INLAND REVENUE AUTHORITY OF SINGAPORE

IRAS e-Tax Guide

Income Tax: Tax Treatment of Public-Private Partnership Arrangements (Third Edition)

Published by
Inland Revenue Authority of Singapore

Published on 22 February 2019

First edition on 10 Sep 2009
Second edition on 27 Dec 2013

Table of Contents

		Page
1	Aim	1
2	At a Glance	1
3	Glossary	3
4	Background	5
5	Scope of PPP operator's trade	5
6	Accounting for PPP projects	5
7	Tax Treatment of PPP projects	7
8	Commencement of trade	11
9	Third party revenue	11
10	Summary and administrative procedure	12
11	Enquiries	12
12	Updates and Amendments	13
Annex A – Summary of income tax treatment of public-private partnership arrangements		14
Annex B - Accounting and tax treatment for public-private partnership arrangements – Illustrations		15
Annex C - List of Approved Statutory Boards (current as at date of publication)*		20

1 Aim

1.1 This e-Tax guide explains the approach the Comptroller of Income Tax ("CIT") takes to establish the scope of services carried on by the private sector operator involved in a Public Private Partnership ("PPP") project and provides details on the income tax treatment that would apply.

2 At a Glance

2.1 For tax purposes, the CIT will establish the scope of the PPP operator's trade or business according to the accounting treatment of the PPP project. The scope of a PPP operator's trade or business will typically fall within one of the following categories -

(A) Operation & Maintenance ("O&M") service provider;

(B) Finance Lease lessor1[1] and O&M service provider; or

(C) Design, construction and O&M service provider.

2.2 Once the scope of the PPP operator's trade or business is determined on the basis of its accounting treatment, the tax treatment below will apply:

Category	Tax Treatment
(A) O&M service provider	• Unitary payments are subject to tax as and when they accrue to the PPP operator as service income • Operator may claim capital allowance or industrial building allowance, where applicable, on capital expenditure incurred on the PPP asset
(B) Finance Lease lessor and O&M service provider	• Finance income of the lease component and service income are subject to tax as and when such income accrues to the operator. • Principal repayment of lease component is not taxable • Operator is not entitled to claim capital allowance or industrial building allowance on the PPP asset

[1] Under this category, the PPP arrangements in Singapore usually contain a finance lease instead of an operating lease as the risks and rewards incidental to the PPP asset would have been substantially transferred to the lessee, i.e. the public authority. Where the PPP arrangement contains an operating lease instead, the tax treatment would be similar to the tax treatment for an O&M service provider outlined in paragraphs 7.2 to 7.4.

Category	Tax Treatment
(C) Design, construction and O&M service provider	• Construction revenue, service revenue and finance income are subject to tax as and when such income accrue in operator's accounts. • Construction costs, service costs and borrowing costs are deductible subject to sections 14 and 15 of Singapore Income Tax Act ("ITA") • Operator is allowed to make an irrevocable election to be taxed on the construction profits only upon the completion of construction of the PPP asset.

3 Glossary

3.1 Public-Private Partnership ("PPP')

PPP is a procurement model under the Best Sourcing framework introduced by the Ministry of Finance ("MOF"). Best Sourcing encourages the public sector to engage private sector operators in delivering public services if it is more efficient to do so[2].

3.2 PPP asset

PPP asset refers to the public service infrastructure that is the subject matter of a PPP arrangement. For example, if a PPP operator is contracted to construct and operate a hospital facility for the Government for a period of 10 years, the hospital facility is the PPP asset.

3.3 PPP operator

The private sector operator who is a party to a PPP arrangement.

3.4 Public authority

For the purpose of this e-Tax Guide, a public authority refers to the Singapore Government or an approved statutory body who is a party to a PPP arrangement. A list of approved statutory bodies can be found in Annex C.

3.5 Unitary payments

The periodic service payments paid by the public authority to the PPP operator over the life of the PPP.

3.6 SFRS(I)s

SFRS(I)s refer to the Singapore Financial Reporting Standards (International) and Singapore Financial Reporting Standards (International) Interpretations ("SFRS(I)s INT") issued by the Accounting Standards Council (ASC). SFRS(I)s are available for entities to apply for annual reporting periods beginning on or after 1 January 2018.

3.7 FRSs

FRSs refer to Financial Reporting Standards and Interpretations of Financial Reporting Standards ('INT FRS") issued by the ASC.

---

[2] Source: Public-Private Partnership Handbook Version 2 published by MOF, Mar 2012 (http://www.mof.gov.sg)

3.8 FRS 116

FRS 116 *(Leases)* is effective for annual periods beginning on or after 1 January 2019. Early application is permitted with application of FRS 115 *(Revenue from Contracts with Customers).* FRS 116 supersedes, among others, FRS 17 *(Leases)* and INT FRS 104 *(Determining whether an Arrangement contains a Lease)*.

