

Tax Obligations of Self-Employed Persons

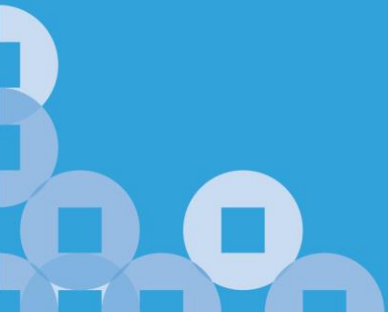


INLAND REVENUE
AUTHORITY
OF SINGAPORE

Agenda

- Obligations as a Self-Employed Person
- Keeping Proper Records
- Filing Income Tax Returns
- Avoiding Common Errors
- Reporting of Rental Income
- Seeking Assistance
- Penalties
- IRAS' Voluntary Disclosure Programme

Obligations as a Self-Employed Person



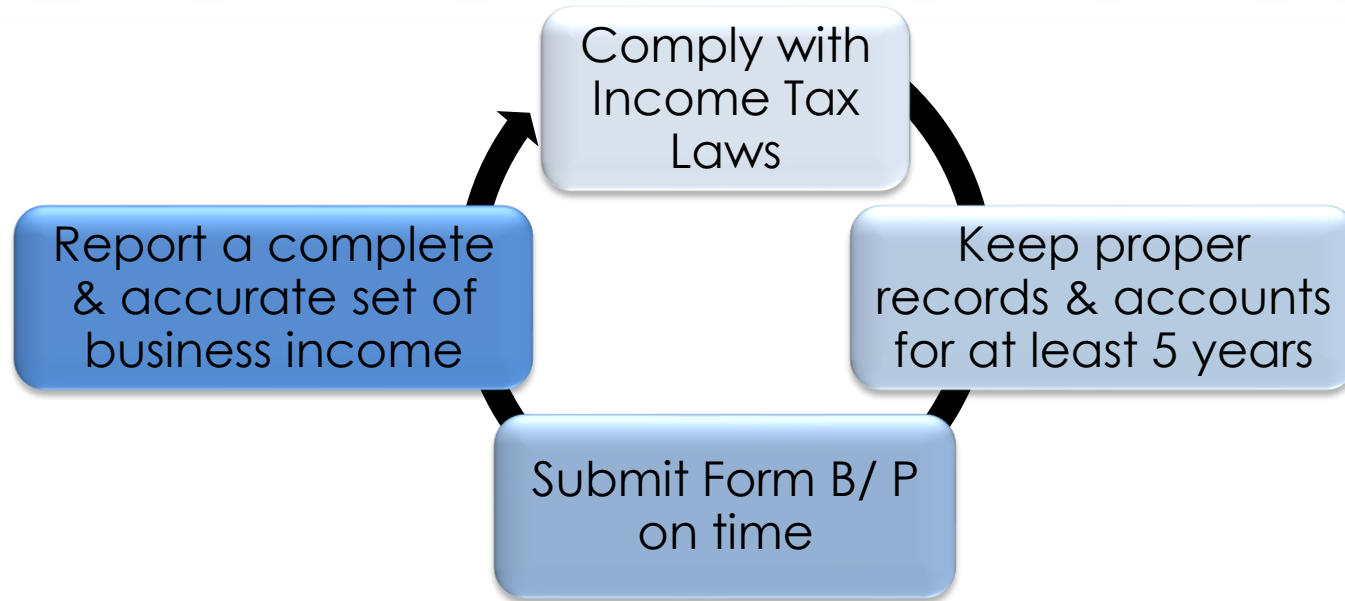
Who is a self-employed person?

Sole proprietor of registered business

Partner of a partnership business
(normal partnership, limited liability
partnership, limited partnership)

Person exercising profession or vocation

Know Your Tax Obligations



Register for GST if your business revenue:

- exceeded \$1 million a year, or
- is expected to exceed \$1 million a year.

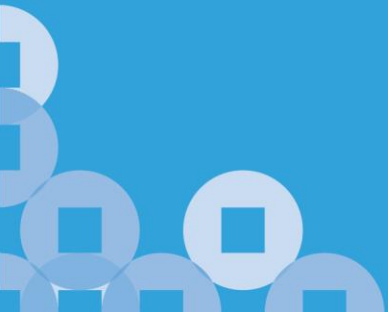
Medisave Contributions

- Compulsory to contribute to Medisave if:



- IRAS will issue a Notice of Computation (NOC) to inform you of your Medisave contributions.

Keeping Proper Records



Types of Records

Source Documents

Accounting Records & Schedules

Bank Statements

Any other supporting records
relating to your business

Business Records

Income Records

Expense Records

Assets

Separate Bank Account

Income Records

Records of commission earned from property related transactions, e.g. bank commission, sub-agent commission, commission from developer, rental commission, referral fees and so on. Source documents will include:

Receipt Book

Invoices Issued

Customers' records

Refunds made to
customers

Expense Records

To obtain invoices / receipts when paying for expenses.
Good practice to arrange such payment through the business bank account.

