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IRAS e-Tax Guide

Change in Basis for Computing Taxable Car Benefit



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1 Aim

- 1.1 This e-Tax guide replaces the previous two guides “Change in Basis for Computing Taxable Car Benefit” and “Basis for Computing Taxable Car Benefit”¹.
- 1.2 It is relevant to employers who provide cars to their employees and the employees derive benefits from their private usage of the cars.

2 At a glance

- 2.1 To better reflect the prevailing costs of owning and maintaining a car, IRAS has reviewed the formula used for computing an employee’s taxable car benefit.
- 2.2 With effect from the Year of Assessment (“YA”) 2020, employers shall compute their employees’ taxable car benefits using the revised formula.

3 Glossary

3.1 Additional Registration Fee (ARF)

The ARF is a tax imposed upon registration of a vehicle. It is calculated based on a percentage of the Open Market Value (OMV) of the vehicle².

3.2 Car Benefit

This refers to the value of the benefit that an employee derives from the private usage of a car provided by his employer.

3.3 Certificate of Entitlement (COE)

Anyone who wishes to register a new vehicle in Singapore must first obtain a COE, in the appropriate vehicle category. A COE represents a right to vehicle ownership and use of the limited road space for 10 years.

At the end of the 10-year COE period, vehicle owners may choose to de-register their vehicles or to revalidate their COEs for another 5 or 10-year period by paying the Prevailing Quota Premium.

The COE is governed by the Land Transport Authority (LTA).

¹ The previous two guides were published on 22 Oct 1994 and 28 Jan 1995 respectively.

² Refer to Land Transport Authority (LTA) website (<https://www.lta.gov.sg>).

3.4 Electronic Road Pricing (ERP) Charge

ERP is an electronic road pricing system used in managing road congestion. Based on a pay-as-you-use principle, motorists are charged when they use priced roads during peak hours.

3.5 Open Market Value (OMV)

OMV of a car is assessed by the Singapore Customs. This price includes purchase price, freight, insurance and all other charges incidental to the sale and delivery of the car from its country of manufacture to Singapore.

3.6 Preferential Additional Registration Fee (PARF) rebate

The PARF rebate is granted to a vehicle owner who de-registers his car through scrap or export before the car reaches 10 years old. The PARF rebate is computed as a percentage of the ARF paid based on the age of the car at de-registration. For the purpose of computing the taxable car benefit, it refers to the PARF rebate to be granted when the car is de-registered at the age of above 9 but not exceeding 10 years³.

3.7 Vehicular Emissions Scheme (VES)

The VES takes into consideration a vehicle's emissions of pollutants. The VES rebate or surcharge is determined based on VES bandings.

4 Background

4.1 Gains or profits derived by an individual from the exercise of any employment in Singapore is liable to tax under Section 10(1)(b) of the Singapore Income Tax Act ("ITA"). The term "gains or profits from any employment" is defined under Section 10(2)(a) of the ITA. Briefly, such gains or profits refer not only to wages / salaries derived by an employee but also other benefits in cash or in-kind received by him in respect of his employment.

4.2 In the case where an employee is provided with a car by his employer, while the business usage of the car is not taxable, the benefit derived by the employee from his private usage of the car is a perquisite arising from his employment and is therefore taxable.

4.3 The car benefit formula is used to compute the value of such benefit derived by the employee from the private usage of the car. The formula takes into account the savings from the capital cost of the car, which the employee does not need to incur when he is provided with a car by his employer. In addition,

³ To check the amount of PARF rebate, please refer to ONE.MOTORING website (https://www.onemotoring.com.sg/content/onemotoring/en/lta_information_guidelines/de_register_a_vehicle.html).

the formula factors in the benefit enjoyed by the employee arising from the running expenses borne by the employer on the private usage of the car.

