

# **IRAS CIRCULAR**

## **CHANGE IN TAX TREATMENT FOR CERTIFICATE OF ENTITLEMENT (COE) FOR MOTOR VEHICLE**



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Updated on 28 Mar 2005. Updates are as follows:

Paragraph 5 – explanation added that the tax treatment for COE applies to all motor vehicles which are allowed to claim capital allowances. Footnote 1 is added to elaborate on the categories of motor cars which are allowed to claim capital allowances.

e-Tax Guide entitled “Certificate of Entitlement (COE) for Motor Vehicles” published on 25 Feb 1993 withdrawn as it has been incorporated in paragraph 2. Following this, paragraph 3 is also updated.

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## **INTRODUCTION**

1. The quota premium system for motor vehicles was implemented on 1 May 1990. Under this system, any person who wishes to register a vehicle is required to obtain a COE. The entitlement is for a specified period. Certain categories of vehicles are however exempted from this requirement under the Road Traffic (Quota System Exemption) Order. These are scheduled buses, school buses, trailers, emergency vehicles, diplomatic vehicles, vehicles for the disabled and restricted use vehicles bearing the index marks "RU".
2. Prior to Year of Assessment ("YA") 1995, the following tax treatment for COEs has been adopted by IRAS:
  - (a) the amount paid for COE does not form part of the cost of a vehicle for purposes of claiming allowances under Section 19 or 19A of the Singapore Income Tax Act (SITA); and
  - (b) the cost of COE, being a capital expenditure, is also not a deductible expense under Section 14 of the SITA.
3. With the high cost of COEs, IRAS recognised that the above tax treatment, if adhered to, would unduly penalise owners of commercial or goods vehicles who depend heavily on such vehicles to carry out their day-to-day operations (e.g. delivering goods to customers). IRAS had therefore, in 1994, reviewed its tax treatment for COEs.
4. The purpose of this Practice Note is to set out the new tax treatment for COEs.

## **Administrative Practice**

5. With effect from the YA 1995, the following tax treatment for COE shall be applied to all motor vehicles which are allowed to claim tax allowance<sup>1</sup>:
  - (a) the amount paid for the COE when incurred together with the acquisition of a vehicle will be included as part of the cost of that vehicle for purposes of claiming allowances under Section 19 or 19A of the SITA.
  - (b) the cost of COE by itself is however a capital expenditure and therefore does not qualify for deduction under Section 14 of the SITA. This also means that no allowances under Section 19 or 19A will be granted to a taxpayer who has incurred expenditure to obtain a COE but does not subsequently acquire a vehicle.
  - (c) the amount paid by a registered owner of an existing vehicle upon renewal of the COE to enable the continued operation of the vehicle will

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<sup>1</sup> With effect from Year of Assessment 1999, company cars which are registered on or after 1 April 1998 are not allowed tax allowance. Please refer to e-Tax Guide, entitled "Changes in Tax Treatment of Motor Cars Consequent to Vehicle Tax Rationalisation" published on 1 June 1999 for more details.

be regarded as an additional cost of the vehicle for purposes of claiming allowances under Section 19 or 19A of the SITA.

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