- When receipt is not issued, to prepare payment voucher with acknowledgement
- To also maintain expense record book with details

- Receipts to be retained even though the amount is small
- To provide description if receipt does not indicate items bought

- For GST-registered business, to maintain proper tax invoices as required
- Refer to GST e-Tax Guide

Assets

Assets

Prepare a fixed asset schedule at the time you start your business to record the assets purchased.

Keep documents such as contracts of sales and invoices.

Bank Account

- Maintain separate bank accounts for business and personal purpose.
- The business bank account should be used solely for business purpose.
- Retain all business related bank statements.

How to Keep Records

Manual Records

Recording your business transactions in a physical form.

Electronic Records

Through the use of a computer and/or accounting software.

Source documents must be kept to substantiate the business transactions.

Benefits of Record Keeping

- Better internal control of your business.
- Make better business decisions.
- An essential source of evidence to detect business losses, internal fraud and theft.
- Reduce cost and effort required for tax filing.

Under the Income Tax Act, you are required to **keep the business records** for **at least 5 years** with effect from 1 Jan 2007.

Types of Records to Keep

Source Documents			Category of taxpayers for Record Keeping Requirements	
Record Type	Item No	Documents Required	GST-Registered Businesses	Non-GST Registered Businesses
INCOME RECORDS (Records of each sales transaction)	1	Serially numbered receipts issued or cash register tapes or invoices issued	✓	✓
	2	Tax invoice/simplified tax invoice issued	✓	
	3	Rental Agreement signed by both landlord and tenant	✓	✓
	4	Books to record goods taken for private usage	✓	✓
	5	Credit notes for returned goods	✓	✓
	6	Documents relating to exports	✓	✓
	7	Evidence that payment have been received (e.g. bank statement)	✓	
BUSINESS EXPENSE RECORDS (Records of each business expense transaction)	8	Invoice received or Receipt received	✓	✓
	9	Payment made to individuals/companies for services rendered and the relevant contracts/agreements on the provision of services	✓	✓
	10	Payment vouchers for staff remuneration	✓	✓
	11	Employer's CPF contributions	✓	✓
	12	Payment evidence (e.g. bank statement)	✓	
PURCHASE RECORDS (Records of each purchase transaction)	13	Tax invoices received, Invoices received or Receipt received	✓	✓
	14	Documents relating to imports	✓	✓
	15	Payment evidence (e.g. bank statement)	✓	
OTHER RECORDS (FOR GST PURPOSES)	16	Business goods which were put to non-business use	✓	
	17	Disposals of business goods, whether or not for a consideration	✓	
	18	Removal of goods from customs-licensed warehouse	✓	

Types of Records to Keep

ACCOUNTING RECORDS AND SCHEDULES			Category of taxpayers for Record Keeping Requirements	
Record Type	Item No	Documents Required	GST-Registered Businesses	Non-GST Registered Businesses
ACCOUNTING RECORDS AND SCHEDULES	1	Stock List	✓	✓
	2	Sales Record Book / Sales Listing	✓	✓
	3	Purchase Record Book/ Purchase Listing	✓	✓
	4	General Ledgers	✓	✓
	5	Balance Sheet, Profit and Loss Statement	✓	✓
	6	GST account summary of input and output tax, including GST refunded to tourists	✓	
BANK STATEMENT	7	Bank statements; with separate bank accounts for personal and business purposes	✓	✓ (Recommended)
Record Type	Item No	Documents Recommended	GST-Registered Businesses	Non-GST Registered Businesses
ACCOUNTING RECORDS AND SCHEDULES	1	Detailed schedules of Public Transport expenses	✓	✓
	2	Detailed schedules of Travelling expenses	✓	✓
	3	Detailed schedules of Entertainment expenses	✓	✓
	4	Fixed Asset Schedules	✓	✓
	5	Records of Capital Allowances	✓	✓

Note: The “required records” are mandatory records that businesses **must** keep for tax purposes. The “recommended records” are records that the businesses are **advised** to keep as good practices, and these should be available, or able to reproduce upon request by the Comptroller of Income Tax and/or GST.

Simplified Record Keeping

- Introduced on 1 Jan 2014
- Assist small businesses to make record keeping easier
- Small businesses that qualify will only need to keep business records (e.g. registers, listings) and not source documents (e.g. receipts and invoices)

Conditions for Simplified Record Keeping

- Annual revenue \leq \$200,000 for the past 2 financial years
- Business assets $<$ \$100,000 at the end of latest financial year
- Must not be an investment holding or property development business
- Business is a sole-proprietorship or partnership that is not GST-registered

www.iras.gov.sg > Taxes > Individual Income Tax > Self-Employed and Partnerships > Tax Obligations of Self-Employed Persons > Keeping Proper Records and Accounts > Guides on Record Keeping > Non-GST Registered Small Businesses

In Summary

- Set up good filing system for your paperwork from the start of your business.
- Make sure records can be understood by anyone.
- Obtain the necessary source documents at time of transaction.
- Enter transactions accurately & regularly to keep records up to date.
- Record business expenses separately from personal expenses

e-Learning on Record Keeping

IRAS has produced a three-part record keeping video series:

