

# GMS Flash Alert



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## Singapore - Revised Basis for Computing Taxable Car Benefits, Effective from 2020

On 14 December 2018, the Inland Revenue Authority of Singapore (IRAS) announced a new formula for calculating taxable car benefits, effective from year of assessment (YA) 2020.<sup>1</sup> This new formula is meant to better reflect the prevailing costs of car ownership and maintenance. In addition, under the new formula, employees no longer track their private mileage travelled except when the company employs a driver. In such a situation, it will still be necessary to ascertain the private mileage and apportion the cost of the driver to the private usage.

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### WHY THIS MATTERS

Employers should take note of this change to ensure that the correct taxable car benefit is reported on their employees' Forms IR8A (*Return of Employee's Remuneration*). The new formula may result in increased administrative burden for some employers, given the need to track actual expenses and maintain supporting receipts relating to each employee.

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### Background

Gains or profits derived by an individual from the exercise of an employment in Singapore are taxable under the law. The term "gains or profits from any employment" includes benefits in cash or in-kind received by an employee in respect of employment.

When an employer provides a car – either owned or leased by the company – to an employee, the benefit derived from the private usage of the car is a taxable perquisite to the employee. The IRAS has prescribed a car benefit formula to compute the value of the taxable benefit from the private usage of the car. This formula accounts for the capital cost of the car and operating expenses of the car borne by the employer. The formula does not apply to a cash allowance provided to an employee because an allowance will be taxable in full.

## Tax Change

A comparison of the current and revised formula is as shown below (please note all dollar figures expressed are Singapore dollars):

Current	Revised (from YA 2020)
<b>Value of taxable car benefit= <math>3/7 \times [(A - B) / C] + [D \times E]</math></b>	<b>Value of taxable car benefit= <math>3/7 \times [(A-B_{new}) / C + D_{new}]</math></b>
<b>"3/7"</b> refers to the use of car outside office hours for private purposes which is estimated at three out of seven days in a week.	No Change
<b>"A"</b> refers to the acquisition cost (inclusive of Certificate of Entitlement (COE), registration fee, etc.) of the car, whether new or second-hand. In the case of a leased car, <b>"A"</b> refers to the rental cost incurred by the employer where the employer bears the full cost of rental of the leased car and all other running and maintenance expenses are borne by the car hiring company.  Where the employer renews the COE of an existing car and continues to provide the employee with that car, <b>"A"</b> is the total cost of the COE renewal and the amount of rebate the owner would have received on the expiry of his first COE if not for the renewal.	No Change  Where the employer renews the COE of an existing car and continues to provide the employee with that car, <b>"A"</b> is the <b>total cost of the COE renewal and the amount of Preferential Additional Registration Fee (PARF) rebate</b> the owner would have received on the expiry of his first COE if not for the renewal.
<b>"B"</b> refers to the residual value equal to 80% of the Open Market Value of the car if the car is registered on or after 1 November 1990.  <b>"B"</b> is not applicable to second-hand cars which are more than 10 years old at the time of purchase, cars with renewed COEs, or leased cars.	<b>"B<sub>new</sub>"</b> refers to the amount of PARF rebate to be granted when the car is deregistered at the age of above 9 but not exceeding 10 years.  <b>"B<sub>new</sub>"</b> is not applicable to second-hand cars which are more than 10 years old at the time of purchase, cars with renewed COEs, or leased cars.
<b>"C"</b> refers to the remaining period from the date of purchase of the car to the date of expiry of the first COE (i.e. at the end of the 10th year) or the renewed COE (if the car is more than 10 years old at the time of purchase).  In the case of a new car, <b>"C"</b> equals 10.  In the case where the employer renews the COE of an existing car and continues to provide the employee with that car, <b>"C"</b> is the remaining period from the date of renewal of the COE to the date of expiry of the renewed COE (either 5 or 10 years).  <b>"C"</b> is not applicable to leased cars.	No Change

<p><b>"D"</b> refers to the rate of \$0.55 if the employer pays for the cost of petrol or \$0.45 if the employee pays for the cost of petrol.</p> <p>In the case of a leased car, the rate is \$0.10 if the employer pays for the cost of petrol and is not applicable if the employee pays for the cost of petrol.</p>	<p><b>"Dnew"</b> refers to the actual running and maintenance costs incurred by the employer (including reimbursements from the employer to the employee) –for example road tax, petrol, car park charge, Electronic Road Pricing charge, car insurance, repairs and maintenance, etc.</p>
<p><b>"E"</b> refers to the distance travelled in kilometres by the employee arising from the private usage of the car.</p>	<p>Not Applicable</p>

Source: KPMG, Singapore

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## KPMG NOTE

Under the current formula, the distance travelled for private purposes may involve some degree of estimation by the employee. The new formula requires no estimation as actual operating and maintenance expenses incurred by the employer are used. However, the tracking of private mileage is still required for the provision of a driver by the employer. To achieve the objective of simplifying tax compliance and consistency, perhaps this should be aligned to the new formula.

To alleviate the burden of benefits administration, employers are moving toward the provision of cash allowances when there is no tax savings to the employee, as opposed to providing a benefit-in-kind. In the case of cash car allowances, notwithstanding that the cash allowance is fully taxable to the employee, the employer can claim a corporate tax deduction on the cash allowance paid, as staff cost or expense. On the other hand, no deduction is allowed under the law for expenses incurred by the employer in respect of private cars provided to employees.

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## FOOTNOTE:

1 See: <https://www.iras.gov.sg/irashome/Businesses/Employers/Tax-Treatment-of-Employee-Remuneration/Car-and-Car-related-Benefits/> .

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S\$1 = US\$0.74

S\$1 = £0.57

S\$1 = €0.65

S\$ = ¥81.38

S\$ = A\$1.04

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