

## Tax Obligations of a Hawker

This guide is to help you in reporting your business income in your income tax returns. Being a self-employed person, you have the following obligations:

- (a) To keep proper records and accounts of your business for 5 years.
- (b) To complete and submit the income tax returns and pay the amount of tax due within one month from the date of the Notice of Assessment.
- (c) To make compulsory Medisave contributions.

## Keeping Proper Records and Accounts

### 1. What business records should I keep?

For income tax purposes, you are required to keep proper records and accounts of your business transactions for 5 years with effect from 1 Jan 2007. The set of accounts and other records must be supported by proper documents such as invoices, receipts, payment vouchers and statements.

This is to enable us to ascertain your income and allowable business expenses readily. These records need not to be forwarded unless they are specifically requested for verification. Improper records, mere approximate amounts are not acceptable for tax purposes.

### 2. How do I keep records?

#### 2.1 Sales

In order to ensure complete and accurate recording of your sales, you need to maintain the following:

- (a) Cash register tape; and/or
- (b) Daily sales record book

#### **Cash Register Tape**

A cash register, which has an internal tape, can be used to record all your cash sales. You must ensure that all cash sales are put through the register and the internal tape is retained as a source document.

At the end of the day, you must record the total amount of receipts in a cashbook. If there is a discrepancy between these tapes and your records, you should provide a written explanation and attach it to that particular tape.

## Daily Sales Record Book

In the absence of a cash register, you should maintain a sales book to record your daily sales. Refer to the sample Daily Gross Sales Record at Appendix 1.

If takings are used to pay for your purchases or operating expenses, you must properly record the takings used and include to your net sales. Please note that gross takings are to be reported in your income tax returns as turnover.

### 2.2 Rental of Stall

If you have subletted your stall, you have to include the rental income received as part of your turnover. You should prepare an agreement, stating the period of tenancy and agreed rental amount. The agreement should be duly signed by yourself and the tenant.

### 2.3 Purchases and Other Expenses

You have to keep proper documentation and records, for examples, invoices, vouchers, receipts and other documents, on all your business purchases and other expenses. Some examples:

Allowable Business Expenses	Type(s) of Records
Rental paid for stall	Tenancy agreement with stall owner or NEA letter and bank statements if through GIRO deduction.
Property tax paid for stall	Property tax bills
Mortgage interest paid for stall	Bank statements
Utilities	Singapore Power Supply bills
Telephone charges for business	Bill from service providers (e.g., SingTel, M1, Starhub)
Delivery and transport charges	Taxi receipts or diesel bills
Salary & wages for assistants/helpers/cleaner	Payment vouchers or salary & wages schedule. Refer to the sample Monthly Salary & Wages Record at Appendix 2.
Compulsory employer's CPF contributions made for assistants/helpers/cleaner	CPF statements
Capital allowances on fixed assets purchased for business use	Invoices or receipts of the fixed assets purchased

In summary, you could prepare a consolidated business expenses record. Refer to the sample Monthly Business Expenses Record at Appendix 3.

If a receipt does not describe the good or services bought, you should provide a description of the transaction on the receipt. Where supplier does not issue any receipt, you should maintain a record book to record the name of supplier or service provider, date, description of goods or services and amount paid. Refer to the sample Monthly Cost of Ingredients Record at Appendix 4.

## **2.4 Bank Accounts**

You should maintain separate bank accounts for business and private purposes and the business bank account must be used solely for business transactions. You should keep the bank statements or passbooks of your business and personal bank accounts.

### **3. How do I use the records kept?**

At the end of each year, you could use the set of business records to prepare statement of accounts.

### **4. What is a certified statement of accounts?**

Certified statement of accounts are Profit and Loss Statement and Balance Sheet that are signed by you, indicating that the accounts are true and correct.

Profit and loss statement shows the results of a business for the year. If the total turnover exceeds the total expenses, the result is a net profit. If the total expenses exceed the total turnover, the result is a net loss. Refer to the sample statement of accounts.

Some business expenses incurred might not be deductible for tax purposes. When preparing the income tax return, you must ensure that only deductible expenses are claimed. Please refer to the next section on Filing of Income Tax Return for more information.

Balance sheet shows the assets, debts and money invested of your business as at the end of calendar year.

You may seek an accounting professional to prepare a proper statement of accounts for you.

## **Filing of Income Tax Returns**

### **1. I have just started my hawker business. Do I have to inform IRAS about it?**

You do not have to inform IRAS immediately after you started your business. An income tax return (Form B or B1) will be sent to you at the beginning of the next year, usually before 15 March, for you to report your income.

