# Singapore: Change in individual tax treatment of car benefits

January 15, 2019

## In brief

Car benefits provided to employees by an employer are considered employment benefits and subject to tax in Singapore.

Based on the e-Tax guide dated December 14, 2018 published by the Inland Revenue Authority of Singapore (IRAS), the basis for calculating the taxable value of car benefits will change with effect from Year of Assessment 2020 (i.e., income year ending December 31, 2019). With this update, the actual costs incurred by the employer will be considered when determining the taxable value, as opposed to a flat rate per KM of private mileage.

This change is intended to better reflect the actual value of the benefit enjoyed by the employees, and is in line with the Singapore government's push to align the taxable value of employment benefits with the actual market value of the benefit.

Interestingly, the formula to determine the taxable value of a driver provided by the employer has not been changed and remains a function of the private mileage clocked by the employee. As car and driver benefits typically go hand in hand, further updates on the formula to calculate the taxable value of the driver benefit could be forthcoming.

## In detail

### Calculation of taxable car benefit

The IRAS has changed the prescribed formula for calculating the taxable car benefit in Singapore. The formula to be used is dependent on the type of car provided (i.e., employer-owned car, employer-leased car) and whether the employer bears the cost of petrol.

As part of the Government's efforts to simplify tax compliance and to align the taxable value of employment benefits with the market value of the benefits, the basis of calculating the car benefit has been revised with the following changes:

- Replacing a flat rate per KM of private mileage with actual running and maintenance costs. Actual running and maintenance costs (including reimbursements made to the employee by the employer) refer to costs such as road tax, petrol, car park charge, ERP charge, car insurance, repairs and maintenance, if any.
- Replacing imputed residual value with actual Preferential Additional Registration Fee (PARF) rebate. PARF rebate is the rebate to be granted when the car is de-registered at the age of above 9 but not exceeding 10 years, calculated as 50% of the Additional Registration Fee (ARF) paid when the car is registered.

In certain cases, the revised basis of calculation using actual running and maintenance costs and PARF rebate may result in a higher car benefit taxable value.

- Where the employer bears the tax on car benefits for the employee, the potential higher tax cost should be considered when budgeting for the assignment to arrive at a more accurate cost estimate for the assignment.
- Where the employee bears the Singapore taxes on the car benefit, employers should inform the employees of this change as soon as possible, as this may result in increased tax costs for the employees.

**Detailed record requirement**

Employers now are required to keep accurate and detailed records of the actual running and maintenance costs starting from January 1, 2019, and should develop a robust tracking mechanism for all costs incurred (including reimbursements to the employees). In particular for reimbursements, in addition to the new requirement to declare the expense for tax benefit calculation, these also may have Central Provident Fund (CPF) implications if the car is used for non-business purposes.

In view of the administrative burden of keeping such detailed records, employers who currently provide car benefits to employees may wish to consider replacing the benefit with a cash allowance instead. All factors should be considered when making such decisions, including individual tax, corporate tax, CPF, and also company policy consistency across different locations, functions, and employee grades.

## The takeaway

Employers should take prompt action to inform and/or provide proper training to the payroll/HR team to ensure the value of the car benefit is reported correctly for tax returns filed for YA 2020 and later.

Given the recent changes to the basis of calculating the value of accommodation (refer to our prior Global Mobility Insight) and car benefits, it can be expected that there may be more changes to reinforce the position of the Government to streamline compliance and reflect the true cost of the benefits provided to the employees. It is recommended that employers review not only accommodation and car benefit policies, but also the overall compensation and benefits/ reward strategy.

## Let’s talk

For a deeper discussion of how this issue might affect your business, please contact your regular Global Mobility Services engagement team or the following team member:

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