- Part 1 : Keeping Tax Records the Healthy Way
- Part 2 : Keeping Proper Records
- Part 3 : Commonly Made Mistakes



<https://www.youtube.com/watch?v=kY--ejKVZeQ>



<https://www.youtube.com/watch?v=omTRjzThtOk>



<https://www.youtube.com/watch?v=jaMC875DQ8c>

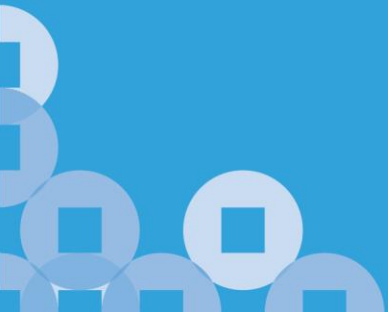
More Information

Visit www.iras.gov.sg > Taxes > Individual Income Tax > Self-Employed and Partnerships > Tax Obligations of Self-Employed Persons > Keeping Proper Records and Accounts

To gauge the effectiveness of your record keeping:

From the link above, go to “**Record Keeping Self-Assessment Toolkit**”

Filing Income Tax Returns



Tax Treatment of Commission income

Treatment governed under the Income Tax Act

- Section 10(1)(a) provides that income tax is payable on income earned from any trade, business, profession or vocation carried on or exercised.
- Salespersons/agents are considered as self-employed persons since they earn income from the carrying on of a trade or business.

Tax Treatment of Commission income

Contract for Service

- Signed between agency and salesperson
- Salespersons are liable to carry out the agency work

Types of Income earned

- Commission earned by providing services to clients
- Over-riding commission earned from the downline salespersons for the coaching or support services provided

Liability to Income Tax

- The above income should be declared and subject to tax in the hands of the salesperson/agents.

Types of Forms

You will need to report your business income in a summarised 2 or 4 line statement in either Form B or Form P.

How to Report Business Income

**Revenue
< or = \$200,000**

2-Line Statement

1st Line
Revenue

2nd Line
Adjusted Profit/ Loss

**Revenue
> \$200,000 but < \$500,000**

4-Line Statement

1st Line
Revenue

2nd Line
Gross Profit/ Loss

3rd Line
Allowable Business
Expenses

4th Line
Adjusted Profit/ Loss

**Revenue
> or = \$500,000**

4-Line Statement

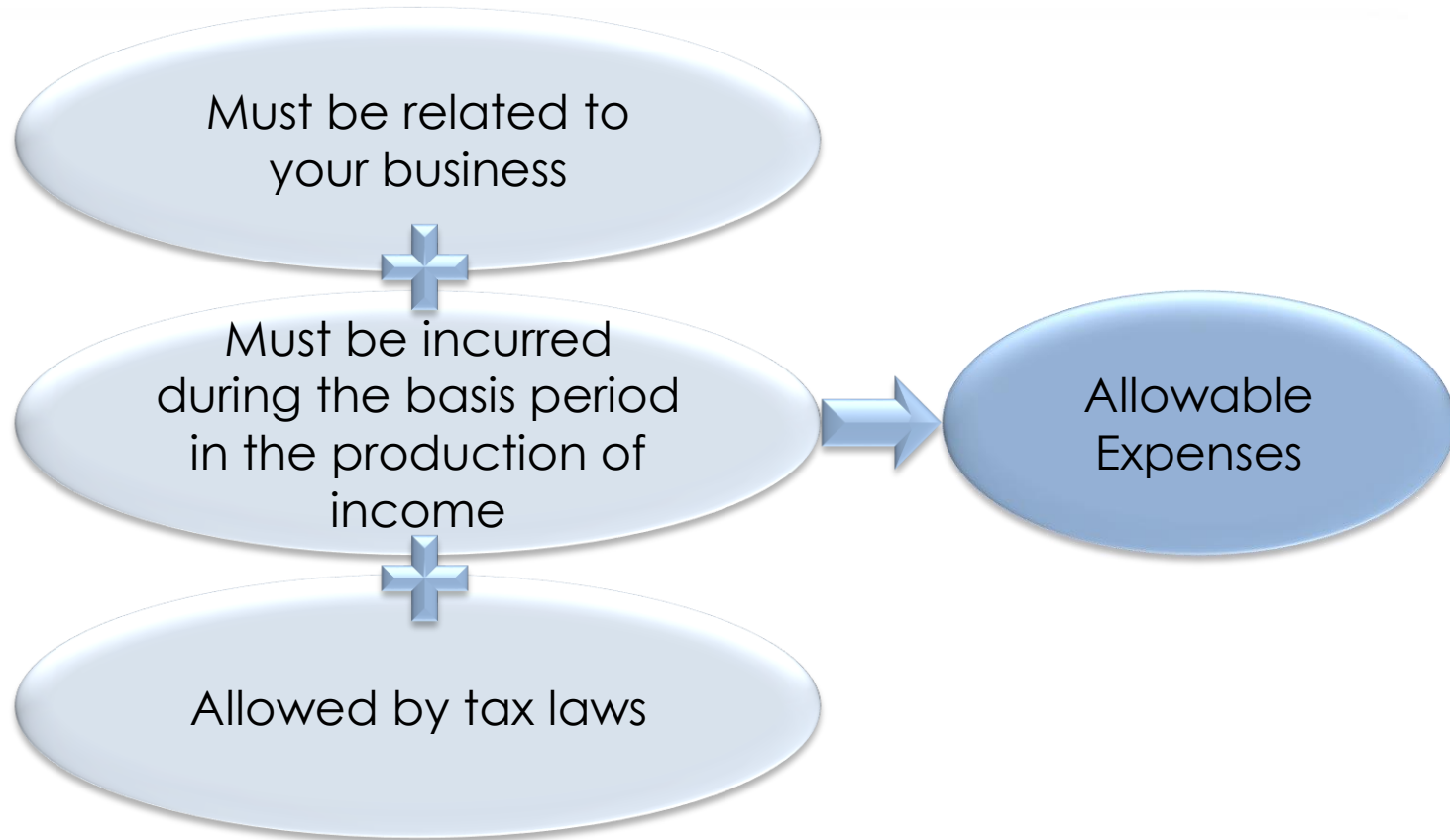
**Certified Statement
of Accounts**
(i.e. Profit & Loss Account
and Balance Sheet)

