
| Current year unabsorbed loss | | (30,000) | |
| Less: Amt transferred to claimant* | (X) | <u>15,000</u> | |
| Unabsorbed loss c/f | | <u>(15,000)</u> | |
| Donation made in y/e 31.12.2002 - \$4,000(#) | | 8,000 | |
| Less: Amt transferred to claimant* | (Y) | <u>(2,500)</u> | |
| Unabsorbed donation c/f | | <u>5,500</u> | |
| Investment allowance for YA 2003 c/f | | <u>30,000</u> | |
| CI | | <u><u>Nil</u></u> | Nil |

| | |
|---|-------------------|
| <p>Adjusted profit/(loss)</p> <p>Less:</p> <p>Unabsorbed capital allowance b/f</p> <p>Current year capital allowance</p> <p>484,000</p> <p>Less: Donation made in y/e</p> <p>31.12.2002 - \$10,000(#)</p> <p>484,000</p> <p>Section 37B set off</p> <p>(a) 70,000 x 22/10</p> <p>(b) 150,000 x 22/10</p> <p><u>(330,000)</u></p> <p><u>(484,000)</u></p> <p>CI</p> | <p>Nil</p> |
|---|-------------------|

* Since Co E and Co F are members of the same group only from 1st July 2002, Co E is only allowed to transfer to Co F the lower of:

(a) the amount of loss item of Co E, attributable to the period from 1st July 2002 to 31st December 2002 [computed on a pro-rated basis – i.e. 6/12 x (30,000+8,000)]; or

(b) the amount of assessable income of Co F (after deducting investment allowance) attributable to the period from 1st July 2002 to 31st December 2002 [computed on a pro-rated basis – i.e. 6/12 x 35,000].

Since (b) is lower and applying the prescribed order of transfer, the full amount of losses will be transferred and the amount of donation to be transferred is limited to \$2,500.

(#) Donation made qualifies for double tax deduction under S37(3) of ITA and is apportioned using basis of allocating common expenses

Example 3 (continued)

Tax computation of company F (claimant with accounting year end 31 Dec) for YA 2003:

| NORMAL INCOME (TAXED AT 22%) | | CONCESSIONARY INCOME (TAXED AT 10%) | |
|---|-----------------|-------------------------------------|------------------|
| | \$ | \$ | \$ |
| Adjusted profit/(loss) | | 630,000 | 515,000 |
| Less: | | | |
| Unabsorbed capital allowance b/f | (10,000) | | (480,000) |
| Current year capital allowance | <u>(40,000)</u> | <u>(50,000)</u> | <u>(900,000)</u> |
| | | 580,000 | (865,000) |
| Less: | | | |
| Unabsorbed loss b/f | | <u>(100,000)</u> | <u>865,000</u> |
| | | 480,000 | Nil |
| Singapore franked dividend | | 20,000 | |
| Rental income | | <u>35,000</u> | |
| | | 535,000 | |
| Less: Donation made in y/e 31.12.2002 - \$10,000* | | <u>(20,000)</u> | <u>(15,000)</u> |
| | | 515,000 | 15,000 |
| Section 37B set off (880,000 x 10/22) | | <u>(400,000)</u> | <u>Nil</u> |
| | | 115,000 | |
| Less: Investment allowance | | <u>(80,000)</u> | |
| | | 35,000 | |
| Less: | | | |
| Loss transferred from transferor | (X) | (15,000) | |
| Donation transferred from transferor | (Y) | <u>(2,500)</u> | |
| CI before deducting exempt amount | | 17,500 | |
| Less exempt amount (See note) | | <u>10,923</u> | |
| CI | | <u>6,577</u> | |
| Tax at 22% | | 1,446.94 | |
| Less Tax at source (20,000 x 22%) | | <u>(4,400.00)</u> | |
| Tax repayable | | <u>(2,953.06)</u> | |
| * Donation made qualifies for double tax deduction under S37(3) of ITA and is using basis of allocating common expenses | | | |

