IRAS e-Tax Guide

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

INLAND REVENUE AUTHORITY OF SINGAPORE

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The information provided in the guide aims to provide a better understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary our position accordingly.

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

1 Aim

1.1 This e-Tax guide clarifies the tax change in relation to the assessment of a married couple's income. It replaces the earlier e-Tax guide on the same topic which was first published on 22 Jun 2004.

2 At a Glance

2.1 Separate assessment as a default mode of assessment for husband and wife was introduced in Year of Assessment ("YA") 2005 to replace the previous combined assessment for married couples.

2.2 With the removal of combined assessment, married couples are allowed to transfer the excess qualifying deductions[1] and rental deficit between themselves ("spousal transfer") from YA 2005 to YA 2015.

2.3 With effect from YA 2016, the spousal transfer scheme would be phased out. Any qualifying deductions and rental deficits arising from YA 2016 (basis year 2015) onwards would no longer enjoy spousal transfer. As a transitional concession, qualifying deductions arising in and before YA 2015 would be allowed for offset against the income of the taxpayer's spouse until YA 2017, subject to existing spousal transfer rules.

[1] Please refer to paragraph 4.1 for the definition.

3 Background

3.1 Prior to YA 2005, the income of a married woman was deemed to be chargeable under her husband's name unless she elected for separate assessment. Election was done on a yearly basis when the income tax return was being filed each year.

3.2 Where a married woman did not elect for separate assessment, her income was assessed together with her husband's income ("combined assessment"). Wife relief of $2,000 was given to a married man for each YA if his wife had no income chargeable in her own name. If his wife had 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.

3.3 This tax treatment was reviewed and separate assessment as a default mode of assessment for married couples was introduced in YA 2005 for the following reasons:

(a) The social context in Singapore had changed over the years. More married women were working and dual income families were also becoming the norm.

(b) It was 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. The tax change simplifies the tax filing process for married couples whereby the married women need not elect for separate assessment yearly.

3.4 With the change, a married man would be allowed to claim for the full amount of wife relief of $2,000 so long as his wife's income was not more than $4,000 (the income threshold was $2,000 prior to YA 2010) in the preceding year for that YA. The wife relief was expanded to spouse relief with effect from YA 2010 to allow female taxpayers to claim relief for supporting their husbands.

4 Spousal Transfer Scheme

4.1 With the removal of combined assessment, spousal transfer scheme was introduced in YA 2005 to ensure that married couples would not be made worse off, tax wise. 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.

Qualifying deductions refer to:

(A) Any allowance falling to be made under section 16, 17, 18B, 18C, 19, 19A, 19C, 19D or 20 of the Income Tax Act (“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 Income Tax Act (“trade loss”); and

(C) Any donation made by the individual under section 37 (3) (b), (c), (e) or (f) or 6) of the Income Tax Act (“donations”).

4.2 Under the scheme, any qualifying deductions should first be offset 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.

4.3 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.

4.4 As an administrative concession, where both spouses have rental income, they would be allowed to transfer rental deficit to each other. 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 offset against any other income of the transferee.

5 Tax Change with effect from YA 2016

5.1 To simplify our individual income tax system, it was announced in Budget Statement 2014 that the spousal transfer scheme would be phased out from YA 2016 onwards. Any qualifying deductions and rental deficits arising from YA 2016 (basis year 2015) onwards would no longer enjoy spousal transfer.

5.2 As a transitional concession, qualifying deductions arising in and before YA 2015 by a taxpayer will be allowed for offset against the income of his or her spouse until YA 2017, subject to existing spousal transfer rules [2]. The transitional arrangement for spousal transfer is summarised as follows:

YA in which the deductions arose	Unabsorbed capital allowances, trade losses and donations		Unabsorbed capital allowances and trade losses
	YA of spousal transfer		Carry-back [3] to preceding YA
	2015 - 2017	2018 onwards	
2014	√	×	√
2015	√	×	√
2016	×	×	×

" √ " denotes spousal transfer allowed under transitional concession
" × " denotes spousal transfer not allowed

5.3. Taxpayers will generally not be disadvantaged by the removal of the transfer between spouses as alternative measures of carry-forward remain available. Any unabsorbed capital allowances or losses can be carried forward to offset against a taxpayer's income in subsequent years, until the allowance or losses are fully utilized, subject to certain conditions[4]. A taxpayer can also carry forward unutilized donations to subsequent YAs up to a maximum of 5 years.

[2] Under existing rules, rental deficits cannot be carried forward to future YAs. Therefore, the transitional concession would not apply to rental deficits.

[3] For more details of carry-back relief system, please refer to e-Tax Guide "Carry-Back Relief System" published on 26 May 2014.

[4] The carry-forward of unabsorbed capital allowances is subject to the same business test (i.e. the same trade or business is continued). In the case of limited partner of a Limited Liability Partnership or Limited Partnership, the deduction of unabsorbed losses and capital allowances against other sources of income is subject to the relevant deduction restriction.