To be signed by the sole proprietor/precedent partner certifying that accounts are true and correct.

Pre-filled Commission Income

- From YA 2015, commission income information received from commission-paying organisations will be pre-filled in the online tax returns of commission earners.
- Information may not be pre-filled for:
 - co-broking income, income from referrals, banks, etc.
- Responsibility for full and complete filing still lies with commission earners. They will have to declare income from sources which are not pre-filled.

Allowable Expenses



Allowable Expenses

Examples of Allowable Business Expenses:

Rental paid for business premises

Business entertainment

Advertising, printing & stationery

Upkeep of business premises & equipment

Employee's remuneration

Business related overseas travelling expenses

Public transport expenses

Capital allowances on fixed assets

Renovation and refurbishment of business premises

Pre-commencement revenue expenses

Capital Allowance

One-year write-off

- Computers and automation equipment
- Assets costing not more than \$5,000 each
- Capped at \$30,000 per Year of Assessment

Three-year write-off

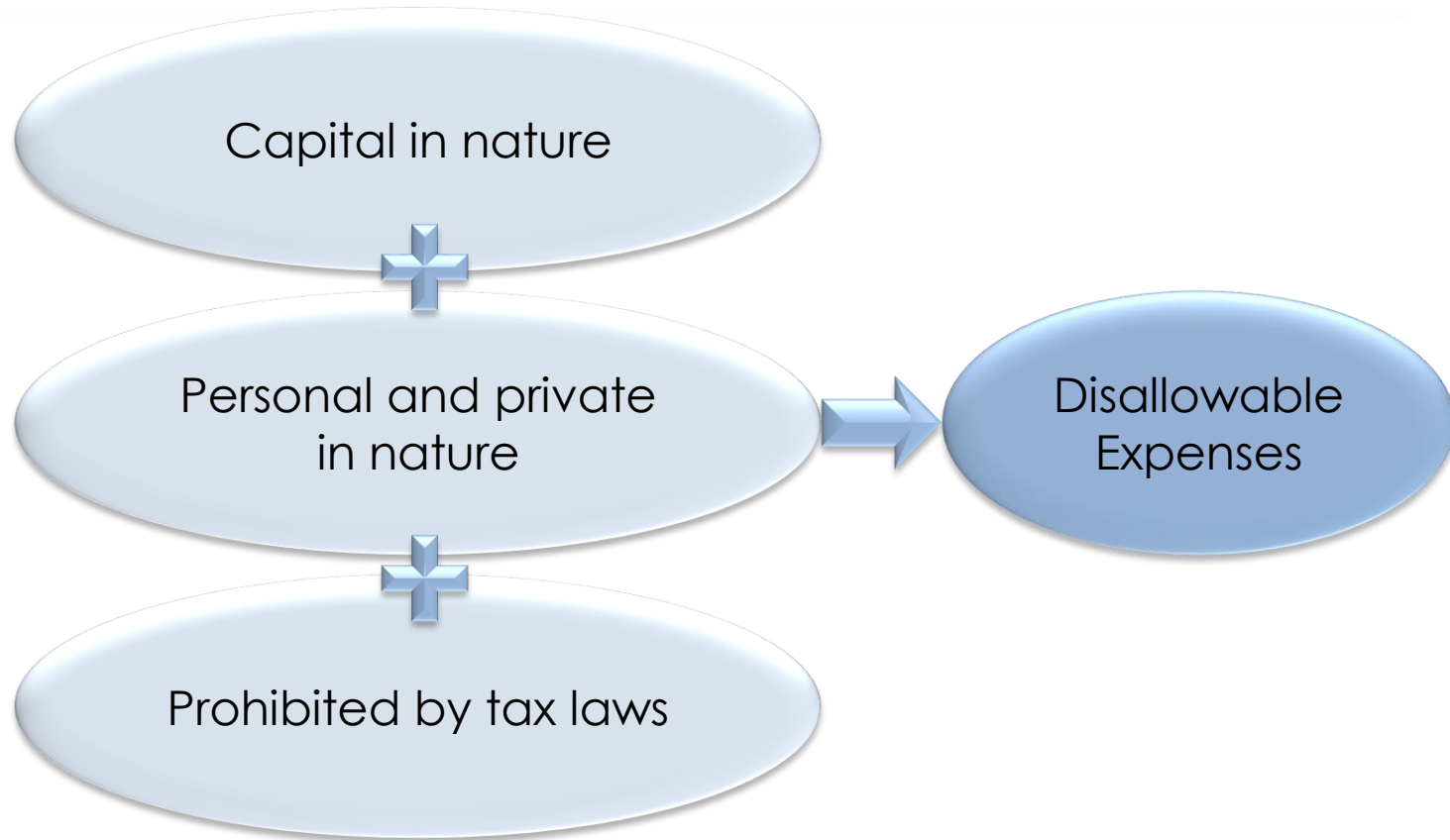
- All assets

Write-off over working life of asset

- Q-plate cars (COE issued before 1 Apr 1998)
- Vans, pick-ups, trucks, lorries, buses
- Office equipment
- Furniture

For more information, visit www.iras.gov.sg > Taxes > Corporate Income Tax > Income & Deductions for Companies > Claiming Allowances > Capital Allowances

Disallowable Expenses



Disallowable Expenses

Examples of Disallowable Expenses:

Maintenance cost for private cars

Personal medical fees, income tax & insurance of sole proprietor / partner

Repayment of loan taken for business purpose

Food for personal consumption & household expenses

Fines for breach of law

Cost of fixed assets purchased

Entertainment expenses for family & friends

Salary paid to sole proprietor/ partner

Donations & gifts to non-customers

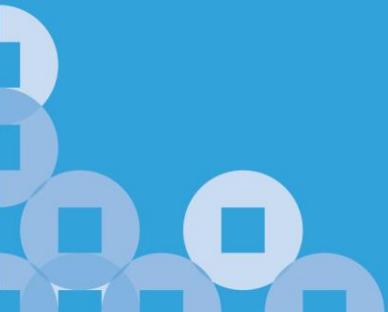


Personal & Private Expenses



Capital Expenses

Avoiding Common Errors



