

IRAS e-Tax Guide

Change to Assess the Income of a Husband and Wife as Separate Individuals



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[Paragraphs 2.2(b) and 3.2.1 revised to define the type of income that should be included in determining if the wife's income is below the allowable threshold of \$2,000 per annum, before wife relief can be awarded.]

Revised on 1 Dec 2011

[Paragraphs 2.2(b) and 3.2.1 revised to include wife's income threshold of \$4,000 with effect from YA 2010 and additional type of income.]

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1 OBJECTIVE

- 1.1 As part of government's efforts to continuously simplify rules and regulations, IRAS has recently reviewed the way married couples are being assessed and decided to adopt the separate assessment mode instead of the current combined assessment mode. The objective of this circular is to explain the rationale and implementation details for the change to assess the income of a husband and wife as separate individuals, i.e. separate assessment will be used as the default mode of assessment under the Income Tax Act (ITA) instead of the wife having to elect for separate assessment, with effect from year of assessment (YA) 2005.

2 BACKGROUND

2.1 Current Situation

- 2.1.1 The income of a married woman is deemed to be chargeable under her husband's name unless she elects for separate assessment. Election is done on a yearly basis when the income tax return is being filed each year.
- 2.1.2 Where a married woman does not elect for separate assessment; her income is assessed together with her husband's income ("combined assessment"). Wife relief of \$2,000 is given to a married man for each year of assessment (YA) if his wife has no income chargeable in her own name. If his wife has income, the amount of wife relief given to him would be the difference between \$2,000 and the amount of income chargeable in the wife's own name.

2.2 Brief Description of the Tax Changes

The following are the tax changes covered in this circular:

- a) The current provision to use combined assessment as the default mode of assessment under the ITA has been removed. Instead, separate assessment will be the default assessment mode with effect from YA 2005.
- b) Under the change, a married man will be allowed to claim the full amount of wife relief of \$2,000 as long as his wife's income is not more than \$2,000 (\$4,000 with effect from YA 2010) in the preceding year for that YA.
- c) The allowance of transfer of qualifying deductions¹ between spouses who are separately assessed.

¹ Please refer to paragraph 3.2.2 for the definition of qualifying deductions

- d) The allowance of transfer of rental deficit of one spouse to be set off strictly against the rental income of the other spouse.

2.3 Rationale for the Tax Changes

2.3.1 Social changes

The law to deem the income of a married woman to be her husband's unless she elects for separate assessment was first introduced about 40 years ago. Since then, the social context in Singapore has changed. More married women are working and dual income families are also becoming the norm. Our current tax system does not reflect such shifts in our society and hence needs to be updated. In fact, many other developed countries have moved on to a system where separate assessment is the default mode of assessment for married couples.

2.3.2 Service to taxpayers

It is generally less advantageous for spouses to be taxed in the form of combined assessments, as the combined income would generally attract a higher marginal tax rate. To give the tax benefit to taxpayers and to eliminate the need for married women to elect for separate assessment yearly, the combined assessment basis would no longer be the default mode of assessment for married couples with effect from YA 2005.

3 IMPLEMENTATION DETAILS

3.1 Submission of Income Tax Returns

Currently, unless a married woman requests for a separate income tax return to be sent to her, she will declare her income under the "spouse" column in the same income tax return as her husband. With effect from the Year of Assessment 2005, a married woman would be sent an income tax return separately from her husband. She would be required to declare her income and claim for deductions, and be assessed separately thereon.

3.2 Other Details

Some other accompanying implementation details for tax changes, which take effect from YA 2005, are elaborated below.

3.2.1 Wife Relief

A married man would now be allowed to claim for the full amount of wife relief of \$ 2,000 so long as his wife's income is not more than \$2,000 (\$4,000 with effect from YA 2010) in the preceding year for that YA. For the purpose of claiming wife relief, wife's income means:

- a) income brought to tax in Singapore;
- b) tax exempt income (e.g. bank interest, dividends and pension); and
- c) foreign-sourced income (regardless whether it is remitted into Singapore).

3.2.2 Qualifying deductions

A married couple would be allowed to transfer the excess of qualifying deductions between each other if there is any remaining qualifying deduction that cannot be completely offset against the income of the respective spouse for a particular YA. This is so that married couples would not be disadvantaged, tax wise, when their income are assessed separately.

Qualifying deductions refer to:

- a) any allowance falling to be made under section 16, 17, 19, 19A, 19C, 19D or 20 of the ITA (“capital allowances”);
- b) any loss incurred by the individual in any trade, business, profession or vocation which, if it had been a profit, would have been assessable under the ITA (“trade loss”); and
- c) any donation made by the individual under section 37 (3) (b), (c), (e) or (f) or 6) of the ITA (“donations”).

