



Singapore Business Tax developments

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We are pleased to share the following with you.

IRAS updates guide to income tax treatment of foreign exchange gains and losses for businesses

On 17 August 2020, the Inland Revenue Authority of Singapore (IRAS) issued an updated e-Tax Guide “Income Tax Treatment of Foreign Exchange Gains and Losses for Businesses (Third Edition).” The update relates to the introduction of a new de minimis limit in year of assessment (YA) 2020 (relating to income earned for financial year ended in 2019) to allow businesses to treat foreign exchange differences on designated bank accounts as revenue in nature even where the relevant bank account is not solely maintained for revenue purposes, provided that the number and value of capital transactions within the designated account are within the de minimis limit.

The key features of the update are as follows:

Topic	Points to note
Background: Administrative burden of having a designated bank account	Businesses may maintain foreign currency bank accounts for the purposes of their business operations. Foreign exchange differences may arise when businesses revalue the year-end balances of these accounts in their functional currency. From a Singapore tax perspective,

such foreign exchange differences generally are considered to be capital in nature and therefore not taxable or deductible for income tax purposes. This treatment applies unless the IRAS is satisfied that the bank account is considered as a “designated bank account” maintained solely for the purpose of receiving trade receipts and paying revenue expenses in a particular foreign currency (designated revenue purpose).

Feedback from businesses is that to qualify for the existing designated bank account treatment, they would need to maintain at least two different bank accounts in the same currency (one solely for revenue purposes and one for other transactions) even though most of their transactions in that currency are revenue in nature.

Exception to the designated bank account treatment: De minimis limit

Taking account of the feedback from businesses, the Comptroller of Income Tax (CIT) has reviewed the conditions for the designated bank account. With effect from YA 2020, the CIT is prepared to allow businesses to treat foreign exchange differences arising from the revaluation of the designated bank account as revenue in nature, even where that account is not maintained solely for revenue purposes, provided that the number and value of capital transactions within the designated bank account satisfy the de minimis limit:

- Total number of capital transactions should not exceed 12 per year; and
- Total value of capital transactions should not exceed S\$500,000 per year.

For the purpose of calculating the total number and value of capital transactions, the inflow and outflow of funds are aggregated.

Non-applicability of the de minimis limit

The de minimis limit does not apply to businesses that can maintain the designated bank account solely for revenue purposes. In addition, a business whose designated bank account was not maintained solely for revenue purposes prior to YA 2020 may not adopt the de minimis limit for the prior YAs regardless of whether the tax assessments for the relevant YAs have been finalized, are currently under objection, or currently under review.

Where the designated bank account has not been used solely for designated revenue purposes prior to YA 2020, businesses may adopt the de minimis limit and rely on it to utilize the designated bank account treatment with effect from YA 2020. This is provided that the total number and value of capital transactions are within the de minimis limit. The de minimis limit applies on a prospective basis.

Businesses that do not wish to track the nature of transactions within their foreign currency bank accounts may continue to treat the exchange differences arising

from the revaluation of their foreign currency bank accounts as capital in nature (i.e., not taxable or deductible).

Circumstances giving rise to the cessation of the designated bank account treatment

The designated bank account treatment will cease to apply from the YA when the account is not maintained solely for revenue purposes and:

- The total number or value of capital transactions exceed the de minimis limit; or
- The business chooses not to adopt the de minimis limit.

This treatment applies even where the designated bank account is used solely for revenue purposes or meets the de minimis limit in subsequent years.

Administrative procedures for bank accounts solely designated for revenue purposes

Businesses that maintain bank accounts solely for designated revenue purposes and wish to claim the revenue tax treatment for designated bank accounts are required to:

- Have in place proper controls to ensure that the designated bank account is used solely for receiving trade receipts and paying revenue expenses;
 - Where requested by the IRAS, provide supporting documents (e.g., bank statements showing the movement of the funds) to substantiate that the bank account is solely used for the designated revenue purpose; and
 - Provide details of the claim in the tax computation submitted, including the account number of the designated bank account, the foreign currency in which it was maintained, and confirmation that the account was being used for the designated revenue purpose.
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Administrative procedures for businesses that adopt the de minimis limit for designated bank accounts

Businesses that adopt the de minimis limit treatment to claim revenue tax treatment for designated bank accounts are required to:

- Have in place proper controls to identify the nature of the transactions in the bank account;
 - Where requested by the IRAS, provide supporting documents (e.g., bank statements showing the movement of the funds) to substantiate the nature of transactions in the bank account; and
 - Indicate the adoption of the de minimis limit and provide the following information in their income tax computation to substantiate that the de minimis limit is met:
 - Total number of capital transactions in the bank account during the basis period; and
 - Total value of capital transactions in the bank account during the basis period.
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Notwithstanding the application of the de minimis limit, the CIT reserves the right to examine the transactions

within the bank account. Where the total number and/or value of capital transactions is found to exceed the de minimis limit, the designated bank account tax treatment will not apply to the account.

Deloitte Singapore's views

The introduction of the de minimis limit from YA 2020 is welcome, since it helps to reduce administrative and legal costs for businesses. This is particularly so for small and medium-sized businesses where it is often administratively cumbersome and not cost effective to maintain separate bank accounts for revenue and capital transactions.

The IRAS has separately clarified that while the de minimis limit is intended to be applied prospectively from YA 2020, businesses that do not adopt the de minimis limit in YA 2020 still may adopt the de minimis limit for their designated bank accounts in subsequent YAs from YA 2021. Businesses wishing to adopt the de minimis limit in YA 2020 that already have submitted their YA 2020 tax computations and/or tax returns may consider filing an amended computation and/or return to take into account the de minimis limit. Otherwise, businesses may adopt the de minimis limit in subsequent YAs where they wish to do so and the conditions are met.

Where the de minimis limit is adopted and subsequently breached it may not apply to the same bank account in the future. Consequently, the exchange differences arising from the revaluation of the account will be treated as capital in nature in the YA of the breach and subsequent YAs.

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