

Tax Treatments relating to Motor Car Dealers

(for dissemination to members of
Singapore Vehicle Traders Association,
Automobile Importer and Exporter Association and
Motor Traders Association of Singapore)

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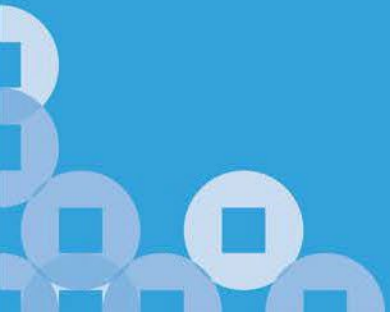


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Background



Background

- IRAS conducts regular tax compliance reviews on companies in different sectors.
- In 2016, we started a compliance programme on the retail sale of motor cars (car distributors and second-hand car dealers) to understand and assess the compliance level of the sector.
- Specific focus areas of compliance reviews include claims for expenses on motor cars and tax treatment of profit or loss on disposal of motor cars.

Background

- For new car distributors, new cars purchased may remain unregistered or are registered as S-plated (“registered cars”) after their purchase.
- Registered cars may be deployed for business use as (1) test-drive cars; (2) display cars; (3) event cars; (4) courtesy cars; and/or (5) management cars.

S/N	Categories	Purpose of car
1	Test-drive cars	For test-driving by potential customers and journalists
2	Display cars	For display in showrooms and marketing events
3	Event cars	For use in sponsorship of events and marketing events
4	Courtesy cars	For loan to customers while customers await the servicing or repair of their cars
5	Management cars	Provided to staff including directors for their use (business and/or private purpose)

Our Observations

During our compliance review, we observed differing tax treatments adopted by motor car dealers on motor car expenses such as:

- Some claimed expenses based on whether a motor car is registered or not – deduction of expenses is claimed only on a motor car that is unregistered;
- Some claimed expenses based on the classification of a motor car in the financial statements which is determined mainly based on the use of the car – deduction of expenses is claimed only on a motor car that is classified under inventory.

Current tax treatments of motor cars for motor car dealers



Current tax treatments of motor cars for motor car dealers

Motor cars that are inventories (“inventory tax treatment”)

- Expenses incurred on such cars are tax deductible.
- Profit on disposal is taxable; loss is tax deductible.

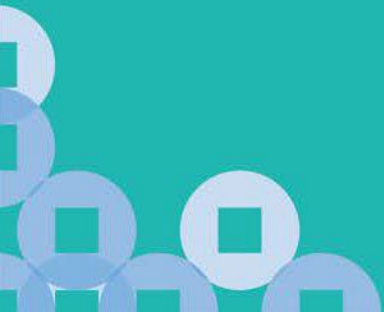
Motor cars that are for business use or staff’s use (“business use tax treatment”)

- Expenses incurred on such cars are not tax deductible (under Section 15(1)(k) of the Income Tax Act (“ITA”).
- Profit on disposal is not taxable; loss is not tax deductible.

Tax treatments for different categories of motor cars

- The following slides elaborate on IRAS's tax treatments of motor car expenses and profit or loss on disposals of different categories of motor cars

Clarifications on application of tax treatments to new cars



Clarifications on application of tax treatments to **new cars**

Inventory Tax treatment

Inventory tax treatment is applicable to:

- **Unregistered cars** including those used for test-driving, display and / or one-time participation in marketing event.
- **Registered cars** if the following conditions are met for each car:
 - i. Registration of the car is solely to facilitate the car to be used for test-driving by customers and/or journalists;
 - ii. Actual use of the car is for purposes of test-driving, display and / or one-time participation in marketing event and there are documents and records to demonstrate the car is used for such purposes; and
 - iii. The car is held for two years or less from its registration date.