3.2.3 Order of Set off of the Qualifying Deductions of the Transfer of the Excess Deductions

Any qualifying deductions should first be set off against the assessable income of the taxpayer whose activities gave rise to the deductions. Any excess can then be transferred to the spouse in the order of capital allowance, trade loss followed by donations. The transferee must have assessable income available before the transfer can be allowed. The amount available for transfer is restricted to the assessable income of the transferee.

3.2.4 Transfer of rental deficit

In cases where both spouses have rental income, they would be allowed to transfer rental deficit to each another. The amount of transfer should strictly be limited up to the net amount of the available rental income of the transferee. Rental deficit of the transferor can only be transferred if the transferee has positive rental income. No amount of rental deficit transferred can be set off against any other income of the transferee.

For cases whereby expenses exceed the gross annual value, the excess of expenses over gross annual value can only be deducted against positive Net Annual Value of the transferee; it cannot be set off against any rental income nor any other sources of income.

Availability to transfer rental deficit is an administrative concession given by Ministry of Finance. The amount of rental deficit available for transfer is restricted to the actual net rental income of the transferee.

3.2.5 Procedure to elect for transfer of Excess of Qualifying Deductions and Rental Deficit

- a) For the transfer to take place, an election has to be made by both spouses. The election for the transfer is to be made by both spouses on a year to - year basis.
- b) The election is not made at the time of submission of Returns but has to be made before the end of 30 days from the date of notice of assessment of the individual or his spouse², whichever is the later. The election once made is irrevocable.
- c) There is no prescribed form for the election of transfer. However, both spouses must furnish in writing their names, identification numbers and signatures if they wish to elect for transfer of their excess qualifying deductions and rental deficit.

3.2.6 Revisions to Assessments

Upon election, Comptroller of Income Tax will re-compute the assessment of the transferor and transferee to take into account the respective transfers. Any subsequent revision to either party's tax assessment will result in a corresponding revision to the other's tax assessment.

² This excludes default and estimated assessments.

4 WORKED EXAMPLES

- 4.1 Annex 1 contains a worked example to illustrate the implementation details described above.

5 FURTHER ENQUIRIES

- 5.1 If you have any enquiries on this Guide, please call 1800-356 8300.

Annex 1

Assume the following information are extracted from the husband's and wife's tax returns respectively for YA 2005:

<u>Husband</u>			<u>Wife</u>		
Trade:	Adjusted profit	4,500	Trade:	Adjusted profit	25,000
	Unabsorbed loss b/f YA2004	(53,390)	Employment:	Salary	20,000
	Unabsorbed capital allowances b/f YA 2004	(22,000)		Bonus	1,000
				Director's fees	2,000
Employment:	Salary	12,000	Interest		1,790
	Bonus	3,000	Net Rent		11,000
Net Rent:		(3,900)			
Donations:		2,000			

Husband's assessment (Transferor)

Trade:	Adjusted profit	\$ 4,500	\$
	Less: Unabsorbed capital allowances b/f	(22,000)	(17,500)
Employment:	Salary	12,000	
	Bonus	3,000	15,000
Net rent		(3,900)	
Less: Rental deficit transferred to spouse		3,900	0
Unabsorbed capital allowances c/f			(2,500)
Less: Unabsorbed capital allowances c/f transferred to spouse			<u>2,500</u>
Unabsorbed capital allowances c/f			0
Unabsorbed loss b/f & c/f			(53,390)
Less: Unabsorbed loss transferred to spouse			<u>53,390</u>
Unabsorbed loss b/f and c/f			0
Current year donations			(2,000)
Less: Current year donations transferred to spouse			<u>1,000</u>
Current year donations c/f			<u>1,000</u>
Assessable income			0

Wife's assessment (Transferee)

		\$	\$
Trade:	Adjusted profit	25,000	
	Less: Unabsorbed capital allowances transferred in from spouse	<u>(2,500)</u>	22,500
	Less: Unabsorbed loss transferred in from spouse		<u>(53,390)</u>
			(30,890)
Employment:	Salary	20,000	
	Bonus	1,000	
	Director's fees	<u>2,000</u>	23,000
Interest			1,790
Net rent		11,000	
Less: Rental deficit transferred in from spouse		<u>(3,900)</u>	<u>7,100</u>
Statutory income			1,000
Less: Donations transferred in from spouse			<u>(1,000)</u>
Assessable income			0