Incorrect Categorisation of Income

Error	Correct Way
Self-employment income incorrectly reported under “Employment” or “Other Income”.	To declare 2 or 4-line statement under “Trade” if you are carrying on a trade, business, profession or vocation.

Understatement of Income

Error	Correct Way
Reported net commission (after deducting expenses) as revenue.	Report gross commission as revenue. Expenses should be reported separately.

Understatement of Income

Error	Correct Way
Bonus commission paid directly by developers not being declared.	As this is income earned from rendering services, it forms part of your trade income earned, which is to be reported together with other gross commission received.

Incorrect Claim of Expenses

Errors	Correct Way
Claim private and domestic expenses as business expenses e.g. Food for personal consumptions and medical fees.	Claim only expenses incurred for your business.
Claim expenses in respect of private-plated cars (E or S-plate cars).	These expenses are not deductible even if incurred for business purpose.
Claim estimated expenses.	Claim expenses based on actual amount incurred.

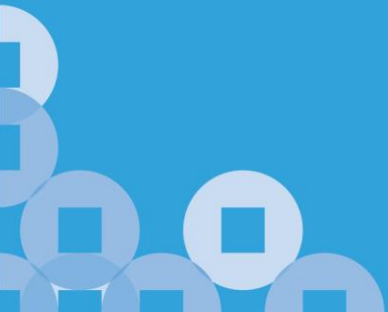
Incorrect Claim of Expenses

Error	Correct Way
<p>Unsubstantiated claims of payments to related parties or suppliers.</p> <p>E.g. Paying family members who are hired to help out with the business large amounts of salary instead of reasonable amounts as compared to the salaries of fulltime employees.</p>	<ul style="list-style-type: none">• Claim expenses incurred for your business based on actual amounts.• Amount claimed should commensurate with the actual services performed.

Failure to Keep Records

Errors	Correct Way
<p>Failing to keep and retain sufficient records for IRAS to ascertain income & allowable business expenses.</p>	<ul style="list-style-type: none">• To retain business records for 5 years. For e.g. invoices, receipts, etc. for the year 2016 should be retained for 5 years till 31 Dec 2021.• The Comptroller may request for these documents in the course of audits.
<p>Misconception that records can be discarded once a Notice of Assessment is received.</p>	

