

1 April 2016

To: CEA Registered Salesperson

Dear Sir/Madam,

Income Tax – Common Errors made by Real Estate Salespersons

As part of our on-going efforts to encourage compliance with the tax laws, we would like to share with you the common errors that we have observed from our audits of real estate salespersons.

We observed that majority of the salespersons make errors in their tax returns due to lack of awareness of their tax obligations. In some cases, salespersons submit Productivity and Innovation Credit (PIC) cash payout claims solely to take advantage of the scheme. To help you in making accurate income declaration and PIC claims, we have compiled the list of common errors and provide guidance on how to correct the errors in *Appendix 1*.

You may wish to note that we have a Voluntary Disclosure Programme (VDP) that encourages taxpayers who have made errors in their tax returns to come forward to correct their errors in exchange for reduced penalties.

What You Need to Do

- (1) Review your past income tax declaration and PIC claim(s), if any, to ensure that your declarations and claims are in order.
- (2) Email us at IIT_compliance@iras.gov.sg if you would like to voluntarily disclose past errors.

If You Need Clarification

- Email us at IIT_compliance@iras.gov.sg.
- Call us on 6351 3122 or 6351 3121 from Monday to Friday, 8am to 5pm.

Yours faithfully

Chan Tsui Yee Nora (Ms)
Manager
Ruling and Compliance Branch
Individual Income tax Division
for COMPTROLLER OF INCOME TAX

Appendix 1 - Common Errors Made by Real Estate Salespersons

	Common Errors	How to get it right?
Reporting of revenue	1. Failure to keep proper records on the actual revenue and report revenue based on estimates	Real estate salesperson must maintain a full and complete record of income received.
	2. Failure to report the full amount of commission income received as there is a misconception that all commission have been included in the annual income statement from their real estate agencies	Apart from commission income received from real estate agencies, other commission for services rendered include: a) Co-broking or sub-agent commission income, b) Referral fee or bank referral fee, c) Cash bonus commission received directly from developer d) Cash commission received directly from landlord for property leasing services
	3. Incorrect reporting of commission income received as Employment Income or Other Income. Incorrect categorisation of income will affect the amount of Medisave that needs to be contributed to CPF Board as a self-employed, and Medisave contributions are compulsory for all self-employed persons who are Singapore citizens or permanent residents.	Real estate salesperson who are in receipt of commission income for services rendered, are treated as carrying on a trade and have to declare the gross commission income under the category "Trade" in the income tax return.
	4. Failure to declare the 4-line statement for gross commission income exceeding \$100,000.	Real estate salesperson will need to declare a 4-line statement, stating the revenue, gross profit, allowable business expenses and adjusted profit / (loss).
	If the gross commission income is less than \$100,000	Real estate salesperson will need to declare a 2-line statement, stating the revenue and adjusted profit / (loss).
	If the gross commission income is more than \$500,000	Real estate salesperson will be required to submit a certified statement of accounts, showing your revenue and the breakdown of the expenses.

	Common Errors	How to get it right?
Claiming of expenses	1. Failure to keep proper records on the actual expenses incurred and claim expenses based on estimates	Real estate salesperson should make claims of expenses based on actual amounts incurred for their business, supported with receipts, invoices, payment vouchers or schedules. Estimated expenses are not acceptable for income tax purposes.
	2. Failure to maintain proper records for claims of public transport and entertainment expenses	Real estate salesperson must keep complete records and proper receipts to show that the expenses are incurred for income-producing purposes. The details of records to be kept are: <u>Transport Expenses</u> a) Mode of transport b) Date and place visited c) Name and address of the person(s) contacted d) Specific reason(s) for the visit e) Amount of expenses incurred (keep receipt, if available) <u>Entertainment Expenses</u> a) Date and place of entertainment b) Name and address of the person(s) entertained c) Specific reason(s) for the entertainment d) Amount of expenses incurred (keep receipt, if available)
Claiming of non-deductible expenses	1. Claims of motor vehicle expenses including petrol, insurance, repair and maintenance, parking fees, ERP charges, hire purchase payments etc. in respect of private vehicles (E or S-plate cars)	Such expenses are specifically prohibited under the Income Tax Act and are not deductible even if they were incurred in the course of business.
	2. Claims of private expenses like club membership subscriptions, entertainment, personal insurance, travelling expenses for personal trips, medical fees etc.	Such private expenses are not deductible and should not be claimed for income tax purposes.

	Common Errors	How to get it right?
Claiming of expenses paid to related parties	1. Excessive salary and bonus paid to related parties, e.g. spouse, parents, children, siblings, for services rendered to the business	Salary, bonus and other payments made should commensurate with the services rendered and should be in line with market rate. Payment or salary vouchers should be acknowledged by recipient and retained.
	2. Payments of salaries, allowances or CPF to related parties, e.g. spouse, parents, children, siblings, when they are not employees of the business	Such payments are not incurred in the course of business and should not be claimed for income tax purposes.
Keeping proper business records	1. Failure to keep sufficient business records 2. Disposal of business records once the Notice of Assessment is received	Real estate salespersons are required to keep proper records for 5 years from the Year of Assessment to which the income relates, to enable IRAS to readily ascertain the income and allowable deductions in the course of audit. For example, business records for accounting period for 1 Jan 2014 to 31 Dec 2014 (Year of Assessment 2015) must be kept up to 31 Dec 2019.
Reporting of other income	1. Failure to report other sources of income like rental income and director's fees, which are taxable.	All such income is taxable and must be reported in your income tax return.
Claiming of PIC Cash Payout	1. Artificial creation or inflation of PIC claims especially for cash payout. For examples, a) Purchase of mobile app/website where there is no commercial need for the mobile app/website for the business, except to claim for PIC cash payout; b) Make minimum/low CPF contributions for persons who are not employees, such as parents, siblings, friends or other persons;	Real estate salespersons should make PIC claims that meet the qualifying conditions for PIC benefits and that improve the productivity of their businesses. The PIC application process is simple and can be easily completed in 10 minutes. However, if you need assistance from PIC consultants when submitting the PIC cash payout claims, do consider the background of these consultants and engage only those who are competent to provide factual advices.

	Common Errors	How to get it right?
	c) Sign agreements with parties (whether related or otherwise) to purchase items or services at inflated prices. 2. Claims of PIC qualifying expenditure or PIC cash payouts that are disproportionate to the revenue generated.	

For more information on allowable and disallowable expenses, you may refer to IRAS website, www.iras.gov.sg > Businesses > Self employed / sole-proprietors / partners

For more information on the PIC scheme, you may refer to IRAS website > Schemes > Productivity and Innovation Credit Scheme (PIC)