Useful Tax Pointers for Medical Practitioners

By Inland Revenue Authority of Singapore

1 Introduction

1.1 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.

1.2 Now is the season to file your individual income tax return. And 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.

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

2.1 Salaried employee

2.1.1 If you have received a No Filing Service letter, you do not have to e-file your tax return by 18 April 2012 unless you have sources of income (e.g., rental, director's fees, honorarium) other than auto-included employment income, or if your relief claims (e.g., 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 found that you do not meet the eligibility criteria.

2.1.2 If you have received a tax filing notification letter from IRAS, please e-file by 18 April 2012 even if your income is less than $22,000 in 2011.

2.1.3 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 sidebar > e-Services > e-Submission of Employment Income > Participating Organisations). You do not need to include this auto-included employment income in your tax return.

2.1.4 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.

2.2 Self-employed income

2.2.1 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".

2.2.2 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 would consist of the following and is required when the turnover exceeds $100,000 but is less than $500,000:

- 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 (please refer to our website for the qualifying conditions), and
- Adjusted profit/loss (gross profit/loss less allowable business expenses).

2.2.3 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.

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

3 Common tax mistakes made by medical practitioners

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

3.2 Understatement of income

3.2.1 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/revenue received so that revenue amount can be correctly reported. Fees charged to patients for lab/x-ray tests carried out should also be reported as revenue regardless of whether a profit is made.

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

3.2.3 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.

3.3 Incorrect claim of expenses

3.3.1 Private and domestic expenses claimed 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.

3.3.2 Unsubstantiated claims of payments to suppliers or claiming of disproportionate amount 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 salary paid must commensurate with the work and duties of the family members. Taxpayers must also keep complete and proper receipts/tax invoices to show that expenses are incurred for business purposes.

3.3.3 Claiming of 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 not acceptable for income tax/GST purposes.

3.3.4 Claims of private motor vehicle expenses including petrol, insurance, repair and maintenance, parking and Central Business District 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.

3.4 Failure to maintain business records for a period of five years

3.4.1 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.

4 Keeping proper records

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

5 Productivity and Innovation Credit Scheme – enjoy higher tax deduction and cash payout with effect from Year of Assessment (YA)[3] 2011

5.1 You can enjoy substantial tax savings under the Productivity and Innovation Credit ("PIC") scheme. The PIC scheme was first introduced in Singapore Budget 2010 and further enhanced in Budget 2011 and Budget 2012. You can enjoy tax allowances at 400% on up to $400,000 of your spending if your business purchased equipment is prescribed in the PIC 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 30%.[2]

Examples of some equipment that qualify for PIC are:

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

5.2 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.

For YAs 2012 to 2015, qualifying training expenditure incurred on in-house training not accredited by the WDA or approved by the 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 business, acting as a principal, on agents will qualify for deduction subject to certain conditions.[4]

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

5.3 What are the tax savings?

To illustrate, your chargeable income (CI) for YA 2012 is $380,000[5] with a tax payable of $54,350.[6] If your business has spent $80,000 on computers,

- You can opt to claim capital allowances[7] of $320,000 ($80,000 x 400%) and your CI will be further reduced to $60,000 ($380,000 - $320,000). In this case, your tax payable will be reduced by $52,400 ($54,350 - $1,950).[6]

Alternatively,

- You can convert the spending at 30% into a cash payout of $24,000 ($80,000 x 30%). In this case, your tax payable is effectively reduced by $24,000.

5.4 How can I apply for PIC?

For	400% tax deduction	Cash payout
Qualifying period	YAs 2011 to 2015.	YAs 2011 to 2015.
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.

How to claim	Claim tax deduction in income tax return.	Submit PIC cash payout application form.
When to submit	**By 15 April 2012 for sole-proprietors/partnerships:** • Sole-proprietors and partnerships are to submit their income tax returns and PIC declaration forms by 15 April. **By 30 November 2012 for companies:** • Companies are to submit their income tax returns by 30 November.	**For YAs 2011 and 2012:** • Any time after accounting year-end but no later than income tax filing due date. **For YAs 2013 to 2015:** • Submit cash payout on a quarterly basis any time after the end of each financial quarter, but no later than income tax filing due date.

All application forms are available at our website. The application procedure and revised cash payout application form will be released by 15 April 2012.

5.5 What else qualifies for PIC?

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

- Acquisition of intellectual property (e.g., patents, copyrights 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 our website, http://www.iras.gov.sg.

For assistance on PIC, you can contact us:

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

6 Do you need to register for GST?

6.1 Compulsory GST registration

6.1.1 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 business 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 are currently making sales and you can reasonably expect your business turnover in the next 12 months to be more than $1 million.

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

6.2 Computing your business turnover

For GST registration purpose, the method to use for computing business turnover depends on your business set-up (e.g., sole-proprietorship, partnership or private limited company). SMA

	Sole-proprietorship (individual)	Partnership	Company (e.g., private limited company)
How do I compute my business turnover?	Combine the turnover of: • All your sole-proprietorship businesses, and • Income derived from 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 (i.e., 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.

Notes

1. The PIC Automation Equipment List is available at our website (http://www.iras.gov.sg > Businesses > For companies > Productivity and Innovation Credit > About Productivity and Innovation Credit > PIC Automation Equipment List).

2. The 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. YA refers to the year in which income tax is charged. E.g., income for the accounting period 1 January 2011 to 31 December 2011 is assessable for tax in YA 2012.

4. 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 our website.

5. Chargeable income is arrived at after deducting capital allowances of $80,000 ($80,000 x 100%).

6. Tax payable is calculated based on the progressive individual income tax rates for YA 2012.

7. Capital allowances are deductions that you can claim on the wear and tear of fixed assets bought and used in your trade or business.