Useful Tax Pointers for Medical Practitioners

By Inland Revenue Authority of Singapore

Introduction

The Inland Revenue Authority of Singapore (IRAS) adopts a proactive approach in providing timely education and assistance to taxpayers so that they can take an active role to fulfil their tax obligations.

Now is the season to file your individual income tax return, so here are some filing tips and information that IRAS would like to share with you. Armed with this information, you will be able to file your tax return confidently and accurately.

Things to note when filing your tax returns for salaried employee/self-employed taxpayers

Salaried employee

If you have received a No Filing Service letter, you do not have to e-file your tax return by 18 April 2013 unless you have sources of income (eg, rental, director's fees, honorarium) other than auto-included employment income, or if your relief claims (eg, child relief) have changed since or you wish to claim for Course Fees. Assuming you need not file, the Notice of Assessment will be automatically issued to you based on the income information transmitted to IRAS by your employer and your relief claims for last year. However, the reliefs may be adjusted by IRAS subsequently if it is later found that you do not meet the eligibility criteria.

If you have received a tax filing notification letter from IRAS, please e-file by 18 April 2013, even if your income was less than $22,000 in 2012.

Your employment income will be automatically included in your tax return if your employer is participating in the Auto-Inclusion Scheme (AIS). You can check the list of employers on AIS on the IRAS website (http://www.iras.gov.sg > Quick Links > e-Services > e-Submission of Employment Income > Participating Organisations). You do not need to include this auto-included employment income in your tax return.

If you are not sure if you need to file this year, simply SMS Filetax <space> your NRIC/FIN number to 9116 4900. You will receive a reply from IRAS informing you whether you need to file your tax return this year.

Self-employed income

If you are a self-employed medical practitioner, you should declare your income under "trade, business, profession or vocation", instead of "other income". If you are a medical practitioner who is engaged as a salaried employee, but also received locum or other consultation incomes, you should also declare these non-employment incomes under "trade, business, profession or vocation".

Generally, a self-employed person needs to prepare a 2-line or a 4-line statement for income tax reporting purposes depending on the turnover for the business. A 4-line statement is required when the turnover exceeds $100,000 but less than $500,000, and would consist of the following:

- Revenue (total payments/fees received or receivable for services provided and goods sold before deducting any expenses);
- Gross profit/loss (revenue less cost of goods sold);
- Allowable business expenses (http://www.iras.gov.sg > For sole-proprietors / self-employed > Filing your tax > Business Expenses > Allowable Business Expenses); and
- Adjusted profit/loss (gross profit/loss less allowable business expenses).

In addition to the above, a certified statement of accounts, to be signed by the sole proprietor or precedent partner, stating it is true and correct, needs to be submitted if the revenue exceeds $500,000.

If the turnover is below or equal to $100,000, only a 2-line statement, showing the revenue and adjusted profit/loss, is required.

Common tax mistakes made by medical practitioners

Through the audits we have conducted on medical practitioners in the past, we noticed some common mistakes that they tend to make:

Understatement of income

Gross consultation fees and revenue received from prescriptions and sales of medicine were not reported in full. You are required to maintain proper records of all fees or revenue received so that the revenue amount can be correctly reported. Fees charged to patients for lab and X-ray tests carried out should also be reported as revenue regardless of whether a profit is made.

Income received as a locum should also be reported as trade income. The payer should issue statements to his locums to aid them in reporting the income in their tax returns.

Employment income such as salaries, bonuses or director's fees received by medical practitioners who are employees or directors in companies should also be reported under the Employment Income section in the income tax returns.

Incorrect claim of expenses

Private and domestic expenses claims such as personal insurance, travelling expenses incurred for personal trips, holiday expenses with the family, payment of personal medical expenses, private entertainment, domestic utilities and telephone charges are not deductible for income tax purposes.

Unsubstantiated claims of payments to suppliers or claiming of disproportionate amounts of salaries made to family members are disallowed. Payments to family members who are helping out with the business should be pegged to market rates and the salaries paid must commensurate with the work and duties of the family members. Taxpayers must also keep complete and proper receipts or tax invoices to show that the expenses are incurred for business purposes.

Claiming expenses based on estimations and without any valid basis is incorrect. Claims of expenses against income should be made based on actual amounts incurred for the business, with supporting receipts and invoices. Sketchy records, with merely approximate amounts, are inadequate and unacceptable for income tax or GST purposes.

Claims of private motor vehicle expenses including petrol, insurance, repair and maintenance, parking and Electronic Road Pricing charges with respect to private plate cars (E- or S-plate) are not allowed under the Income Tax Act. These private car expenses are not allowed even if they are incurred for business purposes.