Clarifications on application of tax treatments to new cars

Rationale for the conditions imposed on registered cars

- Expenses incurred on registered cars deployed for business use are not deductible under the ITA. This tax treatment applies to all sectors with certain limited exceptions*.
- In the motor car dealers' trade, the use of registered cars for test-driving, participation in events or courtesy cars are considered for business use (i.e. not for sale as inventory).

* *The limited exceptions in Section 15(1)(k) of the ITA are for*

- taxis;*
- motor cars registered outside Singapore and used exclusively outside Singapore;*
- private hire cars of a person carrying on the business of hiring out cars;*
- business service passenger vehicles registered before 1/4/1998;*
- motor cars registered on or after 1/4/1998 used for instructional purposes; and*
- chauffeured private hire cars used by a qualifying individual.*

Clarifications on application of tax treatments to new cars

Rationale for the conditions imposed on registered cars (cont'd)

- However, if the use of the cars is for purposes of test-driving, display, and / or one-time participation in marketing event, IRAS is prepared to apply the inventory tax treatment to such cars, subject to the condition that the car is held for a period of two years or less from its registration date.
- The two-year period is adopted on the basis that car distributors are generally required to refresh their car models for test-driving within two years in order to preserve the customers' test-driving experience.

Clarifications on application of tax treatments to new cars

Business use tax treatment

Business use tax treatment is applicable to registered cars deployed for purposes such as:

- Management cars provided to staff including directors for their use (business and/or private purpose)
- Cars held for more than two years from their registration dates
- Courtesy cars for use by customers

These expenses are not deductible, no different from expenses incurred by other types of businesses on motor cars.

Illustrations on application of tax treatments to new cars

Illustration 1:

- Assume financial year end is 31 December
- Date of purchase of new car: 5 Jan 2020
- Purchase price: \$80,000
- Registration date: 15 Feb 2020
- Use of car: For test-driving from 15 Feb 2020 to 30 Mar 2021
- Date of sale: 31 Mar 2021
- Sale price: \$90,000
- Profit on disposal: \$10,000 ($\$90,000 - \$80,000$)
- Expenses for test-driving: \$800 in FY 2020 and \$100 in FY 2021

Illustrations on application of tax treatments to new cars

Illustration 1 (cont'd):

YA	Whether conditions (i) to (iii) for inventory tax treatment are met?	Tax treatment
2021	Yes <ul style="list-style-type: none">• Registration of the car is solely to facilitate the car to be used for test-driving.• Actual use of car is for such a purpose and there are supporting documents.• As at 31 Dec 2020, it is held for less than two years from its registration date (from 15 Feb 2020 to 31 Dec 2020).	Inventory tax treatment applies <ul style="list-style-type: none">• Expenses of \$800 are tax deductible
2022	Yes <ul style="list-style-type: none">• Registration of the car is solely to facilitate the car to be used for test-driving.• Actual use of car is for such a purpose and there are supporting documents.• As at 31 Dec 2021, it is held for less than two years from its registration date (from 15 Feb 2020 to 31 Mar 2021).	Inventory tax treatment applies <ul style="list-style-type: none">• Expenses of \$100 are tax deductible• Profit on disposal of \$10,000 is taxable

Illustrations on application of tax treatments to new cars

Illustration 2:

- Assume financial year end is 31 December
- Date of purchase of new car: 5 Jan 2020
- Purchase price: \$80,000
- Registration date: 15 Feb 2020
- Use of car: For test-driving from 15 Feb 2020 to 30 Aug 2022
- Inventory write-down in the value of the car in FY 2020: \$8,000
- Inventory write-down in the value of the car in FY 2021: \$9,000
- Date of sale: 31 Aug 2022
- Sale price: \$60,000
- Loss on disposal: \$3,000 [i.e. $\$60,000 - (\$80,000 - \$8,000 - \$9,000)$]
- Expenses for test-driving: \$800 in FY 2020, \$700 in FY 2021 and \$300 in FY 2022

Illustrations on application of tax treatments to new cars

Illustration 2 (cont'd):