5 Current basis of computation

5.1 The current formula for computing the value of taxable car benefit is as follows:

$$\text{Value of taxable car benefit} = \frac{3}{7} \times [(A - B) / C] + D \times E$$

Where:

- “3/7” refers to the use of car outside office hours for private purposes which is estimated at three out of seven days in a week.
- “A” refers to the car cost which is the acquisition cost of the car (inclusive of COE, registration fee, ARF, excise duty and cost of additional accessories) paid or payable at the date of purchase, for cases where the employer is the first owner of the car (referred to as a “new car” hereinafter) or where the employer provides the employee with a second-hand car.

In the case where the employer renews the COE of an existing car and continues to provide the employee with that car, “A” is the total cost of the COE renewal and the amount of rebate that the owner would have received on the expiry of his first COE if not for the renewal.

In the case of a leased car, “A” is the rental cost incurred by the employer where the employer bears the full cost of rental of the leased car and all other running and maintenance expenses are borne by the car hiring company.

- “B” refers to the residual value which is equal to 80% of the OMV of the car if the car is registered on or after 1 Nov 1990.

“B” is not applicable to second-hand cars which are more than 10 years old at the time of purchase, cars with renewed COEs, or leased cars.

- “C” refers to the remaining period from the date of purchase of the car to the date of expiry of the first COE (i.e. at the end of the 10th year) or the renewed COE (if the car is more than 10 years old at the time of purchase).

In the case of a new car, “C” equals to 10.

In the case where the employer renews the COE of an existing car and continues to provide the employee with that car, “C” is the

remaining period from the date of renewal of the COE to the date of expiry of the renewed COE (either 5 or 10 years).

“C” is not applicable to leased cars.

- “D” refers to the rate of \$0.55 if employer pays for the cost of petrol or \$0.45 if employee pays for the cost of petrol.

In the case of a leased car, “D” is \$0.10 if employer pays for the cost of petrol and is not applicable if employee pays for the cost of petrol.

- “E” refers to the private mileage in kilometers. This is the distance travelled by the employee arising from the private usage of the car provided by his employer.

6 Change in basis of computation with effect from YA 2020

6.1 Given the changes in the costs of owning and maintaining a car, the current formula is no longer reflective of the taxable car benefits enjoyed by the employees. In addition, the current formula requires the employees to track their private mileage for the purpose of computing the taxable car benefit.

6.2 To better reflect the actual benefits enjoyed by the employees and to simplify tax compliance, the components of the current formula have therefore been revised.

6.3 With effect from YA 2020, the new formula for computing car benefit is as follows:

$$\text{Value of taxable car benefit} = 3/7 \times [(A - B_{\text{new}}) / C + D_{\text{new}}]$$

Where:

- “3/7” refers to the use of car outside office hours for private purposes which is estimated at three out of seven days in a week.
- “A” refers to the car cost which is the acquisition cost of the car (inclusive of COE, registration fee, ARF, excise duty, VES and cost of additional accessories) paid or payable at the date of purchase, for cases where the employer is the first owner of the car or where the employer provides the employee with a second-hand car.

In the case where the employer renews the COE of an existing car and continues to provide the employee with that car, “A” is the total cost of the COE renewal and the amount of PARF rebate that the owner would have received on the expiry of his first COE if not for the renewal.

In the case of a leased car, “A” is the rental cost incurred by the employer.

- “B_{new}” refers to the amount of PARF rebate to be granted when the car is de-registered at the age of above 9 but not exceeding 10 years.

“B_{new}” is not applicable to second-hand cars which are more than 10 years old at the time of purchase, cars with renewed COEs, or leased cars.

- “C” refers to the remaining period from the date of purchase of the car to the date of expiry of the first COE (i.e. at the end of the 10th year) or the renewed COE (if the car is more than 10 years old at the time of purchase).

In the case of a new car, “C” equals to 10.

In the case where the employer renews the COE of an existing car and continues to provide the employee with that car, “C” is the remaining period from the date of renewal of the COE to the date of expiry of the renewed COE (either 5 or 10 years).

“C” is not applicable to leased cars.

- “D_{new}” refers to the actual running and maintenance costs incurred by the employer (including reimbursements made to the employee by the employer), e.g. road tax, petrol, car park charge, ERP charge, car insurance, repairs and maintenance, if any.