3.9 FRS 115

FRS 115 *(Revenue from Contracts with Customers)* is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. FRS 115 supersedes, among others, FRS 11 *(Construction Contracts)* and FRS 18 *(Revenue).*

3.10 SFRS(I) 16

SFRS(I) 16 *(Leases)* is effective for annual periods beginning on or after 1 January 2019. Early application is permitted with application of SFRS(I) 15 *(Revenue from Contracts with Customers)*. SFRS(I) 16 supersedes, among others, SFRS(I) 1-17 (Leases) and SFRS(I) INT 4 *(Determining whether an Arrangement contains a Lease)*.

4 Background

4.1 PPP projects typically involve the private sector taking on the role of designing, building, financing and/or operating assets or providing related services, which is traditionally assumed by the government (hereinafter referred to as “the public authority”). In return, the PPP operator receives revenue in the form of user charges or unitary payments from the public authority over the life of the PPP arrangement.

4.2 PPP projects can be structured in a variety of ways and the trade or business of a PPP operator can cover a wide range of activities. Given the unique and varied nature of the underlying assets, infrastructure and/or the variety of services and range of terms that may be in a PPP arrangement, it is necessary to examine the structure of a PPP arrangement in detail before one can establish the exact scope of services provided by the PPP operator and the tax treatment that applies to him. The complexity of the arrangements means that a PPP operator may not be totally certain of the tax treatment arising from a PPP project.

5 Scope of PPP operator’s trade

5.1 To provide greater certainty to PPP operators of the tax treatment of their PPP projects, CIT has decided to accept the accounting treatment of PPP projects to determine the scope of a PPP operator’s trade for tax purposes (subject to paragraph 7.15). Once the scope of the operator’s trade or business is determined on the basis of its accounting treatment, the tax law/ rules governing the taxation of that trade or business would apply accordingly.

5.2 Generally, the characterisation of an operator’s trade for both accounting and tax purposes should not lead to divergent outcomes. This is because for accounting purposes, in determining the range of services provided by the PPP operator or whether the PPP arrangement contains a lease, reference will have to be made to the contract terms and the relevant contract law with an overriding objective to determine the substance of the arrangement instead of just its legal form. Likewise for tax purposes, the substance of the arrangement is, in most cases, as important a consideration as its legal form.

6 Accounting for PPP projects

6.1 The range of activities of the PPP operator, in particular, the degree of control he has over the PPP asset and the extent to which risks and rewards incidental to the ownership of the PPP asset has passed to the public authority, will determine the accounting characterisation of the PPP arrangement.

6.2 PPP projects within the scope of INT FRS 112 (*Service Concession Arrangements*) or SFRS(I) INT 12 (*Service Concession Arrangements)* would have to be accounted for by the PPP operator in accordance with FRS 11 (*Constructions Contracts*), FRS 18 (*Revenue*) or FRS 115 (*Revenue from Contracts with Customers*) (as the case may be) (collectively, the relevant Reporting Standards - Revenue) for the design, construction, operation and maintenance services it performs. A PPP arrangement falls under the scope of INT FRS 112 or SFRS(I) INT 12 if the grantor (i.e. the public authority):

(i) controls or regulates ***what services*** the operator must provide with the infrastructure (i.e., the PPP asset)*,* ***to whom it must provide*** them, and ***at what price***; and

(ii) controls (through ownership, beneficial entitlement or otherwise), any ***significant residual interest*** in the infrastructure at the end of the term of arrangement.

6.3 In practice, if the operator's activities involve the designing and construction/ upgrading of an asset besides providing financing, operations and maintenance services, the PPP arrangement will first be examined to determine if it falls within the scope of INT FRS 112 or SFRS(I) INT 12. If not, the operator will determine next whether the arrangement contains a lease element in accordance with INT FRS 104 (*Determining whether an Arrangement contains a Lease*), SFRS(I) INT 4 *(Determining whether an Arrangement contains a Lease),* FRS 116 (Leases) or SFRS(I) 16 (Leases), where applicable*.* If the PPP arrangement is determined to contain a lease element, the classification of the lease as finance or operating lease will be ascertained under FRS 17 (*Leases*), SFRS(I) 1-17 (Leases), FRS 116 (Leases) or SFRS(I) 16 *(Leases)* (collectively, the relevant Reporting Standards - Leases)*.* If the PPP arrangement does not fall under INT FRS 112/SFRS(I) INT 12, and INT FRS 104/SFRS(I) INT 4 or FRS 116/SFRS(I) 16, the operator will account for the asset as his own fixed asset under FRS 16 (*Property, Plant and Equipment*) or SFRS(I) 1-16 *(Property, Plant and Equipment)*.

