Revving Up for the Individual Tax Season

Avoiding Common Errors For This Year's Tax Filing

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A company in the fragrance business gives a bottle of perfume valued at $200 to its employees as recognition for their work performance. Is the perfume taxable from the employee's perspective? The answer is yes.

"It is a common misconception that benefits are not taxable as long as the value does not exceed $200," shared officers from Inland Revenue Authority of Singapore (IRAS) at a recent webinar organised by the Singapore Chartered Tax Professionals. "Awards given in recognition of work performance, whether in cash or otherwise, are fully taxable."

COMMON TAX REPORTING ERRORS TO AVOID

Making tax reporting errors can be costly for employers, as IRAS may impose penalties on incorrect tax returns. Some common tax reporting errors made by employers are highlighted below.

FOR EMPLOYERS UNDER THE AUTO-INCLUSION SCHEME

Under the auto-inclusion scheme (AIS) for employment income, employers submit yearly employment income information of their employees to IRAS electronically. The submitted information is then automatically included in the employees' income tax assessment.

Omission of Income

While most employers under the AIS have no issues reporting the income that they pay to their employees, they may omit the remuneration (such as bonuses and part of salaries) paid by their overseas related companies directly to their employees, or the contributions made to employees' overseas pension funds, in their tax reporting. Such omissions may arise from the lack of transparency on payments made outside Singapore by the overseas related companies directly to the employees.

To avoid the omission of income, employers need to check that the remuneration information attained from their overseas related companies (where applicable) is complete, so that all gains and profits derived by employees due to their employment, regardless of whether they were paid or payable to the employees in or outside Singapore, are reported.

Tax Treatment Errors

It is not uncommon to find employers applying the wrong tax treatments due to outdated tax knowledge. For example, home leave passages provided to expatriates, their spouses, and children since Year of Assessment (YA) 2018, have become taxable in full. However, instead of reporting the actual costs incurred, some employers continue to declare the taxable value of home leave passage as 20% of the cost of passage (based on the previous tax concession that is no longer applicable), leading to the tax treatment errors. To avoid such errors, it is important for employers to keep abreast of tax developments and ensure that the company's systems and processes are in line with current tax treatments.

Tax Reporting Errors

One of the common tax reporting errors for employers under the AIS springs from the non-conversion of income in foreign currency into Singapore dollar. An example is the reporting of gains from employee share option plans (ESOP) or employee share ownership plans (ESOW) granted in foreign currency in the Form IR8A and Appendix 8B, without first converting them into Singapore dollars.

Such errors typically arise from the lack of proper controls (for example, the accuracy of income information is not verified by the management) or may simply be an oversight. Income in foreign currency should be converted into Singapore dollar for reporting using the exchange rates data available in the Monetary Authority of Singapore's website.

Computational Errors

Employers may at times make computational errors and understate (or overstate) the value of the taxable benefits provided to their employees. Such errors may arise from a lack of proper controls (such as the company failing to verify the accuracy of the computation prepared by external service providers), or a lack of supporting documents to substantiate the computation. For example, an external service provider may have applied the wrong leased period for the car when computing car benefits, or the company is unable to pick up on the error due to the lack of supporting documents. To minimise computational errors, the company should ensure that all relevant information and supporting documents are readily available prior to computing an employee's taxable benefits.

For Commission-Paying Companies Under the Pre-Filling Scheme

Errors commonly made by commission-paying companies include the omission of income (specifically, incentives and trainer's fees) and incorrect tax reporting in clawback situations.

Omission of Incentives and Trainer's Fees

There is a common misconception among commission-paying companies that certain incentives need not be reported as part of an agent's income (as they are not directly related to the production of commission income). Commission-paying companies should note that incentives (such as cash awards, overseas incentive trips, and childcare subsidy to recruit and retain working mothers) provided to agents, either to motivate them to excel in the marketing of the agencies' products or reward them for meeting certain sales targets, are connected to the performance or services of the agents. Accordingly, such incentives are taxable as gains and profits arising from the trade, business, profession, or vocation carrying on by the agents.

