

# **NEW TAX TREATMENT OF DIRECTOR'S FEES AND BONUS FROM EMPLOYMENT**

## **INTRODUCTION**

1. An individual who derives director's fee and bonuses from employment is assessable to tax on the fees and bonuses derived in each calendar year (ie the calendar year basis).
2. Presently, director's fees and bonuses paid for the services performed in a certain year is treated as the income of that year even if they are received in a subsequent year. To illustrate, if a bonus for the year 1992 is paid in 1993, the Comptroller will regard the bonus as the income for 1992 and issue an additional assessment for the Year of Assessment 1993 on the bonus. This treatment has been changed following a recent review.
3. The purpose of this Practice Note is to set out the new tax treatment which takes effect from the Year of Assessment 1993 with regard to director's fees and bonuses from employment assessable under Section 10(2) of the Income Tax Act.

## **ADMINISTRATIVE PRACTICE**

### **TAXATION UNDER SECTION 10(2)**

4. With effect from the Year of Assessment 1993, director's fees and bonuses from employment will be treated as the income of the year in which they become due and payable. The following rules will apply in determining when a payment of director's fees and bonus from employment is due and payable:
  - (a) for director's fees, they will be regarded as having accrued to the directors on the date they are voted and approved at the company's Annual General Meeting;
  - (b) for non-contractual bonuses which are payable at the discretion of the employer, they are regarded as having accrued to the employees on the date the employer decides the bonuses are payable;
  - (c) for contractual bonuses which are payable in accordance with the terms of a contract of service, they are regarded as having accrued to the employees in the year specified by the contract. This is usually the year in which their services are rendered.
5. This new treatment will also apply to the determination of the tax which has to be withheld on director's fees payable to non-resident directors.
6. Assessments which have been finalised under the previous treatment before this Practice Note will not be reopened unless valid objections have been lodged with the Comptroller.

7. Employers are requested to take note of this new treatment when preparing the return of employee's remuneration (Form IR8A/8C) for their employees.

Deduction under section 14(1)

8. Despite the new treatment for taxing director's fees and bonuses from employment, the Comptroller will continue with the practice where by director's fees and bonuses which are accrued as the expense of a particular accounting year based on accepted accounting convention are allowed as a deduction for the year of assessment corresponding to that accounting year. For example, director's fees and bonuses duly ascertained and accrued as a expense in the accounts for the year ended 31.12.92 but declared and paid in 1993 will be allowed as a deduction in the Year of Assessment 1993. Provisions for such payments which are not duly ascertained as having accrued will, however, not be deductible as an expense for that year.