50 Shades of Tax

by Joanna Wong, Senior Manager, Singapore Institute of Accredited Tax Professionals (SIATP) based on insights from SIATP's Tax & Levies Committee and SME Tax Sub-Committee. For more tax insights, please visit www.siatp.org.sg.

Everyone must have heard this age-old advice from their doctors, "Prevention is much better than cure." The same can be said for tax. In the words of a retiring Big Four tax partner, "Prevention is much, much cheaper than the cure. But sometimes, taxpayers never seem to learn until it's too late."

Indeed, very often businessmen or employers perceive tax as a mere computational form-filling annual exercise. A *garang* (meaning "courageous" or "foolhardy" in Malay) business owner may even attempt to complete the various mandatory statutory tax requirements on his own and many others may try to haggle their generalist consultants to include tax services for free *(no more!)* in their scope of work.

Do these business owners or consultants truly know the latest tax developments if tax is not a key focus of their day-to-day work? As Singapore Institute of Accredited Tax Professionals' (SIATP) SME Tax Sub-Committee member, Accredited Tax Advisor (Income Tax & GST) N Vimala Devi commented, "Tax is an evolving subject where being regularly updated and possessing practical experience are key. It is a specialist area which requires expert knowledge of the Income Tax rules and legislation. If a person just delves into tax on an ad hoc basis then such a person may not fully understand the application of the Income Tax rules." Ms Devi is Tax Director, BSL Tax Services Pte Ltd.

There are many e-guides on a wide range of tax areas on the Inland Revenue Authority of Singapore's (IRAS) website which provide clarity on how IRAS interprets the Income Tax laws but are not law-binding. Individuals who do not have specialised tax knowledge may not fully comprehend the interpretation, and may not therefore be able to make an informed judgement.

SIATP and its technical committees, comprising highly established tax specialists with a wide repertoire of tax experience, shed light on some of these corporate tax misconceptions that taxpayers may not even be aware of and which may result in taxpayers facing dire consequences.

Awareness of Latest Tax Changes

On this note of unawareness, some business owners and taxpayers who do not engage a tax consultant may not, for example, be aware that they are able to file an objection to the Notice of Assessment (NOA) issued by IRAS.

While the period to file an objection has been extended from 30 days to two months from the date of service of the NOAs dated on or after 1 January 2014, taxpayers must also now state the precise grounds of objection and submit supporting documents if any for the objection to be valid. It must also be noted that even if an objection is lodged, the taxes must still be paid within one month from the date of service of the NOA.

Difference in Income Per Financial Statements and Chargeable Income

Businesses, particularly those which choose to do their own tax filing, may not be aware of the complete requirements in tax filing. The income for a business may not be the same figure as that reported in the entity's tax return. This is because some of the company's income may not be taxable while some expenses may not be deductible for tax purposes. Thus the income should be adjusted first before tax may be computed.

For example, as Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Tax Director, Crowe Horwath First Trust Tax Pte Ltd, pointed out, "Some businessmen tend to have the misconception that private motor vehicle expenses, such as maintenance, petrol and ERP charges are tax deductible if they are incurred for business purposes, such as travelling to meet clients, and therefore make erroneous claims in their tax returns.” Mr Saravan is a member of the SME Tax Sub-Committee.

In addition to expenses that are not tax deductible, there may also be income that are not taxable and thus should not be included to the net profit or loss when determining a company’s tax obligations. Some of these non-taxable income include capital gains such as gains from sale of fixed assets.

Tax Complications Galore

As if determining the correct income or loss amount that is taxable is not complex enough, complications pile on in various areas. For example, while the company’s private car-related expenses are not deductible as stated in the earlier example, the related expenses such as car park charges and petrol are deductible for commercial vehicles.

Another common item in many businesses’ financials is government grants. Business owners who have leveraged on the various government grants will realise when they attempt to complete their businesses’ tax returns that not all grants have the same tax treatment!

Grants will be taxed if they are given to supplement the trading receipts or to defray operating expenses of the company, unless exemption from tax is provided under the provisions of the Singapore Income Tax Act. An example would be the SME cash grant which is not taxable. On the other hand, if the grant is given to the company to acquire capital assets, it is capital in nature and is not taxable.

These are just the tip of the ice-berg on the complexities of tax one considers in addition to issues such as the taxpayer’s obligations to report remuneration including benefits in kind provided to employees, compliance with withholding tax obligations and timing rules when claiming certain expenses such as directors’ fees payments and bonuses paid to staff.

To add on, hefty penalties may be imposed when errors or omissions are detected in taxpayers’ returns. Depending on individual circumstances, a penalty ranging from 100% to 200% of the amount of tax undercharged may be imposed for filing an incorrect return or providing incorrect information to IRAS. A fine up to $5000 or imprisonment up to three years may also be imposed.

On this note, IRAS has put in place a Voluntary Disclosure Programme (VDP) that aims to encourage taxpayers who have made errors in their tax returns to voluntarily come forward to correct their errors. Reduced or no penalties may be imposed if an error is voluntarily disclosed under the VDP. In this aspect, taxpayers must also be aware of the intricate issues involved and the changes put in place in this area.

SIATP Board Member and Head of SIATP’s Tax & Levies Committee, Accredited Tax Advisor (Income Tax) Latha Mathew summed up, “While IRAS has made an admirable effort in putting loads of easily-understood information online, businesses may have the wrong perception that tax is a simple exercise. Tax issues are aplenty. Businesses may expose themselves to undue risk by attempting to deal with complex tax matters on their own without the help of an accredited tax specialist.” Ms Mathew is Tax Partner at EY in Singapore,

SIATP Board Member and Chair of SIATP SME Tax Sub-Committee, Accredited Tax Advisor (Income Tax & GST) Simon Poh added, “Small and medium-sized businesses may seem to have less complex tax issues to grapple with. However, these businesses are also prone to cash flow issues. Having a well-advised tax plan in place helps. The business owner can then have peace of mind to focus on the core aspects of his business.” Mr Poh is Tax Director, Nexia TS Tax Services Pte Ltd.