5.4 For more details, please refer to:

(a) Annex A for the illustration of the order of offset under the spousal transfer scheme.

(b) Annex B for the worked example which illustrates the transitional arrangement from YA 2015 to YA 2017.

6 Administrative Procedure for Spousal Transfers of Qualifying Deductions and Rental Deficits that arise in and before YA 2015

6.1 a. <u>Procedure to Elect for Spousal Transfer</u>

i. For the transfer to take place, an election must be made by both spouses on a yearly basis.

ii. The election must be made within 30 days from the date of Notice of Assessment of the taxpayer or the spouse [5], whichever is the later. The election[6] once made is irrevocable.

b. <u>Revisions to Assessments</u>

i. 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 spouse's tax assessment.

7 Contact Information

7.1 For any enquiries or clarification on this e-Tax Guide, please call 1800-356 8300.

[5] This excludes default and estimated assessments.

[6] Taxpayers can download the election form from the IRAS website and submit the completed form to IRAS.

8 Updates and Amendments

	Date of amendment	Amendments made
1	26 May 2014	The following paragraphs with regard to the removal of spousal transfer scheme have been added/amended: ▪ Added Paragraph 5 on the details of removal of the scheme and the transitional arrangement; and ▪ Amended Annex A and added Annex B on the illustration of the transitional arrangement.

Annex A - Order of Offset for Spousal Transfer Scheme

The following example illustrates the:

- Order of offset under spousal transfer scheme for qualifying deductions and rental deficits that arisein and before YA2015; and
- Treatment of qualifying deductions and rental deficits that arise from YA 2016 onwards

Assume the following information is extracted from the husband's and wife's tax returns respectively for YA 2015 and YA 2016.

YA2015

Husband		$
Trade:	Adjusted Profit	4,500
	Unabsorbed Loss b/f YA 2014	(53,390)
	Unabsorbed Capital Allowances b/f YA 2014	(22,000)
Employment:	Salary	12,000
	Bonus	3,000
Net Rent:		(4,110)
Donations:		400

YA2015

Wife		$
Trade:	Adjusted Profit	25,000
Employment:	Salary	22,000
	Bonus	2,000
	Director's Fees	2,000
Net Rent:		10,000

YA2016

Husband		$
Trade:	Adjusted Loss	(14,500)
Net Rent:		(3,000)
Donations:		500

YA2016

Wife		
Trade:	Adjusted Profit	35,000
Net Rent:		12,000

Annex A (continued)

Worked example of the tax assessments for YA2015 and YA2016 using the above information extracted from their tax returns.

YA2015

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		(4,110)	
Less: Rental Deficit Transferred to Spouse		4,110	0
Unabsorbed Capital Allowances c/f			(2,500)
Less: Unabsorbed Capital Allowances c/f Transferred to Spouse			2,500
Unabsorbed capital allowances c/f			0
Unabsorbed Loss b/f			(53,390)
Less: Unabsorbed Loss Transferred to Spouse			53,390
Unabsorbed Loss c/f			0
Current Year Donations (2.5 Times Deduction) [7]			(1,000)
Less: Current Year Donations Transferred to Spouse			1,000
Current Year Donations c/f			0
Assessable Income			0

YA2015

Wife's Assessment (Transferee)

		$	$
Trade:	Adjusted Profit	25,000	
	Less: Unabsorbed Capital Allowances Transferred in from Spouse	(2,500)	22,500
	Less: Unabsorbed Loss Transferred in from Spouse		(53,390)
			(30,890)
Employment:	Salary	22,000	
	Bonus	2,000	
	Director's Fees	2,000	26,000
Net Rent		10,000	
Less: Rental Deficit Transferred in from Spouse		(4,110)	5,890
Statutory Income			1,000
Less: Donations Transferred in from Spouse			(1,000)
Assessable Income			0

[7] Announced in Budget 2011 that tax deduction of 2.5 times will be applicable for donations made from 1 January 2011 to 31 December 2015.

Annex A (continued)

YA2016

Husband's Assessment

		$	$
Trade:	Adjusted Loss	(14,500)	
	Unabsorbed Loss c/f		(14,500)
Net Rent		(3,000)*	0
Unabsorbed loss c/f			(14,500)*
Current Year Donations c/f (2.5 Times Deduction)			(1,250)*
Assessable Income			0

YA2016

Wife's Assessment

		$	$
Trade:	Adjusted Profit		35,000
Net Rent:			12,000
Assessable Income			47,000

Note: * Qualifying deductions and rental deficits that arise from YA2016 onwards will not enjoy spousal transfer.

End of Annex A

Annex B – Transitional Arrangement for the Removal of Spousal Transfer Scheme

The following example illustrates the transitional arrangement, where the qualifying deductions:

- Arising in and before YA2015 will continue to enjoy spousal transfer up till YA2017; and
- Arising from YA 2016 onwards will not enjoy spousal transfer.

