

## **CHANGES IN TAX TREATMENT OF MOTOR CARS CONSEQUENT TO VEHICLE TAX RATIONALISATION**

### **INTRODUCTION**

- 1 In March last year, the Land Transport Authority (LTA) announced a number of changes to rationalise the vehicle tax structure across different categories of vehicles. Amongst the categories of vehicles affected are motor cars.
- 2 Under the new tax structure for motor cars, the fixed statutory taxes (i.e. Registration Fee, Additional Registration Fee, Customs Duty, Certificate of Entitlement and road tax) for the different categories of motor cars are standardised with those for private motor cars. In addition, all new motor cars registered under the new tax structure will bear the same registration plates as private motor cars and enjoy the same PARF benefits. In other words, new motor cars registered in the names of companies, business concerns, etc. and private hire cars will no longer carry the Q-plate and SZ-plate registration numbers respectively.
- 3 However, under certain circumstances, the LTA may allow companies to register their new motor cars under the new tax structure using the Q-plate registration numbers of existing Q-plate cars which are replaced. Such Q-plate cars are subject to the same vehicles taxes as private motor cars.
- 4 The new vehicle tax structure with the exception of the new road tax applies to all new motor cars registered on or after 1 April 1998 using certificates of entitlement (COEs) issued on or after 1 April 1998. The new road tax applies to all motor cars with effect from 1 September 1998.
- 5 It was also announced that consequent to the vehicle tax rationalisation exercise the following changes relating to the income tax treatment of motor cars would be made:
  - (a) No tax allowance/deduction for cost/expenses incurred in respect of all cars, including expenses incurred in respect of hired cars. Car rental firms/companies and driving schools will continue to enjoy tax allowance/deduction on their fleets of cars.
  - (b) The lifting of the current “6-month” rule for determining the amount of tax allowance/deduction available to car rental firms/companies in respect of their rental cars.
  - (c) The quarantining of income generated from car rental or car tuition businesses such that any losses/unabsorbed capital allowances arising from these activities would not be allowed to be deducted against other income.

- 6 This Practice Note provides:
- (a) the income tax treatment of the different categories of motor cars following the tax changes announced, together with details of how the changes would be implemented;
  - (b) details of the changes to the GST treatment of the various categories of motor cars, in particular with respect to the claiming of input tax.
- 7 For the purposes of this Practice Note, the term “motor car” refers to a motor car which is constructed or adapted for the carriage of not more than 7 passengers exclusive of the driver and the weight of which unladen does not exceed 3,000 kilograms.

## **ADMINISTRATIVE PRACTICE**

### **Private Cars**

- 8 Currently, no tax allowance/deduction is allowed in respect of any cost/expenses incurred in respect of motor cars registered in the names of private individuals. Such cars bear E- or S-plate registration numbers and are classified in the Vehicle Log Card under the Class “Passenger (Private)”.
- 9 The tax treatment of this category of cars is not affected by the vehicle tax rationalisation exercise. They will continue not to be given any tax allowance/deduction.
- 10 The current GST treatment of private cars also remains unchanged, that is, the input tax incurred on any cost or running expenses of such cars is not allowable.

### **Company Cars**

- 11 Currently, cars registered in the name of companies which are business service passenger vehicles (BSPVs) are allowed the following “restricted” tax allowance/deduction:
- (a) capital allowances on the cost of the car incurred subject to a cap of \$35,000; and
  - (b) deduction of a proportionate amount of expenses incurred in the same proportion as \$35,000 bears to the cost of the car.