YA	Whether conditions (i) to (iii) for inventory tax treatment are met?	Tax treatment
2021	Yes <ul style="list-style-type: none">• Registration of the car is solely to facilitate the car to be used for test-driving.• Actual use of car is for such a purpose and there are supporting documents.• As at 31 Dec 2020, it is held for less than two years from its registration date (from 15 Feb 2020 to 31 Dec 2020).	Inventory tax treatment applies <ul style="list-style-type: none">• Expenses of \$800 are tax deductible• Inventory write-down of \$8,000 is tax deductible
2022	Yes <ul style="list-style-type: none">• Registration of the car is solely to facilitate the car to be used for test-driving.• Actual use of car is for such a purpose and there are supporting documents.• As at 31 Dec 2021, the car has been held for less than two years from its registration date (from 15 Feb 2020 to 31 Dec 2021).	Inventory use tax treatment applies <ul style="list-style-type: none">• Expenses of \$700 are tax deductible• Inventory write-down of \$9,000 is tax deductible

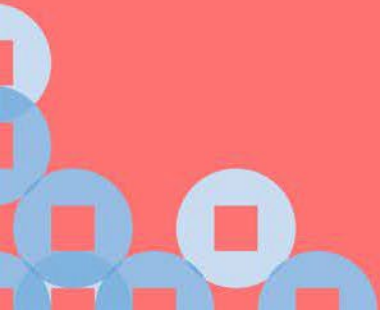
Illustrations on application of tax treatments to new cars

Illustration 2 (cont'd):

YA	Whether conditions (i) to (iii) for inventory tax treatment are met?	Tax treatment
2023	No <ul style="list-style-type: none">• Registration of the car is solely to facilitate the car to be used for test-driving.• Actual use of car is for such a purpose and there are supporting documents.• As at 31 Dec 2022, the car has been held for more than two years from its registration date (from 15 Feb 2020 to 31 Aug 2022). As such, condition (iii) for inventory tax treatment is not met.	Business use tax treatment applies <ul style="list-style-type: none">• Expenses of \$300 are not tax deductible (See note below)• Loss on disposal of \$3,000 is not tax deductible• Inventory write down of \$8,000 (claimed in YA 2021) and \$9,000 (claimed in YA 2022) are now taxable in YA 2023

Note: All expenses incurred in the basis period of YA 2023 are not deductible. These include the expenses which are incurred within two years or less from the registration date of the car (i.e. from 1 Jan 2022 to 14 Feb 2022).

Clarifications on application of tax treatments to second-hand cars



Clarifications on application of tax treatments to **second-hand cars**

Inventory tax treatment

- Inventory tax treatment is applicable to a second-hand car acquired (previously registered under the name of and driven by another owner) for resale.
- Expenses relating to test-driving or display are tax-deductible. However, expenses relating to other uses (e.g. employee of company uses the car for his own private uses) are not tax-deductible and have to be added back in the tax computation.
- Where expenses cannot be directly identified to the specific uses, to adopt a reasonable apportionment basis (e.g. mileage, time period) to exclude the portion related to uses other than for test-driving or display.
- Examples of expenses that cannot be directly identified are those incurred on a periodic basis (e.g. annual road tax and insurance)

Clarifications on application of tax treatments to second-hand cars

Business use Tax treatment

Business use tax treatment is applicable to second-hand cars acquired (previously registered under the name of and driven by another owner) for business use as:

- Management cars provided to staff including directors for their use (business and/or private purpose)
- Courtesy cars for use by customers

Any expenses incurred on such cars whether used by staff or customers are not tax-deductible.

