IRAS e-Tax Guide

Pioneer Incentive: Capital Allowances upon Expiry of Tax Relief Period
(Second Edition)

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1 Aim

1.1 This e-Tax Guide spells out the manner of apportioning capital allowances (“CA”) under section 10(3)(b) of the Economic Expansion Incentives (Relief from Income Tax) Act (“EEIA”)[1].

1.2 It is relevant to a pioneer enterprise or pioneer service company claiming CA upon expiry of its tax relief period during the basis period for any YA.

2 At a Glance

2.1 At the end of its tax relief period, a pioneer enterprise or pioneer service company is deemed under section 7 of the EEIA to have permanently ceased its “old” trade or business and commenced a “new” trade or business on the next day.

2.2 Where the tax relief period expires during the basis period, a pioneer enterprise or pioneer service company is required to apportion its CA for the relevant year of assessment (“YA”) between its “old” and “new” trade or business, in a manner which the Comptroller finds reasonable.

2.3 This manner of apportionment is summarized in section 4 of this e-Tax Guide.

[1] This e-Tax Guide replaces the IRAS’ e-Tax Guide on “Capital allowances for a pioneer enterprise upon expiry of its tax relief period” published on 15 Jul 1994.

3 Background

3.1 Under sections 5(2) and 17(2) of the EEIA, the Minister for Trade and Industry may approve any qualifying company to be a pioneer enterprise or pioneer service company. Upon approval, the company will enjoy a tax relief period not exceeding 15 years. During the tax relief period, income derived by the company from the pioneer trade will be exempt from tax.

3.2 The company is required to take into account CA claims during its tax relief period, in order to determine its exempt pioneer income.[2]

3.3 Where the tax relief period of the company expires during the basis period for any YA, section 10(3) of the EEIA provides that CA shall be computed as if the "old" trade or business had not been permanently ceased at the end of the tax relief period. The CA shall be apportioned between the "old" and "new" trade or business, in a manner that appears reasonable to the Comptroller.

4 Manner of Apportionment of Capital Allowances

4.1 Upon expiry of the tax relief period, CA for the YA is to be apportioned between the "old" and "new" trade or business of the company in the following manner.

4.2 <u>Capital expenditure **incurred before** the expiry of the tax relief period</u>

4.2.1 Initial allowances ("IA") under sections 16[3], 18B, 18C and 19 of the Income Tax Act ("ITA") on capital expenditure incurred before the date of expiry of the tax relief period are to be allocated to the "old" trade or business.

4.2.2 Annual allowances ("AA") under sections 16, 18B, 18C, 19 and 19A, and writing-down allowances ("WDA") under section 19B of the ITA are to be apportioned to the "old" and "new" trade or business using the formulae in paragraph 4.2.3.

[2] Specifically, section 10(2) of the EEIA stipulates that the capital allowances provided for in sections 16, 17, 18, 18B, 18C, 19, 19A, 19B, 20, 21 and 22 of the Income Tax Act ("ITA") shall be taken into account in determining the exempt income of the pioneer enterprise, even though no claim for the allowances has been made. This would also apply to a pioneer service company.

[3] This section does not apply to any capital expenditure incurred on or after 23 Feb 2010 on the construction or purchase of an industrial building or structure.

4.2.3 Formulae for apportioning AA and WDA:

Amount apportioned to the “old” trade or business:

$$\frac{\text{Number of days in the basis period relating to the “old” trade or business}}{\text{Number of days in the basis period}} \times \text{AA or WDA}$$

Amount apportioned to the “new” trade or business:

$$\frac{\text{Number of days in the basis period relating to the “new” trade or business}}{\text{Number of days in the basis period}} \times \text{AA or WDA}$$

4.3 Capital expenditure **incurred after** the expiry of the tax relief period

IA, AA and WDA under sections 16, 18B, 18C, 19, 19A and 19B of the ITA on capital expenditure incurred after the expiry of the tax relief period are to be allocated to the “new” trade or business.

4.4 Assets **disposed or permanently ceased to be used before** the expiry of the tax relief period

Balancing allowances (“BA”) or balancing charges (“BC”) under sections 17, 19B and 20 of the ITA (where applicable) on assets disposed or permanently ceased to be used before the date of expiry of the tax relief period are to be allocated to the “old” trade or business.

4.5 Assets **disposed or permanently ceased to be used after** the expiry of the tax relief period

BA or BC under sections 17, 19B and 20 of the ITA (where applicable) on assets disposed or permanently ceased to be used after the date of expiry of the tax relief period are to be allocated to the “new” trade or business.

4.6 Unabsorbed CA brought forward

Unabsorbed CA brought forward from the basis period preceding the basis period during which the tax relief expires are to be allocated to the “old” trade or business.

4.7 Unabsorbed CA carried forward

CA remaining unabsorbed as at the end of the tax relief period will be available for set off against income arising in the post-pioneer period in accordance with the provisions of the ITA.

5 Contact Information

If you wish to seek clarification on the contents of this e-Tax Guide, please contact IRAS at 1800 356 8622**.**

6 Updates and Amendments

	Date of amendment	Amendments made
1	6 Aug 2014	This guide has been updated and re-written to reflect relevant changes made to the EEIA and ITA since the first edition of this guide was published on 15 Jul 1994. In particular, a. re-numbering sections 10(1A) and 10(1B) of the EEIA as sections 10(2) and 10(3) respectively; and b. including sections 18B, 18C, 19A and 19B of the ITA in sections 10(2) and 10(3) of the EEIA.