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IRAS e-Tax Guide

Simplified Record Keeping Requirements for Small Businesses (Second Edition)



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1. Aim

- 1.1. This e-Tax Guide provides guidance on IRAS' Simplified Record Keeping (SRK) requirements for small businesses. IRAS recognises that small businesses have simpler business and tax affairs, and as long as they qualify for SRK, they can adopt the SRK requirements from 1 Jan 2014 for Year of Assessment 2015. The conditions for SRK are defined in Section 4.

2. At a glance

- 2.1. All businesses have to meet various record keeping requirements for tax purposes. To make record keeping easier for small businesses, IRAS has further simplified the record keeping requirements for them. Small businesses that qualify for SRK will only need to keep **business records (e.g. registers, listings) and not source documents such as receipts and invoices**, from 1 Jan 2014. IRAS may still request the original business records for verification purposes.

3. Importance of Record Keeping for Businesses

- 3.1. It is important for businesses¹ to keep proper records. This will enable them to:
- a) Make better business decisions;
 - b) Be aware of the financial status of their business (e.g. profit or loss position, whether there is any internal fraud or theft);
 - c) Reduce the cost and effort required to file the annual income tax return and to reply to IRAS' queries (if any).
- 3.2. Businesses need to meet all the record keeping requirements (e.g. keeping all source documents) specified in the following e-Tax Guides (whichever is applicable):
- "Record Keeping Guide for Non-GST Registered Businesses";
 - "Record Keeping Guide for GST-Registered Businesses".

These include requiring businesses to keep records for a minimum period:

Accounting period ending	Minimum period to keep records
Before 1 January 2007	7 years
On or after 1 January 2007	5 years

- 3.3. Non-compliance with record keeping requirements may constitute an offence where a maximum fine of \$5,000 and / or a jail term of up to six months may be imposed².

¹ Regardless of whether the business is a sole-proprietorship, partnership or company

² Under Section 67 of Income Tax Act and Section 46 of GST Act

4. Qualifying Conditions for Simplified Record Keeping

- 4.1. Since 1 Jan 2014 (i.e. Year of Assessment 2015), a small business that meets all of the following conditions can qualify for SRK :
- a) The business' annual revenue¹ must be less than \$100,000 for the past two financial years;
 - b) The business' assets² amounted to less than \$100,000 as at the end of the latest financial year;
 - c) The business is not in the business of investment holding³ or property development; and
 - d) The business is a sole-proprietorship or partnership that is not GST-registered.

With effect from 1 Jan 2020 (i.e. Year of Assessment 2021), the business' annual revenue threshold is raised to \$200,000 in relation to paragraph 4.1a, so that more small businesses can benefit from the SRK initiative.

- 4.2. A qualifying small business may choose to meet the SRK requirements (detailed in Section 5) at any point where it has met the qualifying conditions (Paragraph 4.1). However, small businesses should ensure that they would be able to meet the qualifying conditions in the foreseeable future as there would be significant business costs involved in switching from simplified record keeping requirements to full record keeping requirements in Paragraph 3.2. Small businesses which do not foresee that they would be able to maintain their status⁴ should continue to meet the record keeping requirements in Paragraph 3.2.
- 4.3. New businesses which have yet to file their first annual income tax return can choose to meet the simplified record keeping requirements right from the start of their business operations, if they expect to meet the qualifying conditions (Paragraph 4.1) in the foreseeable future.
- 4.4. Small businesses choosing to meet the simplified record keeping requirements do not need to inform IRAS. Please refer to **Appendix 1** for examples illustrating Paragraphs 4.1 to 4.3.

¹ Refers to revenue before factoring in business discounts.

² Value of assets refers to the total gross book value of fixed and current assets.

³ An investment holding company's principal activity is to own investments such as properties and shares for long-term investment and derive investment income such as dividends, interest and rental.