Illustration on application of tax treatments to second-hand cars

Illustration 3:

- Assume financial year end is 31 December
- Date of purchase of car for resale: 5 Jun 2020
- Purchase price: \$30,000
- Use of car:
 - For test-driving from 5 Jun 2020 to 31 Mar 2021
 - For both test-driving and for purposes other than test-driving or display from 1 Apr 2021 to 31 May 2021
- Date of sale: 31 May 2021
- Sale price: \$32,000
- Profit on disposal: \$2,000 [i.e. \$32,000 - \$30,000]
- Expenses:
 - \$700 for test-driving in FY 2020
 - \$100 for test-driving in FY 2021
 - \$50 incurred for purposes other than test-driving or display in FY 2021

Illustration on application of tax treatments to second-hand cars

Illustration 3 (cont'd):

YA	Whether condition for inventory tax treatment is met?	Tax treatment
2021	Yes <ul style="list-style-type: none">The car is acquired for resale.	Inventory tax treatment applies <ul style="list-style-type: none">Expenses of \$700 are tax deductible
2022	Yes <ul style="list-style-type: none">The car is acquired for resale.	Inventory tax treatment applies <ul style="list-style-type: none">Expenses of \$100 incurred for test driving are tax deductibleExpenses of \$50 incurred for purposes other than test-driving or display are not tax deductibleProfit on disposal of \$2,000 is taxable

Claiming expenses on second-hand cars acquired for resale

Illustration 4:

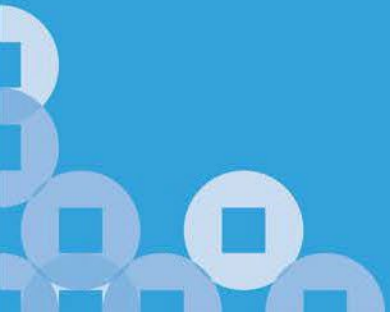
- Assume financial year end is 31 December
- Date of purchase of car for resale: 5 Jun 2020
- Purchase price: \$30,000
- Use of car:
 - For test-driving from 5 Jun 2020 to 24 Jun 2020 (20 days)
 - For use as display car in showroom from 26 Jun 2020 to 1 Sep 2020 (68 days)
 - For use as courtesy car from 2 Sep 2020 to 3 Sep 2020 (2 days)
- Date of sale: 4 Sep 2020
- Sale price: \$32,000
- Profit on disposal: \$2,000 [i.e. \$32,000 - \$30,000]
- Expenses:
 - Insurance expense of \$1,500 incurred for FY 2020

Claiming expenses on second-hand cars acquired for resale

Illustration 4 (cont'd):

YA	Whether condition for inventory tax treatment is met?	Tax treatment
2021	Yes <ul style="list-style-type: none">The car is acquired for resale.	<p>Inventory tax treatment applies</p> <ul style="list-style-type: none">Expenses of \$334 incurred for test driving are tax deductible $20/90 \times \\$1,500 = \\334Expenses of \$1,133 incurred for display are tax deductible $68/90 \times \\$1,500 = \\$1,133$Expenses of \$33 incurred for purposes other than test-driving or display are not tax deductible $2/90 \times \\$1,500 = \\33Profit on disposal of \$2,000 is taxable

Effective YA



Effective YA

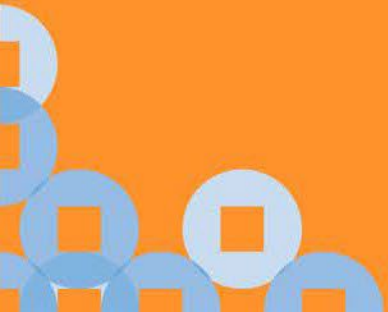
- The tax treatments for new cars and second-hand cars in Slides 9 to 25 are effective from YA 2021.
- Application of the tax treatments for earlier YA(s) is permissible if car dealers have the requisite supporting documents to substantiate their claims and tax treatments adopted.