Assume the following information is extracted from the husband's and wife's tax returns respectively from YA2015 to YA2018.

YA2015

Husband		$
Trade:	Adjusted Loss	(200,900)
Employment:	Salary	13,000
	Bonus	2,000
Net Rent:		(5,000)
Donations		16,000

YA2016

Husband		$
Trade:	Adjusted Loss	(23,350)

YA2017

Husband		$
Trade:	Adjusted Profit	16,000

YA2018

Husband		$
Trade:	Adjusted Profit	24,600

YA2015

Wife		$
Trade:	Adjusted Profit	21,300
Employment:	Salary	20,000
	Bonus	3,050
	Director's Fees	2,000
Net Rent:		7,550

YA2016

Wife		$
Trade:	Adjusted Profit	30,550

YA2017

Wife		$
Trade:	Adjusted Profit	124,950

YA2018

Wife		$
Trade:	Adjusted Profit	105,600

Annex B (continued)

Worked example of the tax assessments from YA2015 to YA2018 using the above information extracted from their tax returns.

YA2015

Husband's Assessment (Transferor)

		$	$
Trade:	Adjusted Loss		(200,900)
Employment:	Salary	13,000	
	Bonus	2,000	15,000
Net Rent		(5,000)	
Less: Rental Deficit Transferred to Spouse		5,000**	0
Unabsorbed Current Year Loss c/f			(185,900)
Less: Unabsorbed Current Year Loss Transferred to Spouse			48,900
Unabsorbed Loss c/f			(137,000)
Current Year Donations c/f (2.5 Times Deduction)			(40,000)
Statutory Income			0
Assessable Income			0

YA2015

Wife's Assessment (Transferee)

		$	$
Trade:	Adjusted Profit		21,300
	Less: Unabsorbed Loss Transferred in from Spouse		(48,900)
Employment:	Salary	20,000	
	Bonus	3,050	
	Director's Fees	2,000	25,050
Net Rent		7,550	
	Less: Rental Deficit Transferred in from Spouse	(5,000)	2,550
Statutory Income			0
Assessable Income			0

****** Under the admin concession, rental deficit arising in and before YA 2015 can only be transferred if the transferee has positive rental income.

Annex B (continued)

YA2016

Husband's Assessment (Transferor)

		$	$
Trade:	Adjusted Loss	(23,350)	
	Add: Unabsorbed Loss b/f YA2015	(137,000)	
Total Unabsorbed Loss			(160,350)
Less: Unabsorbed Loss (YA2015) Transferred to Spouse			30,550
Total Unabsorbed Loss c/f			(129,800)
Unabsorbed Loss c/f (YA 2015)			(106,450)
Unabsorbed Loss c/f (YA 2016)			(23,350)
Total Unabsorbed Donations c/f (YA2015)			(40,000)
Assessable Income			0

YA2016

Wife's Assessment (Transferee)

		$	$
Trade:	Adjusted Profit	30,550	
	Less: Unabsorbed Loss (YA2015) Transferred in from Spouse	(30,550)	0
Assessable Income			0

YA2017

Husband's Assessment (Transferor)

		$	$
Trade:	Adjusted Profit	16,000	
	Less: Unabsorbed Loss b/f	(129,800)	
Total Unabsorbed Loss			(113,800)
Less: Unabsorbed Loss (YA2015) Transferred to Spouse ^			90,450
Unabsorbed Loss c/f (YA 2016)			(23,350)
Total Unabsorbed Donations b/f (YA2015)			40,000
Less: Unabsorbed Donations (YA2015) Transferred to Spouse			(34,500)
Unabsorbed Donations c/f (YA 2015)			(5,500)
Statutory Income			0
Assessable Income			0

YA2017

Wife's Assessment (Transferee)

		$	$
Trade:	Adjusted Profit	124,950	
	Less: Unabsorbed Loss (YA2015) Transferred in from Spouse	(90,450)	34,500
Statutory Income			34,500
Less: Donations Transferred in from Spouse			(34,500)
Assessable Income			0

Note: ^ Amount transferred is limited to the unabsorbed losses incurred up till YA2015. Qualifying deductions that arise from YA2016 onwards will not enjoy spousal transfer.

YA2018

Husband's Assessment (Transferor)

		$	$
Trade:	Adjusted Profit	24,600	
	Less: Unabsorbed Loss b/f (YA 2016)	(23,350)	1,250
Unabsorbed Donations b/f (YA 2015)^^			(5,500)
Unabsorbed Donations c/f (YA 2015)			(4,250)
Assessable Income			0

YA2018

Wife's Assessment (Transferee)

		$	$
Trade:	Adjusted Profit		105,600
Statutory Income			105,600
Assessable Income			105,600

Note:

^^ Qualifying deductions that arise in and before YA2015 will continue to enjoy spousal transfer up till YA2017 only. Hence, the husband's unabsorbed donations – although carried forward from YA2015 – will not be allowed to be transferred to his wife even though she has positive assessable income in YA2018.

End of Annex B