⁴ Businesses may foresee that they would not be able to maintain their status if they are currently engaged in the following activities e.g.:

- Negotiating a high-value business contract
- Acquiring a high-value piece of machinery or equipment
- Discussing a possible diversification of business operations into property development

5. Simplified record keeping requirements for qualifying small businesses

- 5.1. Qualifying small businesses should keep the following business records¹ (where applicable):
- a) Daily Revenue Record (please refer to **Appendix 2** for a sample);
 - b) Daily Purchases Record (please refer to **Appendix 3** for a sample);
 - c) Monthly Record of All Business Expenses² (please refer to **Appendix 4** for a sample);
 - d) Details of Daily Transport Expenses (please refer to **Appendix 5** for a sample); and
 - e) Details of Monthly Staff Remuneration Expenses (please refer to **Appendix 6** for a sample).
- 5.2. Business records kept for a financial year can be used to prepare the Statement of Accounts³ (please see **Appendix 7** for a sample) and Balance Sheet⁴ (please see **Appendix 8** for a sample). A business can refer to the Statement of Accounts and the Balance Sheet when preparing its annual income tax return. Please refer to Appendices 2 to 8.
- 5.3. Qualifying small businesses are required to provide receipts upon the request of their customers. This is to allow customers who are business that do not qualify for simplified record keeping to meet their record keeping requirements. However, qualifying small businesses will not need to keep the source documents.
- 5.4. IRAS has published record keeping guidelines and templates for selected industries⁵. If a qualifying small business belongs to one of these industries, it may choose to rely on the industry-specific guidelines and templates instead.

¹ Besides business records, businesses that choose to adhere to the simplified record keeping requirements are required to keep the relevant source documents, should they choose to enjoy the benefits under the Productivity and Innovation Credit ("PIC") scheme and Wage Credit Scheme ("WCS").

² Business expenses are expenses incurred in the course of running a business e.g. staff remuneration expenses, rental, utility charges and telephone charges.

³ Statement of Accounts shows the financial results of a business for a financial year and should be prepared on an accrual basis i.e. income is to be recorded on the date it is earned and expenses are to be recorded on the date they are incurred.

⁴ Balance Sheet shows the assets and liabilities of, and money invested in a business as at the end of a financial year. It should be prepared on an accrual basis.

⁵ For the list of selected industries, please refer to IRAS website at www.iras.gov.sg (Businesses > Self Employed/ Sole Proprietors/ Partners > Working out your taxes > Essential Information for Self-Employed by Industry/Trade).

6. Tips for record keeping

- 6.1. Businesses should keep records once they start business operations. Otherwise, they would have to spend more time and effort on record keeping subsequently. These are some tips for record keeping:
- a) Set up a record keeping system which can be understood by any person familiar with the business operations. A record keeping system will alert a business to follow up on debt owed to it or to take action when its payments are due;
 - b) Record transactions everyday to keep records up-to-date. Record keeping should not be left until the end of the month or financial year;
 - c) Check that all transactions are entered accurately;
 - d) Set up a bank account for the business to enable clearer management of business funds.

7. For more information and clarifications

- 7.1. For more information on record keeping, please visit IRAS website at www.iras.gov.sg (Businesses > Self Employed/ Sole Proprietors/ Partners > Learning the basics > Keeping Proper Records and Accounts).
- 7.2. For clarifications on this e-Tax Guide, please email IRAS at se@iras.gov.sg.

8. Updates and amendments

	Date of amendment	Amendments made
1	20 Nov 2020	<ul style="list-style-type: none">• Updated the qualifying conditions for simplified record keeping in paragraph 4.1 by increasing the revenue threshold from \$100,000 to \$200,000 from 1 Jan 2020 (i.e. Year of Assessment 2021) onwards• Updated the examples in Appendix 1 to reflect how the revised qualifying conditions can be applied.

Appendix 1 – Examples of how businesses may be considered to have qualified for simplified record keeping

The following examples are discussed in the context of a taxpayer who is considering his/her record keeping obligations in relation to year 2020 (i.e. Year of Assessment 2021).