Effective YA – Points to Note

Types of cars*	Application of inventory tax treatment
New cars registered solely for test-driving	<p>In a relevant YA, expenses are deductible and / or gain or loss on disposal is taxable or deductible provided all the 3 conditions on slide 10 are met.</p> <p>In applying condition (iii) in a relevant YA, the 2-year holding period is counted from the date of registration of the car to the date of disposal. If the car has not be disposed, the 2-year period is counted from the date of registration to the end of the basis period of the relevant YA.</p> <p>Where a car is used during a basis period for purposes other than test-driving, display and / or one-time participation in marketing event, condition (ii) is not met and all expenses incurred for the relevant YA are not deductible.</p>
Second-hand cars acquired for resale	<p>In a relevant YA, only expenses relating to test-driving or display are allowable. Any expenses incurred that does not relate to test-driving or display must be identified and added back in the tax computation.</p> <p>Where such a car is disposed in a relevant YA, the full gain or loss on disposal is taxable or tax deductible.</p>

*Including all cars which are unsold as at the beginning of basis period of the YA in which the car dealer starts to apply the tax treatments in Slides 9 to 25.

Record keeping requirements



Record keeping requirements

- You are required to keep proper business records which include financial records so that income earned and expenses incurred/claimed can be readily determined.
- Business records refer to any records of transactions connected with your business; test-driving records constitute business records.
- The records can be kept electronically and must be retained for 5 years from the relevant YA.
- Failure to keep proper business records may result in expenses claimed being disallowed and/or penalties.

Record keeping requirements for new cars

- The template for new cars is to facilitate claiming of tax deductions
- Other than details of each motor car such as car plate number, chasis number, registration date, car usage from date of purchase to date of sale and details of expenses incurred, car dealers are also required to maintain:



Usage of car	Record keeping requirements
Test-driving	<ul style="list-style-type: none">• Test-driving records (e.g. customer's full name as per NRIC/ passport, last 3 digits of the NRIC no./ passport no., date, mileage in, mileage out)• Insurance policies covering test-driving of cars
Display	<ul style="list-style-type: none">• Location of the display venue
Participation in marketing events	<ul style="list-style-type: none">• Name of the event and details of the event venue• Supporting documents to substantiate usage (e.g. correspondences with event organisers)

When to use record keeping template for new cars

- The template for new cars need not be used for :
 - (a) Unregistered cars;
 - (b) Registered cars used / to be used only for purposes of test-driving, display and / or one-time participation in marketing event; and
 - (c) Cars acquired for business use as courtesy cars and management cars.
- Where there is a possibility that a registered car will be used for purposes besides test-driving, display and / or one-time participation in marketing event, car dealers are **strongly encouraged** to use the template to track usage and expenses incurred from date of registration of that car.
- Tracking the usage of the registered car will help you ascertain if inventory tax treatment is applicable to that car in any given YA.
- While car dealers are strongly encouraged to use the templates for record keeping purposes, they are not precluded from adopting other ways of record keeping which are more expedient for them as long as there are proper internal controls and they are able to furnish the details in the format shown in the record keeping templates upon request from IRAS.

Record keeping requirements for second-hand cars

- The template for second-hand cars is to facilitate claiming of tax deductions
- Other than details of each motor car such as car plate number, chasis number, registration date, car usage from date of purchase to date of sale and details of expenses incurred, car dealers are also required to maintain:

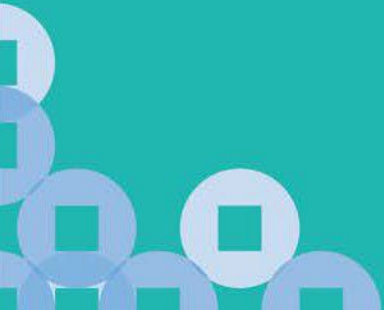


Usage of car	Record keeping requirements
Test-driving	<ul style="list-style-type: none">• Test-driving records (e.g. customer's full name as per NRIC/ passport, last 3 digits of the NRIC no./ passport no., date, mileage in, mileage out)• Insurance policies covering test-driving of cars
Display	<ul style="list-style-type: none">• Location of the display venue