6.4 Under the new basis, the employees no longer have to track their private mileage travelled arising from the private usage of the cars, except in the situation where a driver is provided.

6.5 Annex A provides examples on the application of the new formula.

7 Administrative procedure

7.1 Employers who provide their employees with cars have to compute the taxable benefit using the new formula and report the value of the benefit in the Return of Employee's Remuneration (Form IR8A) with effect from YA 2020.

7.2 Employers may also use the Car Benefit Calculator on IRAS website⁴ to compute their employees' taxable car benefit.

⁴ <https://www.iras.gov.sg/IRASHome/Businesses/Employers/Tax-Treatment-of-Employee-Remuneration/Car-and-Car-related-Benefits/>

- 7.3 Where the employer provides a driver to the employee, the taxable benefit derived by the employee from the provision of driver shall remain to be computed as follows:

Annual cost of driver x (private mileage / total mileage)

8 Contact information

- 8.1 For any enquiries or clarification on this e-Tax Guide, please refer to IRAS website⁵ for more information or call 1800-356 8300.

⁵ <https://www.iras.gov.sg/IRASHome/Businesses/Employers/Tax-Treatment-of-Employee-Remuneration/Car-and-Car-related-Benefits/>

Annex A – Examples on Computation of Taxable Car Benefit with effect from YA 2020

Example 1: Employer provides a new car to an employee

A company purchased a new car for \$120,000 (inclusive of registration fee, ARF, excise duty and COE) on 1 Jan 2015. It provided its employee with this car since 1 Jan 2015. Prior to YA 2020, the car benefits were computed based on the previous formula.

With effect from YA 2020

The company incurs the following running expenses for the year ended 31 Dec 2019:

	\$
Petrol	5,000
Road tax (1 Jan 2019 to 31 Dec 2019)	1,200
Car insurance (1 Jan 2019 to 31 Dec 2019)	1,500
Car park and ERP charges	1,550
Car maintenance and repairs	1,200
Total	<u>10,450</u>

The PARF rebate of the car when it is de-registered between 9 and 10 years old is \$24,000.

Value of taxable car benefit for the year ended 31 Dec 2019
= $3/7 \times [(\$120,000 - \$24,000) / 10 + \$10,450]$
= $3/7 \times \$20,050$
= **\$8,592**

The company reports **\$8,592** as taxable car benefit in the employee's Form IR8A for the year ended 31 Dec 2019.

Example 2: Employer provides a new car to an employee for part of the year

A company provides a new car to an employee from 1 Aug 2019 to 31 Dec 2019 (i.e. 153 days). The company incurs the following expenses in the year 2019:

(a) Cost of car

	\$
Price of car (inclusive of registration fee, ARF, excise duty & COE)	156,140
Leather car seat	1,500
Total	157,640

(b) Running expenses incurred by the company during the period 1 Aug 2019 to 31 Dec 2019

	\$
Petrol	3,000
Road tax (for the period 1 Aug 2019 to 31 Jul 2020 ⁶)	1,200
Car insurance (1 Aug 2019 to 31 Jul 2020)	1,500
Car park and ERP charges	1,000
Car maintenance and repairs	1,300
Total	8,000

The PARF rebate of the car when it is de-registered between 9 and 10 years old is \$26,000.

Value of taxable car benefits for the period 1 Aug 2019 to 31 Dec 2019
= $3/7 \times \{[(\$157,640 - \$26,000) / 10] \times 153/365 + \$8,000\}$
= $3/7 \times \$13,518$
= **\$5,793**

The company reports **\$5,793** as taxable car benefit in the employee's Form IR8A for the year ended 31 Dec 2019.

⁶ Some expenses may be paid in advance for the year, e.g. car insurance and road tax. To ease the compliance burden of the employer, IRAS is prepared to accept the taxable car benefit computed based on the actual running costs incurred by the employer in the calendar year.