Example 1

A sole-proprietorship in the business of selling clothes was set up on 1 January 2018, with December being the business' financial year-end. The total assets of the business as at 31 December 2019 amounted to \$88,000 and the past business performance is as follows:

- Revenue for 2018: \$180,000
- Revenue for 2019: \$155,000

The sole-proprietorship can be considered to have met the qualifying conditions and can choose to meet the simplified record keeping requirements with immediate effect if it expects that it would be able to meet the qualifying conditions in the foreseeable future.

Example 2

A sole-proprietorship in the Food and Beverages (F&B) industry was set up on 1 January 2018, with December being the business' financial year-end. The total assets of the business as at 31 December 2019 amounted to \$150,000 and the past business performance is as follows:

- Revenue for 2018: \$218,000
- Revenue for 2019: \$95,000

The sole-proprietorship's total assets as at the latest financial year exceeded \$100,000 and its annual revenue exceeded \$200,000 for one financial year. It has failed to meet the qualifying conditions and thus, cannot choose to adhere to the simplified record keeping requirements.

Example 3

A partnership selling hardware was set up on 1 January 2019, with December being the business' financial year-end. The total assets of the business as at 31 December 2019 amounted to \$80,000 and the past business performance is as follows:

- Revenue for 2019: \$195,000

The partnership has filed an income tax return for its first year of business. As the partnership has only been set up for one financial year, it has failed to meet the qualifying

conditions and thus, cannot choose to adhere to the simplified record keeping requirements.

Example 4

A partnership in the business of investment holding was set up on 1 January 2018 with December as its financial year-end. The total assets of the business as at 31 December 2019 amounted to \$500,000 and the past business performance is as follows:

- Revenue for 2018: \$150,000
- Revenue for 2019: \$170,000

As the partnership is in the business of investment holding and its assets exceeded \$100,000, it has failed to meet the qualifying conditions and thus, cannot choose to adhere to the simplified record keeping requirements.

Example 5

A sole-proprietorship in the business of repairing computers is newly set up and has not filed its first annual income tax return yet. The business' financial year end is December.

The business can choose to meet the simplified record keeping requirements if it expects to meet the qualifying conditions in the foreseeable future.

Appendix 2 – Daily revenue record

Name of Business / Taxpayer: _____

Financial Year: _____

S/N	Month											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1												
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30												
31												
Total												

Appendix 3 – Daily purchases record

Name of Business / Taxpayer: _____

Financial Year: _____

Month: _____

S/N	Date of Purchase	Name of Supplier	Description of Goods / Services Received	Amount Payable	Mode of Payment (Cash/Cheque)
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
Total					

Appendix 4 – Monthly record of all business expenses

Name of Business / Taxpayer: _____

Financial Year: _____

Month: _____

S/N	Date Expense is Incurred	Description of Expense ¹ (e.g. rental, transport ² , staff remuneration ²)	Amount Payable	Mode of Payment (Cash/Cheque)	Amount Payable to
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
Total					

¹ Only allowable expenses can be claimed for income tax purposes – please refer to IRAS website at www.iras.gov.sg (Businesses > Self Employed/ Sole Proprietors/ Partners > Working out your taxes > Deductions for Self-Employed/Partners (Reliefs, Expenses, Donations)).

² For transport and staff remuneration expenses, details have to be recorded. Please see Appendices 5 and 6 for sample templates.

Appendix 5 – Details of daily transport expenses

Name of Business / Taxpayer: _____

Financial Year: _____

Month: _____

S/N	Date	Purpose of trip	Destination	Mode of transportation ¹	Person incurring expense (Name and Designation)	Amount
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
Total						

¹ Expenses incurred on private cars are disallowable expenses for income tax purposes

Appendix 6 – Details of monthly staff remuneration expenses

Name of Business / Taxpayer: _____

Financial Year: _____

Month: _____

S/N	Name of employee ¹	Designation	Identification number	Remuneration	Employer CPF	SDL ²	FWL ³
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
Total							

¹ Business owners’ salaries are disallowable expenses for income tax purposes.

