F6 (SGP) Taxation – Handout 1

**Statutory Income (SI)**

The SI of a person for any YA is the full amount of his income for the year preceding the YA from each source of income net of deductions including capital allowances.

**Capital Allowances**

If capital allowances are available to the tax payer, they must be deduced from the income of the trade, business or profession first. Excess capital allowances can be set off against the income from other sources.

**Assessable Income (AI)**

AI is the remainder of SI (after deducting capital allowances, if relevant) after deducting:

1. Loss incurred in a trade, business, profession or vacation, and thereafter,
2. Approved gifts and donations

**Loss arising from Trade, Business, Profession or Vacation**

Trade will be set off against income of the trade, business, profession or vacation first. Any excess can be set off against the income from other sources.

For donations to be approved and deductible, they must be:

1. In cash
2. Paid in the preceding calendar year, and
3. Paid to an approved institution or government institution.

Only following items of non-cash gifts donations are approved and deductible.

1. Any art work to approved museum or for public display
2. Gifts of computer/software approved by Minister and donated to approved educational or research institution.
3. Land and buildings to any approved IPCs (Institution of Public Character).

**Value of deduction**

Value of deduction = (Value of approved cash/non-cash donation x 2.5) – benefit received in return of a donation

**Unabsorbed trade losses, capital allowances and donations**

1. Capital allowances have to be utilized before losses (First utilized capital allowances from previous period and then current period capital allowances.)
2. After capital allowances, trades losses are utilized (First utilized losses from the previous period and then current period losses)
3. Capital allowances and losses are set off first against trading income first. Any utilized capital allowances can be set off against other income.
4. Unabsorbed donations are set off after capital allowances and losses.

|  |  |  |
| --- | --- | --- |
| **Unutilized Capital allowances**  For companies: Can be transferred to qualifying group of companies, carried backward or carried forward.  For individuals: Can be transferred to spouse, carried backward or carried forward. | **Unutilized losses**  For companies: Can be transferred to qualifying group of companies, carried backward or carried forward.  For individuals: Can be transferred to spouse, carried backward or carried forward. | **Unutilized donations**  For companies: Can be transferred to qualifying group of companies or carried forward. NO CARRY BACKWARD.  For individuals: Can be transferred to spouse or carried forward. NO CARRY BACKWARD.  *Note: donations can only be carried forward for 5 years of assessment. After that they are forfeited.* |

**Business Entities**

1. Sole-proprietorship and partnerships: Not separate legal entities. Sole-proprietors and partners are taxed in their individual capacity on profits derived from business.
2. Sole-proprietors and partners are required by law to contribute Medisave before renewal of their business certificates.
3. Companies are legal entities and their profits are taxed in their own names.

Tax Computation for Resident Individual

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| ***Income from trade/business/profession*** |  | x |
| Less: capital allowances brought forward | x |  |
| current year capital allowances | x |  |
| Less: trade losses brought forward | x |  |
| current year trade losses | x | (x) |
|  |  | x |
| ***Add: Other Income*** |  |  |
| employment income | x |  |
| rental income | x |  |
| interest income | x | x |
| ***Statutory Income*** |  | **x** |
| Less: unutilized capital allowances | x |  |
| unutilized losses | x |  |
| donations & Gifts | x | (x) |
| ***Assessable income*** |  | **x** |
| Less: personal reliefs |  | (x) |
| ***Chargeable Income*** |  | **x** |
|  |  |  |
| Then apply the tax rates on chargeable income to calculate the tax liability | | |

**Revenue and Capital Gain**

Singapore does not have a capital gain tax. In this respect, capital receipts are not taxable. Therefore it is pertinent identify a receipt as revenue in nature for it to become taxable.

1. *The subject matter of realization*

Generally, the properties which do not yield income or personal enjoyment merely by virtue, of ownership, are usually not acquired for investment. It is more likely acquired for resale and hence purpose is trading.

1. *The length of ownership*

Generally, a short period of ownership indicates trading intention.

1. *Frequency or number of similar transactions*

Series of similar transactions indicate the person is carrying out trade.

1. *Supplementary work*

There is strong case for trading if supplementary work was done on the property to make it more marketable.

1. *Circumstances responsible for realization*

The circumstances leading to the sale could be relevant in determining whether trading could be inferred. There is a need to obtain the exact reasons leading to the sale of the property.

1. *Motive*The essence of a profit-seeking motive would support an intention of trade.

**Trading-in VS Trading-with**

Where a trade or business is carried on with Singapore, there is generally no exposure to Singapore tax. If, on the other hand, trade is carried on in Singapore, there is source income from Singapore.

**Permanent Establishment**

A foreign entity may be considered to be trading in Singapore if it is seen as having a permanent establishment (PE) in Singapore. Profits attributable to the PE may be subject to Singapore tax.

A PE is defined as a fixed place where a business is wholly or partly carried on including:

1. a place of management
2. a branch
3. an office
4. a factory
5. a mine or oil well etc.

*Note: Mere purchasing function in Singapore or warehouse of goods for delivery are not indicative of Permanent Establishment.*

**Employment Income**

The term employment refers to an arrangement made for the performance of personal services by an individual. In this respect, there is a “Contract of Services” with a master-servant relationship where there are some elements of control by the employer over the employee.

On the other hand, income derived from the carrying on of a profession is a “Contract for Services”.

To decide if the income is one from a contract of service or a contract for service, the following factors are to be considered.

1. The degree of control the individual has over the manner in which the work is performed.
2. Whether the individual provides his own tools and hires his own help
3. The degree of financial risk
4. The degree of responsibility
5. Whether there is master and servant relationship.