However, if you do not receive the income tax return by 15 March each year, you may download the 'Registration Form for New Individual Taxpayer' from our website, complete it and return to us by fax or mail.

## **2. When will my business income be taxed?**

Your current year income will be taxed in the following year. For example, your income in the year 2007 will only be brought to tax in the year 2008, which is known as Year of Assessment 2008.

The period which you calculate your profits or losses of your hawker business will be from the start date of your business to 31 Dec of that year. Subsequent reporting will be from 1 Jan to 31 December each year.

## **3. Where do I report my business income?**

As a self-employed person, the business income is treated as part of your total personal income and taxed at personal income tax rates.

For a sole proprietor, you should report your business income in your individual income tax return (Form B) under 'Sole Proprietorship' in the 'Trade, Business, Profession or Vocation' section.

For a partnership business, the precedent partner is required to report the partnership income in Form P. As a partner, you should report your share of partnership income in your individual income tax return (Form B) under 'Partnership' in the 'Trade, Business, Profession or Vocation' section.

Your share of partnership income is the sum of your divisible profit/loss, salary, CPF, interest, rent and other Singapore income from the partnership.

## **4. How do I report my business income?**

You will be required to report your sole proprietorship/partnership business income in a summarized 4-line statement, as follows:

Turnover (Total Sales/Income/Takings)  
Gross Profit/Loss  
Allowable Business Expenses  
Adjusted Profit/Loss

If the sole proprietorship turnover is less than \$100,000, you only need to submit a summarized 2-line statement, i.e. turnover and adjusted profit/loss.

### **4.1 Turnover**

Turnover refers to the total receipts of your business before deducting any business expenses. Turnover includes:

- Takings from goods sold
- Rental received from stall

If the turnover of your business is \$500,000 or more, you have to submit the certified Statement of Accounts together with your individual income tax return.

If the turnover of your business is less than \$500,000, you are not required to submit a certified Statement of Accounts but you must still prepare it.

You must keep proper records of your business transactions regardless of your turnover. Upon our request, you are to submit these records to us.

#### **4.2 Gross Profit/Loss**

Gross profit/loss refers to the amount of turnover after deducting the cost of goods sold. For example, a hawker selling fried noodles, the cost of goods sold would consist of cost of noodles and other ingredients.

#### **4.3 Allowable Business Expenses**

Allowable business expenses include expenses and capital allowances incurred wholly and exclusively in the production of your income. Some examples of allowable and disallowable expenses are:

Allowable Business Expenses	Disallowable Business Expenses
<ul style="list-style-type: none"> <li>• Rental paid for stall</li> <li>• Property tax paid for stall</li> <li>• Mortgage interest paid for stall</li> <li>• Utilities (e.g. electricity and water) &amp; gas</li> <li>• Telephone charges for business</li> <li>• Conservancy charges</li> <li>• Hawker refuse fees</li> <li>• Packing materials</li> <li>• Delivery and transport charges</li> <li>• Salary &amp; bonus for assistants/helpers/cleaner</li> <li>• Compulsory employer's CPF contributions made for assistants/helpers/cleaner</li> <li>• Upkeep of motor vehicles such as pickups, vans, lorries</li> <li>• Capital allowances on fixed assets purchased for business use</li> <li>• Repair and maintenance of assets used for business</li> <li>• Accountancy fees</li> </ul>	<ul style="list-style-type: none"> <li>• Your own salary, bonus and Medisave/CPF contributions</li> <li>• Your own medical fees, income tax, insurance and donations</li> <li>• Food and household expenses</li> <li>• Entertainment expenses for family members and friends</li> <li>• Interest on loans obtained for private use</li> <li>• Initial expenses such as licence fee, registration fee, signboard fee</li> <li>• Maintenance costs of private cars (E or S-plate cars)</li> <li>• Cost of traveling to and from your home</li> <li>• Cost of fixed assets purchased</li> <li>• Depreciation</li> <li>• Fines and penalties</li> </ul>

#### **4.4 Adjusted Profit/Loss**

Adjusted profit/loss refers to gross profit/loss less the allowable business expenses and any capital allowances claimed.

## 5. What are capital allowances?

You may need to purchase fixed assets such as equipments, refrigerators and vehicles, in the course of carrying out your business. The amount incurred in purchasing these fixed assets is capital in nature, hence, you are not allowed to claim the costs as expenses. However, you may claim capital allowances.