6.4 Based on the accounting treatment, the scope of the PPP arrangements for tax purposes will typically fall within the following categories -

(A) Operation & Maintenance ("O&M") service provider;

(B) Finance Lease lessor and O&M service provider;

(C) Design, construction and O&M service provider.

The table below sets out the typical types of PPP arrangements in Singapore and provides references to Financial Reporting Standards ("FRS") that apply to these arrangements:

Category	**1. O&M Serivce Provider**	**2. Finance Lease Lessor cum O&M Service Provider**	**3. Design, Construction, O&M Service Provider**
Typical arrangement types	Operator provides operations and maintenance services to public authority	Operator deemed to lease PPP asset to public authority	Operator deemed to provide construction and operations services to public authority
Asset Ownership	Legal and beneficial/ economic ownership lie with operator	Legal ownership with operator but beneficial/ economic ownership lies with public authority	Legal title may be held either by operator or public authority but PPP asset is controlled by public authority
Capital Investment	Operator		
Demand Risk	Operator	Operator and public authority	Operator and/ or public authority
Typical Duration	10 – 30 years		
Residual Interest	Operator	Public authority	
Relevant Reporting Standards	**FRS 16/ SFRS(I) 1-16**	**INT FRS 104/ FRS 17/ SFRS(I) INT 4/ SFRS(I) 1-17/ FRS 116/ SFRS(I) 16**	**INT FRS 112/ SFRS(I) INT 12**

7 Tax Treatment of PPP projects

7.1 The tax treatment for each of the above categories of PPP arrangement is as follows:-

<u>(A) O&M Service Provider</u>

7.2 In this category, the operator builds a PPP asset that is his fixed capital asset with which he carries on his trade or that provides the setting in which he carries on the trade of providing O&M services to the public authority.

7.3 As the operator is the legal and beneficial owner of the PPP asset, the asset will be reflected as a fixed asset in his balance sheet as "property, plant and equipment". In accordance with the current tax law, construction costs incurred on the asset will be capital expenditure for tax purposes and relief is only available against his trade income to the extent that the capital expenditure qualifies for capital allowance ("CA"), industrial building allowance ("IBA") or land intensification allowance ("LIA") under the ITA.

7.4 The unitary payments will be taxed as and when the payments accrue to the PPP operator as service revenue.

(B) Finance Lease Lessor and O&M Service Provider

7.5 In this category, the public authority is the beneficial owner of the PPP asset. The PPP asset is reflected in the accounts of the public authority and not in the PPP operator's accounts.

7.6 For tax purposes, such a PPP arrangement is treated as containing a finance lease as well as a service element. As a finance lease lessor of the PPP asset, the operator is not entitled to any CA, IBA, or LIA claim pursuant to the new section 10F of the ITA. The unitary payment received by the PPP operator would comprise the lease payment and service revenue elements. The service revenue will be subject to tax as and when it accrues in the accounts. As for the finance lease component of the unitary payment, only the portion of the lease payment representing the finance income will be subject to tax over the term of the PPP project. The portion representing the principal repayment of the construction costs or capital expenditure (when the PPP asset is purchased) incurred by the operator is not taxable as provided by section 10F.

7.7 It may also be possible for the PPP operator to be categorised as a manufacturer/ dealer lessor under the relevant Reporting Standards - Leases. This occurs when the operator either acts as a manufacturer of the leased asset or as a dealer that acquires and sells the leased asset. Under the said Reporting Standards, a manufacturer or dealer lessor recognises any profit or loss from the sale of the asset in the period in accordance with the accounting policy adopted by the entity for outright sales. A finance lease of an asset by a manufacturer or dealer lessor thus gives rise to two types of income:

(a) profit/ loss resulting from an outright sale of the asset being leased; and

(b) finance income over the lease term.

7.8 For tax purposes, a manufacturer/ dealer lessor will be taxed on the profit from the outright sale of the leased asset as and when the profit is recognised in his profit and loss account. The finance income will be subject to tax over the lease term whilst the service revenue is taxed as and when it accrues in the operator's accounts.

(C) Design, Construction and O&M Service Provider

7.9 In this category, the PPP operator provides a composite service of design, construction, operation and maintenance services while the interest in the PPP asset substantially belongs to the public authority. Under INT FRS 112/SFRS(I) INT 12, the PPP operator recognises a financial asset to the extent that he has an unconditional contractual right to receive cash from the public authority ("financial asset model") or recognises an intangible asset to the extent that he receives a right to charge users of the public service ("intangible asset model"). Revenue is recognised according to the principles of FRS 11 during the stages of construction and FRS 18 during the operation and maintenance phase or FRS 115 (as the case may be).