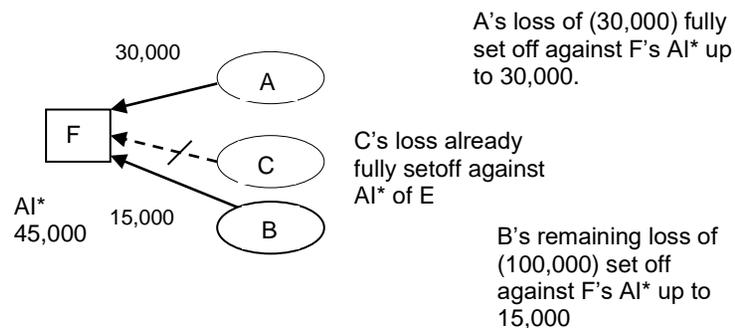
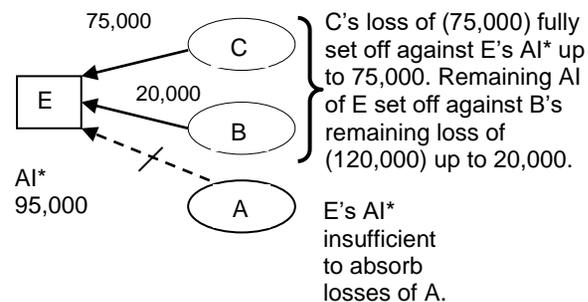
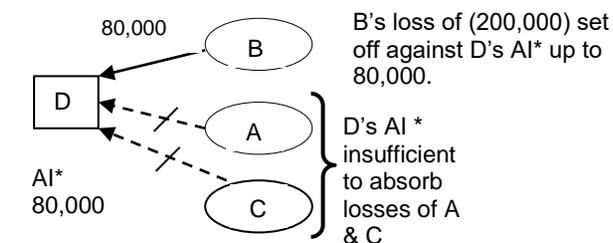
| Note – Computation of exempt amount for normal CI, excluding Singapore dividend, amounting to \$16,846 (see below), limited to \$100,000. | |
|---|-------------------|
| On the first \$10,000, 75% of the income | \$ 7,500 |
| On the next \$6,846, 50% of the income | \$ 3,423 |
| Total exempt amount | <u>\$ 10,923</u> |
| The amount of \$16,846 is computed as follows: | |
| (a) Gross dividend | \$20,000 |
| (b) Donation | \$ 20,000 |
| Section 37B loss set off | \$ 400,000 |
| Investment allowance | \$ 80,000 |
| Loss & donation from transferor Co | \$ 17,500 |
| Total | <u>\$ 517,500</u> |
| (c) Amount in (b) attributable to Singapore dividend | |
| = 20,000/(480,000+20,000+35,000) x 517,500 = \$19,346 | |
| (d) Singapore dividend net of amount in (c) | |
| = \$20,000 - \$19,346 = \$654 | |
| (e) Normal CI excluding net Singapore dividend | |
| = \$17,500 - \$654 = \$16,846 | |

Annex 6 – Quantum of loss transfer under group relief system

Companies A – F are all members of the same group.

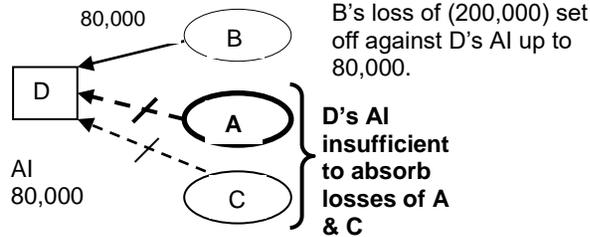
| | Company A | Company B | Company C | Company D | Company E | Company F |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Unabsorbed current year trade loss | (30,000) | (200,000) | (75,000) | | | |
| Assessable Income | | | | 80,000 | 95,000 | 45,000 |
| Priority of companies specified in GR-A | D, E, F | D,E,F | E, F, D | | | |
| Priority of companies specified in GR-B | | | | B, A, C | C, B, A | A, C, B |

Overall position of companies A – F:

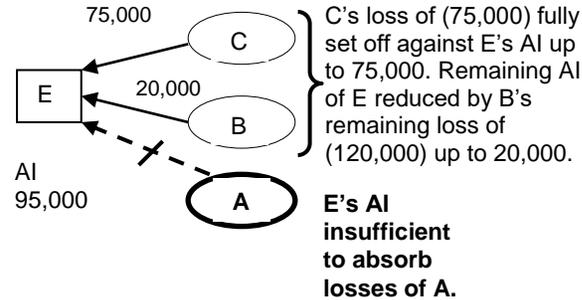


*AI= Assessable Income

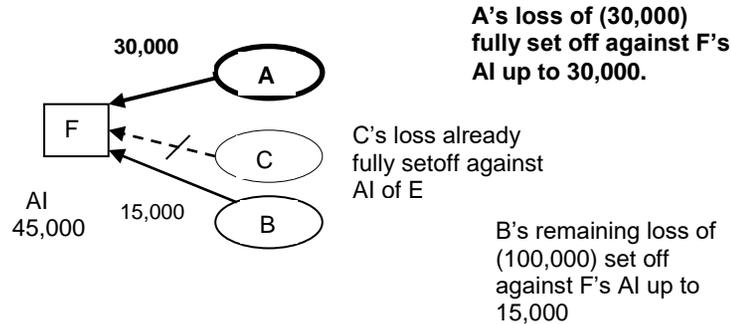
Transfer of company A's loss items



1) Company D
Both A and B have specified D as the first company to which their losses are to be transferred. However, D has indicated that it would absorb losses from B first. AI of D has to be reduced by B's losses first before any remaining AI of D can be reduced by A's losses.



