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Singapore:
Change in the basis of computing taxable car benefit

What is the change?

The benefit an employee derives from the private usage of a car an employer provides, whether owned or leased by the employer, is considered a perquisite arising from employment and is therefore taxable.

On December 14, 2018, the Inland Revenue Authority of Singapore (IRAS) released an e-tax guide announcing the change in the basis of computing taxable car benefits effective from the year of assessment 2020 (income year 2019), with respect to the private usage of cars that employers provide to employees.

The change is intended to:

- Simplify tax compliance by removing the administrative difficulties and challenges that employers and employees face in tracking the private mileage, which is required under the current basis of computation; and
- Better reflect the actual benefits that employees enjoyed from their private usage of the cars, based on the prevailing costs of owning and maintaining cars in Singapore.

The current formula and the new formula for computing the taxable car benefits are appended below (differences in the formula have been indicated in bold):

	Current Formula (Until YA 2019)	**New Formula (Effective from YA 2020)**
Employer-owned car	3/7 x [Car Cost – **80% of Open Market Value (OMV)**] / Remaining Period of the COE] + **[D X Private Mileage]**	3/7 x [(Car Cost – **PARF Rebate**) / Remaining Period of the COE] + **Actual Running and Maintenance Costs Incurred by the Employer]**
Leased car	3/7 x Rental Costs + **[D X Private Mileage]**	3/7 X [Rental costs + **Actual Running and Maintenance Costs Incurred by Employer]**

Where:

Car cost	This is the acquisition cost of the car (inclusive of the certificate of entitlement (COE), registration fee, Additional Registration Fee (ARF), excise duty, and cost of additional accessories) paid or payable at the date of purchase. For a company car with a renewed COE, the cost of the car will be the amount payable on the renewal of the COE for the continued use of the car after the end of the 10th year. For a company-leased car, the rental cost incurred by the employer is inclusive of goods and services tax.
Preferential additional registration fee (PARF) rebate	The PARF rebate is the amount granted to a vehicle owner when the car is deregistered at the age of more than 9, but not exceeding, 10 years. This amount is the "minimum PARF" as indicated on the vehicle registration details (*i.e.*, log card). This rebate is not applicable to second-hand cars that are more than 10 years old at the time of purchase, cars with renewed COEs, or leased cars.
Remaining period of the COE	This refers to the remaining period from the date of purchase of the car to the date of expiry of the first COE or the renewed COE. If the car is a new car, the remaining period equals to 10 years. If the car is a second-hand car or car with renewed COE, this would be the remaining period of the original COE or renewed COE, respectively.
D (in the current formula)	**Company-Owned Car** • The rate of S$0.55 if the employer pays for the cost of petrol; or • The rate of S$0.45 if the employee pays for the cost of petrol. **Company-Leased Car** • The rate of S$0.10 if the employer pays for the cost of petrol; and • Not applicable if the employee pays for the cost of petrol.
Actual running and maintenance costs incurred by the employer	This refers to the actual running and maintenance costs incurred by the employer (including reimbursements made by the employer to the employee). Examples include road tax, petrol, electronic road pricing (ERP) charges, car park charges, car insurance, repairs, and maintenance, if any.

Taxation of other car-related benefits that an employer provides to an employee:

1. The reimbursement of expenses incurred on car-related expenses (*e.g.*, road tax, insurance, maintenance, petrol) for the employee's own vehicle remains taxable. However, reimbursement on mileage for business purposes is not taxable.
2. The taxable benefit derived by the employee from the provision of driver remains as: *Annual cost of driver x (private mileage/total mileage)*

In this regard, if a driver is provided, the employee and/or employer are required to continue to keep track of the private mileage and total mileage for the year.

Impact of the change

Please refer to the illustration below to review the potential tax impact to the employee in respect to the provision of a new company-owned car, where petrol and running costs are borne by the employer:

- **Car cost:** S$110,000
- **OMV:** S$11,000
- **PARF:** S$5,500
- **Actual running and maintenance costs** (including petrol but excluding parking)**:** S$20,000
- **Parking:** S$2,600 (incurred for private purposes)
- **Private mileage:** 7,300 km

Current Formula	New Formula
{3/7 x [S$110,000 – (80% x S$11,000)] / 10} + (S$0.55 X 7,300 km) = S$8,352 Total taxable benefit including car park = S$8,352 + S$2,600 = S$10,952	3/7 x [(S$110,000 – S$5,500) / 10 + S$20,000 + S$2,600] = S$14,164

Based on the above example, the taxable value of the car benefit has increased with the changes to the formula. Depending on the amount of expenses being reimbursed, it may be possible that the new formula may give rise to lower taxable benefits.

Accordingly, an analysis may need to be done on a case-by-case basis to determine if the employee's taxable benefit will be higher with the change in car formula, as it may not be appropriate to conclude that the change will result in higher assessable benefit in all cases.

Deloitte's view

In general, as the cost of owning and maintaining cars in Singapore has risen over the years, the change in the car formula to determine the taxable benefit thereof is intended to better reflect the value of benefit that employees derive from cars provided by their employers.

In addition, the revised formula is in line with the Government's effort to maintain the progressive tax system.

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