Reporting of Rental Income

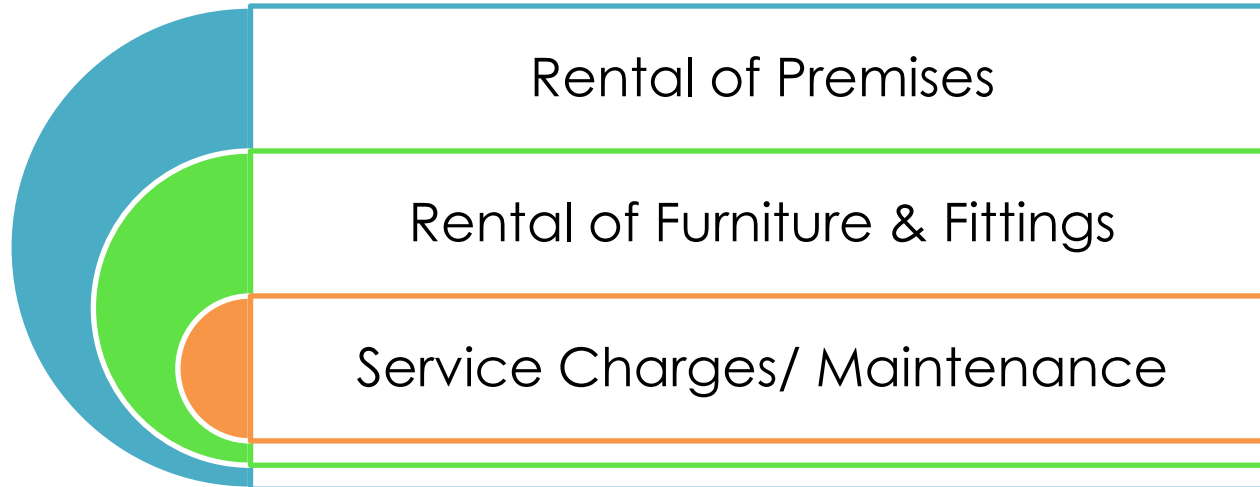


Rental Income

- Any rent payments received when you rent out your property are subject to income tax and must be declared in your income tax return.
- As a real estate salesperson, you may receive rental income from your property or you may be providing advice to your client on how they should report their rental income.

Rental Income

- Rental income refers to the full amount of rent and related payments received, which includes:



Filing of Rental Income

How do I report the rental income from my property?

Should there be more than 1 owner for the property, the rental income should be declared based on each of the co-owners' share of legal ownership when filing the tax returns.

Rental Expenses

To qualify as a tax deductible expense, the conditions are as follows:

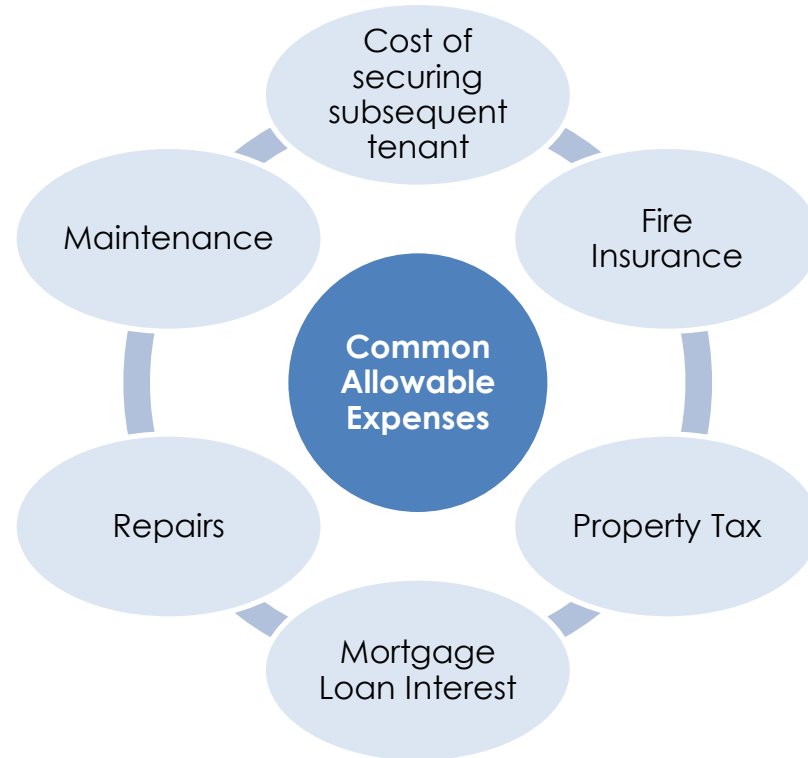
Incurred solely for producing the rental income

