

## **Tax Obligations of a Self-Employed**

You are considered a self-employed person if you carry on a trade, business, profession or vocation. You may be a sole-proprietor or a partner of a partnership business.

Examples of the kinds of work a self-employed person may be doing:

Trade and business: agriculture, manufacturing, construction, wholesale or retail business

Profession: medical clinic, legal practice, accounting firm, insurance agent, property agent

Vocation: free-lance photographer, hawker, baby-sitter, taxi-driver or tuition teacher

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.
- (d) To register with IRAS as a GST-registered person if you expect the revenue (taxable supplies of goods and/ or services in Singapore) of your business for the next 12 months to exceed \$1 million.

## **Keeping Proper Records and Accounts**

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

For your 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. This is to enable us to ascertain your income and allowable business expenses readily.

All documents, which record your business transactions or which enable these transactions to be traced and verified through the accounting system, must be kept. The records to be kept would include:

- (a) Books of accounts recording income/receipts or expenditure/payments;
- (b) Invoices, vouchers, receipts and such other documents necessary to verify the entries in any books of accounts; and
- (c) Any other records relating to your trade, business, profession or vacation.

These records need not be forwarded unless they are specifically called for verification. Improper records, merely approximate amounts, are not acceptable for tax purposes.

## **2. How do I keep records?**

### **2.1 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 retain the bank statements or passbooks of your business bank accounts.

### **2.2 Revenue/Sales**

In order to ensure complete and accurate recording of your revenue / sales for tax purposes, you need to maintain following:

- (a) Cash register tape
- (b) Receipt book
- (c) Invoices issued
- (d) Goods taken for private usage book
- (e) Credit notes for returned goods
- (f) Annual/Monthly commission statements (commission agents)

#### **(a) 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 attached it to that particular tape.

### **(b) Receipt book**

You have to issue serially printed receipts and retain a duplicate if your gross income in any year exceeds \$18,000 from the sale of goods, or \$12,000 from providing services.

However, you need not issue receipts if you could ensure completeness and accuracy of your revenue by adopting one of the following practices:

- (a) Use cash register to record **all** cash sales and invoices are issued for **all** credit sales.
- (b) To input **all** sales into accounting software and invoices should be generated by the system for all sales transactions and a duplicate of the invoices are retained.
- (c) In the absence of a cash register or accounting software, a daily sales record book should be maintained to record **all** cash and credit sales.

You must still issue receipts to customers if they so request. For GST-registered businesses, you must continue to issue **tax invoices** as required by GST legislation, as the waiver of issue of receipts does not amount to a waiver to issue tax invoices.

### **(c) Invoices Issued**

Invoices should be issued to record all your credit sales. You may design your own invoices and get them printed or you can buy preprinted invoices from stationery suppliers

A sales invoice should contain the following information:

- (a) Business name, address, telephone number and business registration number
- (b) Invoice number
- (c) Invoice date
- (d) Customer's names & address
- (e) Description of goods, quantity and price
- (f) Any cash discount offered
- (g) Total price

For GST-registered businesses, you must issue **tax invoices** as required by GST legislation. For more details, you may refer to the IRAS website on 'Keeping Proper Records' under 'Information on Goods & Services Tax'.

#### **(d) Returned Goods**

Goods sold may be returned due to damage, defects, incorrect goods or quantities being supplied. You may either issue a credit note to your customer for this adjustment to sales or alternatively, to record this transaction in your sales record book under a separate heading as 'Goods Returned'.

#### **(e) Goods taken for Private Usage**

If you take any goods that were bought for, produced or manufactured by your business for your own private use, or for your family or friends, these should be entered into your business records. The sale price of the stock taken for all private usage should be added to sales. This could be achieved by recording the relevant details in a "goods taken for private usage" book. The details to be recorded are:

- (a) Date of goods taken
- (b) Description of goods
- (c) Sale price of goods

#### **(f) Annual/Monthly Commission Statement for Commission Agents**

If you are a commission agent, e.g. insurance agent, real estate agent, distributor, remisier, you should retain the annual or monthly commission statements issued by your company.

