

IRAS' AUDIT ON NIGHTCLUB INDUSTRY

1. Overview of the Nightclub Industry

Singapore's nightclub industry comprises a range of establishments, including bars, dance clubs, and hybrid venues and are highly regulated ¹. These establishments cater to both local patrons and international visitors, including expatriate communities.

2. IRAS' Audit and Business Model Observed

IRAS conducts regular compliance reviews across industries, including the nightclub industry. These reviews aim to identify tax risks and promote voluntary compliance. From our audit reviews, we have observed that nightclubs in Singapore operate under diverse business models. Some nightclubs offer a mix of entertainment options such as live performances, offering hostesses to entertain guests, and VIP table services, where guests receive special treatment like reserved tables, dedicated server and premium drinks. Revenue streams include cover charges, bottle service, private rooms, and appreciative giving of flower garlands, which are marketed as experiences rather than tips

Nightclubs adopting such appreciative giving of flower garlands face unique tax considerations. Patrons purchase flower garlands (ranging from a low two-digit figure to several thousand dollars each) to present to performing artistes (thereafter referred as artiste). These transactions generate additional revenue for the establishment and enhance customer engagement. Revenue from flower garland giving could be shared between the nightclub and the artistes based on a pre-agreed percentage. The flower garland sales may also be bundled with bottle packages or seasonal promotions (e.g., Formula 1-week, festive periods).

¹ Nightlife establishments in Singapore operate under a comprehensive regulatory framework, which includes licensing for public entertainment, controls on liquor sales and operating hours and work permits for foreign performers.

3. IRAS' Audit Observations and Common Mistakes

From our audit, we have observed the following common mistakes made by some nightclub operators:

3.1 Incorrect Income Tax Recognition of Flower Garland Sales

We have observed that some nightclub operators have treated flower garlands sales as a gratuity paid to the business/artistes and have omitted reporting such sales as revenue of their business. For income tax purposes, revenue from these flower garlands sales is regarded as part of the business' income and the full amount should be recorded as revenue for the business. Any payments made to artistes from such flower garlands sales may qualify for deduction under Section 14 of the Income Tax Act 1947 (ITA). Businesses are required to maintain proper records of payments made to artistes. This tax treatment is also applicable to flower garland sales made to artistes for activities other than performance.

3.2 Omission of Revenues Received via Different Payment Modes

Businesses that do not reconcile accounting records with bank statements, invoices, and daily cash receipts are more likely to report inaccurate or incomplete information regarding their revenue. This may result in under declaration or omission of revenues received from different payment modes and sources. We have observed that cash-based transactions were often omitted in our audit reviews.

3.3 Wrongful Claims of Private Expenses

Expenses incurred for personal purposes, such as travel, luxury purchases, or family-related costs, are not deductible. These must be excluded from tax filings.

3.4 Claims Without Sufficient Supporting Documentation

Claims for expenses such as entertainment or transport must be substantiated with proper documentation. Payment vouchers with rounded figures or vague descriptions are insufficient.

3.5 Artificial Splitting of Income at a Single Premises

We have also observed that some operators attempted to artificially split income reporting across multiple entities operating from the same location. We have observed that for such cases there is no good economic reason to do this except to reduce taxable income or avoid GST registration. Where operations are integrated, IRAS may treat the income as belonging to a single economic entity.

3.6 Failure to Comply with Withholding Tax Obligations

Nightclubs generally engage foreign artiste to perform at their premises and payment made to an artiste who is non-resident in Singapore (i.e. [Non-resident public entertainer](#)) is subject to withholding tax (WHT). The business is required to file and pay WHT to IRAS by the 15th of the second month from the date of payment to the non-resident.

4. Keeping Proper Records

Businesses are expected to maintain proper records to support tax declarations. Good record-keeping enhances internal controls, reduces compliance costs, and facilitates accurate reporting. Penalties may be imposed for failure to retain adequate documentation. For more information on the records that companies should keep and how long they should be kept, companies are encouraged to refer to "[Record Keeping Essentials for Businesses](#)" available in IRAS website.

5. Voluntary Disclosure of Errors

IRAS will continue to conduct regular compliance reviews on specific 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 [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.