When to use record keeping template for second-hand cars

- The template for second-hand cars need not be used for :
 - (a) Second-hand cars acquired for resale which are only used / to be used for purposes of test-driving and / or display; and
 - (b) Second-hand cars acquired for business use as courtesy cars and management cars.
- Where there is a possibility that a second-hand car acquired for resale will be used for purposes other than test-driving or display, car dealers are **strongly encouraged** to use the template for second-hand cars to track usage and expenses incurred.
- Tracking the usage and expenses incurred on the car will help you ascertain the disallowable expenses to be added back in the tax computation in a given YA.
- While car dealers are strongly encouraged to use the templates for record keeping purposes, they are not precluded from adopting other ways of record keeping which are more expedient for them as long as there are proper internal controls and they are able to furnish the details in the format shown in the record keeping templates upon request from IRAS

Case studies



Case studies

Case study 1:

- Assume financial year end is 31 December
- Date of purchase of new car: 5 Feb 2020
- Purchase price: \$80,000
- Registration date: 15 Feb 2020
- Use of car:
 - For test-driving from 15 Feb 2020 to 31 Mar 2021
 - For use as management car from 1 Apr 2021
- Car is unsold to date
- Expenses for test-driving: \$800 in FY 2020, \$350 in FY 2021
- Expenses for use as management car: \$1,050 in FY 2021

Case studies

Case study 1 (cont'd):

YA	Whether conditions (i) to (iii) for inventory tax treatment are met?	Tax treatment
2021	Yes <ul style="list-style-type: none">• Registration of the car is solely to facilitate the car to be used for test-driving.• Actual use of car is for such a purpose and there are supporting documents.• As at 31 Dec 2020, it is held for less than two years from its registration date (from 15 Feb 2020 to 31 Dec 2020).	Inventory tax treatment applies <ul style="list-style-type: none">• Expenses of \$800 are tax deductible
2022	No <ul style="list-style-type: none">• Registration of the car is solely to facilitate the car to be used for test-driving.• As at 31 Dec 2021, the car has been held for less than two years from its registration date (from 15 Feb 2020 to 31 Dec 2021).• Actual use of car is for test-driving and use as management car. As such, condition (ii) for inventory tax treatment is not met.	Business use tax treatment applies <ul style="list-style-type: none">• Expenses of \$350 and \$1,050 are not tax deductible (See note below)

Note: All expenses incurred in the basis period of YA 2022 are not deductible. These include the expenses which are incurred for test driving of the car from 1 Jan 2021 to 31 Mar 2021.

Case studies

Case study 2:

- Company in the business of motor car trading and leasing
- Assume financial year end is 31 December
- Date of purchase of new car: 5 Apr 2020
- Purchase price: \$80,000
- Registration date: 15 Apr 2020
- Use of car: For test-driving (140 days) and leasing out (50 days) from 15 Apr 2020 to 21 Oct 2020
- Date of sale: 22 Oct 2020
- Sale price: \$72,000
- Loss on disposal: \$8,000 ($\$80,000 - \$72,000$)
- Expenses for test-driving: \$800 in FY 2020
- Expenses for leasing: \$150 in FY 2020

Case studies

Case study 2 (cont'd):

YA	Whether conditions (i) to (iii) for inventory tax treatment are met?	Tax treatment
2021	<p>No</p> <ul style="list-style-type: none">• As at 31 Dec 2020, the car has been held for less than two years from its registration date (from 15 Apr 2020 to 22 Oct 2020).• Registration of the car is not solely to facilitate the car to be used for test-driving.• Actual use of car is for test-driving and leasing• As such, conditions (i) and (ii) for inventory tax treatment are not met.	<p><u>Motor car trading business</u> Business use tax treatment applies</p> <ul style="list-style-type: none">• Expenses of \$800 are not tax deductible.• Loss on disposal of \$8,000 is not tax deductible <p><u>Motor car leasing business</u></p> <ul style="list-style-type: none">• Expenses of \$150 are tax deductible only against leasing income (See note below).