Options on Tax Treatment

Option 1

7.10 Based on FRS 11/FRS 115[3], the operator is considered to have earned his revenue from the construction of the PPP asset throughout the course of the construction of the PPP asset. Generally, for tax purposes, the operator should also be assessed to tax on his construction income as and when they are accrued and reflected in his accounts, just like any other entity rendering construction services. Therefore, where the PPP arrangement falls within the scope of INT FRS 112/SFRS(I) INT 12 (i.e. under the financial asset model, intangible asset model or a combination of both financial asset and intangible asset models) then –

(a) all expenditure incurred from commencement of business (i.e. design costs, construction costs, etc) is treated as revenue in nature and allowed deduction subject to sections 14 and 15 of the ITA; and

(b) construction revenue, finance income and service revenue are subject to tax as and when recognised in the profit and loss account.

Adopting this approach will minimise the tax adjustments that the operator has to make in preparing his tax returns during the construction phase.

Option 2

7.11 However, CIT recognises that unlike normal construction contracts, (whereby progress payments are received at regular intervals throughout the construction period), PPP contracts are usually structured such that the unitary payments are made to the operator upon the completion of

[3] Any construction or upgrade services (as the case may be) to which FRS 115 applies

construction of the PPP asset and he is in a position to perform the services under the PPP contract. An operator who does not wish to be taxed on its construction profits during the construction phase and is prepared to make the necessary tax adjustments will be given the option to be taxed on the construction profits (i.e. construction revenues net of construction costs) and finance income, accrued in the accounts prior to the completion of the PPP asset, only upon the completion of the PPP asset. Interest costs incurred during the construction period will also be deferred as part of construction costs and claimable as deduction upon completion of the PPP asset.

7.12 The election of Option 2 impacts only the timing of taxation of construction profits/losses and finance income and deduction of interest costs of the operator during the construction phase. All other revenue derived and expenditure incurred by the operator are not affected and are taxable and deductible in accordance with tax rules throughout the PPP project.

7.13 The option on the tax treatment for a PPP operator in this category is <u>irrevocable</u> once the operator submits the first set of income tax return and tax computation pertaining to the PPP project. The same tax treatment should be applied consistently and reflected accordingly in the operator’s tax returns and computations for subsequent years of assessment.

Amortisation of Intangible Asset

7.14 Under the intangible asset model, where the PPP operator recognises an “intangible asset” (representing the operator’s accumulated right to be paid for providing construction services during the construction phase of the PPP project) for accounting purposes, he will be allowed deduction for the expenses relating to the “amortisation”[4] of that intangible asset for tax purpose. This is to ensure that the construction revenue that was brought to tax during the construction phase of the project is not taxed again during the operation phase of the project. Section 14V of the ITA has been enacted to allow a deduction for such amortisation expenses[5].

7.15 The tax treatment outlined from paragraphs 7.10 to 7.14 would cover most PPP projects in Singapore that fall within this category. However, in certain less typical PPP arrangements, the accounting characterisation alone may not sufficiently reflect the scope of the operator’s trade for tax purposes. It may therefore be necessary for the CIT to examine the specific terms surrounding the arrangements to determine the appropriate tax treatment. One such situation is where the PPP operator receives grants (which can be in lieu of, or in addition to unitary payments) from the public authority for providing services. In such instances, the PPP operator may request a clarification/ tax ruling from CIT to confirm the tax treatment for its PPP arrangement.

[4] Under FRS38, the intangible asset is amortised over the period in which it is expected to be available for use by the operator.

[5] In all other situations, amortisation of an intangible asset is a capital expenditure for which no tax deduction is allowed.

8 Commencement of trade

8.1 The trade or business of an operator does not commence until the operator has established its profit-making structure [6]. Determination of the commencement of an operator's trade under any of the above categories will follow normal rules and is a question of fact.

8.2 All outgoings and expenses incurred prior to the date on which a trade or business commences are not wholly and exclusively incurred in the production of income under section 14 of the ITA and therefore not deductible for tax purposes.

8.3 Under the concession for enterprise development[7], a business will be treated as having commenced its operations on the first day of the accounting year in which it earns its first dollar of business receipt (i.e. deemed date of commencement of business). Revenue expenses[8] incurred in the aforesaid accounting year before the first dollar of business receipt is derived as well as revenue expenses incurred up to 12 months prior to the deemed date of commencement will be deductible for tax purposes[9].