**Source of Employment Income**

Employment income is source in Singapore if the employment is exercised in Singapore, i.e. the employment duties are performed substantially within Singapore.

If employee performs some of his duties outside Singapore then it does not mean that he is exercising employment outside Singapore. The following factors are generally considered by the IRAS to determine whether the employment duties performed overseas are part of the Singapore employment.

1. Whether the services rendered overseas benefit the Singapore employer or some foreign employers.
2. Whether the Singapore employer or the foreign employer bear the remuneration costs associated with the services rendered overseas
3. The duration of the services rendered overseas and how closely related those services are to the Singapore employment
4. Whether there is a separate employment contract that formalizes the existence of the overseas employment with the foreign employer..

**Special case of Directorship**

Director’s fees are source where the directorship is exercised. Where directorship is exercised depends on where the management and control of the company is.

Management and control of a company is generally vested in the Board of Director. Thus if the board meetings are held in Singapore, the source of directorship will be in Singapore and therefore be subject to Singapore tax.

**Basis period of employment income**

The employment income for a year of assessment is the employment income accrued for the period of employment in the preceding calendar year.

To be assessable to tax, something must be given ‘in respect of employment’ and must be a reward for either his past, present for future services..

**Types of employment income**

**Wages, salary, fee and commission**

Wages, salary, fees and commission are money received for services rendered in an employment. These receipts normally accrue on time basis.

**Bonus**

Bonus is regarded as income derived in respect of employment and is therefore taxable. However, in terms of timing to bring the amount to tax, a distinction must be made between a contractual and non-contractual bonus.

1. Contractual bonus

Contractual bonus accrues to an employee and is therefore subject to tax in the year specified in the contract of service.

1. Non-contractual bonus

Non-contractual bonus is payable at the discretion of an employer. Accordingly, it is taxable when the employer pays the bonus.

**Gratuity**

Gratuity is a lump sum gift for services rendered, paid at the end of an employment. Such payment can be voluntary or contractual. This is considered taxable.

**Allowances**

Allowances are sums of money paid to an employee for a particular purpose, but which may not be expended by the employee for that purpose. The amount received is taxable. The taxable amount is the actual amount received *less* amount spent for business purposes.

Overtime transport and meal allowances are taxable benefits on the employee. However, with effect from **YA 2006**, the IRAS has decided to exempt such payments from tax provided;

1. The policy extends to all employees; and
2. The employees are working beyond official working hours.

**Special case- Reimbursement instead of allowance**

Reimbursements are not allowances. They are usually given not in consideration of the employee’s services but in consideration of his or her out of pocket expenses. Hence, business reimbursements are not taxable as they are used for business purposes. On the other hand, reimbursements on private expenses are taxable. However, from January 1 2005, following reimbursements are not taxable;

1. taxi fares incurred by the employee from home to airport and from airport to home when the employee makes overseas business trips;
2. taxi fares from home to business-meeting venue and vice versa
3. Overtime meal and transport expenses.

**Compensation for loss of office**

Compensation for loss of office is treated as capital income and there ore the employee concerned should not be taxed on the amount received. However, if the compensation is given as part of the total retrenchment pay which includes some income elements such as payment in lieu of notices, gratuity of past services, these elements constitute gains or profits from employment and are therefore taxable.

**Perquisites**

Perquisites are additional employment income, which are usually given in kind. As these benefits in kind are given to the employee i reference to his employment, they are taxable in the hands of the employee.

1. Group outings
2. family day events
3. dinner and dance
4. free or subsidized food and drinks
5. Free transport between pick-up points and location of employment.

**Leave Passage Benefit**

Employer pays the cost of airfare for an employee and/or his family members for trips overseas for personal purposes. The taxable amount will be the cost of airfare paid by employer.

**Tax Concession**

As a concession, the IRAS has agreed to trips:

Leave passage given to an employee (or outside Singapore, and the purpose of the vacation, the taxable amount is:

Employee: 20% x actual cost (1 trip per year)

Spouse: 20% x actual cost (1 trip per year)

Children: 20% x actual cost (2 trips per year per child)

Note: The above concession applies to children who are unmarried and under 16 years old. If above 16 years, the child must be a full time student or is handicapped.

**Exceptions**

If the employee is a Permanent resident or Singapore citizen, any air ticket provided by his employer to go on holiday will not qualify for 20% concession. Hence, he will be taxable on the full cost of the air ticket paid by the employer. Passages paid to an employee and his family to come to Singapore when first appointed; and to move back to his home country at the end of the employment contract is not taxable.

If cash allowance is given or the destination is not the employee's home country, the full amount is taxable. However, the costs incurred on relocation can be deducted against the allowance received and the net amount is taxable.

**Accommodation**

**Value of Accommodation Provided to an Employee – Hotel**

Where an employer pays the bills of his employee and his family in respect of board and lodging in a hotel, the value of the benefit to the employee is valued by the IRAS as follows:

**Until YA14,**

Taxable amount = $250 per month per adult

$100 per month per child over 7 years old

$50 per month per child between 3 – 7 years old, and

$25 per month per child under 3 years old

**Plus**

Lower of

1. 2% of employee’s basic salary for the period of stay, and
2. Actual charges.