Capital allowances are deductible expenses for the wear and tear of fixed assets purchased and used in the business.

## 6. How do I calculate capital allowances?

### 6.1 One Year Write-off

The full cost of the asset will be claimed as capital allowance in one year. This is applicable for computers, fax machines, other automation equipment and fixed assets costing no more than \$1,000 each. The claim for one year write-off of all such assets is capped at \$30,000 per year of assessment.

### 6.2 Three Years Write-off

The full cost of the asset will be claimed as capital allowance over three years. Generally, most of the fixed assets purchased would qualify for the three years write-off (except motor cars, motor cycles & light goods vehicles).

### 6.3 Write-off Over the Working Life of the Asset

This method is applicable for motor vehicles such as motorcycles, vans, pickups, trucks and lorries. Capital allowances are not applicable for private cars.

In the year of purchase, you can claim an initial allowance of 20% of the cost of the asset. In the subsequent years, you can claim annual allowance, which is calculated by taking 80% of the cost and dividing it by the working life of the asset.

Assets	Working Life (No. of Years)
Lorries, Trucks, Vans	6
Motorcycles and Bicycles	8

## 7. What if I incur business losses?

If you incur a business losses after deducting the allowable expenses, this business loss and any capital allowances claimed can be offset against your other income such as employment, interest, dividend and rental income in the same year.

If your other income is not enough to offset your business loss, you can carry forward the balance of the business losses and capital allowances claimed to the next year to offset against income of that year.

However, if your business ends, you can only carry forward the balance of the business losses but not the balance of the capital allowances to the next year.

## **Medisave Contributions**

### **1. Do I need to contribute to Medisave?**

Medisave contributions are compulsory for all self-employed persons who are Singapore citizens or permanent residents. If you earn a net trade income of more than \$6,000 a year, you have to contribute Medisave based on a specified percentage of your net trade income, subject to a maximum amount.

Net trade income refers to your gross trade income less all allowable business expenses, capital allowances and trade losses as determined by IRAS.

IRAS will send you a Notice of Computation (NOC) after assessing your actual income for the relevant Year of Assessment, to inform you of the amount of Medisave you need to contribute to Central Provident Fund (CPF). You may contact CPF Board on Medisave payment matters.

### **2. Can I claim Provident Fund relief for the Medisave contributions and voluntary CPF contributions made?**

As a self-employed person, you may claim tax relief in respect of your compulsory and voluntary CPF contributions up to the total mandatory CPF contribution rate (34.5% for Year of Assessment 2008) of your net business income assessed or the CPF relief cap for the year (\$26,393 for Year of Assessment 2008), whichever is lower.

For the rates and CPF relief cap for subsequent Years of Assessment, please refer to the IRAS website.

We will allow the Provident Fund relief based on the date that you contributed into the CPF account. For example, if you wish to claim CPF relief in the Year of Assessment 2008, your CPF contributions must have been made by 31.12.2007.

We will allow the Provident Fund relief automatically based on the information given by the CPF Board, however the amount allowed will be subject to the capping as mentioned above. You need not make a claim in your tax returns.

## Offences and Penalties

### **1. What if I did not keep proper records or keep incomplete records?**

For failure to keep proper records, you are liable on conviction to a fine not exceeding \$1,000 and in default of payment of the \$1,000, to imprisonment for a term not exceeding 6 months.

### **2. What if I failed to submit my return?**

For failure to submit return, you are liable on conviction to a fine not exceeding \$1,000 and in default of payment to imprisonment for a term not exceeding 6 months.

### **3. What if I submit incorrect return without reasonable excuse?**

For submission of incorrect return without reasonable excuse, you are liable on conviction to pay a penalty equal to double the amount of tax which has been undercharged and to pay a fine not exceeding \$5,000 or to imprisonment for a term not exceeding 3 years or both fine and imprisonment.

### **4. What if I wilfully evade taxes or to assist any other person to evade tax?**

For tax evasion cases, in which you wilfully evade, or assist other persons to evade, you are liable on conviction to pay a penalty of treble the amount of tax evaded and to pay a fine not exceeding \$10,000 or to imprisonment for a term not exceeding 3 years or both fine and imprisonment.

For serious fraudulent evasion cases, in which you wilfully evade, or assist other persons to evade, you are liable on conviction to pay a penalty of 4 times the amount of tax evaded and to pay a fine not exceeding \$50,000 or to imprisonment for a term not exceeding 5 years or both fine and imprisonment.