8.4 The concession for enterprise development does not preclude a business from substantiating that it has commenced operation earlier than the accounting year in which it earns its first dollar of business receipt.

9 Third party revenue

9.1 The operator, besides receiving unitary payments from the public authority, may also derive third party revenue by utilising surplus capacity to provide services to third parties.

9.2 Revenues derived from third parties may be shared based on stipulated percentages agreed upon by the parties to a PPP contract. Expenses incurred by the operator to earn third party revenue are deductible subject to sections 14 and 15 of the ITA to the extent that they are attributable to the operator's share of gross revenue that is taxable. The expenses attributable to the public authority's share of gross revenue are not allowed any deduction in the PPP operator's tax computation.

---

6 IRAS has published an e-Tax guide "Determination of the Date of Commencement of Business" on 29 July 2014, providing guiding principles for determining commencement of a business.

7 Section 14U of the ITA

8 All outgoings and expenses that would have been allowable under Part V of the ITA and are not denied deduction under section 15 of the ITA if the business had commenced when the expenses are incurred.

9 Please refer to the IRAS e-Tax Guides on "Income Tax: Concession for Enterprise Development – Deduction for Certain Expenses Incurred before Business Revenue is Earned" published on 3 September 2014 and "Income Tax: Treatment of Certain Expenses Incurred Prior to the Commencement of a Business Activity" published on 30 September 30 September 2016.

10 Summary and administrative procedure

10.1 In summary, CIT will generally accept the accounting basis to establish the scope of the PPP operator's trade or business. Once the scope of the PPP operator's trade or business is determined on the basis of its accounting treatment, the appropriate tax treatment as outlined in section 7 would apply. Annex A summarises the accounting and tax treatment of PPP arrangements in Singapore. Annex B provides illustrations on the computation of tax adjusted profits for PPP operators in different categories of PPP arrangements.

10.2 The tax treatments are intended to apply to all PPP projects between the Government or an approved statutory body and a private sector operator. A list of approved statutory bodies is appended in Annex C.

10.3 PPP operators providing a composite service of design, construction, finance, operations and maintenance and wish to elect for option 2 referred to in paragraph 7.11 should submit their tax computations in the manner allowed and indicate the election in their tax computations. Prior approval from the CIT need not be sought.

11 Enquiries

11.1 If you wish to seek clarification regarding the contents of this Tax Guide, please call IRAS at 1800-3568622.

12 Updates and Amendments

	Date of amendment	Amendments made
1	27 Dec 2013	• Revisions made to paragraphs 7.14 to 7.15.to clarify the tax treatment for PPP arrangements involving a composite service of design, construction, operation and maintenance, which is accounted for under the intangible asset model, and updates made to Annex B to include scenario 3B and to Annex C on the list of approved statutory boards.
2	22 Feb 2019	• Consequential amendments to paragraphs 6.2, 7.9 and 7.10 as a result of the replacement of FRS 11 and FRS 18 with FRS 115 • Consequential amendments to paragraphs 6.3 and 6.4 to include new financial reporting standards, namely FRS 116, SFRS(I) 1-17, SFRS(I) 16, and SFRS(I) INT 4. • Consequential amendments to paragraphs 6.2, 6.3, 6.4, 7.9 and 7.10 to include new financial reporting standard, SFRS(I) INT 12

Annex A – Summary of income tax treatment of public-private partnership arrangements

PUBLIC-PRIVATE PARTNERSHIP ARRANGEMENTS

INT FRS 104 / FRS 17 / SFRS(I) INT 4 / SFRS(I) 1-17 FRS 116 / SFRS(I) 16 O&M SERVICE PROVIDER

Scope of operator's activities:

- Provider of operation and maintenance services to the public authority

Classification of asset

- Legal and beneficial ownership lie with the operator
- Asset is reflected in operator's accounts

Tax treatment

- Unitary payments are subject to tax when they accrue to the operator as service income
- Capital expenditure incurred may qualify for capital allowance or industrial building allowance where applicable

INT FRS 104 / FRS 17 SFRS(I) INT 4 / SFRS(I) 1-17 FRS 116 / SFRS(I) 16 FINANCE LEASE LESSOR CUM O&M SERVICE PROVIDER

Scope of operator's activities:

- Operator effectively leases the asset to the public authority on a finance lease and provides operation and maintenance services to the public authority

Classification of asset

- Legal ownership lies with operator but beneficial ownership lies with public authority
- Asset is not reflected in operator's accounts

