

# IRAS' AUDIT ON PRIVATE HIRE CAR COMPANIES

## 1. Overview of Private Hire Car Industry

The private hire car industry has become an integral part of the transport landscape in Singapore. This is largely brought about by the rapid adoption of ride-hailing/ ride-sharing platforms by consumers.

The private hire (self-drive) car and private hire (chauffeured) car population has grown substantially since 2015, despite a slight contraction in 2020 and 2021.<sup>1</sup>

Motor cars are available for hire on short-term (by day) or long-term basis (by month/year). Besides the hiring out of motor cars, companies in this industry may also hire out commercial vehicles (e.g. buses, vans) and provide car repair & maintenance services, car insurance and other services.

## 2. Section 10F of Income Tax Act 1947 (“ITA”)

Section 10F of the ITA provides for the manner in which income from the business of hiring out motor cars or providing driving instruction or chauffeur services is to be ascertained.

Specifically, in determining the income from such a business for any year of assessment (“YA”):

- (a) **Outgoings and expenses** incurred in respect of the business are only deductible against income derived from the same business. Any excess of such outgoings and expenses over such income is not available as a deduction against any other income, and is not available for transfer under the Group Relief System; and
- (b) **Capital allowances** (“CA”) relating to the business for that YA are only available as a deduction against the income derived from that business. Any excess of such allowances over such income is not available as a deduction against any other income nor would it be available for transfer under the Group Relief System.

## 3. Audit Review

As part of IRAS' regular compliance reviews, we reviewed the income tax returns of 18 private hire car companies. Besides desk audits, on-site visits to these companies were arranged. Information and documentation relating to the companies' business

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<sup>1</sup> Based on the [Annual Vehicle Statistics 2021](#) published by the Land Transport Authority, the total number of private hire cars (self-drive and chauffeured) increased from 29,369 in 2015 to 77,141 in 2019. The population then dipped in 2020 and 2021 to 71,147 and 67,990 respectively.

operations, record keeping practices and accounting systems were gathered to facilitate our review of their income tax reporting.

#### **4. Audit Observations, Common Mistakes made by Taxpayers and the Correct Tax Treatment**

Our review revealed a general lack of awareness of the requirements under section 10F among companies in the private hire car industry. The following are the common mistakes observed:

##### **Industry Specific Mistakes**

###### **(a) Section 10F tax treatment**

A high proportion of the companies reviewed were not aware of the requirement to segregate income, expenses and CA from the business of hiring out of private hire cars (i.e. section 10F income, expenses and CA), from other income, expenses and CA, e.g. income from rental of commercial vehicles, provision of vehicle repair services and passive sources like interest and property rental.

Unutilised losses (“UL”) and unutilised CA (“UCA”) from the section 10F category were not quarantined and were erroneously used to offset against non-section 10F income. The correct tax treatment is to quarantine the section 10F UL and UCA and to only deduct them against section 10F income.

To avoid the above mistakes, companies were advised to segregate their section 10F income and expenses from the non-section 10F income and expenses when preparing their profits & loss statements and tax computations. In this connection, business expenses and CA directly attributable to specific streams of income are to be offset against the respective streams of income, while common expenses and CA are to be apportioned to the different income streams on a reasonable basis (e.g. turnover ratio, number of vehicles, etc.).

In some cases, elections were wrongfully made to transfer current year losses and CA from the section 10F category to group companies under the Group Relief System. Section 10F UL and UCA are to be quarantined within the company incurring the losses/ making the CA claims and can only be deducted against the section 10F income of that company in subsequent YAs where applicable.

###### **(b) Customers’ deposits not forfeited and not recognised as income**

Some companies had customers’ deposits placed with them for long periods of time, more than 6 years in a few instances. In the absence of any corporate policy on the

forfeiture of deposits, such long-standing deposits continued to be reflected as deferred income or deposits in the companies' Balance Sheets.

Under section 6 of the Limitation Act 1959, actions founded on a contract must be made within 6 years from the date on which the cause of action accrued. The same applies to claims for specific performance of a contract. Following this, the companies agreed to recognise and bring to tax as revenue deposits from inactive customers/ accounts and expired contracts that have been long-standing (for 6 years or more from the date of expiry of the contract).

### **(c) Motor cars used for private purposes**

Some companies allowed their directors or staff to use the rental cars for private purposes. These companies were advised to quantify the amount of car expenses attributable to private usage and claims for tax deduction on such expenses have been disallowed accordingly.

### **Generic Mistakes**

(d) Deductions wrongly claimed on:

- Debts which were non-trade in nature, or trade debts that have yet to become bad
- Personal entertainment expenses which were private in nature
- Interest expenses attributable to non-income producing assets

(e) CA wrongly claimed on non-qualifying expenditure

## **5. Voluntary Disclosures of Errors**

IRAS will continue to conduct regular compliance reviews on various industries as part of our efforts to enhance voluntary compliance of our taxpayers.

Under section 95 of the ITA, any person who negligently or without reasonable excuse makes an incorrect income tax return may be liable to a penalty as high as two times the amount of tax undercharged. Serious cases of omissions or errors may be subject to court prosecution.

Taxpayers are encouraged to voluntarily disclose errors made in their past income tax returns. Under the [IRAS Voluntary Disclosure Programme](#), IRAS will waive the penalty for voluntary disclosures of omissions or errors that meet the qualifying conditions and are made within the 'grace period' of 1 year from the statutory filing date of 30 November. For voluntary disclosures made after the 'grace period', IRAS will impose penalty at a reduced rate of 5% per annum.