**From YA15,**

The taxable benefit is =Actual cost to employer – amount paid by employee

**Accommodation: Other than hotel**

|  |  |
| --- | --- |
| **Until YA14**  **Lower of:**   1. 10% of employment income, or 2. Annual Value of premises   Less:  Rent paid by the employee  Plus: Value of furniture and fittings (Using separate rates provided below) | **From YA15**  Annual value of premises x  Less: amount paid by the employee (x)  Plus: Value of furniture and fittings:  Value of F&F is  50% x Annual value of premises (for furnished), and  40% x Annual value of premises (for partially furnished) |

**The taxable values of the furniture and fittings and related benefits are applicable up to Year of Assessment 2014**

**Item Taxable value per month per unit ($)**

 1  Air-conditioner

   a) Unit 10

   b) Dining room (central air-con)    15

   c) Living room (central air-con)   15

   d) Additional room (central air-con)   10

 2  Air-cooler   1

 3  Air purifier   10

 4  Blender/Juicer   3

 5  Camera   Actual amount paid by employer

 6  Clothes dryer   15

 7  Coffee maker   3

 8  Computer (printer is considered as part of the computer)   40

 9  Cooker   2.5

 10  Dish washer   15

 11  Electric guitar   30

 12  Fan   1

 13  Floor polisher   4

 14  Furniture (soft & hard). Examples: sofa, carpet, curtain, bed, dining  
 table and chairs (regardless of the number of units provided) 10

 15  Fax machine See Note 1

 16  Golf bag & accessories  Actual amount paid by employer

 17  Home entertainment theatre   30

 18  Hi-fi stereo/Radio/Amplifier   30

 19  Iron   1

 20  Jet-steam oven   2.5

 21  Kettle   3

 22  Lawn mower   5

 23  Light fittings (E.g. standing lamps/lights. Installed lights are not included.)  1

 24  Organ   40

 25  Refrigerator   10

 26  Suitcase   Actual amount paid by employer

 27  Surveillance system   30

 28  Swimming pool   100

 29  Toaster   1

 30  TV (including plasma TV, high definition TV)   30

 31  Vacuum cleaner   2

 32  Video recorder/DVD player/VCD player   20

 33  Water heater   2.5

 34  Washing machine   15

*Note 1*

*a) Employee pays for the recurring telephone charges linked to the use of the machine 20*

*b) As in (a) and employee gets to keep the machine Full cost of the machine incurred by the employer in the year of purchase*

*c) Employer pays for the recurring telephone charges linked to the use of the machine  20 + telephone bill paid by employer for the year*

*d) As in (c) and employee gets to keep the machine. Full cost of the machine incurred by the employer in the year of purchase and telephone bill paid by the employer*

**Accommodation: Utilities and Housekeeping Costs**

|  |  |
| --- | --- |
| Until YA14  Utilities:  Actual amount paid by employer  Gardener:  Lower of   1. $35 per month, or 2. Actual wages paid by employer | From YA15  Utilities:  Actual amount paid by employer  Gardener:  Actual wages paid by employer. |

**Exception:**

If an employee is required by terms of employment to reside on the premises to perform his duties then this is not taxable benefit e.g. watchman or caretaker etc.

**Car Benefit**

There is not taxable benefit if car is used for business purposes. Only private usage is taxable benefit.

**Different situations**

1. A new car provided to an employee
2. Car provided with driver
3. Car not provided but running expenses borne by employer
4. Leasing a car for employee’s usage
5. A commercial vehicle (van ,truck, motorcycle or scooter)

**(a) A new car – Petrol by employee**

Value of benefit = 3/7 [(car cost – residual value) divided by 10] + ($0.45/km x private mileage)

*Note: this is for one year. If less than year, value need to be adjusted*

**(b) A new car – Petrol by employer**

Value of benefit = 3/7 [(car cost – residual value) divided by 10] + ($0.55/km x private mileage)

Note: this is for one year. If less than year, value need to be adjusted

*Note:*

*Cost of car includes cost of “Certificate of entitlement”. If it is company car then cost is taken as that of an identical private registered car.*

*Residual Value is 80% of the Open market value for the car*

*Private Mileage is number of kilometers of private usage*

**Car provided with driver**

Taxable amount of car provided to an employee is same as above.

However, taxable amount for driver provided is:

Private miles/total miles x driver’s remuneration plus employer’s CPF paid for driver

(CPF is Central Provident Fund. It is contribution scheme paid by employer and employee)

**Car not provided but running expenses borne by employer**

Taxable benefit = Private miles/total miles x running expenses paid by employer

**(a) Leasing a car for employee’s usage – Cost of petrol by employee**

Taxable benefit = 3/7 x lease payments by employer

**(b) Leasing a car for employee’s usage – Cost of petrol by employer**

Taxable benefit = 3/7 x lease payments by employer + $0.10 per private kilometer

**A commercial vehicle (van, truck, motorcycle or scooter)**

**Van or truck**

Taxable benefit = $0.55 per km x private mileage

**Motorcycle or scooter**

Taxable benefit = $0.2 per km x private mileage

**After YA08**, the private benefit to employees of using commercial vehicle for travelling from the home to office and vice versa is not taxable.

**Tuition or School Fees**

If course/tuition Improves employer profitability: Not taxable if it is for all employees and part of employer’s development program

If course/professional training is for individual employee Taxable

Tuition fee for the children of employees Taxable

**Insurance on life of employee**

If beneficiary is employer: Insurance premiums paid by employer are not taxable

If beneficiary is employee or his family Insurance premium paid by employer are taxable

Group Insurance Policy (Available to all employees) From YA08, premiums on group insurance policy are not taxable even the beneficiary is employee

Insurance policy on a “Key man” (a man is key personnel Insurance premiums not taxable

With special qualifications/experience/abilities that are

Very important for business)

**4.10 Club Subscriptions**

Employee’s personal membership: Entrance and annual sub paid by employer is taxable

Corporate membership: Used for business purposes (entrance and annual sub both paid by employer) then it is not taxable

**Interest-free or Subsidized Loans**

1. If interest-free or subsidized loan is provided to employee then it is taxable benefit.

Taxable amount = Cost to employer – amount received from employee

1. If loan is available to all employees (with no control over company) then it is not taxable.
2. If employee arranges the loan himself from bank and employer subsidizes the loan then employee is taxable on amount subsidized by employer.

