

IRAS CIRCULAR

TAXPAYER AUDIT



INLAND REVENUE
AUTHORITY
OF SINGAPORE

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31 JUL 2007

TAXPAYER AUDIT

1. WHAT IS TAXPAYER AUDIT?

Taxpayer Audit involves an examination of the books, records and financial affairs of the taxpayers to verify that returns submitted by taxpayers are in compliance with tax laws.

2. WHY AUDIT?

Audits enable us to detect any errors that might have been made in the past, so that we can advise taxpayers on better compliance in future. Our aim is to encourage voluntary compliance.

3. WHO GETS AUDITED?

We have a systematic method of selecting audit candidates. Industries and professions are routinely identified for audit.

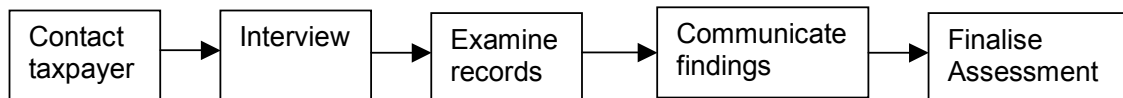
4. WHO CONDUCTS AUDIT?

Audits are carried out by IRAS's tax auditors.

To enable taxpayers identify our tax auditors, we carry special authority cards issued by IRAS. However, should the identities of the tax auditors appear doubtful to you, you can verify by calling us on 6351 2045 or 6351 2047.

5. HOW WE AUDIT?

Audit Process



5.1 Contact Taxpayer

We will inform you by telephone or correspondence, if you are selected for an audit. Prior arrangements will normally be made with you if we need to visit your business premises.

5.2 Interview

We usually begin an audit with an interview to get a better understanding of your business operation and accounting system.

5.3 Examine Records

Examination of books and records is carried out either at your premises or at our office. We will review your returns against your accounting books and business records such as ledgers, journals, source documents and bank accounts.

We usually commence with checks on the tax return and books of accounts relating to the most current year of assessment. However, the scope of the audit may be extended to cover earlier years of assessment.

5.4 Communicate Findings

On completing the audit, we will inform you of any adjustments to be made to your tax assessment(s), and issue you the Notice(s) of Additional/ Amended Assessment.

We will also advise you on areas in which you could make improvements to better comply with the tax laws.

6. COMMON ERRORS UNCOVERED

Common errors discovered in our audit of businesses include:

6.1 Understatement of income because of:

- (a) Mistakes in recording and adding up income earned
- (b) Failure to account for all invoices issued
- (c) Failure to issue invoice/receipt for every sale (including income from ancillary activities) made
- (d) Failure to account for trading stock taken for private use
- (e) Failure to recognize income on accrual basis.

To avoid the above, please

- (a) Use a cash register to record every sale made and record the total sales for each day in a sales book
- (b) If a cash register is not used, issue a serially-numbered printed invoice/receipt for every sale made and retain a duplicate of every issued receipt

- (c) Account for all the invoices issued
- (d) Include the sale price of trading stock for private use to the sales made.

6.2 Overstatement of purchases & other expenses due to:

- (a) Insufficient/no supporting source documents and records
- (b) Double-counting or estimation of purchases and expenses.

To substantiate your claims for purchases and expenses, please

- (a) Retain all source documents (such as invoices, vouchers & receipts) and records
- (b) The following information is required to be kept to substantiate entertainment and transport expenses:

Entertainment

- Date and amount incurred
- Purpose
- Place
- Name & designation of person who incurred the expense
- Person(s) entertained.

Travelling/transport

- Date and amount incurred
- Mode of transport
- The destination
- Name & designation of the person who incurred the expense
- The purpose and duration (for overseas travel).

6.3 Wrongful claims for expenses prohibited under Section 15(1) of the Income Tax Act

The following expenses are not deductible under the law:

- (a) Private elements in business expenses e.g. entertainment, refreshment, telephone and travelling/transport, etc.

- (b) Private/domestic expenses e.g. club membership subscriptions, personal medical bills, insurance, CPF contributions, traveling expenses for personal trips, etc.
- (c) Motor vehicles expenses incurred for non-Q plated passenger vehicle or Q-plated passenger vehicle registered on or after 1 April 1998. These motor vehicles expenses e.g. petrol, insurance, repair & maintenance and parking are not deductible even if they are incurred for business purposes
- (d) Capital expenses e.g. costs of assets, renovation, legal & stamp fees, costs of seminars/conventions for personal development, etc.

To avoid the above mistakes, please

- (a) Claim only the expenses wholly and exclusively incurred for the purpose of the business
- (b) Maintain separate accounts for business and private expenses
- (c) Claim only business expenses incurred in respect of Q-plated cars registered before 1 April 1998 or goods vehicles
- (d) The cost of purchase of fixed assets cannot be deducted for income tax purposes, neither can the depreciation on such assets be deducted. However, you may claim deductions known as capital allowances. Capital allowances are deductible expenses for the wear and tear of fixed assets purchased and used in the trade or business. There are three ways to calculate capital allowances:

(i) One-year write-off

This is only applicable if you purchase computers and automation equipment. However, with effect from year of assessment 2005, assets costing no more than \$1,000 acquired in the year 2004 or thereafter may be written off in one year, subject to the condition that the claim for 100% write-off of all such assets do not exceed \$30,000 per year of assessment.