### **2.3 Rental Income**

Generally, you should treat rental income as a separate source of income from your business revenue.

However, if you are operating a food establishment, e.g. coffeeshop, eating house, food court, which sublet some of the stalls, you have to include the rental income received as part of your revenue. You should prepare an agreement, stating the period of tenancy and agreed rental amount, and duly signed by yourself and the tenant.

### **2.4 Purchases**

You are to keep proper documentation and records on all your business purchases. You should obtain invoices when paying for purchases. For your convenience, you may want to consider arranging all payments through your business bank accounts.

However, where small amounts of cash are used for small or sundry purchases, the receipts indicating the goods purchased must be kept. If a receipt does not describe the good or services bought, you should provide a description of the transaction on the receipt.

Where the supplier or service provider does not issue any receipt, a cash payment voucher showing the date, description and cost of purchase must be prepared and acknowledged by supplier or service provider. You should also maintain a purchases record book to record the name of supplier or service provider, date, description of goods or services and amount paid.

## **2.5 Expenses**

### **(a) Public Transport Expenses**

Public transport expenses incurred for business purposes may qualify for a tax deduction. The following details should be recorded for each travel:

- (a) Date and destination
- (b) Mode of transport
- (c) Person incurring it
- (d) Purpose of travel
- (e) Amount incurred

Receipts or other travel documents that substantiate your travel expenses, including meals & accommodation, should be retained. You may want to refer to the sample Monthly Travelling Expenses Record at **Appendix 1**

### **(b) Travelling Expenses.**

Overseas travel expenses incurred for business purposes may qualify for a tax deduction. The following details should be recorded for each travel:

- (a) Date and destination
- (b) Mode of transport
- (c) Person incurring it
- (d) Purpose and duration of oversea travel
- (e) Amount incurred

Receipts or other travel documents that substantiate your travel expenses, including meals & accommodation, should be retained. You may want to refer to the sample Monthly Travelling Expenses Record at **Appendix 2**.

### **(c) Entertainment Expenses**

Entertainment expenses incurred for business purposes may qualify for a tax deduction. The following details should be recorded:

- (a) Date and place of entertainment
- (b) Name of the person(s) entertained
- (c) Purpose for entertainment
- (d) Person incurring it
- (e) Amount incurred

Invoices or receipts that substantiate the environment expenses should be kept. Retention of credit card slips or monthly credit card statements are not acceptable. You may want to refer to the sample Monthly Entertainment Expenses Record at **Appendix 3**.

### **(d) Staff Remuneration and Employer's CPF Contributions**

Staff remuneration includes wages, salaries, bonus, commission and allowances. You need to keep adequate records, e.g. payment vouchers or remuneration schedule, for your claims of remuneration expenses, and CPF statements for your claims of employer's CPF contributions. You may use these records to prepare the Return of Employee's Remuneration (Form IR8A). You may want to refer to the sample Monthly Staff Remuneration Record at **Appendix 4**.

## **2.6 Assets**

A business usually has a number of assets, such as plant and equipment and motor vehicles. You need to keep the following details and documents for each of the assets:

- (a) Date of purchase and cost
- (b) Date of sale and sale price
- (c) Copies of contracts of purchase and sale

You are advised to prepare a fixed asset schedule at the time you purchase or start your business so that you can record the items acquired, the dates of purchase and their costs. You may want to refer to the sample Fixed Asset Schedule at **Appendix 5**.

The amount incurred in purchasing these fixed assets is capital in nature and are not deductible for tax purposes. However, you may claim capital allowances. You may refer to part 8 on the 'Filing of Income Tax Returns' on the computation of capital allowances.