**Loan to directors**

|  |  |
| --- | --- |
| As their capacity as shareholders   * Not taxable   Following conditions must be met:   1. Bone fide (authentic reasons) to give loans to directors 2. Company must make loans to all shareholders under same terms and conditions 3. There should be creditor-debtor relationship in respect of these loans | As their capacity as directors   * Taxable |

**Excess CPF contribution Benefit**

Any CPF contributions made by the employer on the employee's remuneration exceeding the limit set by CPF Act is deemed to be a chargeable income on the employee. The employer’s statutory rate of CPF contribution for employee aged below 50 years of age is 17%.

**Ordinary wages**

Ordinary wages are defined as any wages granted or due to wholly and exclusively in respect of employment in that month and payable before the due date for the payment of contributions. In other words these payments are made regularly. Besides salary, ordinary wages include overtime pay, commission and allowances.

Under CPF Act, both employee and employer are required to make contribution to the CPF Board on ordinary wages up to a maximum of $5,000 per month with effect from 1 September 2011. Any contributions made by employer on ordinary wages exceeding $5,000 will be taxable benefit.

Where CPF contributions have been made in respect of an employee employed by 2 or more employers and the employers are related to each other, all the ordinary and additional wages from the related employers and the contributions on those wages are treated as paid by one employer.

An employer is deemed to be related to another employer where one of them, directly or indirectly is able to control the other or where both of them, directly or indirectly are under the control of common person.

Additional Wages

**Additional wages**

Additional wages are payments that are made on irregular basis.

For YA12 and onwards:

Maximum/Cap additional wages = Difference between $85,000 ($5,000 x 17) and Actual ordinary wages for a year (Subject to cap of $60,000 per year)

**Contribution to Medisave account**

An employer may contribute towards the Medisave account of an employee either voluntarily or contractually. Any contribution made by employer in excess of the statutory limit is taxable benefit for the employee. The statutory limit is $1,500 for each calendar year.

**Employer’s contributions to overseas pension or fund**

Employer’s contributions to any overseas pension or provident fund are deemed to be income accruing to the employee and hence taxable. Eg employer’s contributions to Malaysian Employees Provident Fund (MEPF)

**Voluntary CPF contributions on Foreign Employees**

With effect from 1 January 1999, foreign employees working in Singapore on employment passes and work permits are not required to contribute CPF.As such, any contribution by employer for a foreign employee is regarded voluntary and is taxable.

**Employee Share options**

Share options entitle the employees to purchase the shares of the company at a reduced price than market value in future.

Taxable amount = Market value of shares (last price available) – cost of acquisition

*Note*

*1. Share option benefit is taxable when the option is exercised not when it is granted.*

*2. Market value of share is taken at the date of listing/last transacted price of company’s shares*

*3. If no market value is available then use net asset value per share.*

If the share options are granted to employee in respect of his overseas employment then they are not taxable even if they are exercised in Singapore.

Similarly share options that are granted in respect of Singapore employment are taxable even if they are exercised outside Singapore.

**Share Options with Moratorium**

Share Options with Moratorium Imposed (Moratorium is restriction to exercise share options before certain date).

With Moratorium an employee is unable to sell the shares until the moratorium is lifted.

Share option is taxable on the date when moratorium is lifted.

**Share Options – Deem Exercise Rule**

Applies to Non-Singapore Citizens or non-permanent citizens.

When non-Singapore citizens/Non-permanent citizens leave employment and depart permanently from Singapore and there are share options whose moratorium is not lifted yet (exercised or unexercised share options both) then they are taxed the time of cessation of employment. The Taxable benefit is in excess of:

a) Open market price one month Before date of cessation or Date of Grant; whichever is later, and

b) Option price

If the subsequent gains are lower than the deemed gains, the tax payer can submit his claim for a reassessment to the IRAS.

**Food and Clothing**

Taxable benefit = cost to employer

Company uniforms/protective clothing is not taxable

**Tax Borne by Employer**

Tax paid by employer is “tax allowance”/additional income for employee. Employee pays tax on “tax allowance”.

Tax Allowance = A + B

A = Tax paid by employer

B = Additional tax calculated on “A” using tax-on-tax computation

Shorter way of doing the tax-on-tax computation is:

*Note*

*1. Tax-on-tax computation starts by applying the highest marginal tax rate (available after calculation of A) in progressive order.*

*2. When the tax is paid on part of income then tax-on-tax is calculated on “A/Total income \* Income on which tax is paid by employer”.*

**Childcare benefits**

With effect from YA 2004, employer subsidized childcare benefits paid to licensed Childcare Centers do not constitute a taxable benefit to employees.

**Discounts on property purchases**

Discounts on property purchases given by developers to their directors and employ yees are treated as taxable income if they exceed the discounts given to outsiders.

**Employment Expenses**

**General principle:**

Expenses are deductible if they are for business purposes. Expenses are not deductible if they are private purposes.

**Travelling expenses**

Travelling expense between home and workplace is not deductible. However, expenses incurred in travelling between two different employment/business places is deductible.

**Entertainment Expenses**

Only amount spend for business purpose is deductible.

Following conditions must be met for expenses to be deductible:

1. Expenses are entirely and directly connected with specific business matters.

2. existing or prospective clients are served.

