RECOMMENDED
ACCOUNTING
PRACTICE

RAP 8

Foreign Income Not Remitted to Singapore

This statement of Recommended Accounting Practice was approved by the Institute of Singapore Chartered Accountants (formerly known as Institute of Certified Public Accountants of Singapore) in November 2004.

This RAP 8 is withdrawn by the Institute of Singapore Chartered Accountants for annual reporting periods beginning on or after 1 January 2018.

CONTENTS

Introduction

1. This statement of Recommended Accounting Practice sets out recommendations on the way in which an entity accounts for deferred tax in respect of foreign income not remitted to Singapore. The provisions contained in this statement are not intended to replace professional judgement. No responsibility for loss incurred by any person acting or refraining from acting as result of relying on this Statement is accepted by the Institute.

Background

2. Financial Reporting Standard (FRS) 12 *Income Taxes* requires the recognition of all temporary differences. The exceptions to this general rule are specified, one of them being the profits retained in a branch of a company, the distribution of which is not anticipated in the foreseeable future. There is no specific exception for the situation that is the subject of this statement, i.e. overseas income not remitted to Singapore.

3. Unlike many other jurisdictions, Singapore has a territorial rather than worldwide tax system, which means that tax is based on income arising from Singapore. Income arising overseas is subject to tax if it is remitted to Singapore. Thus, some companies provide deferred tax in respect of foreign income while other companies do not on the basis that they do not intend to remit the funds to Singapore in the foreseeable future.

4. FRS 12, *Income Taxes*, requires the recognition of all taxable temporary differences with certain exceptions. The exceptions do not include the situation of foreign income not remitted and therefore not taxable. The tax effect accounting of this item is therefore not clear.

5. FRS 12.38 provides an exception to tax effect accounting in the case of profits that are retained in subsidiaries, branches, associates and joint ventures that would be taxable if these were to be distributed to the investor. The exception applies provided the investor is able to control the timing of the distribution and no distribution is anticipated in the foreseeable future.

6. This exception is similar to the unremitted foreign income situation, and providing tax in one case but not the other would not be accounting for like items in a like manner. To illustrate, a company may have a bank account in Hong Kong that is earning interest, or it may have a branch in Hong Kong that has a bank account earning interest. If the conditions are met, deferred tax should not be provided in either case.

Recommended Practice

7. A deferred tax liability in respect of foreign-sourced income not remitted to Singapore should be recognised and accounted for in the same way as temporary differences associated with investments in subsidiaries etc. as set out in accordance with FRS 12.38. The disclosure requirements in FRS 12.79(f) would be applicable.