BASIS FOR COMPUTING TAXABLE CAR BENEFIT

INTRODUCTION

1. An employee who is provided with a car by his employer is assessed to tax on the value of benefit derived from his private usage of the car (referred to as "car benefit" for the purpose of this Practice Note).

2. The basis of computing the car benefit for an employee has recently been revised so as to fairly reflect the value of such a benefit enjoyed by him. The revised basis has been set out in the Income Tax Practice Note No. 16 of Vol 2 No 5 of COMPASS (published on 22 Oct 1994).

3. To recapitulate, under the revised basis, the following formulae shall be used to determine the car benefit for employees with effect from the Year of Assessment 1995:

    (a) **Car provided by employer, cost of petrol borne by employee**

    Value of benefit = 3/7 x [(Car Cost - Residual Value)/10] + ($0.45 per km x private mileage).

    (b) **Car provided by employer, cost of petrol borne by employer**

    Value of benefit = 3/7 x [(Car Cost - Residual Value)/10] + ($0.55 per km x private mileage).

    (c) **Driver provided by employer**

    Value of benefit = Annual cost of driver x (private mileage/total mileage).

    Where:
    "Car cost"" refers to the acquisition cost of a car (inclusive of COE) paid or payable at the date of purchase. If the car is "company-registered" (ie Q-plate), the cost of the car should be pegged to that of an identical private car.

    "Residual Value" is equal to:

    (i) the amount of rebate allowable under the Road Traffic Act if the car is registered prior to 1 Nov 1990;

    or

    (ii) 80% of the Open-Market-Value (OMV) of the car if the car is registered on or after 1 Nov 1990.

4. The formulae set out at paragraphs 3(a) and (b) are applicable to cases where the employer is effectively the first owner of the car (referred to as a new car hereinafter). The purpose of this Practice Note is to:

(a) clarify the basis of computing the car benefit for an employee who is provided with a new Q-plated car;

and

(b) spell out the basis to be used to compute the car benefit in other cases.

ADMINISTRATIVE PRACTICE

5. An employer who has purchased a new car for use by his employee (without providing a driver) is required to use the formula set out at paragraph 3(a) or (b) to compute the car benefit provided to the employee when preparing his Form IR8A/C for the calendar year ending 31 Dec 1994 and subsequent years.

Clarification on the basis of computing car benefit for a new Q-plated car

6. Where a new Q-plated car is provided by an employer for use by his employee, the cost of an identical private car (inclusive of COE) shall be used to compute the car benefit instead of the actual cost incurred by the employer. For this purpose, the cost of an identical private car refers to the cost which would have been incurred by the employer if he had registered the new car as a private car instead of a Q-plated car. Currently, the amount can be arrived at as follows:

(a) where the new Q-plated car is registered prior to 1 May 1990, by subtracting the additional amount of registration fees on $4,000 incurred by the employer as a result of registering the new car as a Q-plated car instead of as a private car from the actual cost paid or payable by the employer on the purchase of the Q-plated car;

(b) where the new Q-plated car is registered on or after 1 May 1990, by subtracting the following from the actual cost paid or payable by the employer on the purchase of the Q-plated car:

(i) the additional amount of registration fees of $4,000 incurred by the employer as a result of registering the new car as a Q-plated car instead of a private car; and

(ii) half the amount payable by the employer for the Certificate of Entitlement (COE) on registration of the new Q-plated car.

7. Unlike a private car, a Q-plated car does not have any residual value even if it is de-registered within 10 years from the date of its first registration. Therefore, there is strictly no residual value to be set-off against the car cost when computing the car benefit for an

employee who is provided with such a car. However, for a new Q-plated car, IRAS will as a concession allow the residual value of an identical private car to be set-off against the car cost. The above concession, given on due claim only, is not extended to a secondhand Q-plated car purchased by the employer for his employee's use.

Bases for computing car benefit in other cases

8. For the situations mentioned below, the following formulae shall be used for computing car benefit (assuming no driver is provided) in lieu of the formulae set out at paragraphs 3(a) and (b):

(a) **Employer provides the employee with a secondhand Q-plated car (car is less than 10 years old at the time of purchase)**

Value of benefit =
3/7 x (A/B) + ($0.45 per km or $0.55 per km x private mileage depending on whether the cost of petrol is borne by employee or not).