² SDL – Skills Development Levy

³ FWL – Foreign Worker Levy

Appendix 7 – Statement of accounts

NAME OF BUSINESS / TAXPAYER: _____
 IDENTIFICATION NUMBER: _____
 NATURE OF BUSINESS: _____
 For Financial Year: _____

	\$	\$	
REVENUE (Total Sales / Income) <i>(Refer to Appendix 2 for daily business record template)</i>		<input type="text"/>	Box 1
Cost of Goods Sold	<input type="text"/>		
{Opening Trading Stock + Trading Stock Purchased (Refer to Appendix 3 for daily purchases record template) – Closing Trading Stock}			
GROSS PROFIT / LOSS		<input type="text"/>	Box 2
{Revenue less Cost of Goods Sold}			
BUSINESS EXPENSES¹ <i>(Refer to Appendix 4 for monthly business record template)</i>			
Telephone charges	<input type="text"/>		
Entertainment expenses	<input type="text"/>		
Utility charges	<input type="text"/>		
Rental	<input type="text"/>		
Stationery	<input type="text"/>		
Advertising	<input type="text"/>		
Transport expenses <i>(Refer to Appendix 5 for daily business record template)</i>	<input type="text"/>		
Staff remuneration expenses <i>(Refer to Appendix 6 for monthly business record template)</i>	<input type="text"/>		
Other business expenses: <i>(Insert description of expense and corresponding amount below)</i>			
i) _____	<input type="text"/>		
ii) _____	<input type="text"/>		
iii) _____	<input type="text"/>		
iv) _____	<input type="text"/>		
Total Business Expenses		<input type="text"/>	Box 3
NET PROFIT / (LOSS)		<input type="text"/>	Box 4
{Box 2 less Box 3}			

Prepared by:
 Name: _____
 Designation: _____
 Date: _____
 Signature: _____

Certified correct by:
 Name: _____
 Designation: _____
 Date: _____
 Signature: _____

¹ Private and capital expenses (e.g. expenses incurred on private cars, business owners' salaries and private medical costs) are disallowable expenses for income tax purposes.

Appendix 8 – Balance sheet* (Sample below is for a sole-proprietorship)
BALANCE SHEET AS AT DD MM 20XX

	\$	\$	\$	
<u>ASSETS</u>				
NON-CURRENT				
Motor Vehicle				
Less: Accumulated Depreciation	<u>X</u>	XX		
Machinery	X			
Less: Accumulated Depreciation	<u>X</u>	<u>XX</u>	XXX	
			<u>XXX</u>	Box 1
CURRENT				
Trading Stock			XXX	
Trade Debtors			XXX	
Prepayments and Deposits			XXX	
Cash and Bank Balances			<u>XXX</u>	
			<u>XXX</u>	Box 2
TOTAL ASSETS			<u>XXX</u>	Box 3
{Box 1 plus Box 2}				
<u>LIABILITIES</u>				
NON-CURRENT LIABILITIES				
Long-Term Loans			<u>XXX</u>	
			<u>XXX</u>	Box 4
CURRENT LIABILITIES				
Trade Creditors			XXX	
Short-Term Loans			<u>XXX</u>	
			<u>XXX</u>	Box 5
TOTAL LIABILITIES			<u>XXX</u>	Box 6
{Box 4 plus Box 5}				
<u>PROPRIETOR'S FUNDS</u>				
Capital			XXX	
Retained Profits	X			
Current Year Profit	<u>X</u>	XX		
Less: Drawings		<u>XX</u>	XXX	
TOTAL PROPRIETOR'S FUNDS			<u>XXX</u>	Box 7
TOTAL LIABILITIES AND PROPRIETOR'S FUNDS			<u>XXX</u>	Box 8
{Box 6 plus Box 7}				

Prepared by:
Name: _____
Designation: _____

Certified correct by:
Name: _____
Designation: _____

Date: _____

Date: _____

Signature: _____

Signature: _____

* In a correctly computed balance sheet, total assets should equal to total liabilities and proprietor's funds. (i.e. Box 3 Should be equal to Box 8)