Failure to maintain business records for a period of five years

Some taxpayers have failed to keep and retain sufficient records to enable IRAS to ascertain their income and allowable business expenses. The common misconception is that they do not need to keep records or could discard their records once a Notice of Assessment is received. This is incorrect. The records should be retained for the requisite period of five years, whether or not an assessment has been raised. The Comptroller may request for these documents in the course of audits.

Keeping proper records

For information relating to keeping proper records, please refer to the IRAS website (http://www.iras.gov.sg > For sole-proprietors/self-employed > Keep proper records & accounts).

Productivity and Innovation Credit Scheme – enjoy higher tax deductions and cash payouts with effect from Year of Assessment 2011

You can enjoy substantial tax savings under the Productivity and Innovation Credit (PIC) scheme. The PIC scheme was first introduced in the Singapore Budget 2010 and further enhanced in Budgets 2011, 2012 and 2013. You can enjoy tax allowances at 400% on up to $400,000 of your spending if your business purchased equipment prescribed in the PIC IT and Automation Equipment List.[1] Alternatively, you can apply to convert up to $100,000 of your spending into a non-taxable cash payout at a conversion rate of 60%[2] from Years of Assessment (YA)[3] 2013 to 2015.

Examples of some equipment that qualify for PIC are:

- Computers (including laptops)
- Fax machines
- Printers
- Scanners
- Office system software

For equipment that do not fall in the PIC IT and Automation Equipment List, but is used to enhance productivity, you may apply to IRAS to have the equipment approved for PIC on a case-by-case basis.[4] To make it easier to qualify for the PIC benefits, the approving criteria have been revised with effect from YA 2013 as follows:

- The equipment automates or mechanises the work processes of the business;
- The equipment enhances productivity of the business (for example, in terms of reduced man-hours, more output or improved work processes); and
- If the equipment is a basic tool used in the business,
    - It has to increase productivity compared to existing equipment used in the business; or
    - It has not been used in the business before.

It was also announced in Budget 2013 that businesses will receive an equal amount in PIC bonus for every dollar spent on PIC qualifying activities, subject to an overall cap of $15,000 over the three-year period from YAs 2013 to 2015. This is given on top of the existing 400% tax allowances/deductions and/or 60% PIC cash payouts under the PIC scheme.

The bonus will be automatically processed based on the claim for PIC cash payout/enhanced allowances or deductions. The PIC bonus is taxable.

Business eligible for the PIC bonus must have:

- Incurred at least $5,000 in PIC-qualifying expenditure (net of government grants and subsidies) in each of the basis period for YAs 2013 to 2015;
- Active business operations in Singapore; and
- At least three employees (Singapore citizens or permanent resident employees with Central Provident Fund contributions for the last month of the basis period of the relevant YA, quarter or combined quarters) excluding sole proprietors, partners under contract for service, and shareholders who are directors of the company.

Training provided to your employees by an external service provider, and training conducted by your employees on courses accredited by the Singapore Workforce Development Agency (WDA) or the Institute of Technical Education (ITE) will also qualify for PIC benefits.

From YAs 2012 to 2015, qualifying training expenditure incurred on in-house training not accredited by WDA or approved by ITE will also qualify for enhanced deduction under PIC, subject to a cap of $10,000 for each YA.

With effect from YA 2012, training expenditure incurred by businesses, acting as principals, on agents will qualify for deduction subject to certain conditions.[5]

However, training fees incurred by a business owner, sole proprietor/partner, do not qualify for tax deduction under the PIC scheme as such expenditure is personal and private in nature.

What are the tax savings?

For example, your chargeable income (CI) for YA 2013 is $380,000[6] with a tax payable of $52,850.[7] Your business has spent $80,000 on computers,

- You can opt to claim capital allowances[8] of $320,000 ($80,000 x 400%) and your CI will be further reduced to $60,000 ($380,000 to $320,000). In this case, your tax payable will be reduced by $51,485 ($52,850 to $1,365).

Alternatively,

- You can convert the spending at 60% into a cash payout of $48,000 ($80,000 x 60%). In this case, your tax payable is effectively reduced by $48,000.

How can I apply for PIC?

For	400% tax deduction	Cash payout	PIC bonus
Qualifying period	YAs 2011 to 2015.	YAs 2011 to 2015.	YAs 2013 to 2015 (announced in Budget 2013).
Combined expenditure cap	YAs 2011 and 2012: $800,000 ($400,000 x 2) per activity. YAs 2013 to 2015: $1,200,000 ($400,000 x 3) per activity.	YAs 2011 and 2012: $200,000 ($100,000 x 2) for all activities. YAs 2013 to 2015: $100,000 for all activities.	$15,000 for YAs 2013 to 2015 (combined).
How to claim	Claim tax deduction in income tax return. Sole proprietors and partnerships should also submit PIC Enhanced Allowances/ Deductions Declaration Form.	Submit PIC Cash Payout Application Form.	Need not apply separately. Automatically processed based on information declared in the PIC forms.
When to submit	By 15 April 2013 for sole proprietors and partnerships (sole proprietors and partnerships are to submit their income tax returns and PIC declaration form by 15 April). By 30 November 2013 for companies (companies are to submit their income tax returns by 30 November).	For YAs 2011 to 2012: any time after accounting year-end but no later than income tax filing due date. For YAs 2013 to 2015: submit cash payout form on a quarterly basis any time after the end of each financial quarter, but no later than income tax filing due date.	Submission dates for 400% tax deduction or cash payout apply.