## **2.7 Trading Stock**

Trading stock includes anything produced, manufactured, acquired or purchased for the purposes of sale. A physical stock count should be carried out at the end of the accounting year to establish the correct amount of closing stock. You may want to refer to the sample stock list at **Appendix 6**. The closing stock for the current year will be the opening stock for the following year.

### **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. Please refer to **Appendix 7.1 to 7.4** of the Guide.

Profit and loss statement shows the results of a business for the year. If the total revenue exceeds the total expenses, the result is a net profit. If the total expenses exceed the total revenue, the result is a net loss. You may want to refer to the samples statement of accounts (to follow the samples given in Form B guide).

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 Part 6.3 of 'Filing of Income Tax Returns' for more information.

Balance sheet shows the assets, liabilities and owner's equity of your business as the end of the accounting period.

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 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 income is taxed in the year following the year the income is accrued to you. For example, your income in the year 2010 will only be brought to tax in the year 2011, which is known as Year of Assessment 2012.

## **3. What accounting period should I adopt?**

An accounting period is a period of trading/business operation for which you calculate your profits or losses. You should decide on your accounting period when you first started your business. Most accounting periods end on 31 December each year.

However, if you decide to draw up your accounts to a date other than 31<sup>st</sup> December, e.g. 31<sup>st</sup> March, then your accounting periods and the respective Years of Assessment will be:

1 <sup>st</sup> Accounting Period	01.04.08 to 31.03.09	Year of Assessment 2010
2 <sup>nd</sup> Accounting Period	01.04.09 to 31.03.10	Year of Assessment 2011
3 <sup>rd</sup> Accounting Period	01.04.10 to 31.03.11	Year of Assessment 2012
	And so on	

## **4. What if I maintain my accounts in a foreign currency?**

If your financial accounts are maintained in a currency other than the Singapore dollar, you should ensure that the certified Statement of Account is prepared in that currency. However, you have to declare the 4-line statement in Singapore currency in your income tax return.

A list of the average exchange rates is available at IRAS website (<http://www.iras.gov.sg>) under 'Average Exchange Rates'. You may use the rates if the actual rates of conversion are not available. You could also generate average exchange rates using a template available at MAS website (<http://www.mas.gov.sg>).

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

As a self-employed person, the business income is treated as a 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 income tax return (Form B) under “Sole Proprietorship” in the “Trade, Business, Profession or Vocation” section. If you received a Form B1, you should report your business income under ‘Other Income’ and provide the details in its Appendix 1.

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.

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

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

Revenue  
Gross Profit/Loss  
Allowable Business Expenses  
Adjusted Profit/Loss

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

### **6.1 Revenue**

Revenue refers to the total receipts of your business before deducting any business expenses. The total receipts include all the money earned even if it has not been received. If you are a GST-registered person, the total receipts should exclude GST collected from customers (i.e. output tax). Revenue includes:

- All payments for sales and work done
- Fees and commission for services provided

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

If the revenue 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 revenue. Upon our request, you are to submit these records to us.

**6.2 Gross Profit/Loss**

Gross profit/loss refers to the amount of revenue after deducting the cost of goods sold. However, if your business involves only the provision of services, the gross profit will be your revenue.

Example 1:

	\$	\$
Revenue		30,000
Less: <u>Cost of Goods Sold</u>		
Opening Stock	10,000	
Purchases	5,000	
Closing Stock	<u>(7,000)</u>	
Cost of Goods Sold		<u>8,000</u>
Gross Profit/(Loss)		<u>22,000</u>

If you are a GST-registered person, the total purchases should exclude the GST paid on business purchases (i.e. input tax).