- 12 Such cars which bear the Q-plate registration numbers are subject to additional taxes (e.g. twice the amount in road tax and COE premiums) compared to private cars.
- 13 Following the rationalisation exercise, all new company cars registered on or after 1 April 1998 using COEs issued from 1 April 1998 will pay the same amount of vehicle taxes as private cars and will bear S-plate registration numbers. As mentioned in paragraph 3 above, under certain circumstances, Q-plate registration numbers may also be used.
- 14 Although registrations from 1 April 1998 to 31 August 1998 using COEs issued before 1 April 1998 have to be made under the old vehicle tax regime, LTA has confirmed that there has been no registration of new company cars under the old vehicle tax regime since 1 April 1998.
- 15 Therefore, in effect, all new company cars registered on or after 1 April 1998 (whether bearing S-plate or Q-plate registration numbers) are registered under the new vehicle tax regime while those registered before 1 April 1998 are under the old vehicle tax regime. Both categories of company cars are described on the Vehicle Log Card under the Class "Passenger (Company)".
- 16 For income tax purposes, the current tax treatment as set out in paragraph 11 above will continue to apply to company cars which are registered as BSPVs before 1 April 1998. Company cars registered on or after 1 April 1998 will, however, be treated in the same manner as private cars. Therefore, no tax allowance/deduction will be allowed on any cost/expenses incurred in respect of such cars.
- 17 For GST purposes, claims for input tax incurred on the purchase and running expenses of company cars registered as BSPVs (Q-plated cars) are allowable. This treatment will continue to apply to company cars which were registered before 1 April 1998. Taxable owners can therefore continue to claim any input tax incurred on the purchase and running expenses of such cars.
- 18 As in the case for income tax, company cars registered on or after 1 April 1998 will be treated in the same manner as private cars for GST purposes. Therefore, any input tax incurred on the purchase and running expenses of company cars registered on or after 1 April 1998 will be disallowed.

## Rental Cars Hired for Use

- 19 Presently, any outgoings and expenses incurred for the use of any private hire car may be allowed as deductions where the periods of use of private hire cars by the hirer during the basis period for any year of assessment do not exceed in the aggregate 183 days. No deduction would be allowed if the periods of use exceed 183 days.
- 20 Consequent to the vehicle tax rationalisation exercise, all outgoings and expenses incurred on or after 1 April 1998 for the use of any private hire car will not be deductible for income tax purposes, i.e. regardless of the periods of use. This tax treatment applies to both private hire cars registered under the old vehicle tax regime as well as those registered under the new vehicle tax regime (i.e. regardless of whether the private hire car bears SZ-plate or S-plate registration number).
- 21 The current tax treatment will apply to any outgoings or expenses incurred before 1 April 1998. However, in applying the current tax treatment to the basis period in which 1 April 1998 falls, the periods of use for the whole basis period would be considered for purposes of determining whether any outgoings or expenses incurred before 1 April 1998 for the use of any private car is deductible. The following example illustrates the tax treatment during the transitional period.

### Example

Basis period of Company (hirer) - 1 January to 31 December 1998

Periods of use of rental cars in 1998 -

Car A from 1 January to 28 February 1998 (59 days)

Car B from 1 May to 30 September 1998 (153 days)

### ***Tax treatment for Car A***

Since the periods of use of rental cars A and B in the basis period from 1 January to 31 December 1998 exceed 183 days, any outgoings or expenses incurred by the hirer in respect of Car A would not be deductible. If, however, the periods of use of rental cars A and B is not more than 183 days, for example Car B is rented for only 91 days, then any outgoings or expenses incurred in respect of Car A would be deductible.

### ***Tax treatment of Car B***

Under the tax change, no deduction would be allowed for any outgoings or expenses incurred on or after 1 April 1998 in respect of rental cars, i.e. regardless of the period of rental. Hence, all outgoings and expenses incurred in respect of Car B would be disallowed.

### **Rental Cars of Car Rental Firms/Companies**

- 22 Car rental firms/companies are currently able to claim the following tax allowance/deduction in respect of cost/expenses incurred in respect of their cars which are registered as private hire cars (referred hereinafter as “rental cars”) and hired out for use:
- (a) tax allowance/deduction on the full cost/expenses incurred if the rental car is hired to the same person for not more than 6 months in the year; and
  - (b) tax allowance/deduction on the same restricted basis set out for company cars in paragraph 11 above on the cost/expenses incurred if the rental car is hired to the same person for more than 6 months in the year.
- 23 Any losses/unabsorbed allowances arising from the car rental activities are also currently allowed to be deducted against other income.
- 24 Under the new vehicle tax structure, new rental cars will bear S-plate registration number. All rental cars, whether registered under the old or new vehicle tax regime, are described in the Vehicle Log Card under the Class “Private Hire”.
- 25 Arising from the vehicle tax rationalisation exercise, the following two tax changes will be implemented:
- (a) The lifting of the current “6-month” rule for determining the amount of tax allowance/deduction available to car rental firms/companies in respect of their rental cars.
  - (c) The quarantining of income generated from car rental activities such that any losses/unabsorbed capital allowances arising from the activities would not be allowed to be deducted against other income.
- 26 The two tax changes will take effect from the Year of Assessment 2000.
- 27 The lifting of the current “6-month” rule means that car rental firms/companies will be able to claim tax allowance/deduction on the full cost/expenses incurred in respect of any car registered as a private hire car and used for the purposes of hiring, even if the car is hired to the same person for more than 6 months in a year.

