

Tax Obligations of a Self-Employed

Outline

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- Medisave Contributions
- Keeping of Proper Records & Accounts
- Reporting a Complete & Accurate set of Business Income in your Income Tax Returns
- Offences & Penalties for Failing to Comply with Income Tax Law Requirements
- Conclusion



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Tax Obligations of a Self-Employed

- Considered a self-employed if you are carrying on a:
 - ❖ Trade
 - ❖ Business
 - ❖ Profession
 - ❖ Vocation
- Self-employed can be in the form of:
 - ❖ Sole-proprietor
 - ❖ Partner of a registered business

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Tax Obligations of a Self-Employed

- Tax obligations of a self-employed:
 - (i) File your Income Tax Returns (Form B) & make compulsory Medisave contributions
 - (ii) Comply with Income Tax Law requirements:
 - Keeping a proper records & accounts of your business for 5 years
 - Reporting a complete & accurate set of business income in your Tax Returns

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Tax Obligations of a Self-Employed

- (iii) Compulsory registration with IRAS as a GST-registered person if:
 - ❖ Your turnover exceeds \$1 million
 - ❖ Expecting your turnover for the next 12 months to exceed \$1 million
- There are offences & penalties for failing to comply with Income Tax/GST Law requirements

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Filing of Income Tax Returns

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Filing of Income Tax Returns

- A Return (Form B) will be sent to you usually before 15 March
- If you do not receive by then or if you receive a different Form, e.g. Form B1, you may:
 - ❖ Contact us through phone or email
 - ❖ Download the Registration Form for New Individual Taxpayer from our website if you just started business

Filing of Income Tax Returns

- Your income will be taxed in the year following the year *you earned* the income
- You should decide on your accounting period when you first started your business. Most accounting periods end on 31 December each year

Filing of Income Tax Returns

- For a **Sole-Proprietorship**:
 - Report business income under “Sole Proprietorship” in the “Trade, Business, Profession or Vocation” section
- For a **Partnership**:
 - Precedent partner is required to report the partnership income in Form P
 - All partners should report their share of partnership income in their Form B under “Partnership” in the “Trade, Business, Profession or Vocation” section.
 - Share of partnership income is the sum of your divisible profit/loss, salary, CPF, interest, rent & other income from the partnership

Filing of Income Tax Returns

- You will need to report your business income in a summarized 4-line statement in your Form B or Form P as follows:

Turnover
Gross Profit/Loss
Allowable Business Expenses
Adjusted Profit/Loss

Filing of Income Tax Returns

- If your turnover is less than \$100,000, you only need to report a summarized 2-line statement, i.e. turnover and adjusted profit/loss
- If your turnover is less than \$500,000, you are not required to submit a certified Statement of Accounts.
- However for both of the above instances, you must still prepare the Statement of Accounts and keep proper records of your business transactions
- If your turnover is more than \$500,000, you will need to furnish a certified Statement of Accounts that are signed by you, indicating that the accounts are true and correct

Medisave Contributions

- You have to make compulsory Medisave contributions if you are:
 - (i) A self-employed person
 - (ii) Singapore citizen or Singapore permanent resident
 - (iii) Earn a yearly net trade income of more than \$6,000
- Net trade income refers to your gross trade income less all allowable business expenses, capital allowances and trade losses as determined by IRAS

Keeping of Proper Records & Accounts

Keeping of Proper Records & Accounts

- You are required to keep proper records and accounts of your business transactions for 5 years with effect from 1 Jan 2007
- The records to be kept would include:
 - (i) Books of accounts recording income/receipts or expenditure/payments
 - (ii) Invoices, receipts and such other documents necessary to verify the entries in any books of accounts
 - (iii) Any other records relating to your trade, business, profession or vocation
- These records need not be forwarded unless called for verification. Improper records, merely approximate amounts, are not acceptable



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Keeping of Proper Records & Accounts

Turnover / Sales

- You need to maintain the following:
 - (i) Cash Register Tape
 - An internal tape to record all cash sales
 - Ensure all cash sales are put through the register
 - Retain internal tape as a source document
 - Record total amount of receipts in a daily cashbook
 - Provide for written explanation for any discrepancies

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Keeping of Proper Records & Accounts

Turnover / Sales

- (ii) Receipt Book
 - To issue serially printed receipts and retain a duplicate if gross income in any year exceeds \$18,000 from the sale of goods, or \$12,000 from providing services

