Income Tax (Adjustment for Change of Basis of Computing Profit, Loss or Expense of Financial Instruments resulting from FRS 109 or SFRS(I) 9) Regulations 2020

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No. S 4

INCOME TAX ACT
(CHAPTER 134)

INCOME TAX
(ADJUSTMENT FOR CHANGE OF BASIS OF
COMPUTING PROFIT, LOSS OR EXPENSE OF
FINANCIAL INSTRUMENTS RESULTING FROM
FRS 109 OR SFRS(I) 9) REGULATIONS 2020

In exercise of the powers conferred by sections 14I(2H) and 34AA(13) of the Income Tax Act, the Minister for Finance makes the following Regulations:

Citation and commencement

1. These Regulations are the Income Tax (Adjustment for Change of Basis of Computing Profit, Loss or Expense of Financial Instruments resulting from FRS 109 or SFRS(I) 9) Regulations 2020 and come into operation on 3 January 2020.

Definitions

2.—(1) In these Regulations, unless the context otherwise requires —

"date of initial application" means the first day of a basis period in which a qualifying person prepares or maintains the qualifying person's financial accounts in accordance with FRS 109 or SFRS(I) 9 for the first time;

"FRS 12" means the financial reporting standard known as Financial Reporting Standard 12 (Income Taxes) that is made, and amended from time to time, under Part III of the Accounting Standards Act (Cap. 2B);

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"FRS 39" means the financial reporting standard known as Financial Reporting Standard 39 (Financial Instruments: Recognition and Measurement) that is treated as made by the Accounting Standards Council under Part III of the Accounting Standards Act (Cap. 2B), as amended from time to time;

"FRS 109" means the financial reporting standard known as Financial Reporting Standard 109 (Financial Instruments) that is made, and amended from time to time, under Part III of the Accounting Standards Act;

"initial year of assessment", in relation to a qualifying person, means the year of assessment for the basis period in which the person's date of initial application falls;

"qualifying person", in relation to any year of assessment, has the meaning given by section 34AA(15) of the Act;

"SFRS(I) 1-12" means the financial reporting standard known as Singapore Financial Reporting Standard (International) 1-12 (Income Taxes) that is made, and amended from time to time, under Part III of the Accounting Standards Act;

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"SFRS(I) 9" means the financial reporting standard known as Singapore Financial Reporting Standard (International) 9 (Financial Instruments) that is made, and amended from time to time, under Part III of the Accounting Standards Act.

(2) Any term used in these Regulations and not defined in these Regulations but defined in FRS 39, FRS 109 or SFRS(I) 9, has the meaning given by FRS 39, FRS 109 or SFRS(I) 9, as the case may be.

Transition from tax treatment under section 34A of Act to tax treatment under section 34AA of Act

3.—(1) This regulation applies to a qualifying person that is a qualifying person under section 34A of the Act for the year of assessment immediately before the initial year of assessment.

Tax treatment for profit in respect of financial instrument recognised on date of initial application

(2) Where —

(*a*) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a profit in respect of any financial instrument; and

(*b*) the profit is credited to the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment,

then the amount of the profit that is revenue in nature is treated as income of the qualifying person for the initial year of assessment.

Tax treatment for loss (other than impairment loss or expected credit loss) in respect of financial instrument recognised on date of initial application

(3) Where —

(*a*) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a loss (other than an impairment loss or expected credit loss) in respect of any financial instrument; and

(*b*) the loss is debited from the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment,

then the amount of the loss that is revenue in nature is to be allowed as a deduction against the qualifying person's income for the initial year of assessment.

Tax treatment for reversal of impairment loss in respect of financial instrument recognised on date of initial application

(4) Where —

(*a*) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a profit that is a reversal of an impairment loss in respect of any financial instrument;

(*b*) the profit is credited to the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment; and

(*c*) an amount of the impairment loss in respect of the financial instrument was previously allowed as a deduction against the qualifying person's income under section 14 or 14I of the Act read with section 34A of the Act for any year of assessment before the initial year of assessment,

then the amount of the profit equal to the amount of the impairment loss that was so allowed as a deduction is treated as income of the qualifying person for the initial year of assessment.

Tax treatment for impairment loss or expected credit loss arising from credit-impaired financial instrument recognised on date of initial application

(5) Where —

(*a*) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a loss that is an impairment loss or expected credit loss in respect of any financial instrument;

(*b*) the impairment loss or expected credit loss is debited from the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment; and

(*c*) the financial instrument is credit-impaired in accordance with FRS 109 or SFRS(I) 9,

then the amount of the loss that is revenue in nature is allowed as a deduction against the qualifying person's income for the initial year of assessment.

Tax treatment for provision by bank and qualifying finance company for expected credit loss and allowance for non-credit-impaired loans and investments in securities that are not credit-impaired

(6) Subject to paragraph (7), where a qualifying person is a bank or qualifying finance company, an amount computed using the formula A + B + C is to be allowed as a deduction against the qualifying person's income for the initial year of assessment, where —

(*a*) A is the amount of any expected credit loss in respect of its loans that are not credit-impaired and that is recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, and debited from the opening