3. Circumstances are such that it is necessary to entertain and discuss business matters.

**Professional Subscription**

Employees can deduct the subscriptions to professional bodies like ACCA, Insitute of Engineers etc. Deduction is made against total employment income

**Rental Income**

|  |  |
| --- | --- |
| **Assessed as trading income**  1. Capital allowances are available.  2. Losses can be carried forward and backward. | **Assessed as non-trading income**  1. No capital allowances available.  2. Losses cannot be carried forward. |

Rental income is taxed after deducting all allowable expenses. Expenses that are allowable are revenue expenses incurred in maintaining the property that was rented out. Rent collection fee is deductible up to maximum of 5% of gross rent. Examples of deductible expenses are property tax, insurance, mortgage interest and maintenance cost.

**First property:** Agent’s commission, advertising, legal expenses are not deductible

**Subsequent property:** Agent’s commission, advertising, legal expenses are not deductible

**Difference between being assessed as trading income and non-trading income**

Assessment under Section 10 (1) (a) allows claims for wear and tear allowances and the set off of losses and carry forward of losses. It is a question of fact weather rental income may be assessed as trade i.e., under section 10(1)(a) .

Income assessed as non-trade i.e., under Section 10 (1) (f) a will not enjoy the set off of losses and carry forward of losses including wear and tear allowances.

Rental income is taxed after deducting all allowable expenses. Expenses that our deductible are revenue expenses incurred in maintaining the property that was rented out. Expenses incurred before the property is left out will not qualify for deduction.

Examples of deductible expenses on a property tax, insurance, mortgage interest, repair and maintenance costs, etc. Rent collection fees are also deductible of the maximum of 5% of the gross rent of each property.

Examples of non-deductible expenses are loan repayment, cost incurred in acquiring the property, costs incurred in securing the first tenant, cost of renovations. As a concession, Comptroller will allow a text deduction for agent’s commission, advertising and legal expenses for securing the first tenant of a subsequent property.

If the net rental income is a deficit where the deductible expenses incurred on the property exceeds the Gross rent, the deficit cannot be set off against any other income nor carry forward to setoff future rental income. This is because such deficit is not considered as loss arising under section 10 (1) (a).

If the property rented out is vacant in between tenants, revenue expenses incurred during the vacant period can qualify for deduction. However, a property tax is refund can be claimed for the vacant period of more than one month, accordingly, no reduction will be granted if refund is claimed. The government has announced in the 2013 budget that from 1 January 2014, the property tax refund concession will be removed.

In practice, as a tax concession, for rental income that is accessible under Section 10 (1) (f), the IRAS allows grouping of rental income to minimize the text effect on rental income. This basis of assessment is illustrated in the ensuing paragraphs.

Foreign sourced rental income derived from property located outside Singapore will only be assessed when received or is deemed to have been received in Singapore on remittance basis. For individual taxpayers (resident & non-resident), all foreign sourced income received is tax exempt except where the foreign sourced income is derived through a partnership in Singapore.

**Royalties**

These are amounts paid for the right to use an asset for example patent or copyright.

**Author, composer or choreographer**

The royalty received by the individual or company in which he is beneficially entitled to all the shares, will be assessed based on a concessionary rate of 10% on the grass royalty or net royalty whichever is the lower amount.

The concession does not apply to realities are payments received for work published in any newspaper are periodical. The publisher must also be carrying on business in Singapore.  
  
**Inventor, author, operator, designer or creator of an approved intellectual property or approved Innovation**

Like others or composers, royalties received by an inventor or author of an approved invention or approved product innovation as consideration for the assignment of or for the right in the approved invention or approved product innovation will be assessable on the lower of 10% of gross royalties or net royalties.

The above tax treatment will also apply to royalty income received by a person:

- For the assignment of all the right to use the copyright in any literacy, dramatic, musical or artistic work: or

- In the business of recording music or producing films or plays.

With effect from 1st April 2006, the above text treatment has been extended to: 

- a company in which the inventor or Author owns all the issues shares; and

- To royalties and other payments received by persons who are engaged in the interactive digital media and industrial design sectors.

A large part of the work must be undertaken in Singapore.

**Premium and any other profits arising from property**

Payment by lessee in any lease agreement to the landlord for the right to use an asset is a premium which is taxable.

Income arising from property which does not fall within the meaning of rents: royalties and premiums are taxable as other profit arising from property.

**Income arising from property for owner residential use**

The net annual value (NAB) of property used by the owner for residential purposes and not for the purpose of gain or profit is not accessible with effect from Year of assessment 2010.

**Interest received from negotiable certificate of deposit (NCD)**

What are an NCDs? They are documents issued by a bank and is payable to the bearer of certificate with interest at the stated rate on maturity. They are freely negotiable and issued for not less than S$100,000 or $50,000.

The following describes how an NCD works:

a. A depositor will place the nominal value of the NCD with the bank. He becomes the original holder of the NCD.

b. The original holder can keep the NCD until maturity collecting the interest but he can also negotiate NCD if necessary to a buyer.

c. A buyer of a ‘second hand’ NCD is known as subsequent holder.

There is a different text treatment for interest received by a financial institution and any other tax payer.

Any premiums paid can be deducted against interest received.

And the gain or loss on an NCD sold by a subsequent holder who has received interest is calculated by comparing the proceeds with the lower of the issue price or the purchase price.

Upon redemption any gain will be assessed as profits to a financial institution or as interest to any other tax payer.

Losses on sale or redemption are trading loss to a financial institution.

**Game or profits of an income nature**

It is intended to cover any gains or profits of an income nature that do not fall under income that has been identified above.