Tax treatment

- **Finance income of the lease component and service income are subject to tax when such income accrues to the operator.**
- **Principal repayment of lease component (capital expenditure) is not taxable**
- **Operator is not entitled to claim capital allowance or industrial building allowance on the capital expenditure incurred**

INT FRS 112 / SFRS(I) INT 12 DESIGN, CONSTRUCTION AND O&M SERVICE PROVIDER

Scope of operator's activities:

- Provider of construction/upgrade services and operations and maintenance services to the public authority

Classification of asset

- Regardless of which party holds legal title to the asset during the arrangement, operator should not report the asset as it does not control its use
- Asset is not reflected in operator's accounts

Tax treatment (Option 1)

- Construction revenue, service revenue and finance income are subject to tax when such income accrue in operator's accounts.
- Construction costs, service costs and borrowing costs are deductible subject to sections 14 and 15 of ITA

Alternative tax treatment (Option 2)

- Construction profits (i.e. construction revenues net of construction costs) and finance income accrued in the accounts prior to completion of PPP asset are subject to tax upon completion of the PPP asset. Interest expense incurred during construction period will be deferred and claimed as deductible expense upon completion of asset
- All other revenue and expenditure are taxable and deductible in accordance with normal tax rules

Annex B - Accounting and tax treatment for public-private partnership arrangements – Illustrations

A PPP operator was contracted to construct a hospital facility. Under the arrangement, the operator is to complete construction of the hospital facility within two years and operate and maintain ("O&M") the hospital facility to a specified standard for eight years (i.e. years 3 to 10). At the end of year 10, the arrangement will end. In return, the PPP operator receives service revenue in the form of unitary payments of $2,000,000 per year in years 3 to 10. In this illustration, it is assumed that the operator finances the arrangement wholly with debt and retained profits and that all cash flows take place at end of the year. The operator estimates that the costs it will incur to fulfill its obligations and the fair values of the consideration received or receivable are as follows:-

	Year	Projected costs	Fair value
Construction Services	1	$ 5,000,000	Projected costs + 5%
	2	$ 5,000,000	
O&M Services	3-10	$ 225,000 per year	Projected costs + 14.5%
Borrowing Cost	6.7% (based on debts at the beginning of each year)		

Scenario 1 (O&M Service Provider)

Under this scenario, based on the terms of the PPP contract, the hospital facility will, upon completion of the construction, be reflected in the PPP's operator's accounts as his fixed asset under FRS 16/SFRS(I) 1-16. The profit and loss over the duration of the arrangement will be:

Profit and Loss account S$ ('000)

Year	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	Total
Service Revenue	--	--	2000	2000	2000	2000	2000	2000	2000	2000	16000
Borrowing Cost[1]	--	(340)[3]	(690)	(620)	(540)	(460)	(370)	(280)	(180)	(70)	(3550)
O&M[2] expenses	--	--	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(1800)
Depreciation	-	-	(1250)	(1250)	(1250)	(1250)	(1250)	(1250)	(1250)	(1250)	(10000)
Net Profit	**-**	**(340)**	**(165)**	**(95)**	**(15)**	**65**	**155**	**245**	**345**	**455**	**650**

[1]*Rounded to nearest S$10,000*

[2]*Assume all tax deductible*

[3]*Pre-commencement expenses are not deductible for tax purpose*

Tax Computation	YA X4 (basis period X3)	YA X5 (basis period X4)
	S$'000	S$'000
Net profit before tax	(165)	(95)
Add: Depreciation	1,250	1,250
Adjusted profit	1,085	1,155

Scenario 2 (Finance Lease Lessor and O&M Service Provider)

Under this scenario, based on the terms of the PPP contract, the PPP arrangement is determined to be within the scope requirements of INT FRS 104/SFRS(I) INT 4 (but does not meet the scope requirements of INT FRS 112/SFRS(I) INT 12). The PPP contract is accounted for as a finance lease in accordance with FRS 17/SFRS(I) 1-17/FRS 116/ SFRS(I) 16 as well as an arrangement to provide O&M services. The profit and loss over the duration of the arrangement and amortisation schedule will be:

Profit and Loss account S$ ('000)

Year	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	Total
Finance income[1]	-	-	800.0	730.0	650.0	560.0	460.0	360.0	250.0	130.0	3940
Service Income	--	--	257.5	257.5	257.5	257.5	257.5	257.5	257.5	257.5	2060
Borrowing Costs[2]	--	(340)[4]	(690)	(620)	(540)	(460)	(370)	(280)	(180)	(70)	(3550)
O&M[3] expenses	--	--	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(1800)
Net profit		**(340)**	**142.5**	**142.5**	**142.5**	**132.5**	**122.5**	**112.5**	**102.5**	**92.5**	**650**