### 6.3 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 for self-employed are:

Allowable Business Expenses	Disallowable Business Expenses
<b>Employee Costs</b>	
<ul style="list-style-type: none"> <li>• Employees' salary bonus, allowances</li> <li>• Compulsory employer's CPF contributions</li> <li>• Retrenchment benefits</li> <li>• Insurance for employees</li> <li>• Employees' medical fees up to 1% of their total remuneration (2% if you as the employer are implementing either the Portable Medical Benefits Scheme or the Transferable Medical Insurance Scheme)</li> </ul>	<ul style="list-style-type: none"> <li>• Employer's CPF contributions above the statutory limit</li> <li>• Employees' medical fees exceeding 1% of their total remuneration (2% if you as the employer are implementing either the Portable Medical Benefits Scheme or the Transferable Medical Insurance Scheme)</li> <li>• Your own salary, bonus, allowances and Medisave/CPF contributions</li> <li>• Your own personal drawings, medical fees, income tax, insurance and donations.</li> </ul>
<b>Basic Costs</b>	
<ul style="list-style-type: none"> <li>• Rent, utility and telephone charges for the business</li> <li>• Stationery and postage fees</li> <li>• Advertising costs</li> <li>• Upkeep of motor vehicles such as motorcycles, pick-ups, vans, buses, lorries and Q-plate cars with COE issued before 1 Apr 1998</li> <li>• Cost of traveling on public transport in the course of business</li> <li>• Repair and maintenance of assets used for business</li> <li>• Trade debts which become bad and irrecoverable during the accounting year</li> <li>• Capital allowances on fixed assets purchased for business use</li> </ul>	<ul style="list-style-type: none"> <li>• Private expenses such as food, household and entertainment expenses for yourself, family members and friends</li> <li>• Business start-up expenses such as license fee, registration fee, signboard fee</li> <li>• Maintenance costs of private vehicles</li> <li>• Cost of traveling to and from your home</li> <li>• Expenses incurred on using private hire cars, private cars (E or S-plate cars) and Q-plate cars with COE issued on or after 1 Apr 1998</li> <li>• Cost of fixed assets purchased for business use*</li> <li>• <b>Depreciation of fixed assets*</b></li> <li>• Renovation costs</li> </ul>

*\* You may claim capital allowance for these expenses. Please refer to the examples on capital allowance from part 8 to part 10.*

Finance & Professional Costs	
<ul style="list-style-type: none"> <li>• Interest on money borrowed for use in business</li> <li>• Hire purchase interest</li> <li>• Accountancy fees</li> <li>• Legal fees incurred in recovering trade debts, renewal of leases</li> </ul>	<ul style="list-style-type: none"> <li>• Interest on loans obtained for private use</li> <li>• Repayment of loans</li> <li>• Legal fees and stamp duty on new lease agreement</li> <li>• Fines and penalties</li> <li>• Capital contributions or withdrawals</li> </ul>

If you are a GST-registered person, the total allowable business expenses should exclude the GST paid on business expenses (i.e. input tax).

#### **6.4 Adjusted Profit/Loss**

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

#### **7. What are capital allowances?**

The business owning qualifying assets can claim an annual deduction in respect of the usage of the assets for business purposes. 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 for the wear and tear of fixed assets purchased and used in the business.

If you are a GST-registered person, you have to exclude the GST paid on the assets purchased when computing the capital allowances.

#### **8. How do I calculate capital allowances?**

There are 3 ways to calculate capital allowances:

##### **8.1 One Year Write-off**

The full cost of the asset will be claimed as capital allowance in one year. This is applicable to capital expenditure incurred in respect of computers, peripherals, fax machines and other automation equipment.

For fixed assets costing no more than \$1,000 each, the claim for one year write-off of all such assets must be capped at \$30,000 per year of assessment.

##### **8.2 Three Years Write-off**

Generally, most of the fixed assets purchased would qualify for the three years write-off (except motor cars, motor cycles & light goods vehicles weighing 3,000 kilograms and below are excluded). The full cost of the asset will be claimed as

capital allowance over three years. Example 2: Purchased air-conditioner for \$3,000 in the year 2009.