(ii) Three-year write-off

Generally, most plant and machinery qualify for a three-year write-off except motorcars, motorcycles and light goods vehicles.

(iii) Write-off over the working life of the asset

This method is used when you purchase motor vehicles such as vans, pickups, trucks, buses, lorries and Q-plate cars (only if Certificate of Entitlement was issued before 1 Apr 1998).

To facilitate the computation, a schedule detailing all the fixed assets owned by business should be kept.

6.4 Failure to ascertain the actual closing stock value

It is common for traders to estimate the value of their closing stock. This gives rise to an inaccurate determination of the actual costs of goods sold, hence affecting the computation of net profits.

Stock-take should be performed at the close of each accounting period to determine the closing stock value.

6.5 Failure to report income from other sources

Other sources of income e.g. interest¹, rental, director's fees, etc. are commonly omitted.

A record of income from all sources should be kept and declared accordingly.

6.6 Failure to report employee's benefit

Employers must ensure that all remuneration and benefits-in kind of their employees are fully and correctly reported in their employees' return of remuneration (IR8A). The most common omissions in the form IR8A include allowance paid for transport, holiday, housing, the provision of accommodation, interest payment made by employer to a third party on behalf of an employee and/or loans provided by employer interest free or at a rate below market rate to the employee who has substantial shareholding or control or influence over the company and payment of employee's personal insurance premiums.

6.7 Failure to withhold tax when making payment of a specified nature to Non-Resident Persons

A non-resident is liable to pay income tax on Singapore-sourced income. Under the law, a person has a legal obligation to withhold a percentage of the payment, when he makes payments of a specified nature under the Singapore Income Tax Act, to a non-resident. The tax must be withheld at the appropriate tax rate and remitted to the Comptroller of Income Tax by the 15th day of the following month from the date of payment. More information on the types of payments subjected to withholding tax can be found on our website – Go to 'Information On' > 'Others' > 'S45 Withholding Tax'.²

¹ Interest income from deposits with non-approved banks or finance companies which are not licensed in Singapore, pawnshops, loans to companies and persons, etc are taxable in full and has to be declared.

² For issues relating to filing and payment requirements, you may refer to the e-tax guide "Clarification on Date of Payment of Income for the Purposes of Withholding Tax under Section 45 of the Singapore Income Tax Act", dated 31st March 2003.

7. CONSEQUENCES OF ERRORS

The submission of an incorrect return is an offence. If errors or omissions are discovered during the tax audit, penalties of up to two times the amount of tax undercharged may be imposed. In cases of fraud, penalties will be up to three times the amount of tax undercharged. Serious cases of errors may face prosecution.

Your co-operation during the audit is important.

8. CONFIDENTIALITY

Any information or record you give to IRAS will be treated with strict confidentiality.

9. KEEPING AND RETENTION OF RECORDS

If you are carrying on a trade, business, profession or vocation, you are required to keep sufficient records for seven years to enable your income and allowable deductions to be readily ascertained.

Examples

Records for 2000 (i.e. Year of Assessment 2001) must be kept up to 31.12.2007.
Records for 2006 (i.e. Year of Assessment 2007) must be kept up to 31.12.2013.

For Year of Assessment (YA) 2008 and each subsequent YA, the record-keeping period is reduced from 7 years to 5 years.

Example

Records for 2007 (i.e. YA 2008) must be kept up to 31.12.2012.

The periods to retain the records must be observed regardless of whether or not your assessments have been raised. Failure to do so is an offence.

You may also maintain your records in imaging system³ or in an electronic format⁴.

10. VOLUNTARY DISCLOSURE

Voluntary disclosures of omissions or errors normally attract a much lower penalty than if we were to discover the omissions or errors in the course of audit.

If you are chargeable to tax and have failed to furnish a tax return or you have furnished an incorrect tax return and you want to make a voluntary disclosure, you can write in to:

³ See e-Tax Guide "Keeping of Records in Imaging System", dated 16 May 2000.

⁴ See e-Tax Guide "Keeping Machine-sensible Records & Electronic Invoicing", dated 16 May 2000.

<p>For Individual Income Tax Cases</p> <ul style="list-style-type: none"> ▪ Self-employed ▪ Salaries Employees ▪ Non-Resident Professional/ Foreign Public Entertainer <p>Inland Revenue Authority of Singapore Individual Income Tax Division Ruling & Compliance Branch 55 Newton Road #03-01 Revenue House Singapore 307987</p>	<p>For Corporate Tax Cases</p> <p>Inland Revenue Authority of Singapore Corporate Tax Division Field Audit Branch 55 Newton Road #03-01 Revenue House Singapore 307987</p>
<p>DID: 6351 3481 or 6351 3090</p>	<p>DID: 6351 3384 or 6351 3386</p>