Incurred during the tenancy period

Must not be private in nature

Must not be capital in nature

Allowable Rental Expenses

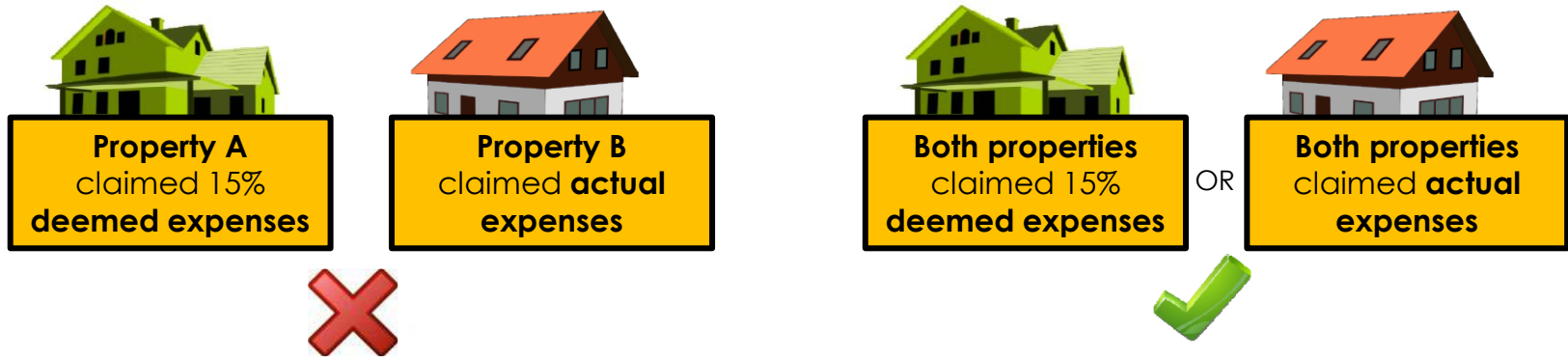


Simplified Claim for Rental Expenses

- From YA 2016, you will be able to enjoy the convenience of pre-filled rental expenses.
- Deemed rental expenses based on 15% of gross rent will be pre-filled in your electronic tax form.
- In addition, you can still claim mortgage loan interest.
- For tenanted residential property only.

Simplified Claim for Rental Expenses

- Alternatively, you can opt to claim the amount of actual expenses incurred.
- If you have more than one tenanted residential property and opt to claim actual rental expenses, you need to apply this treatment consistently to all your tenanted properties.

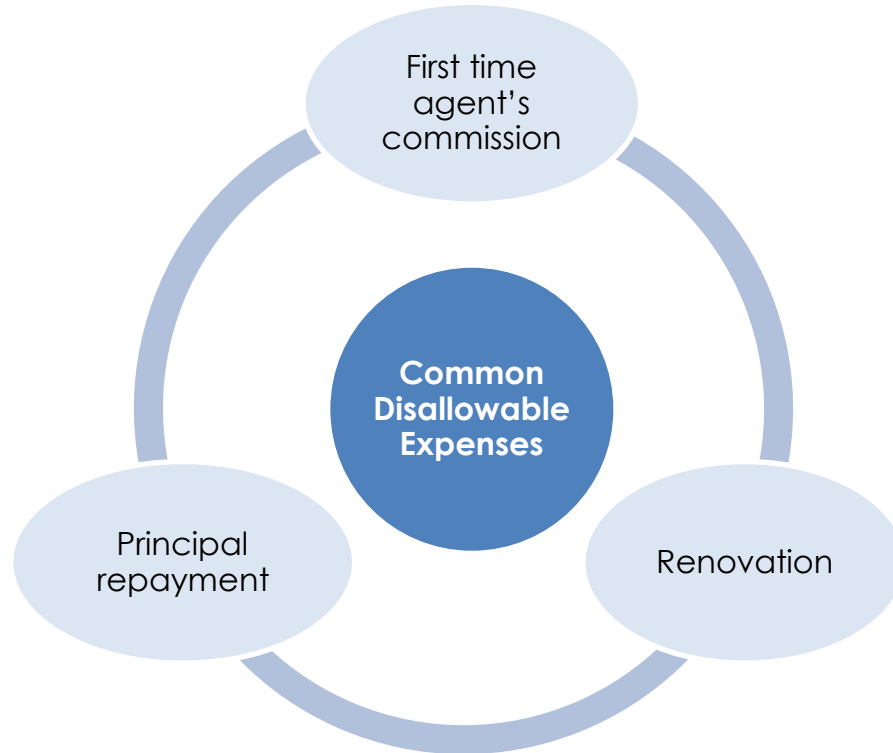


Simplified Claim for Rental Expenses

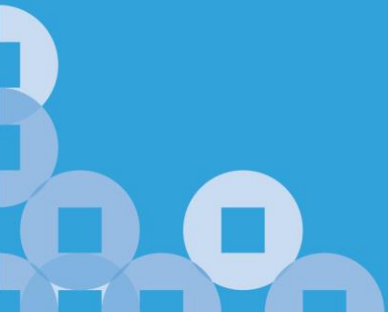
The deemed expenses option is not applicable under the following circumstances:

- You did not incur any deductible expense (apart from mortgage loan interest) in respect of the rental income derived; or
- You derived the rental income through a partnership in Singapore; or
- You derived the rental income from a property held under a trust.