2) Company E
Similarly, both A and B have specified E as the second company to which their losses are to be transferred. However, AI of E is to be reduced by C's losses first, followed by B, before any remaining AI of E can be reduced by A's losses.

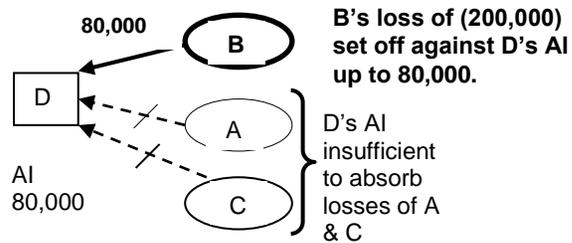


3) Company F
A has priority for loss setoff against F's AI.

The order of setoff of A's losses is as follows:

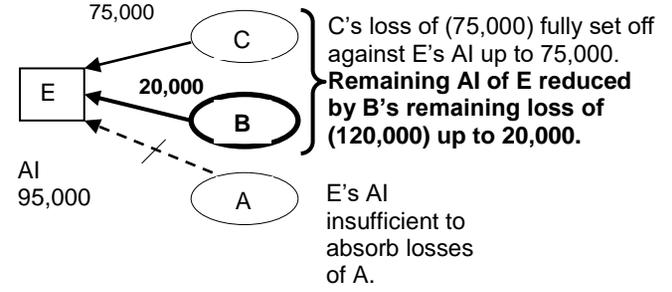
| Company A's losses | Transferred to D, E, F in order of priority: | Has D/E/F opted to receive losses from another company in priority to A? | Transferor from which losses are received in priority to A's losses | Was AI of D/E/F reduced in priority by losses of other transferor | AI of Company D/E/F available to be reduced by losses of A | AI of D/E/F remaining after reduction of losses of other transferor or A |
|------------------------------|--|--|---|---|--|--|
| (30,000) | | | | | | |
| Setoff against D - NIL | Company D – 80,000 | Yes | Company B | Yes | - | NIL |
| Setoff against E - NIL | Company E – 95,000 | Yes | Company C & B | Yes | - | NIL |
| Setoff against F – 30,000 | Company F – 45,000 | No | - | No | 45,000 | 15,000 |
| Net losses of A - NIL | | | | | | |

Transfer of company B's loss items

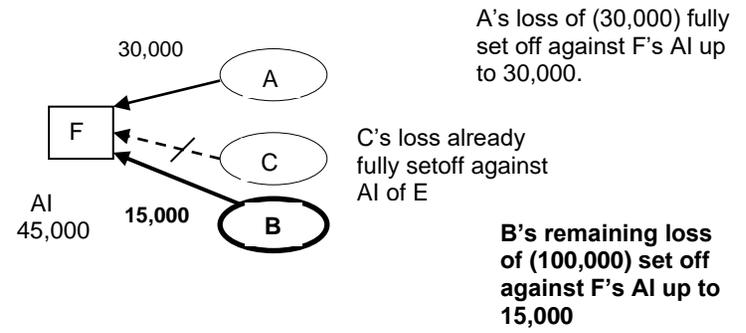


1) Company D
Both A and B have specified D as the first company to which their losses are to be transferred. D has indicated that it would absorb losses from B first. Therefore, B has priority for loss setoff against D's AI.

2) Company E
Similarly, both A and B have specified E as the second company to which their losses are to be transferred. However, AI of E has to be reduced by C's losses first before any remaining AI of E can be reduced by B's losses.



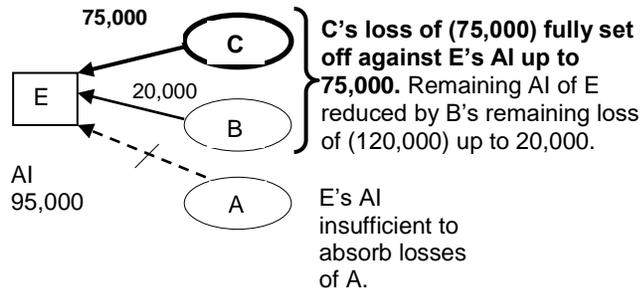
3) Company F
F's AI must be reduced by A and C's losses first before any remaining AI of F can be reduced by B's losses.