(b) **Employer renews COE for an existing Q-plated car at the end of the 10th year and continues to provide the employee with that car**

Value of benefit after the 10th year =
3/7 x (C+D)/E + ($0.45 per km or $0.55 per km x private mileage depending on whether the cost of petrol is borne by employee or not)

(c) **Employer provides the employee with a secondhand Q-plated car (car is more than 10 years old at the time of purchase)**

Value of benefit =
3/7 x (A/F) + ($0.45 per km or $0.55 per km x private mileage depending on whether the cost of petrol is borne by employee or not).

(d) **Employer provides the employee with a secondhand private car (car is less than 10 years old at the time of purchase)**

Value of benefit =
3/7 x [(A - Residual Value)/B] + ($0.45 per km or $0.55 per km x private mileage depending on whether the cost of petrol is borne by employee or not).

(e) **Employer renews COE for an existing private car at the end of the 10th year and continues to provide the employee with that car**

Value of benefit after the 10th year =
3/7 x (G+D)/E + ($0.45 per km or $0.55 per km x private mileage depending on whether the cost of petrol is borne by employee or not).

(f) **Employer provides the employee with a secondhand private car (more than 10 years old at the time of purchase)**

Value of benefit =
3/7 x (A/F) + ($0.45 per km or $0.55 per km x private mileage depending on whether the cost of petrol is borne by employee or not).

(g) **Employer leases a car for the employee's use (ie employer bears the full cost of rental of the leased car)**

Value of benefit =
(3/7 x Rental cost incurred by the employer) + ($0.10 per km x private mileage if the cost of petrol is borne by the employer)

or

(3/7 x Rental cost incurred by the employer) if the cost of petrol is borne by the employee.

(**Note**: The above formulae are applicable only if all other running/maintenance expenses are borne by the car hiring company).

Where:

"A" refers to the actual cost (inclusive of COE) of the car paid or payable by the employer at the date of purchase.

"B" refers to the remaining period from the date of purchase of the car to the date of expiry of the first COE (ie at the end of the 10th year).

"C" refers to the amount of residual value, if any, which has previously been allowed as a set-off against the cost of the Q-plated car for purposes of computing the car benefit for the period prior to the expiry of the first COE.

"D" refers to the amount payable on renewal of COE for the continued use of the car after the end of the 10th year. If the car is Q-plated, the amount payable on renewal of COE for the car should be pegged to that of an identical private car for purposes of computing the car benefit after the 10th year.

"E" refers to the remaining period from the date of renewal of COE to the date of expiry of the renewed COE (currently, either 5 or 10 years).

"F" refers to the remaining period from the date of purchase of the car to the date of expiry of the renewed COE.

"G" refers to the amount of residual value which would have been allowable as a set-off against the cost of the private car for purposes of computing the car benefit for the period prior to the expiry of the first COE.

"Residual Value" has the same meaning given in paragraph 3 above.

9. The revised basis for computing car benefit shall not apply in the following cases:

(a) where the employer has not provided his employee with a car but arranges to reimburse fully or partially the car expenses (running/maintenance expenses) incurred by his employee, including the amount incurred for his private usage. In such cases, the amount of car expenses attributable to his private usage that is reimbursed by his employer is a taxable benefit to him and shall be computed as follows:

Private mileage/total mileage x car expenses reimbursed by employer.

(b) where the employer provides his employee with a commercial vehicle (eg. motor van) or motorcycle/scooter for use in the normal course of his work (eg. delivery of goods to customers) but also allows the employee to use the vehicle for private purposes. In such cases, if the vehicle expenses (running/maintenance expenses) are fully borne by the employer, the value of benefit derived by the employee from the private usage of the vehicle shall be computed as follows:

(i) **Commercial vehicle (eg. motor van or truck)**

Value of benefit = $0.55 per km x private mileage

(ii) **Motorcycle or scooter**

Value of benefit = $0.20 per km x private mileage

10. Employers who have queries concerning the application of the formulae set out in paragraphs 3, 8 and 9 can call our Taxpayer Services Branch for clarification.