Disallowable Rental Expenses



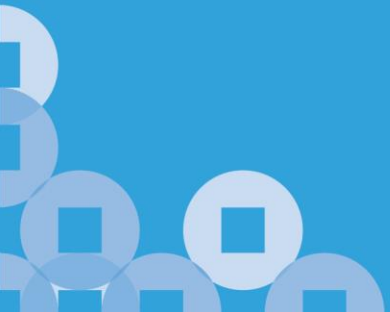
Penalties



Penalties

- Penalties may be imposed for the following offences:
 - No proper record keeping
 - Failure to submit income tax return
 - Furnishing an incorrect return
 - Tax evasion
- Penalties vary from a fine to imprisonment depending on the nature and severity of offence

IRAS' Voluntary Disclosure Programme



Voluntary Disclosure Programme

IRAS' Voluntary Disclosure Programme (VDP) encourages taxpayers to come forward voluntarily to correct their errors for reduced penalties.

Timely voluntary disclosures made within the 1-year grace period from statutory filing date



No penalty imposed

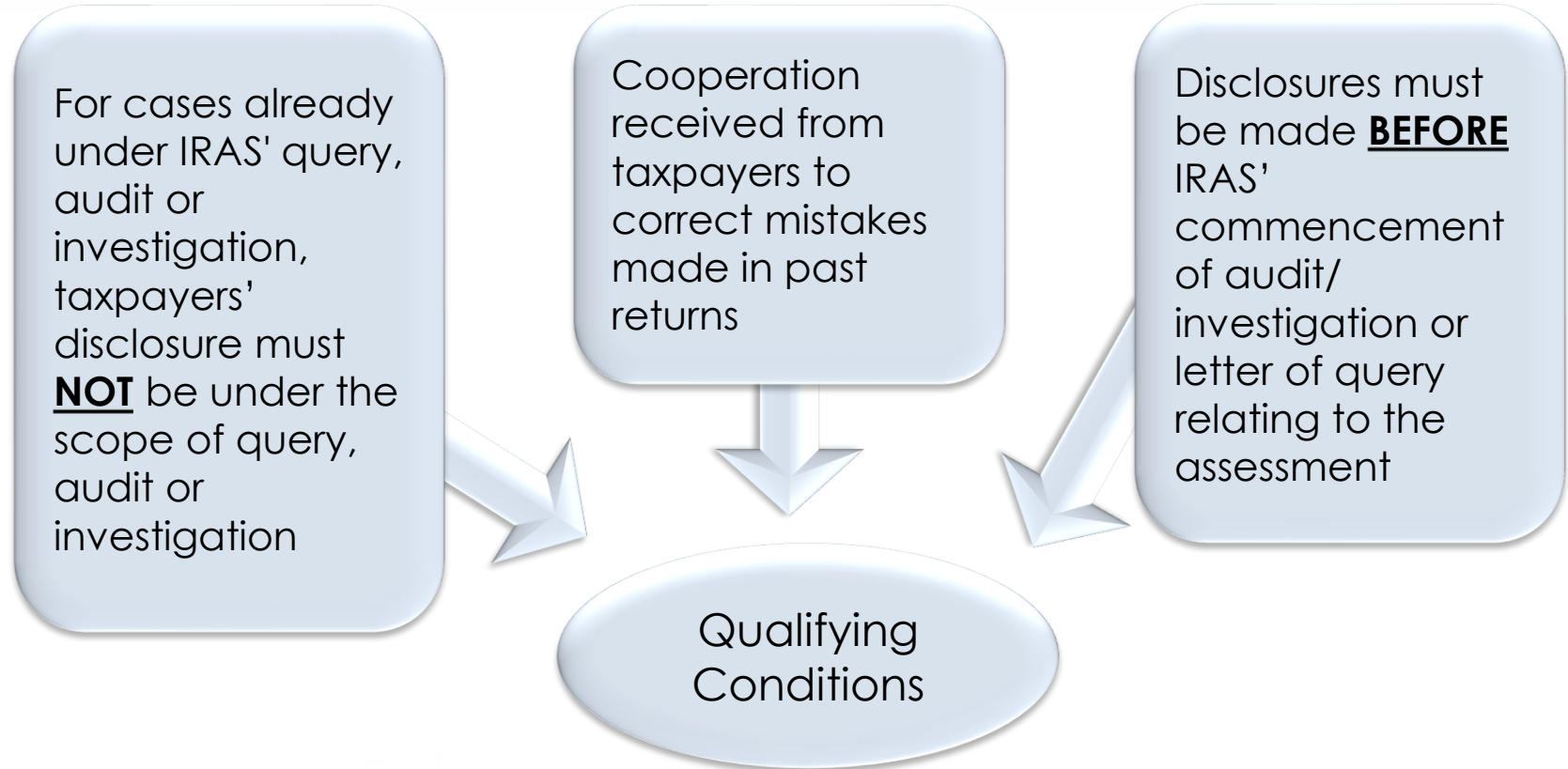
Voluntary disclosures made after the 1-year grace period



Reduced penalty of 5% p.a. on income tax undercharged

For more information, visit www.iras.gov.sg > Taxes > Individual Income Tax > Basics of Individual Income Tax > Voluntary Disclosure of Errors for Reduced Penalties

Voluntary Disclosure Programme



Thank You

The information presented in the slides aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. This information is correct as at the date of presentation. 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 its position accordingly.