All application forms are available at the IRAS website (http://www.iras.gov.sg).

What else qualifies for PIC?

In addition to IT and automation equipment, and training, you can enjoy the tax benefits under PIC on your investment spending in any of the following activities:

- Acquisition and in-licensing[9] of intellectual property (eg, patent, copyright and trademarks)
- Registration of intellectual property
- Research and development
- Design projects approved by DesignSingapore Council

Businesses can find out more about how they can benefit from the PIC scheme at the IRAS website.

For assistance on PIC, you can contact IRAS:

- Helpline for companies: 1800 3568 622
- Helpline for sole proprietors/partnerships: 6351 3534
- Email: picredit@iras.gov.sg

Do you need to register for GST?

Compulsory GST registration

You are required to continually assess whether your business needs to be registered for GST compulsorily. In most cases, registering for GST is compulsory when:

- Your taxable turnover for the past four quarters is more than $1 million (unless you are certain that business turnover in the next 12 months will not exceed $1 million); or
- You can reasonably expect your taxable turnover in the next 12 months to be more than $1 million.

If your situation is either of the above, you need to apply for GST registration within 30 days of the date when your registration liability arises.

Computing your business turnover

The method to use for computing business turnover for GST registration purposes depends on your business set-up (eg, sole proprietorship, partnership or private limited company).

	Sole proprietorship (individual)	Partnership	Company (eg, private limited company)
How do I compute my business turnover?	Combine the turnover of: • all your sole proprietorship businesses; and • income derived from your trade, vocation or profession.	Combine turnover of all partnership businesses with the same composition of partners.	Compute turnover of that single company. If your company (as a legal entity) owns sole proprietorship businesses, you need to combine the turnover of: • the company, and • all its sole proprietorship businesses.
How will my businesses be registered for GST?	GST registration will be in the name of the sole proprietor (ie, your name). All sole proprietorship businesses under your name will be GST-registered. This includes sole proprietorship businesses which you may set up in the future.	GST registration will be in the name of the respective partnership businesses. Once your partnership is GST-registered, all businesses with the same composition of partners need to be GST registered. This includes businesses with the same composition of partners which you may set up in the future.	GST registration will be in the name of your company.

Can you charge GST when you are not GST registered?

Only GST-registered businesses are allowed to charge and collect GST on their supply of goods and services. If you are a non-GST registered business, you are not allowed to charge GST.

If you are not registered for GST and have wrongfully collected GST from your customers, you should stop this practice immediately. You are required to quantify and remit the amount of GST wrongly charged on your invoices to the Comptroller of GST. SMA

Notes

1. *The PIC IT and Automation Equipment List is available at http://www.iras.gov.sg > Businesses > For companies > Productivity and Innovation Credit (PIC) > What Equipment Qualifies > Equipment in Prescribed List of PIC IT and Automation Equipment.*
2. *PIC cash payout option is available from YAs 2011 to 2015 at a conversion rate of 30% for YAs 2011 and 2012, and 60% for YAs 2013 to 2015. The higher cash conversion rate of 60% was announced in Budget 2012 to further support businesses in investing in innovation and productivity.*
3. *The Application for Approval of Equipment for PIC form is available at http://www.iras.gov.sg > Businesses > For companies > Productivity and Innovation Credit (PIC) > What Equipment Qualifies > Equipment Approved on Case-by-Case Basis.*
4. *YA refers to the year in which income tax is charged (eg, income for the accounting period 1 January to 31 December 2012 is assessable for tax in YA 2013).*
5. *As announced in Budget 2012, qualifying training expenditure incurred by a principal on the training of its agent will qualify for PIC for YAs 2012 to 2015. Details of the conditions to be met can be found at http://www.iras.gov.sg > For companies > Productivity and Innovation Credit (PIC) > Invest in Six PIC Qualifying Activities > Training of Employees.*
6. *Chargeable income is arrived at before deducting capital allowances of $80,000 ($80,000 x 100%).*
7. *Tax payable is calculated based on the progressive individual income tax rates for YA 2013.*
8. *Capital allowances are deductions that you can claim on the wear and tear of fixed assets bought and used in your trade or business.*
9. *Scope of IP acquisition will be widened from YA 2013 to include IP in-licensing. However, trademarks are excluded.*