



## Tax Bytes

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Greetings from your Tax & Legal team at Deloitte Singapore.

We are pleased to update you on the following new/updated content from the Inland Revenue Authority of Singapore (IRAS):

- [Getting companies to comply](#)

On 3 April 2024, the IRAS has updated its website on its compliance programmes:

- upcoming areas of focus for compliance;
- ongoing areas of focus for compliance; and
- specific compliance-related mistakes and issues.

No.	Section	Description of change and remarks
1	Upcoming areas of focus for compliance	<p>The upcoming compliance programme by IRAS is on withholding tax.</p> <p>In Singapore, when payments like interest, royalties, fees for technical services, management fees, and director's fees are made to non-residents, a portion of these payments must be withheld by the payer and remitted to the IRAS as withholding tax. The applicable withholding tax rate varies based on the payment type and the recipient's country of residence. To avoid penalties for late payments, it is crucial for companies to adhere to these WHT regulations. Companies that have not met these obligations are advised to</p>

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proactively disclose this to IRAS prior to any audits to potentially reduce penalties.

As a reminder, there is no statutory time limit for withholding tax assessments.

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2 Ongoing areas of focus for compliance

a. Removal of sub-sections on group relief claims and tax exemption for foreign-sourced dividends

b. Update to subsection 2—Claiming of private or non-deductible expenses:

- An ongoing review of family-owned companies showed that expenses claimed by them included private or non-deductible expenses, such as family meals, vacation/overseas holiday expenses, and domestic groceries.
- The review also showed that these companies were managed by family members who paid remuneration excessively to the directors and their relatives. The remuneration was excessive as they were not commensurate with the actual services performed.

c. Addition of subsection 7—Digital economy

In the year 2023, IRAS focused on the review of taxpayers whose business model revolves around the digital economy such as content creators and social media influencers. The audit compliance effort on these taxpayers is expected to continue for the coming years. From ongoing audit reviews on this group of taxpayers, it was observed that they had:

- omitted/understated income including sponsorships and gifts received;
- incorrect claim for expenses, such as personal entertainment and travelling for non-business purposes; and/or
- failed to keep proper records on the actual income received and/or expenses incurred.

In any scenario of discrepancies and/or errors, taxpayers are encouraged to make voluntary disclosure to IRAS before they are uncovered in an audit to benefit from reduced penalties.

d. Addition of subsection 8—Deductibility of interest expenses and borrowing costs

IRAS highlights that it is reviewing interest expenses and borrowing expenses incurred by taxpayers to ensure correct tax deduction amounts are claimed.

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<p>3. Specific compliance-related mistakes and issues</p>	<p>a. Updated subsection 3—Related party services not priced at arm’s length</p> <p>Observations from tax audits showed that some companies rendering support services to related parties had not included all costs including direct, indirect, and operating expenses relating to the provision of services in computing the mark-up. This is inconsistent with the arm’s length principle. As a reminder, IRAS has the authority to make transfer pricing adjustments under Section 34D of the Income Tax Act 1947 (ITA) and impose surcharge under Section 34E of the ITA.</p> <p>b. Addition of subsection 4—Investment dealing company</p> <p>IRAS has added its new focus on investment dealing companies. IRAS clarified that investment dealing companies are those with the primary activity of buying and selling investments (viewed as trading stocks) for profit.</p> <p>IRAS also recognises that such companies will receive distributions from its trading stocks in the normal course of trade, such as:</p> <ul style="list-style-type: none"> <li>• dividend from equity instruments (may be exempt under certain conditions);</li> <li>• interest from debt instruments; and</li> <li>• interest from qualifying debt securities (where it is subject to concessionary tax rate).</li> </ul> <p>Such distributions are clarified to form part and parcel of the trading receipts of the company.</p> <p>Gains and/or distributions of investment dealing companies are assessable to tax under section 10(1)(a) of the ITA. If the trading receipts are either tax exempt, subject to concessionary and/or prevailing corporate tax rate(s), the allowable expenses and capital allowances are to be apportioned to the different streams of income.</p>
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### Closing remarks

The IRAS has recently updated its compliance focus areas, indicating key points of attention for the upcoming period. These updates include enhanced scrutiny on withholding tax, the digital economy, and the correct deduction of interest expenses, among others.

As these changes unfold, it is an opportune time for businesses to review their current practices to ensure they align with the latest requirements. The modifications and new inclusions in the IRAS compliance program are meant to clarify and enhance understanding, and help businesses navigate their tax obligations more effectively.

We encourage all businesses to familiarise themselves with these updates. If you have questions about how these changes might affect your operations or

require further details, Deloitte Singapore remains available to assist with additional information and guidance.

 Read more

## Contacts

Should you have any comments or questions arising from this newsletter, please contact either the listed contacts below, or any member of the [Singapore Tax & Legal team](#).



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