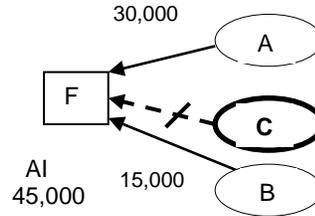
The order of setoff of B's losses is as follows:

| Company B's losses | Transferred to: | Has D/E/F opted to receive losses from another company in priority to B? | Transferor from which losses are received in priority to B's losses | Was AI of D/E/F reduced in priority by losses of other transferor? | AI of Company D/E/F available to be reduced by losses of B | AI of D/E/F remaining after reduction of losses of other transferor or B |
|-----------------------------------|--------------------|--|---|--|--|--|
| (200,000) | | | | | | |
| Setoff against D – 80,000 | Company D – 80,000 | No | - | No | 80,000 | NIL |
| Setoff against E – 20,000 | Company E – 95,000 | Yes | C | Yes | 20,000 | NIL |
| Setoff against F – 15,000 | Company F – 45,000 | Yes | Company A & C | Yes | 15,000 | NIL |
| Net losses of B – (85,000) | | | | | | |

Transfer of company C's loss items



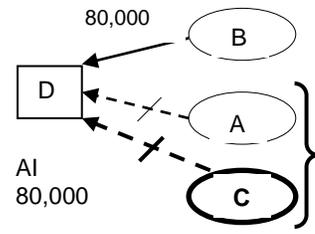
1) Company E
C has priority for loss setoff against E's AI.



A's loss of (30,000) fully set off against F's AI up to 30,000.

B's remaining loss of (100,000) set off against F's AI up to 15,000

2) Company F
F's AI must be reduced by A's losses first before any remaining AI of F can be reduced by C's losses.



B's loss of (200,000) set off against D's AI up to 80,000.

D's AI insufficient to absorb losses of A & C

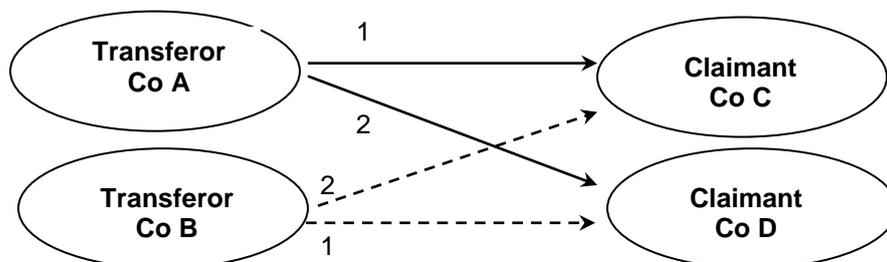
2) Company D
D's AI must be reduced by B and A's losses first before any remaining AI of D can be reduced by C's losses.

The order of setoff of C's losses is as follows:

| Company C's losses | Transferred to: | Has D/E/F opted to receive losses from another company in priority to C? | Transferor from which losses are received in priority to C's losses | Was AI of D/E/F reduced in priority by losses of other transferor? | AI of Company D/E/F available to be reduced by losses of C | AI of D/E/F remaining after reduction of losses of other transferor or C |
|------------------------------|--------------------|--|---|--|--|--|
| (75,000) | | | | | | |
| Setoff against E - 75,000 | Company E – 95,000 | No | - | No | 95,000 | 20,000 |
| Setoff against F – NIL | Company F – 45,000 | Yes | Company A | Yes | 15,000 | 15,000 |
| Setoff against D – NIL | Company D – 80,000 | Yes | Company B & A | Yes | - | NIL |
| Net losses of C – NIL | | | | | | |

Annex 7 – Order of priority specified by transferor & claimant

| | Order of Priority Specified in Form GR-A or GR-B | |
|-----------------|--|---|
| Transferor Co A | C | D |
| Transferor Co B | D | C |
| Claimant Co C | B | A |
| Claimant Co D | A | B |



In the example above, A has indicated C as the first claimant to which its loss items will be transferred, followed by D.

Based on the order of priority indicated by C, it must receive loss items from B first, and prior to it receiving loss items from B, it cannot receive loss items from A. On the other hand, B is to transfer loss items to D first, before it can transfer loss items to C. However, D will not receive loss items from B before it receives loss items from A.

It is therefore not possible for A to transfer loss items to C first, and still satisfy the order of priority indicated by C.

Under such circumstances, the order of priority specified by A and B (the transferors) will take precedence over the order of priority specified by C and D (the claimants). Therefore,

- (a) A will transfer loss items to C first, before D; and
- (b) B will transfer loss items to D first, before C.