



## TED: Trigger Points: Be Alert, Be Ready

*Know the tax implications at key business milestones*

22 January 2016, Friday

*Facilitated by:*  
Accredited Tax Advisor (Income Tax & GST) Ms Boey Yoke Ping

**A** business life cycle is punctuated with a myriad of key milestones. While businesses focus on achieving financial targets or product development milestones, many overlook or may even be ignorant of tax implications at various business junctures.

### *Tax Compliance*

---

At the beginning, even before registering the business name, business owners need to decide on the type of business to be set up – ranging from a sole proprietorship to a company – as this has corresponding tax implications in terms of deductions, tax rates and tax exemptions, to name a few.

### *Deductibility of Expenses*

---

It is important for business owners to put adequate processes in place to segregate business and personal expenses. Business expenses are the costs incurred in the course of running your business, and only deductible business expenses (those that are wholly and exclusively incurred in the production of income) may be used to reduce the taxable income.



*Accredited Tax Advisor (Income Tax & GST) Boey Yoke Ping, Tax Leader at Baker Tilly TFW LLP, identifies the tax impact businesses may face at various business junctures and highlights blind spots and common errors experienced by businesses.*

---

At a recent *Tax Excellence Decoded* session organised by the Singapore Institute of Accredited Tax Professionals, Accredited Tax Advisor (Income Tax and GST) Boey Yoke Ping, Tax Leader at Baker Tilly TFW LLP, commented, “It is essential to ensure documentation processes, such as the filing of receipts, are in order and implemented effectively to ensure the business is not put in an undue tax risk position at a later stage.”

While seemingly straightforward, the segregation of expenses may be quite a complex affair particularly for first-time business owners. For example, the salary, bonus, allowances, insurance and medical expenses (subject to conditions) of employees are allowable business expenses (which may be claimed as deduction to reduce the taxable income) for sole proprietorships and partnerships, but the business owner’s own salary, bonus, allowances, Medisave and CPF contributions, medical fees, income tax, insurance, and donations are not.

## Personal Tax Matters

---

Business owners will also have to grapple with tax-related matters pertaining to their employees. Specifically, the Return of Employee's Remuneration (known as Form IR8A and its accompanying appendices) must be prepared and given to all employees (including full-time and part-time resident employee, non-resident employee, resident and non-resident director and pensioner) by March 1 each year. Employees are required to submit their individual income tax return by April 15 (or April 18 for e-Filing).



## GST Requirements

---

Businesses should regularly monitor the need for GST registration as they grow. GST registration is necessary when the business's taxable turnover for the past 12 months ending March, June, September or December is more than S\$1 million, or when the business has grounds to reasonably expect its taxable turnover in the next 12 months to be more than S\$1 million.

If a business does not exceed S\$1 million in taxable turnover, it may still choose to voluntarily register for GST after careful consideration of factors such as the profile of its suppliers (whether they are GST-registered) and the amount of input tax<sup>1</sup> that it may be able to claim.

## Crossing Borders

---

Businesses using Singapore as the regional hub to expand overseas may move goods and people across borders, or possibly set up overseas entities. These have tax implications.

Businesses which export more than 50% of their goods may take advantage of the Major Exporter Scheme (MES). Designed to ease cashflow issues, businesses under this scheme do not need to incur GST charges on their imports.

It is important for businesses to be clear on when GST registration is required. Errors in this may result in IRAS reviewing and determining the rightful GST registration date. Businesses could then be required to account for GST from that date despite not collecting any GST on such supplies from their customers previously. Business costs are thus affected.

It should be noted that when applying for or renewing the application of MES, businesses will have to perform a self review using the Assisted Self-help Kit (ASK). Other tax implications include value-added tax which is similar to GST, customs duties and excise duties.

---

<sup>1</sup> Input tax is the GST that businesses incur on their purchases from GST-registered suppliers or when they import goods into Singapore.

## Cross-Border-Related Party Transactions

---

There has been heightened scrutiny in this area, especially in view of developments spearheaded by the Organisation for Economic Co-operation and Development (OECD) in putting in place measures to minimise base erosion and profit shifting by businesses moving incomes from high tax jurisdictions to lower tax jurisdictions.