There's no clear guidance on whether any gain or profit derived from a transaction will fall under this section. However, what is clear is that a receipt of capital nature is not within this section.

Examples of income that falls within this section are:

- Commissions received for offering assistance in buying and / or selling of properties;

- Fees received from introducing clients/customers to professionals or businessmen.

- Income received from offering occasional advice, consultation or assistance of any kind. 

- Withdrawals from supplementary retirement scheme.

**Tax exempt income**

Income that falls within the scope of the charging section may be exempted for specific reasons such as to encourage overseas investment. And income which is exempted from tax will not part of the tax payer’s statutory income.

Section 13 of the Act is the main section that provides exemption of tax for certain income. This exemption is granted for various reasons such as to encourage savings, overseas investment, etc. and include the following;

**Lump sum payments received by way of commutation of pension**

A pension recipient could arrange to receive a lump sum now in exchange for some of his future pension payments. The procedure is known as commuting future payments.

The amount that is exempt will be restricted to the extent of such sum as a comptroller may determine relating to the period of employment of that individual with the employer before 1st January 1993.

**Singapore pension paid to Singapore resident**

And you income derived by a person resident in Singapore from any pension granted under any written law relating to pensions in Singapore, or from any pension paid under such other pension schemes as may be approved by the Minister is exempt from tax.

With effect from year of assessment 1994, pension is payable by private employer in respect of the employment after 31st December 1992 is no longer tax exempt. However, the amount of pension relating to the period of his employment with the employer before 1st January 1993, shall continue to be tax exempt.

Meanwhile, pension payable by the public employer i.e., the Singapore government shall continue to be tax exempt.

**Death gratuity**

Death gratuities are tax exempt. The exemption also applies to compensation or damages for permanent disablement or injuries.

**Retiring gratuities**

With effect from Year of assessment 1994, retiring gratuities and pension received from private employers will be taxable when these are received by the employees.

Retirement gratuities paid out of contribution made to existing approved pension and provident funds will be taxable.

However, retiring gratuity paid after 31st December 1992 out of contribution made to these funds up to 31st December 1992 will continue to be tax exempt.

The amount that is exempt will depend on the amount which the Comptroller determines relating to the period of employment of that individual with the employer before 1st January 1993.

The aforesaid exemption with this requirement is also extended to retiring gratuities received from unapproved pension or provident fund. This is provided that the following conditions are met:

- The pension or provident plan must have existed before 26/2/93;

- The retirement benefit must be available to all staff;

- The same formula for computing the retirement benefits is used for all stuff, and

- The benefits provided are no more generous than the most generous benefits provided by an approved plan.

**Central Provident Fund, designated approved pension or provident Fund**

Sums standing in an employee’s account with the Central Provident Fund or with an approved pension are provided fund designated by the Minister for Finance are exempt from tax. Amount withdrawn from these accounts is also tax exempt.

**Bank deposit interest**

Income derived from or after 20th August 1968 from interest on money held on deposit in an approved bank in Singapore by a non-resident person is tax exempt.  
With effect from year of assessment 2008, the exemption is extended to a non-resident person who carries on operations in Singapore through a permanent establishment in Singapore as long as the deposits are not funded through the operations in Singapore.

**Interest on Asian dollar bond**

Interest received from approved Asian dollar bond by non-resident person is tax exempt.

**Emoluments of Singapore ship crew**

Income derived from employment exercised substantially outside Singapore on board a Singapore registered ship is tax exempt.

**Childcare subsidy**

Any subsidy, allowance or benefit provided by an employer to his employees tax exempt.

**Investment income received by individuals**

The following investment income derived from Singapore is tax exempt for any individual.

- Interest from approved bank and finance company

- Interest income from debt securities.

- annuity income except those purchased by the employer.

- Income from life insurance policy.

- Distribution from a unit trust.

- Income from Islamic debt securities.

- Income from any structured product offered by a financial institution.

**Employment income of employees on Short Visit Terms**

Employment income of non-resident derived from Singapore for employment exercised in Singapore for an employment not exceeding 60 days in a calendar year is tax exempt.

This exemption does not apply to a director or a public entertainer whose visits are not substantially supported from public funds of the government of another country.

**Foreign Source income derived by individual**

Income arising from sources outside Singapore and received in Singapore by an individual is tax exempt.

However, foreign sourced income received by an individual through a partnership in Singapore will be taxable unless certain conditions are fulfilled.

**Foreign source income derived by non-individual**

Dividends branch profits and services income arising from sources outside Singapore and received in Singapore by a resident person can be tax exempt if certain conditions are fulfilled.

**Exempt Dividends**

The following dividends declared by Singapore resident companies are exempt from Singapore tax;

a) dividends declared by Singapore pioneer companies out of Pioneer income;

b) tax-exempt (1-tier) dividends declared by companies on or after 1 January 2008 under the one tier corporate tax system.

**Reliefs**

**Personal relief**

**Tax reliefs**

Tax reliefs are allowable on a preceding year basis. These reliefs are given as deductions against in the individual’s assessable income and are available only to individuals who are tax resident in Singapore.

**Types of relief**

**Earned income relief**

Earn income relief is given if a resident individual receives earned income. Earned income refers to income and individual receives from employment, pension, trade, business, profession or vocation. On the other hand if an individual suffered a loss from trade, business, profession, or vacation, or if there's a transfer of such losses or capital announces from his or her spouse, these losses will be set off against the other earned income first to arrive at the net earned income.

The definition shows that income is earned where there is a physical effort put up by a resident individual unlike income derived from investments.

