

FACTSHEET

4 Common Tax Filing Mistakes to Avoid

1. Understatement or Omission of Income due to Incomplete Recording of Revenue

A common mistake by companies is making incorrect declarations of income by understating or omitting income sources. This could be due to companies failing to tally all invoices related to goods sold or services provided due to poor record-keeping practices. There were also instances where revenues or incomes generated through alternative channels were not properly reported, for example:

- a) Some food and beverage companies omitted their sales earnings generated from orders placed through food delivery platforms and websites.
- b) Several construction companies neglected to declare income from the sale of scrap materials.
- c) Some motor vehicle retailers failed to account for commission income received from third parties.

Companies are reminded to maintain proper records of their financial transactions and account for income generated from all sources to ensure that they make correct tax declarations.

2. Incorrect Claims of Capital Allowances on Non-Qualifying Assets

Some companies incorrectly claimed capital allowances for assets that did not qualify as 'plant and machinery' or for assets purchased for personal use. Capital allowances can only be claimed on qualifying fixed assets that are bought and used for the company's trade or business. Companies are encouraged to refer to the IRAS webpage on [Capital Allowances](#) to learn more.

3. Failure to Apply the Arm's Length Principle for Related Party Services

IRAS adopts the internationally endorsed arm's length principle to guide the pricing of transactions between related parties. This requires transaction prices between related parties to be equivalent to prices that unrelated parties would have charged under the same or comparable circumstances. However, audit findings revealed that some

companies providing support services to their related parties either did not charge or charged them at a rate far below what they would have charged unrelated parties.

When companies do not comply with the arm's length principle and have understated their profits, IRAS may make transfer pricing adjustments to adjust their profits upwards. Companies can refer to the [IRAS e-Tax Guide on Transfer Pricing Guidelines](#) to learn more.

4. Poor Record-Keeping and Incorrect Claims by Family-Owned/ Managed Companies

Many family-owned/ managed companies have poor record-keeping practices, and failed to keep sufficient supporting documents to substantiate their claims for purchases and expenses. Some of them did not draw clear distinctions between business and private expenses, while others claimed tax deductions on remunerations paid to company directors or family members that were not commensurate with the actual services rendered.

To be tax deductible, expenses must be wholly and exclusively incurred in the production of the business' income, and remuneration should be commensurate with the actual services rendered. IRAS reminds all companies that claims for tax deductions without valid basis or proper support of documents are not acceptable.