Since the start of 2015, taxpayers in Singapore are required to prepare and keep contemporaneous transfer pricing documentation. This requirement essentially stipulates that at the point of a cross-border-related party transaction, there must be documentation in place to justify the transaction price (which should be comparable to prices that unrelated parties would have charged in similar circumstances).

## Cross-Border Staff Movements

---

Businesses expanding overseas will have to manage international staff movements as such movements may have tax implications – both for the business and employee – not to mention other legislative and remuneration matters.

From a business' perspective, there are generally three types of policies which are commonly used to handle international relocation. A tax equalisation policy aims to ensure the staff relocating pays the same amount of worldwide taxes as if he had remained in the home country. A tax protection policy, on the other hand, aims to reimburse the staff for any additional taxes incurred as a result of an international assignment. Alternatively, businesses may also choose to bear the foreign tax (partially or fully) for the employee. Regardless of the policy, the overarching objective is to provide certainty to the employee in terms of his tax obligations.



A good mix of tax professionals coupled with non-tax management executives listened intently to Accredited Tax Advisor (Income Tax & GST) Boey Yoke Ping, Tax Leader at Baker Tilly TFW LLP.

Beyond personal tax issues, businesses should also be conscious of possible corporate tax exposures in foreign countries arising from international staff movements (regardless of whether there is physical office space in the country).

## Cross-Border Services

---

Other than international staff movements, businesses may also engage third parties in its international operations. Be it consultants, contractors or other professionals, fees are paid for their services. Such fees could trigger withholding tax obligations.

When a payment of a specified nature (such as royalty, interest or technical service fee) is made to a person not known to be a resident in Singapore, a percentage of the payment must be withheld and paid to IRAS by the 15<sup>th</sup> day of the second month in which the payment is made. The amount of withholding tax may be reduced by relevant clauses in the respective double taxation agreement.

Withholding tax is a collection mechanism that IRAS uses to collect taxes from foreign companies or individuals.

## Repatriating Profits

---

Following their expansion to overseas markets, businesses may want to repatriate profits from abroad. Broadly, companies may choose to repatriate via the “above the line” or “below the line” methods.

Profits repatriated via “above the line” methods could be in the form of service fees paid to parent company, interest on borrowings and sale of goods. Issues pertaining to related-party transactions (such as transfer pricing) should be managed in these situations.

Profits may also be repatriated via “below the line” methods such as dividend distribution or branch profit remittance. In these scenarios, taxes are generally borne by the overseas subsidiary or branch.

## Sale of Business

---

The sale of a business may have corporate tax implications for a company or group (for example, whether the gain on sale is taxable) and could impact its overall profitability. It may also lead to other corporate tax issues such as the failure to meet conditions to make use of unutilised tax loss items.

For GST-registered entities, the sale of a business may lead to the question on whether the business is transferred as a going concern (and thus excluded from GST obligations).

Regardless of whether the business is transferred as a going concern, the transferor entity is reminded to cancel the GST registration. Separately, personal tax matters, such as the filing of Form IR8A and Form IR21 (for foreign workers), should also be considered.

It is critical that businesses do not brush tax issues aside as a secondary affair at every business milestone. An unexpected tax consequence may be costly, if not crippling, to a business (both in terms of finances as well as manpower resources). Be Alert. Be Ready.

---

Facilitator



**Ms Boey Yoke Ping**

Accredited Tax Advisor (Income Tax & GST)

Tax Leader, Baker Tilly TFW LLP

T: +65 6336 2828

E: [yokeping@bakertillytfw.com](mailto:yokeping@bakertillytfw.com)

---

*This technical event commentary is written by SIATP's Director, Joanna Wong and Head of Tax, Felix Wong. This article is based on SIATP's Tax Excellence Decoded session facilitated by Accredited Tax Advisor (Income Tax & GST) Boey Yoke Ping, Tax Leader at Baker Tilly TFW LLP.*

For more tax insights, please visit [www.siatp.org.sg](http://www.siatp.org.sg).