Note:

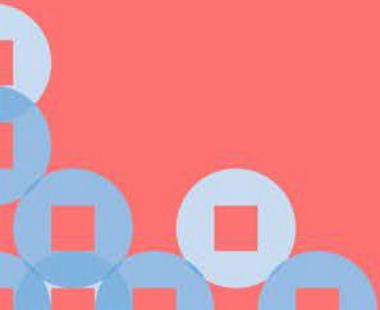
- Any excess of car leasing expenses over car leasing income in respect of the motor car leasing business cannot be deducted against other sources of income, including income from the motor car trading business.
- Companies carrying on businesses of motor car trading and leasing are therefore required to keep separate records and accounts to enable the income / expenses relating to leasing business to be readily identified and ascertained separately from the income / expenses of the other businesses.

Case studies

Case study 3:

- Taxpayer is carrying on the business of hiring out cars. Its private hire cars are used principally for hiring. One of the private hire cars was used by an employee for his own private uses.
- Expenses relating to the car leasing business are tax-deductible.
- However, expenses relating to the private uses by the employee are not tax-deductible under Section 15(1)(a) of the ITA; such expenses are to be identified and added back in the tax computation.

Other tax matters



Sale of cars to related parties and employees

Sale of cars to related parties (other than employees or employees of related entities)

Where a car is sold to a related party e.g. company's shareholder, spouse and child of the sole-proprietor, at below market price, IRAS may make adjustment to the profit of the car dealer. The adjustment to reflect the arm's length pricing may increase the amount of income or reduce the amount of deduction or loss of the car dealer.

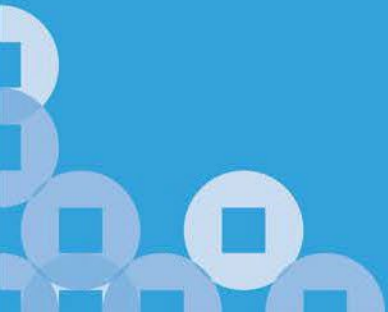
Discount on sale of cars to employees or employees of related entities

Where a car dealer sells a car to an employee or employee of a related entity (including family members, relatives and friends of that employee) at a discount, over and above that given to the public, the additional discount amount is taxable as benefits-in-kind in the hands of that employee.

Example on sale of car to employee at discounted price

- Selling price of car to the public after discount is \$100,000
- The same model of car was sold to an employee during the same period of time at a further discounted price of \$90,000
- The difference of \$10,000 ($\$100,000 - \$90,000$) is taxable as benefit-in-kind in the hands of the employee

Questions and Answers (Q&A)



Q1 My company incurred motor car expenses in FY 2020. However, accrual for the motor car expenses is only made in FY 2021 when the invoice was received. Assuming that the three conditions in Slide 10 have all been met in FY 2020, can I claim deduction on these motor car expenses in YA 2021?

If the relevant supporting documents are available to substantiate that the motor car expenses were incurred in FY 2020 instead of FY 2021, you may claim the deductions in YA 2021 as the relevant conditions for inventory tax treatment to apply are met.

Q2 What are the supporting documents that my company needs to maintain to prove that a motor car has been used for test-driving?

You may submit the following supporting documents to prove that a motor car has been used for test-driving:

- Test-driving records (e.g. customer's full name as per NRIC/ passport, last 3 digits of the NRIC no./ passport no., date, mileage in, mileage out)
- Insurance policies insuring the car for test-driving purposes

Q3 If our circumstances do not require us to use the record keeping templates, do we still need to keep any records?

Yes. Please refer to the record keeping requirements in Slide 30.

END

The information presented in the slides aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. This information is correct as at the date of presentation. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes or specific circumstances of the case which warrant different tax treatments to be applied, IRAS reserves the right to vary its position accordingly.