- 28 With effect from the Year of Assessment 2000, any losses/unabsorbed capital allowances arising from car rental business will not be allowed to be deducted against other income. Such losses/unabsorbed capital allowances will be allowed to be carried forward and deducted against income derived from the same business of car rental in subsequent years of assessment, subject to sections 23 and 37(3)<sup>1</sup> of the Income Tax Act. In the event of a cessation of the car rental business, any losses/capital allowances in respect of the business which remain unabsorbed will be disregarded.
- 29 The tax change to quarantine the income from car rental business will not apply to any unabsorbed losses/capital allowances relating to the year of assessment 1999 and before. Therefore, such unabsorbed losses/capital allowances will continue to be available as deduction against other income derived by the car rental firms/companies.
- 30 As for GST, GST-registered car rental firms/companies can continue to claim input tax incurred on the purchase and running expenses of their fleets of rental cars, i.e. regardless of whether the rental car is registered under the old or new vehicle tax regime.
- 31 Car rental firms/companies which carry on other businesses are required to keep separate records and accounts of income and expenses relating to their car rental business.

### **Motor Cars Used for Instructional Purposes**

- 32 Currently, a person who carries on the business of providing driving instruction and who holds a driving school licence or driving instructor's licence is allowed to claim full tax allowance/deduction on any cost/expenses incurred in respect of a motor car registered as a BSPV which is used principally for instructional purposes (hereinafter referred to as a "tuition car"). Such tuition car bears a Q-plate registration number. No tax allowance/deduction is available to the owner of a private tuition car, i.e. a tuition car which is registered in the name of an individual and carries E-plate or S-plate registration number.
- 33 With the implementation of the new vehicle tax structure, all tuition cars will bear the S-plate registration number but are described on the Vehicle Log Card under the Class "For Instruction (Co)" or "For Instruction". The former refers to tuition cars registered in the names of driving schools while the latter describes those registered in the names of individuals.

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<sup>1</sup> subsection renumbered by Income Tax Act (Revised Edition 2004)

- 34 For income tax purposes, the current tax treatment of allowing full tax allowance/deduction will be extended to include private tuition cars registered on or after 1 April 1998. This is subject to the same requirements that the person carrying on the business of providing driving instruction must hold a driving instructor's licence and the tuition cars are used principally for instructional purposes. Private tuition cars registered before 1 April 1998 will continue not to be eligible for any tax allowance/deduction.
- 35 In addition, with effect from the Year of Assessment 2000, the income generated from the business of providing driving instruction for cars will be quarantined. Any losses/unabsorbed capital allowances will not be allowed to be deducted against any other income. They will be allowed to be carried forward but only as deduction against income derived from the same business in subsequent years of assessment. Any unabsorbed losses/capital allowances remaining on cessation of the said business will be disregarded.
- 36 Unabsorbed losses/capital allowances relating to the Year of Assessment 1999 and before will continue to be available for set-off against other income.
- 37 As regards GST, car tuition firms/companies are currently allowed to claim the input tax incurred on the purchase and running expenses of a car registered as a BSPV which is used for providing driving instruction. This tax treatment will continue to apply to such cars as well as tuition cars registered on or after 1 April 1998 (i.e. under the new vehicle tax regime) in the name of the tuition firm/company. Such tuition cars would be described on the Vehicle Log Card under the Class "For Instruction (Co)".
- 38 Input tax claims in respect of private tuition cars which have the description "For Instruction" on the Vehicle Log Card will continue to be disallowed.
- 39 Car tuition firms/companies which carry other businesses, i.e. besides the business of providing driving instruction for cars, are required to keep separate records and accounts to enable the income and expenses relating to the business of providing driving instruction for cars to be ascertained separately.