However, you need not issue serially printed receipts if:

- (a) Use cash register to record all cash sales and invoices are issued for all credit sales OR
- (b) Input all sales into accounting software and invoices generated for all sales transactions and a duplicate retained

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Keeping of Proper Records & Accounts

Turnover / Sales

(c) In the absence of a cash register or accounting software, a daily sales record book should be maintained for all cash and credit sales

- The record book can be used to record all gross takings at the end of the day
- Advisable to record all takings on a daily basis rather than on a monthly or weekly basis
- Make necessary adjustments to reflect the correct gross takings for each day

E.g. Adding back money taken out of takings for various business and private cash expenditures and credit sales

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Keeping of Proper Records & Accounts

Turnover / Sales

- You must still issue receipts to customers if they so request.
- For GST-registered business, to issue **tax invoices** as required by GST legislation

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Keeping of Proper Records & Accounts

Turnover / Sales

(iii) Invoices Issued

- To issue invoices to record all credit sales
- Sales invoice to contain the following information:
 - ❖ Business name, address, telephone number, business registration number
 - ❖ Invoice date & number
 - ❖ Customer's name & address
 - ❖ Description of goods, quantity & price
 - ❖ Cash discount offered if any
 - ❖ Total price
- For GST-registered business, to issue **tax invoices** as required by GST legislation

Keeping of Proper Records & Accounts

Turnover / Sales

(iv) Returned Goods

- Goods sold may be returned due to damage, defects, incorrect goods or quantities being supplied
- You will need to issue a credit note to your customer for this adjustment to sales
- Alternatively, you could ensure that such adjustments are recorded

(v) Goods Taken for Private Usage

- If you have taken goods from your business for your own private use, or for family or friends, these should be entered in your business records



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Keeping of Proper Records & Accounts

Turnover / Sales

- You should record the relevant details in a “goods taken for private usage” book and the details to be recorded are:
 - ❖ Date of goods taken
 - ❖ Description of goods
 - ❖ Sale price of goods

(vi) Annual/Monthly Commission Statement for Commission Agents

- If you are a commission agent, e.g. insurance agent, real estate agent, distributor, remisier, you should retain the annual or monthly commission statements issued by your company

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Keeping of Proper Records & Accounts

Rental Income

- Generally, Rental Income = Separate source to be recorded under “Other Income”
- However if you are operating a food establishment, e.g. coffeeshop, eating house, food court, which sublet some of the stalls, you have to include the rental income received as part of your turnover.
- You should prepare an agreement, stating the period of tenancy and agreed rental amount, and duly signed by yourself and the tenant

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Keeping of Proper Records & Accounts

Purchases

- You are to keep proper documentation and records on all your business purchases
- Documents / Records required:
 - ❖ Invoices
 - ❖ Receipts with description
 - ❖ Cash/payment vouchers
 - ❖ Purchase record book

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Keeping of Proper Records & Accounts

Expenses

- You should keep proper documentation and records on all your business expenses
- You should obtain receipts or invoices when paying for such expenses
- For certain expenses incurred, you could also adopt the following practices:

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Keeping of Proper Records & Accounts

(i) Transport Expenses

- Transport expenses incurred for business purposes may qualify for a tax deduction
- However, transport expenses incurred in respect of a private car is not deductible even if incurred for business purposes
- The following details should be recorded for each travel:
 - ❖ Date and destination
 - ❖ Mode of transport
 - ❖ Person incurring it
 - ❖ Purpose of travel
 - ❖ Amount incurred
- Receipts such as taxi receipts which are readily available, should be kept

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Keeping of Proper Records & Accounts

(ii) Traveling Expenses

- Overseas travel incurred for business purposes may qualify for a tax deduction
- The following details should be recorded for each travel:
 - ❖ Date and destination
 - ❖ Mode of transport
 - ❖ Person incurring it
 - ❖ Purpose and duration of overseas travel
 - ❖ Amount incurred
- Receipts or other travel documents that substantiate your travel expenses, including meals & accommodation, should be retained

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Keeping of Proper Records & Accounts