The capital allowance you can claim for each year is \$1,000 ( $\$3,000/3$ ) as follows:-

<b>Year of Assessment</b>	<b>Annual Allowance (\$)</b>
2010	1,000
2011	1,000
2012	1,000

As the cost of the air-conditioner has been fully claimed over 3 years, no annual allowance can be claimed from Year of Assessment 2013 onwards.

### **8.3 Write-off Over the Working Life of the Asset**

This method is applicable for motor vehicles such as vans, pickups, trucks, buses, Lorries and Q-plate cars with COE issued before 1<sup>st</sup> April 1998. Capital allowances are **not** applicable for private cars (e.g, S-plate cars).

In the year of purchase, you can claim an initial allowance of 20% of the cost of the asset. You will also be able to claim an annual allowance, which is calculated by taking 80% of the cost and dividing it by the working life of the asset.

<b>Assets</b>	<b>Working Life (No. of Years)</b>
Taxis	5
Buses, Lorries, Trucks, Trailers and Vans	6
Q-plate cars with COE issued before 1 Apr 1998	6
Motorcycles and Bicycles	8

In the subsequent years, you can continue to claim the annual allowance up to the number of years of the life of the asset. The amount of annual allowance each year is the same.

The records you need to keep include:

- (a) Original purchase agreements or invoices
- (b) Hire-purchase agreements
- (c) Capital allowance/wear and tear schedule

Example 3: Purchased a van for \$45,000 in 2008. Working life: 6 years.

	Year of Assessment						Total
	2009	2010	2011	2012	2013	2014	
Initial Allowance (20% of 45,000)	9,000	-	-	-	-	-	9,000
Annual Allowance (80% x 45,000/6)	6,000	6,000	6,000	6,000	6,000	6,000	36,000
<b>Total Capital Allowance</b>	<b>15,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>45,000</b>

As the cost of the van has been fully claimed over 6 years, no annual allowance can be claimed from Year Assessment 2015 onwards.

## 9. What if I bought assets on hire purchase?

You may still claim capital allowances on the cost of the asset you have bought under hire purchase terms. However, you should exclude the hire purchase interest when you calculate the capital allowance. Hire purchase interest should be claimed as an expense in the Profit and Loss Statement.

The following examples illustrate the 3 methods of calculating the capital allowances under hire purchase terms:

### 9.1 One Year Write-off

The amount of capital allowance you can claim is 100% of the principal repayment made in the year.

Example 4: Purchased a computer for \$3,000 in the year 2008 under the following hire purchase terms:

Cash price	:	\$3,000
Downpayment	:	\$300
Hire purchase interest	:	\$600
Hire purchase price	:	\$3,600
Amount for each instalment	:	\$ 275
Total number of instalments	:	12
4 instalments paid in the 1 <sup>st</sup> year	:	4 x \$275 = \$1,100
8 instalments paid in the 2 <sup>nd</sup> year	:	8 x \$275 = \$2,200
Hire purchase interest paid in 1 <sup>st</sup> year	:	\$600/12 x 4 = \$200
Hire purchase interest paid in 2 <sup>nd</sup> year	:	4600/12 x 8 = \$400

	Year of Assessment		Total
	2009	2010	
Downpayment	300	-	300
Add: Total instalments paid	1,100	2,200	3,300
Less: Hire-purchase interests	200	400	600
<b>Annual Allowance</b>	<b>1,200</b>	<b>1,800</b>	<b>3,000</b>

As the cost of the computer has been fully claimed in the first two years, no more capital allowances can be claimed from the Year of Assessment 2011 onwards.

## 9.2 Three Years Write-off

The amount of capital allowance you can claim is calculated by dividing equally over 3 years the total principal repayments made in the year less hire purchase interest.