[1]*Rounded up to nearest S$10,000*

[2]*Rounded to nearest S$10,000*

[3]*Assume all tax deductible*

[4]*Pre-commencement expenses are not deductible for tax purpose*

Amortisation Schedule S$ ('000)

Date	Lease Payment[6]	Finance Income (8%[7] x Net Investment at start of year)	Cost Recovery	Net Investment
01/01/X3[5]	-	-	-	10,000.0
31/12/X3	1,742.5	800	942.5	9,057.5
31/12/X4	1,742.5	730	1,012.5	8,045.0
31/12/X5	1,742.5	650	1,092.5	6,952.5
31/12/X6	1,742.5	560	1,182.5	5,770.0
31/12/X7	1,742.5	460	1,282.5	4,487.5
31/12/X8	1,742.5	360	1,382.5	3,105.0
31/12/X9	1,742.5	250	1,492.5	1,612.5
31/12/X10	1,742.5	130	1,612.5	0
Total	13,940.0	3,940	10,000.0	-

[5]*Finance lease starts in beginning of Year X3*

[6]*Unitary payment less service income for the year*

[7]*Operator's expected rate of return on net investment (i.e. cost of construction) is 8%*

Scenario 2 (Finance Lease Lessor and O&M Service Provider) – continued

Tax Computation	YA X4 (basis period X3) S$'000	YA X5 (basis period X4) S$'000
Profit before tax	142.5	142.5
Adjusted profit	142.5	142.5

Scenario 3A (Design, Construction and O&M Service Provider – Financial Asset Model)

Under this scenario, based on the terms of the PPP contract, the PPP arrangement meets the scope requirements of INT FRS 112/SFRS(I) INT 12 and is accounted for under the financial asset model. In other words, the PPP operator is providing a composite service of design, construction, operation and maintenance services while interest in the hospital building substantially belongs to the public authority. The profit and loss over the duration of the arrangement will be:

Profit and loss account S$ ('000)

Year	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	Total
Construction Revenue	5250	5250	--	--	--	--	--	--	--	--	10500
Construction Costs	(5000)	(5000)	--	--	--	--	--	--	--	--	10000
Service Revenue	--	--	257.5	257.5	257.5	257.5	257.5	257.5	257.5	257.5	2060
O&M[1] expenses	--	--	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(1800)
Finance Income[2]	--	320	650	580	520	440	360	280	190	100	3440
Borrowing Costs	--	(340)	(690)	(620)	(540)	(460)	(370)	(280)	(180)	(70)	(3550)
Net Profit	**250**	**230**	**(7.5)**	**(7.5)**	**12.5**	**12.5**	**22.5**	**32.5**	**42.5**	**62.5**	**650**

[1]*Assume all tax deductible*

[2]*Effective interest rate of 6% on the financial asset receivable (rounded to nearest S$10,000)*

Scenario 3A (Design, Construction and O&M Service Provider – Financial Asset Model) - continued

Tax Computation (Option 1)

	YA X2 (basis period X1)	YA X3 (basis period X2)	YA X4 (basis period X3)
	S$'000	S$'000	S$'000
Profit before tax	250	230	(7.5)
Adjusted profit	250	230	(7.5)

Tax Computation (Option 2)

	YA X2 (basis period X1)	YA X3 (basis period X2)	YA X4 (basis period X3)
	S$'000	S$'000	S$'000
Profit/ (Loss) before tax	250	230	(7.5)
Less: Construction Profits	(250)	(250)	-
Finance Income	-	(320)	-
Borrowing Costs	-		(340)
Add: Construction Profits	-	-	500
Finance Income	-	-	320
Borrowing Costs	-	340	-
Adjusted profit	NIL	NIL	472.5

As a concession, under option 2, taxation of cumulative construction profits of $500,000 and finance income of $320,000 accrued in the accounts during construction period is allowed to be deferred and subject to tax in YA X4 when the operator begins to render operations and maintenance services. Borrowing costs incurred of $340,000 is deferred as part of construction cost and allowed a deduction at the point when the cumulative construction profits are brought to tax.

