

Capital allowances in the calculation of statutory income

8-500 Capital allowances in the calculation of statutory income

General treatment

Section 35 provides that the income of any person for each year of assessment ("statutory income") shall be the full amount of his or her income for the year preceding the year of assessment from each source of income after deducting capital allowances, if any. Capital allowances are set off, firstly against the income of the trade, business or profession in respect of which they are granted, in the following order (sec 22A):

- (a) capital allowances for previous years of assessment brought forward to the current year of assessment, on a first-in-first-out basis; and
- (b) capital allowances for the current year of assessment.

If any amount of capital allowances remains after the above set-off, the remaining amount of capital allowances is then set off against other sources of income for the current year of assessment. In the calculation of statutory income, the capital allowances under sec 35(2) are to be deducted in the following order:

- (a) firstly, against income from any trade, business, profession or vocation; and
- (b) secondly, against income from any other source (now sec 35(2A)).

Any amount of capital allowances that are not set off against income for the current year of assessment will form the company's unabsorbed capital allowances to be carried forward to the next succeeding year of assessment. The company can carry forward these unabsorbed capital allowances if it satisfies the conditions under sec 23 (see ¶9-100 and ¶9-400). Where a company is a member of a group for purposes of the Loss Transfer System of Group Relief (sec 37C, see ¶9-500), the company can transfer any capital allowances

¹ Angela Tan & Tan How Teck, Singapore Master Tax Guide, (Singapore: Seng Lee Press Pte Limited, 2006) pp.227-228.

for the current year of assessment that remains after setting off against other sources of income. Capital allowances for previous years of assessment cannot be transferred under the Loss Transfer System of Group Relief.

Exceptions

There are exceptions to the general rule that capital allowances are to be set off firstly against the income of the trade, business or profession in respect of which they are granted and any excess could then be set-off against other sources of income for the current year of assessment.

In the case of a person who derives income from letting out an industrial building or structure, any industrial building allowances granted have to be set-off against that rental income whether assessed under sec 10(1)(a) or 10(1)(f) before any excess can be set-off against other income. Any unabsorbed industrial building allowances can be carried forward to subsequent years of assessment provided the person continues to derive such income (sec 23(2)) and satisfies the other conditions in sec 23.

For a person who derives income from the use of a building or structure for a qualifying trade and also income from letting it out to a tenant who carries on its (ie the latter's) qualifying trade, it would appear that industrial building allowances are to be granted to the person by being set off against the income derived by him or her from that trade before being set off against the rental income (sec 35(2A)).

For persons carrying on the following activities, the manner in which capital allowances is to be set off in the calculation of statutory income would differ from the general treatment:

- the business of hiring out motor cars or providing driving instructions (sec 10H); and
- the business of the making of investments, which includes the business of letting immovable properties (sec 10E).

In these instances, the capital allowances granted on expenditure incurred on the provision of plant and machinery can be set off only against the income derived from that business. Any amount of capital allowances in excess of such business income cannot be set off against other sources of income of the person for that year of assessment. Any unabsorbed capital allowances for the current year of assessment do not qualify for the Loss Transfer System of Group Relief.