Example 5: Purchases air-conditioner for \$3,000 in the year 2008 under the same hire purchase terms as Example 4 (i.e. \$1,200 and \$1,800 in Example 4) equally over three years as follows: -

	Year of Assessment				Total
	2009	2010	2011	2012	
Annual Allowance (\$1,200/3)	400	400	400	-	1,200
Annual Allowance (\$1,800/3)	-	600	600	600	1,800
<b>Annual Allowance</b>	<b>400</b>	<b>1,000</b>	<b>1,000</b>	<b>600</b>	<b>3,000</b>

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

Example 6: Purchased a lorry for \$45,000 in the year 2008 under the following hire purchase terms:

Commencement date of hire purchase	: 28.9.08
Cash price	: \$45,000
Downpayment	: \$15,000
Hire purchase interest	: \$3,000
Total number of instalments	: 24
Amount for each instalment	: \$1,375
No. of instalments paid in the year 2008	: 4
No. of instalments paid in the year 2009	: 12
No. of instalments paid in the year 2010	: 8
Working Life	: 6 years

	Year of Assessment						Total
	2009	2010	2011	2012	2013	2014	
Downpayment	15,000	-	-	-	-	-	15,000
Add: Instalments paid <sup>1</sup>	5,500	16,500	11,000	-	-	-	33,000
Less: Hire-purchase interests <sup>2</sup>	500	1,500	1,000	-	-	-	3,000
Payment excluding hire purchase interests	20,000	15,000	10,000	-	-	-	45,000
Initial Allowance <sup>3</sup>	4,000	3,000	2,000	-	-	-	9,000
Annual Allowance <sup>4</sup>	6,000	6,000	6,000	6,000	6,000	6,000	36,000
<b>Total Capital Allowance</b>	<b>10,000</b>	<b>9,000</b>	<b>8,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>45,000</b>

<sup>1</sup> Instalments paid = Number of instalments paid x \$1,375

<sup>2</sup> Hire-purchase interests = Number of instalments paid x \$3,000/24

<sup>3</sup> Initial Allowance = 20% x (Payment excluding hire purchase interest)

<sup>4</sup> Annual Allowance = 80% x Cash price/working life

## 10. What if I sell or scrap my fixed assets?

If you sell or scrap your fixed assets on which you have previously claimed capital allowance, you have to compute a Balancing Allowance (BA) or Balancing Charge. BA or BC is the difference between the Tax Written Down Value (TWDV) and the sale or disposal proceeds.

Tax Written Down Value is the original cost of the asset less the capital allowances already given.

### 10.1 Balancing Allowance (BA)

Balancing allowance is the excess of the Tax Written Down Value of the asset over its sale proceeds and is tax deductible

Example 7:

	\$
Cost of asset	6,000
Less: Total capital allowances allowed	<u>4,000</u>
TWDV as at 31.12.09	2,000
Less: Selling price in 2010	<u>1,000</u>
BA	<u>1,000</u>

As the selling price is below the Tax Written Down Value, you may claim \$1,000 of balancing allowance in Year of Assessment 2011.

## 10.2 Balancing Charge (BC)

Balancing Charge is the excess of the sale proceeds of the asset over its Tax Written Down Value and is taxable.

<u>Example 8:</u>	\$
Cost of asset	6,000
Less: Total capital allowances allowed	<u>4,000</u>
TWDV as at 31.12.09	2,000
Less: Selling price in 2010	<u>3,000</u>
BC	<u>1,000</u>

However, the balancing charge will be restricted to the actual capital allowances claimed previously.

<u>Example 9:</u>	\$
Cost of asset	3,000
Less: Total capital allowances allowed	<u>1,000</u>
TWDV as at 31.12.09	2,000
Less: Selling price in 2010	<u>3,500</u>
	<u>1,500</u>
BC (restricted to total capital allowances allowed)	<u>1,000</u>

## 11. What if I incur business losses?

If you incur business losses after deducting the allowable expenses and any capital allowances claimed, these business losses could 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 unabsorbed capital allowances and unabsorbed business losses to the next year to offset against income of that year. However, if your business ceases, you can only carry forward unabsorbed business losses but not unabsorbed capital allowances to the next year.