### **Foreign Cars**

- 40 The tax treatments set out in the preceding paragraphs do not apply to any motor car registered outside Singapore and used exclusively outside Singapore, i.e. foreign cars.
- 41 Currently, foreign cars are treated in the same manner as company cars. The tax allowance/deduction allowed are subject to the same restriction set out in paragraph 11

above. However, any outgoings or expenses incurred in respect of any hired foreign cars are allowed as deduction in full regardless of the periods of use. This tax treatment will continue to apply.

### **Amendments to the Income Tax Act and GST Act**

42 The above respective tax changes have been enacted in the Income Tax and GST Acts<sup>2</sup>.

### **Enquiries**

43 Taxpayers who have any enquiries on this Practice Note may call our Taxpayer Services Division for clarification.

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<sup>2</sup> The original paragraph 42 has been revised on 13 Dec 2004.

## INCOME TAX TREATMENT AT A GLANCE

TYPES OF CAR [Description on Vehicle Log Card]	TAX TREATMENT
Private car [Passenger (private)]	No deduction
Company car [Passenger (company)] <ul style="list-style-type: none"> <li>• registered before 1 April 1998</li> <li>• registered on or after 1 April 1998</li> </ul>	Restricted deduction (subject to \$35,000 capping) No deduction
Rental car hired for use [Private hire]	<u>Expenses incurred before 1 April 1998</u> <ul style="list-style-type: none"> <li>• Full deduction if aggregate period of use of private hire cars during basis period does not exceed 183 days</li> <li>• No deduction if aggregate period of use of private hire cars during basis period exceeds 183 days</li> </ul> <u>Expenses incurred on or after 1 April 1998</u> No deduction
Rental car of car rental firms/companies [Private hire]	<u>Prior to YA 2000</u> <ul style="list-style-type: none"> <li>• Full deduction if rental car is hired to the same person for not more than 6 months in a year</li> <li>• Restricted deduction (subject to \$35,000 capping) if rental car is hired to the same person for more than 6 months in a year</li> </ul> <u>From YA 2000</u> Full deduction regardless of period of hire, but income generated from car rental activities is quarantined
Tuition car [“For instruction (Co)” or “For instruction”] <ul style="list-style-type: none"> <li>• For instruction (Co)</li> <li>• For instruction <ul style="list-style-type: none"> <li>- registered before 1 April 1998</li> <li>- registered on or after 1 April 1998</li> </ul> </li> </ul>	From YA 2000, income generated for car tuitioning business is quarantined  Full deduction  No deduction Full deduction
Foreign car <ul style="list-style-type: none"> <li>• acquired by taxpayer</li> <li>• rented foreign cars</li> </ul>	Restricted deduction (subject to \$35,000 capping) Full deduction

Note: deduction subject to general rule for deduction of expenses under section 14(1)

## GST TREATMENT AT A GLANCE

Types of Car / Car user [Description on Vehicle Log Card]	Tax Treatment if Car is Registered	
	Before 1/4/98	On or After 1/4/98
Private Car [Passenger (private)]	Cannot claim input tax	Cannot claim input tax
Company Car [Passenger (company)]	Can claim input tax on the purchase and running expenses only if the car is registered as a business service passenger vehicle	Cannot claim input tax
<u>Rental Car</u> [Private hire]  Car rental firms/companies	Can claim input tax on the purchase and running expenses of the car	Can claim input tax on the purchase and running expenses of the car
<u>Tuition Car</u>  Driving school [For instruction (Co)]  Private instructor [For instruction]	Can claim input tax on the purchase and running expenses only if the car is registered as a business service passenger vehicle  Cannot claim input tax	Can claim input tax on the purchase and running expenses and described under the Vehicle Log Card as Class "For Instruction (Co)"  Cannot claim input tax