With effect from the year of assessment 2013, the quantum of earned income relief is based on the lower of actual earn income and the following;

|  |  |  |
| --- | --- | --- |
| **Age** | **Max Earned Income Relief** | **Max Earned Income Relief for the Handicapped** |
| Below 55 | $1,000 | $4,000 |
| 55 to 59 | $6,000 | $10,000 |
| 60 and above | $8,000 | $12,000 |

The age is referred in the above is at any time in the basis year a resident individual is 55 years and above, the Earned Income relief will increase accordingly.

For partnership income, only and active partner is entitled to earn income relief on his share of partnership income while sleeping partner is not.

**Relief for spouse**

With effect from year of assessment 2010, a resident individual can claim $2,000 as spouse relief if he/she has a spouse living with or maintained by him/her at any time during the basis year.

A resident individual can claim the relief of $5,500 if he/she maintains a spouse who is mentally or physically handicapped during the basis period.

No spouse relief will be granted if the spouse’s annual income (e.g. salary, tax exempt income such as interest, dividend, and pension etc.) is more than $4,000.

However, if the spouse's annual income is not more than $4,000, spouse relief of $2,000 is granted.

The annual income threshold does not apply to handicapped spouse with effect from YA 2010.

With effect from YA 2012, spouse relief cannot be claimed on alimony paid to ex-wife.

Taxpayer cannot claim spouse relief if someone else has claimed relief in respect of the spouse (except Grandparent caregiver relief). For example the child has claimed parent relief on the spouse.

**Child relief**

Child relief is available if a resident individual is maintained and unmarried child who is below 16 years old at any time during the basis year. If the child is 16 years and above, the child must be receiving full time education at a school, college or university. The child must be a legitimate child or a stepchild or legally adopted child to qualify for this relief.

The relief available is classified under either of the following categories:

**Qualifying child relief (QCR)**

With effect from year of assessment 2009, QCR of $4,000 can be claimed for each qualifying child. Both husband and wife, who are resident individuals of Singapore, may share the QCR.

With effect from YA 2010, if the child’s annual income (other than received from scholarships, bursaries or similar educational endowment) for the basis year exceeds $4,000, no relief will be given.

**Handicapped child relief (HCR)**

HCR of $7,500 will be allowed to a resident individuals who maintained and unmarried child incapacitated from maintaining himself because of physical or mental handicap. With effect from YA 2010m the annual income threshold of $4,000 has been removed.

**Working mother's child relief (WMCR)**

This relief is available only to;

- A resident married woman;

- A resident divorcee;

- A resident widow;

who maintains a child who is a Singapore citizen as at 31st December of the year preceding the year of assessment.

With effect from year of assessment 2009, the WMCR are available is set out below:

Child Order WMCR Amount

1st 15% of mother’s earned income

2nd 20% of mother’s earned income

3rd and subsequent child 25% of mother’s earned income

The amount of QCR or HCR can be apportioned as agreed between the resident individual and his spouse. A taxpayer can only claim 1 type of child relief for the same child.  
  
In this case if a child qualifies for QCR and HCR, the taxpayer will claim HCR which gives the highest relief. For a married female taxpayer who qualifies for WMCR, she will definitely claim WMCR. She may also claim the full child relief WMCR+ QCR or HCR for the same child if this choice will reduce the overall tax liability for the couple. This situation will arise when wife’s income is substantially greater than the husband. In this respect the marginal tax rate applicable to her is greater than that of her husband.

Mothers can claim WMCR even if you and/or your husband or ex-husband has already claimed [Qualifying Child Relief (QCR) or Handicapped Child Relief (HCR)](https://www.iras.gov.sg/IRASHome/Individuals/Locals/Working-Out-Your-Taxes/Deductions-for-Individuals/Qualifying-Child-Relief--QCR--/-Handicapped-Child-Relief--HCR-/)on the same child. However, you must satisfy the following conditions:

* QCR/ HCR claims will be allowed first. (It does not matter whether the claim is made by the mother or father);
* The total cap (QCR/HCR plus WMCR) is $50,000 per child; and
* The WMCR is limited to what is left after the QCR/HCR claim is allowed.

**Parent/handicapped parent of relief**

A resident can claim this relief if he maintains his or his spouse's parents, grandparents or great-grandparent living in Singapore.

The relief is $9,000 if the dependent is living with the taxpayer and $5,500 if the dependent is not living with the taxpayer. Relief can be claimed for a maximum of two dependents only.

If more than one taxpayer maintains the same dependent, the relief cannot be shared between the taxpayers. Instead they would have to decide who will claim in the relief.

The following conditions must be satisfied:

a) The dependent is living in your household. If the dependent lived in a separate household in Singapore, taxpayer must have incurred $2,000 or more in supporting him/her in that year;

b) The dependent must be aged 55 years or more; if bellow 55 year old the dependent is either physically or mentally handicapped;

c) The dependent’s income must not exceed $4,000 a year. This income threshold does not apply to handicapped parents/grandparents.

d) No other person is claiming relief on the dependent, for example, wife relief.

The relief for handicapped parent is $14,000 if the dependent is living with the taxpayer and $10,000 if the dependent is not living with the taxpayer. In addition, the income threshold has been removed.

**Grandparent Care-giver Relief**

A relief of $3,000 is given to a working mother whose parent or grandparent is providing care to her children. The conditions are:

a) The care-giver is living in Singapore;

b) The child is a Singapore citizen and is 12 year and below;

c) The care-giver is not carrying on a trade, business, profession vocation or employment,

The relief can only be claimed against her earned income. Only entitled to claim for one grandparent notwithstanding more than one grandparents are providing care to the taxpayer’s children. If someone else has claimed GCR, the taxpayer will not be entitled to claim the GCR.