The above treatments do not apply to car rental companies and private car instruction businesses. Any unabsorbed business losses and capital allowances can only be carried forward as a deduction against income derived from the same

business in subsequent years of assessment. If the business ceases, any unabsorbed losses and capital allowances of the said business will be disregarded. For more details on this aspect, you may refer to 'Changes in tax treatment of Motor Cars consequent to Vehicle Tax Rationalisation' under the E-Tax Guide of the IRAS website.

A married couple can transfer the excess business losses and capital allowances between each other if there is any remaining amount that cannot be completely offset against the income of the respective spouse for a particular year. You may want to refer to the IRAS Circular on 'IRAS Circular on change to assess the income of a husband and wife as a separate individuals' for more details.

Current year unutilised trade losses and capital allowances can be carried back for one year of assessment immediately preceding the year of assessment in which trade loss and capital allowance arose to deduct against income of the preceding Year of Assessment.

The main features of the scheme are:

- (a) The loss and capital allowance can only be carried back for one year of assessment immediately preceding the year of assessment relating to the year in which the loss was incurred or capital allowance is granted.
- (b) The maximum amount of loss and capital allowance to be carried back is capped at \$100,000.
- (c) The loss carry-back feature is given on due claim.
- (d) The loss carry-back feature is available to all businesses, including sole-proprietors and partners of a partnership (including a limited liability partnership).

Enhancement of Carry-back Relief System for YA 2009 and YA 2010, unutilised trade losses and capital allowances for YA2009 and YA2010 can be carried back and set-off against Assessable Income of 3 immediate preceding YAs, subject to a cap of \$200,000.

Refer to the IRAS circular on 'Carry-Back Relief System' for more details.

## Medisave Contributions

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

You have to make Medisave contributions if you are:

- (a) A self-employed person
- (b) Singapore citizen of Singapore permanent resident; and
- (c) Earning a yearly net trade income of more than \$6,000.

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 the Central Provident Fund (CPF). You may contact CPF Board on Medisave payment matters.

### 2. How much I contribute?

The amount of Medisave that you have to contribute depends on the mandatory CPF contribution rate. The rates for Medisave contribution for the year 2011 and 2012 are as follows:

Annual Net Trade Income	Age as at 1 Jan 2011		
	Below 35 years	35 to Below 45 years	45 years and above
Above \$6,000 To \$12,000	2.33%	2.67%	3.00%
Above \$12,000 To \$18,000	Between 2.33% And 7.00%	Between 2.67% And 8.00%	Between 3.00% And 9.00%
Above \$18,000	7.00% (up to a maximum of \$3,920)	8.00% (up to a maximum of \$4,480)	9.00% ( up to a maximum of \$5,040)

Annual Net Trade Income	Age as at 1 Jan 2012 <sup>New!</sup>		
	Below 35 years	35 to Below 45 years	45 years and above
Above \$6,000 To \$12,000	2.33%	2.67%	3.00%
Above \$12,000 To \$18,000	Between 2.33% And 7.00%	Between 2.67% And 8.00%	Between 3.00% And 9.00%
Above \$18,000	7.00% (up to a maximum of \$4,200)	8.00% (up to a maximum of \$4,800)	9.00% ( up to a maximum of \$5,400)

### **3. Can I claim 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 contributions of up to the total mandatory CPF contribution rate [35% of Year of Assessment 2011] of your net trade income assessed, or the provident relief cap for the year [\$26,775 for Year of Assessment 2011], whichever is lower.

For the rates and provident relief cap for subsequent Years of Assessment, please refer to 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 provident fund relief in the Year of Assessment 2011, your CPF contributions must have been made by 31.12.2010.