Example 3: Employer provides a second-hand car to an employee for part of the year

On 1 Aug 2019, an employer purchases a second-hand car (registered on 1 Oct 2015) and provides it to its employee. The employer incurs the following costs in 2019:

(a) Cost of car

	\$
Price of car (with COE expiring on 30 Sep 2025)	105,000
Transfer fee	25
Total	105,025

(b) Running expenses incurred by the employer for the period 1 Aug 2019 to 31 Dec 2019 (153 days)

	\$
Petrol	2,000
Road tax (1 Aug 2019 to 31 Jul 2020)	2,000
Car insurance (1 Aug 2019 to 31 Jul 2020)	2,500
Car park and ERP charges	1,000
Car maintenance and repairs	800
Total	8,300

The PARF rebate of the car when it is de-registered between 9 and 10 years old is \$28,000.

$$\begin{aligned}
 &\text{Value of taxable car benefit for the period 1 Aug 2019 to 31 Dec 2019} \\
 &= \frac{3}{7} \times \{ [(\$105,025 - \$28,000) / 7^7] \times 153/365 + \$8,300 \} \\
 &= \frac{3}{7} \times \$12,912 \\
 &= \underline{\underline{\$5,533}}
 \end{aligned}$$

The employer reports **\$5,533** as taxable car benefit in the employee's Form IR8A for the year ended 31 Dec 2019.

⁷ The remaining period from date of purchase to the expiry of the COE is 6 years 2 months. For the purpose of computing the taxable car benefit, the remaining period is rounded up to the nearest number of years i.e. 7 years.

Example 4: Employer renews the COE of an existing car

An employer has an existing car which it purchased on 1 Apr 2009 for \$80,000 (inclusive of registration fee, ARF, excise duty & COE). The COE of the car expires on 31 Mar 2019. The employer pays \$25,000 to renew the car's COE for another 5 years from 1 Apr 2019 to 31 Mar 2024. The employer would have received a PARF rebate of \$10,500 if it had not renewed the car's COE. The employer provides this car to an employee from 1 Jan 2019 to 31 Dec 2019.

Running expenses incurred by the employer from 1 Jan 2019 to 31 Mar 2019 (90 days)

	\$
Petrol	900
Car park and ERP charges	500
Car maintenance and repairs	200
Total	<u>1,600</u>

Value of taxable car benefit from 1 Jan 2019 to 31 Mar 2019
 = $3/7 \times \{[(\$80,000 - \$10,500) / 10] \times 90 / 365 + \$1,600\}$
 = $3/7 \times \$3,313$
 = **\$1,420**

Running expenses incurred by the employer from 1 Apr 2019 to 31 Dec 2019 (275 days)

	\$
Petrol	2,900
Road tax (1 Apr 2019 to 31 Mar 2020 ⁸)	1,210
Car insurance (1 Apr 2019 to 31 Mar 2020)	2,500
Car park and EPR charges	1,500
Car maintenance and repairs	1,000
Total	<u>9,110</u>

Value of taxable car benefit for the period 1 Apr 2019 to 31 Dec 2019
 = $3/7 \times \{[(\$25,000 + \$10,500) / 5] \times 275/365 + \$9,110\}$
 = $3/7 \times \$14,459$
 = **\$6,196**

Total value of taxable car benefit from 1 Jan 2019 to 31 Dec 2019
 = \$1,420 + \$6,196
 = **\$7,616**

The employer reports **\$7,616** as taxable car benefit in the employee's Form IR8A for the year ended 31 Dec 2019.

⁸ Refer to footnote 6.

Example 5: Employer provides a leased car to an employee

A company provides a leased car to an employee from 1 Jan 2019 to 31 Dec 2019. The company incurs the following expenses in the year 2019:

Car rental	\$ 30,000
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Running expenses incurred by the employer from 1 Jan 2019 to 31 Dec 2019

Petrol	\$ 5,000
Car park and ERP charges	1,500
Total	<u>6,500</u>

Value of taxable car benefit for the year ended 31 Dec 2019
= $3/7 \times (\$30,000 + \$6,500)$
= $3/7 \times \$36,500$
= **\$15,642**

The company reports **\$15,642** as taxable car benefit in the employee's Form IR8A for the year ended 31 Dec 2019.