**Compulsory contributions to CPF/Approved Pension or Provident Fund by Employees**

As an employee, a resident individual who is a Singapore citizen can claim the compulsory contributions made under the CPF rules. Under CPF rules, the employee’s CPF contribution rate apply to an employee aged below 50 years old is 20%.

**Ordinary Wages**

Ordinary wages are defined as any cash wages due to granted wholly and exclusively in respect of employment each month. The ordinary wages includes overtime pay, commissions, allowances and piece-work bonuses earned in each month.

Employee’s CPF contribution up a maximum monthly ordinary wages of $5,000 ($60,000 per year) is deductible with effect from 1 September 2011.

**Additional wages**

Additional wages are defined to include annual wage supplements, annual bonuses and other payments that are paid at intervals of more than a month.

The additional wages that are subject to CPF contribution are based on the lower of;

a) $85,000 – ordinary wages subject to CPF; or

b) Actual additional wages.

**Contributions to CPF by Self-Employed Individuals**

It is compulsory for a self-employed individual who is Singapore citizen/permanent resident to contribute to his Medisave account if his net trade income is more than $6,000 per year. The contribution rate is based on the amount of his annual net trade income and age.

Net trade income refers to gross trade income after deducting allowable expenses, capital allowances and trade losses.

Self-employed resident individual who makes voluntary contributions to CPF is allowed CPF Relief for Year of Assessment 2014 based on the lower of;

a) Actual total CPF contributions (including any compulsory Medisave contributions).

b) 37% of his net trade income from business. Trade, profession or vocation, of that YA;

c) $31,450 (Based on 5,000 x 17 x 37%).

**Life insurance premium relief**

For each life insurance policy, the amount of premium paid by taxpayer for his life or his wife that will qualify for deduction is restricted to 7% of the capital sum secured on the death from such policy.

However, the maximum life insurance premium that is deductible will depend on the contribution (voluntary or compulsory) made to CPF/approved pension fund. If there is no contribution the aforesaid, the maximum life insurance premium relief is $5,000. On the other hand if the contribution is less than $5,000, the amount deductible will be restricted to $5,000 – such contribution (CPF/approved pension fund) and if it exceeds $5,000, no deduction will be allowed for life insurance premium.

In the case of any insurance contract entered into by an individual resident in Singapore on or after 10/8/73, the insurance company must have an office or a branch in Singapore.

**Total relief available for the sum of compulsory and voluntary CPF contributions, and life insurance premiums**

The total relief available for the sum of compulsory (including Medisave contribution by self-employed) and voluntary CPF contributions, and life insurance premium is $5,000 if former contributions do not exceed $5,000

If the combined contribution to compulsory and voluntary CPF exceeds $5,000, no relief is available for life insurance premium.

If compulsory CPF contribution is more than $5,000 but below $31,450, the maximum voluntary contribution relief is $31,450 minus compulsory CPF contributions.

**Course fee relief**

A resident individual who take up the following types of courses, seminars or conference would be entitled to course fee relief claim.

1. Seminars or conferences that relate to his trade, business, profession, vocation or employment.

2. Courses, seminars or conferences that do not relate to his trade, business, profession, vocation or employment that the time they were taken but are relevant due to career change. Relief is available if career is changed within 2 YA from the YA which he has completed the course or attended the seminar/conference.

3. Courses, seminars or conferences leading to approved academic and professional qualifications. With effect from YA 2009, relief is extended to an approved vocational qualification.

4. The course fees include registration or enrolment fees, examination fees, tuition fees and aptitude test fees (for computer courses). No relief is allowed for test books, travelling and living expenses.

5. With effect from YA 2011, the maximum relief is lower of $3,500 or the actual qualifying costs incurred.

6. With effect from YA 2009, the claim for relief can be deferred for courses, seminars or conferences leading to an approved academic and professional qualifications or vocational qualifications for up to two years of assessment (YA) if the taxpayer is unable to claim the relief due to assessable income not exceeding $22,000. The claim must be made when the assessable income first exceed $22,000 within the two YA from the YA relating to the year in which the course is completed or seminar. Conference is attended.

**Foreign maid levy relief**

This relief is only given to a woman resident in Singapore who is;

a) Married and living with her husband; or

b) Married and her husband is not resident in Singapore; or

c) Married but is separated from her husband, a divorcee or a widow who, in the basis year has any unmarried child living with her in the same household in Singapore in respect of whom she may be allowed child relief.

The maximum relief allowable is two times the amount of foreign maid levy paid for one maid in the basis period. The normal maid levy is $265 per month. For qualifying households with children below 12 years old or elderly persons aged 65 and above in the family, the levy is $170 per month.

The wife is entitled to the relief even in payment of the levy is made by her husband. However, this relief is only allowed against her earned income.

**NS Man relief**

A resident individual who has served national service and gone for in-camp training during the basis period is given an automatic deduction of $3,000. But a resident individual who has completed national service but did not perform in-camp training during the basis year is entitled to $1,500 only.

With effect from year of assessment 2007, an additional $2,000 relief will be granted to NS Key Command and staff appointment holders.

NS Man (wife) relief is available to the wife of NSman if the taxpayer’s wife is Singapore citizen, she can claim relief of $750.

NSman (parent) relief is available to the parents of NSman if the parent of the NSman is a Singapore citizen. The maximum relief for each parent is $750 regardless of the number of children who are NSman. Only two parents are entitled to claim such relief in respect of the same NSman.

Taxpayer can only claim either NSman (self) or NSman (parent) relief, whichever higher. Similarly, taxpayer can only claim either NSman (wife) or NSman (parent) relief, not both.