(iii) Entertainment Expenses

- Entertainment expenses incurred for business purposes may qualify for a tax deduction
- The following details should be recorded for each travel:
 - ❖ Date and place of entertainment
 - ❖ Name of the person(s) entertained
 - ❖ Purpose for entertainment
 - ❖ Person incurring it
 - ❖ Amount incurred
- Invoices or receipts that substantiate the entertainment expenses should be kept
- Retention of credit card slips or monthly credit card statements are not acceptable

Keeping of Proper Records & Accounts

(iv) Staff Remuneration & Employer's CPF Contributions

- Staff remuneration includes wages, salaries, bonus, commission and allowances
- You need to keep adequate records, e.g. payment vouchers or remuneration schedule, for your claims of remuneration expenses, and CPF statements for your claims of employer's CPF contributions
- You may use these records to prepare the Return of Employee's Remuneration (Form IR8A)



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Keeping of Proper Records & Accounts

(iv) Staff Remuneration & Employer's CPF Contributions

- Where payments are made to part-time employees, you can record such payments in a logbook and get the employee to sign and acknowledge that payment has been made

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Keeping of Proper Records & Accounts

Bank Accounts

- You should maintain separate bank accounts for business and private purposes
- The business bank account must be used solely for business transactions
- You should retain the bank statements or passbooks of your business bank accounts

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Reporting a Complete & Accurate set of Business Income in your Income Tax Returns

Reporting a Complete & Accurate set of Business Income

- Common audit findings:
 - Omission / Understatement of Income**
 - Failure to issue invoices/receipts or record every sale made
 - Failure to account for all invoices issued
 - Failure to account for trading stocks taken for private use
 - Errors in recording and adding up income earned



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Reporting a Complete & Accurate set of Business Income

Overstatement of Purchases & Expenses

- Insufficient/no supporting source documents and records kept
- Estimation of purchases and expenses
- Unsubstantiated claims of payments/commission to related/unrelated parties

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Reporting a Complete & Accurate set of Business Income

Wrongful Claim of Expenses Prohibited under S15(1) of the Income Tax Act

- The following expenses are not deductible under the law:
 - Private/domestic expenses such as personal entertainment, refreshment, telephone, personal CPF contributions, transport & traveling expenses etc
 - Non-Q plated passenger vehicle expenses such as parking, repair & maintenance, petrol & car insurance, ERP charges etc. even if these were incurred for business purposes
 - Capital expenses such as the cost of assets, renovation, legal & stamp fees, costs of seminars/conventions for personal development etc

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Offences & Penalties for Failing to Comply with Income Tax Law Requirements

Offences & Penalties for Failing to Comply with Income Tax Law Requirements

Failure to Keep Proper Records

- Misconception that records do not need to be kept or can be discarded once a Notice of Assessment is received
- Records should be retained for 5 years whether or not an assessment has been raised
- The Comptroller may request for these documents in the course of audit or investigation
- For failure to keep proper records, liable on conviction to a fine not exceeding \$1,000 and in default of payment to imprisonment for a term not exceeding 6 months



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Offences & Penalties for Failing to Comply with Income Tax Law Requirements

Failure to Furnish an Income Tax Return

- Liable on conviction to a fine not exceeding \$1,000 and in default of payment to imprisonment for a term not exceeding 6 months

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Offences & Penalties for Failing to Comply with Income Tax Law Requirements

Furnishing of an Incorrect Return

- Penalties can amount to as much as two times the amount of tax undercharged, where mistakes have been made through negligence or without reasonable excuse
- Serious cases of omissions or errors may result in prosecution

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Offences & Penalties for Failing to Comply with Income Tax Law Requirements

Tax Evasion

- For cases where a taxpayer wilfully evades, or assists other persons to evade, liable on conviction to pay a penalty of three times the amount of tax evaded and to pay a fine not exceeding \$10,000 or to imprisonment for a term not exceeding 3 years or both fine and imprisonment.

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Conclusion

- As a self-employed, you should exercise due care in the keeping of your records and in the completion of your Income Tax Returns

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- You could get more IRAS services through the following avenues:

IRAS Website

<http://www.iras.gov.sg>

Email

sebqueries@iras.gov.sg

24-hour Business Income Tax Integrated Phone Service

1800-356 8611

Taxpayer Services Centre

1st Storey, Revenue House

55 Newton Road, Singapore 307987

(Located opposite Novena MRT Station)

Operating Hours: 8am to 5pm (Mon to Fri)
 8am to 1pm (Sat)

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Thank You

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