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

### **4. If I am an employee as well as a self-employed person, how much tax relief can I claim for the Medisave and voluntary CPF contributions that I made as a self-employed person?**

If your combined compulsory CPF contributions as an employee and your compulsory Medisave contribution as a self-employed person is **less than** the CPF relief cap for self-employed person, tax relief will be allowed for the voluntary CPF contributions, up to the provident fund relief cap.

#### Example 10:

Mr T is 30 years old. He is a salaried employee as well as a self-employed person. His employment income and net trade income for the year 2010 are as follows:

Employment Income from Jan 2010 to Aug 2010 = \$30,000

Employment Income from Sep 2010 to Dec 2010 = \$10,000

Net Trade Income = \$20,000

In the year 2010, he contributed CPF as an employee and as a self-employed as follows:

Compulsory CPF contributions by his employer	= \$5,850 (i.e. 14.5% x \$30,000 + 15% x \$10,000)
Compulsory CPF contributions on employment income	= \$8,000 (i.e. 20% x \$40,000)
Compulsory Medisave contributions as self-Employed person	= \$1,334 (for his age group, he must contribute 6.67% of his net trading income i.e. \$20,000 x 6.67%)
Voluntary contributions as self-employed	= \$11,591 (i.e. \$26,775 - \$5,850 - \$8,000 - \$1,334)
His total CPF contributions	= \$20,925

However, Mr T's allowable CPF relief will be capped at \$15,000, which is derived as follows:

Compulsory CPF contributions from employment	= \$8,000
Compulsory Medisave	= \$1,334
Voluntary CPF contributions as self-employed	= \$5,666*
Total CPF relief allowable	= \$15,000

The allowable CPF contribution for Mr T's net trade income is capped at \$7,000 (\$20,000 x 35%) or \$26,775 whichever is lower.

\*\$5,666 = \$7,000 - \$1,334.

If your combined compulsory CPF contributions as an employee and your compulsory Medisave contribution as a self-employed person is **more than** the provident fund relief cap for self-employed persons, tax relief will only be allowed for the compulsory contributions made. You cannot claim relief for the voluntary CPF contributions.

## **Offences and Penalties**

### **1. FAILURE TO KEEP PROPER RECORDS**

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

### **2. FAILURE TO GIVE NOTICE OF CHARGEABILITY**

For failure to give notice of chargeability to tax, a person is 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. SUBMISSION OF INCORRECT RETURN WITHOUT REASONABLE EXCUSE**

For submission of incorrect return without reasonable excuse, a person is liable on conviction to pay 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. WILFUL TAX EVASION OR ASSISTANCE OF ANY OTHER PERSON TO EVADE TAX**

For tax evasion cases, in which a person wilfully evade, or assist other persons to evade is liable on conviction to pay 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 a person wilfully evade, or assist other persons to evade is 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.

## Contacts

### (A) IRAS informative Lines

#### **IRAS Website**

<http://www.iras.gov.sg>

- The circulars mentioned in this guide can also be retrieved from IRAS website under e-Tax Guides.

#### **24-hour Business Income Tax Integrated Phone Service**

1800-356-8300

#### **Goods and Services Tax Integrated Phone Service**

1800-356-8633

#### **Taxpayer Services Centre**

1<sup>st</sup> Storey, Revenue House

55 Newton Road

Singapore 307987

(Located opposite Novena MRT Station)

Operating Hours: 8am to 5 pm (Mon to Fri)

8am to 1pm (Sat) – Individual Income Tax enquiries.

### (B) CPF Board

#### **CPF Board website**

<http://www.cpf.gov.sg>

#### **CPF Call Centre**

1800-227-1188

### (C) Accounting & Corporate Regulatory Authority (ACRA)

#### **ACRA website**

<http://www.acra.gov.sg>

#### **ACRA Helpdesk**

6248 6028

### (D) Monetary Authority of Singapore (MAS)

#### **MAS website**

<http://www.mas.gov.sg>