Scenario 3B (Design, Construction and O&M Service Provider – Intangible Asset Model)

Under this scenario, based on the terms of the PPP contract, the PPP arrangement meets the scope requirements of INT FRS 112/SFRS(I) INT 12. However, instead of receiving unitary payments from the public authority, the PPP operator charges the public for the use of the hospital facility. As such, the arrangement is accounted for using the intangible asset model. The yearly revenue earned is $2,000,000 from years 3 to 10. The profit and loss over the duration of the arrangement will be:

Profit and loss account $ ('000)

Year	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	Total
Revenue	5250	5250	2000[3]	2000	2000	2000	2000	2000	2000	2000	26500
Construction Costs	(5000)	(5000)	--	--	--	--	--	--	--	--	(10000)
Amortisation	--	--	(1355)	(1355)	(1355)	(1355)	(1355)	(1355)	(1355)	(1355)	(10840)[2]
O&M[1] expenses	--	--	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(225)	(1800)
Borrowing Costs	--	--	(690)	(620)[4]	(540)	(460)	(370)	(280)	(180)	(70)	(3210)
Net Profit	**250**	**250**	**(270)**	**(200)**	**(120)**	**(40)**	**50**	**140**	**240**	**350**	**650**

[1] *Assume all tax deductible*

[2] *Construction revenue relating to intangible asset of $10,500,000 plus borrowing cost capitalised of $340,000 during construction phase as part of the costs of the intangible asset. In accordance with FRS 38, the intangible asset is amortised over the period it is expected to be available for use by the operator using a systematic basis e.g. straight-line method.*

[3] *The annual receipt of $2,000,000 represents the revenue from the intangible asset. Part of this revenue has been taxed as construction revenue during the construction phase (i.e. $5,250,000 respectively in Years X1 and X2). As such, this portion of the revenue is relieved via a deduction of "amortisation", so that only the net income relating to the intangible asset is brought to tax during the operational years.*

[4] *Computed based on 6.7% of debt at beginning of year*
Borrowing Costs for Year X4 is arrived at as follows:
$[(5,000,000+5,000,000+340,000 +225,000+690,000)-2,000,000]x6.7% = $620,000

Tax Computation (Option 1)

	YA X2 (basis period X1)	YA X3 (basis period X2)	YA X4 (basis period X3)
	$'000	$'000	$'000
Profit before tax	250	250	(270)
Adjusted profit	250	250	(270)

Tax Computation (Option 2)

	YA X2 (basis period X1)	YA X3 (basis period X2)	YA X4 (basis period X3)
	$'000	$'000	$'000
Profit/ (Loss) before tax	250	250	(270)
Less: Construction Profits	(250)	(250)	-
Borrowing Costs	-		-
Add: Construction Profits	-	-	500
Adjusted profit	NIL	NIL	230

As a concession, under option 2, taxation of cumulative construction profits of $500,000 accrued in the accounts during construction period is allowed to be deferred and subject to tax in YA X4 when the operator begins to render operations and maintenance services.

Annex C - List of Approved Statutory Boards (current as at date of publication)*

1. Accounting and Corporate Regulatory Authority
2. Agency for Science, Technology and Research (A*STAR)
3. Agri-Food and Veterinary Authority of Singapore
4. Board of Architects
5. Building and Construction Authority
6. Casino Regulatory Authority
7. Central Provident Fund Board
8. Civil Aviation Authority of Singapore
9. Civil Service College
10. Competition and Consumer Commission of Singapore
11. Council for Estate Agencies
12. Defence Science and Technology Agency
13. Economic Development Board
14. Energy Market Authority
15. Enterprise Singapore
16. Government Technology Agency
17. Health Promotion Board
18. Health Sciences Authority
19. Housing and Development Board
20. Info-communications Media Development Authority
21. Inland Revenue Authority of Singapore
22. ISEAS-Yusof Ishak Institute
23. Institute of Technical Education
24. Intellectual Property Office of Singapore
25. JTC Corporation
26. Land Surveyors Board
27. Land Transport Authority of Singapore
28. Majlis Ugama Islam Singapura
29. Maritime and Port Authority of Singapore
30. Monetary Authority of Singapore
31. Nanyang Polytechnic
32. National Arts Council
33. National Council of Social Service
34. National Environment Agency
35. National Heritage Board
36. National Library Board
37. National Parks Board
38. Ngee Ann Polytechnic
39. People's Association
40. Professional Engineers Board
41. Public Transport Council
42. Public Utilities Board
43. Republic Polytechnic
44. Science Centre Board
45. Sentosa Development Corporation
46. Singapore Corporation of Rehabilitative Enterprises
47. Singapore Dental Council

48. Singapore Examinations & Assessment Board
49. Singapore Labour Foundation
50. Singapore Land Authority
51. Singapore Medical Council
52. Singapore Nursing Board
53. Singapore Pharmacy Council
54. Singapore Polytechnic
55. Singapore Totalisator Board
56. Singapore Tourism Board
57. SkillsFuture Singapore
58. Sport Singapore
59. Temasek Polytechnic
60. Traditional Chinese Medicine Practitioners Board
61. Urban Redevelopment Authority
62. Workforce Singapore

* Source: MOF