On the other hand, there are certain payments or items provided to agents that are not intended to be incentives and have no connection with the performance or services of the agents and, as such, would not be taxable. Likewise, payments or items provided for the fostering of goodwill and relationship between agent and agency (such as door gifts and prizes providing during team-bonding events), or provided for the purpose of identification with the agency or is necessary for their business (such as letterheads and stationery), are generally not taxable.

Incorrect Tax Reporting in Clawback Situations

Some agents are provided with sign-on incentive bonuses which have to be repaid fully or partially if certain targets are not met. Such sign-on bonuses are taxable at the point the full payment is made. In the event that an agent does not meet his targets and there is a subsequent clawback of his bonus, the commission-paying company is required to report all commission income received by the agent in the year (instead of offsetting the bonus being clawed back against the commission income the agent earned). The agent can then claim the amount being clawed back as a deduction in the year of the clawback.

Claiming Estimated Expenses

FOR SOLE PROPRIETORSHIPS AND PARTNERSHIPS

Tax reporting errors commonly associated with sole proprietorships and partnerships are the claiming of tax deduction on excessive remuneration paid to related parties, private expenses, and estimated expenses.

Claiming Excessive Remuneration Paid to Related Parties

Sole proprietorships and partnerships may sometimes claim tax deduction on excessive salary, bonus and commission paid to related parties (for example, family members) due to their misconception that the full amount is allowable for tax deduction since there is an employment relationship with the related parties and the payments are incurred for business.

Tax deduction would be allowed to the extent that the amount of remuneration commensurates with the actual services performed (such that it is in line with market rate or industry norms based on the scope of duties and working hours). However, if the sole proprietorship or partnership would not pay an independent employee with the same qualification and experience performing the same service the amount that it is paying its related party, the amount paid to the related party is likely to be excessive. Tax deduction would not be allowed on the excess remuneration.

Claiming Private and Domestic Expenses

Sole proprietorships and partnerships should also be mindful to claim only expenses incurred for the business and exclude any private and domestic expenses (such as food and household expenses, personal memberships and subscriptions, and insurance premiums taken up for self and family). It is critical for sole proprietorships and partnerships to be disciplined and maintain proper record-keeping of their business expenses.

Expenses can only be claimed based on actual amounts incurred, and not on estimates. In this regard, sole proprietorships and partnerships should maintain effective record-keeping practices to prevent the misplacement of documents or non-timely update of transactions. The best practice for record keeping is to maintain a full and complete physical or digital record of income and expenses (such as invoices, receipts, vouchers, bank and credit card statements, bills, cheques, proof of payments and other documentary evidence).

COVID-19 TAX GUIDANCE

As the YA 2021 individual tax filing season draws near, employers should take note of the following Covid-19 tax guidance:

EMPLOYMENT BENEFITS FOR ACCOMMODATION, FOOD, TRANSPORT AND DAILY NECESSITIES

Due to movement restrictions imposed within and across borders arising from the Covid-19 pandemic, employers may provide accommodation and other benefits to affected employees. A tax exemption has been granted on qualifying benefits given to employees in the calendar year 2020, subject to conditions and a cap on the amount of exemption. Qualifying benefits that are eligible for the tax exemption include cash allowance, reimbursement or benefits-in-kind for accommodation, food, transport, and daily necessities for the employees' use and consumption in Singapore.

WORKING REMOTELY FROM SINGAPORE DUE TO COVID-19

For a Singapore Citizen or Singapore Permanent Resident who is exercising overseas employment, but is now working remotely from Singapore for his overseas employment due to Covid-19, IRAS is prepared to treat the person as not exercising an employment in Singapore for the period from the date of his return to the date of his departure from Singapore in 2020, or up to 30 June 2021, whichever is earlier, provided certain conditions are met.

For a smoother individual tax filing season (and the many seasons ahead), employers need to, first and foremost, put in place a robust payroll process and have good internal controls to ensure accurate and complete employees' income information is transmitted to IRAS. This would help avoid unnecessary tax reporting errors which may result in penalties being imposed. It is also a good practice for employers to conduct regular reviews of their internal controls and where reporting errors are discovered, voluntarily correct these errors in a timely manner for reduced penalties.

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