

IRAS Corporate Tax Compliance, Compliance Programmes and Voluntary Disclosure



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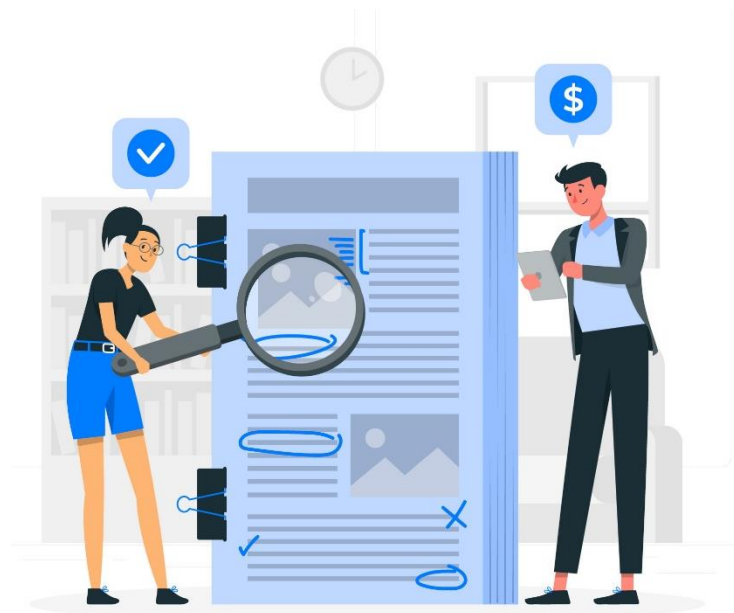
Have you wondered why some companies receive query letters from the IRAS while others don't? Is it something that these companies have done (or not done?) that invited the query letters? If you have had such questions, this article is likely to be of interest to you!

Corporate Tax Compliance

As can be seen from the IRAS's website, the IRAS takes a comprehensive approach towards tax compliance of companies by conducting both risk-based and random audits.

The risk-based approach to tax assessment profiles companies (using data analytics and other tools) based on the complexity of their businesses and tax matters, and risk to revenue. Companies with straightforward tax affairs generally does not require detailed reviews of their tax returns on a yearly basis and will have their tax returns accepted upfront by the IRAS with little or no adjustment. Companies with more complex tax affairs would be subject to more in-depth reviews of their yearly tax returns.

To complement the risk-based approach, the IRAS conducts reviews on a small percentage of companies with straightforward tax affairs by reviewing selected returns under its various compliance programmes. Audits are then conducted based on the companies' compliance risks and across all industries, to ensure good coverage across the corporate base.



Compliance Programmes

The IRAS has taken pains to explain in its website that it identifies and prioritises key compliance risks and develop programmes to address these risks. The area of focus in the compliance programmes are made available to the public on the IRAS website, with the aim to foster an environment of voluntary compliance by corporate taxpayers. Such programmes comprise upcoming and ongoing areas of focus for compliance, and specific compliance-related mistakes and issues. As a quick overview, we list down some of the compliance programmes that the IRAS has listed in its website as at the date of this article:

Upcoming and Ongoing Areas of Focus for Compliance

- Withholding tax
- Timely filing of corporate income tax returns
- Claiming of private or non-deductible expenses
- Classification of income and expenses for income taxable at concessionary and prevailing corporate income tax rates
- Recognition of income from construction contracts and provisions claimed by construction companies
- Companies exempted from filing corporate income tax returns
- Taxability of income / gains from sale of properties
- Digital economy
- Deductibility of interest expenses and borrowing costs

Specific Compliance-Related Mistakes and Issues

- Abuse of tax exemption schemes intended for companies
- Erroneous claims for capital allowances
- Related party services not priced at arm's length
- Investment dealing company
- Common mistakes made by companies in specific industries such as beauty and wellness industry, shipping companies, family-owned / managed companies, etc.

The IRAS believes that the majority of taxpayers are generally compliant, but errors may be committed due to negligence or lack of understanding of their tax obligations. Therefore, these programmes serve as a means for the IRAS to detect errors and deter companies from making recurring mistakes. Naturally, the IRAS is not precluded from reviewing the other tax aspect of a company that is not specifically identified above.

If there are errors discovered by the IRAS, there could be potential consequences such as penalty of up to 200% of the amount of tax undercharged, fine of up to S\$5,000, and/or imprisonment of up to three years. In a case where there is a wilful intention to evade taxes, the consequences would be much more severe.

Voluntary Disclosure

The IRAS has also designed a **Voluntary Disclosure Programme (“VDP”)** for income tax (including cash payout / bonus), to encourage taxpayers who have made errors in their tax returns to come forward voluntarily, in a timely manner, to correct their errors. Subject to conditions, the IRAS is prepared to reduce penalties for such voluntary disclosures.



To qualify for the VDP, a voluntary disclosure must be accurate, complete, timely and self-initiated.

A voluntary disclosure is considered timely and self-initiated under either one of the following conditions:

- Before receiving a query from the IRAS relating to the company's tax matters; or
- Before receiving notification from the IRAS on the commencement of an audit or investigation on the company's tax matters.

After submitting a voluntary disclosure, a company must also:

- Cooperate fully with the IRAS to correct the errors made; and
- Pay or make arrangements with the IRAS to pay additional taxes and penalties imposed (if any) and honour such arrangements till all payments are made.

When the above qualifying conditions are met, reduced penalties would be allowed in manners described below.

| Voluntary disclosure made | Penalty treatment |
|--|--|
| Within the one-year grace period from the statutory filing deadline. | No penalty imposed. |
| After the one-year grace period from the statutory filing deadline. | Reduced penalty of 5% of the income tax undercharged for each year (after the grace period) the error was late in being rectified. |

In a case where the voluntary disclosure is on past actions involving a wilful intent to evade taxes, the offences may be compounded at a reduced penalty rate of 200% in lieu of prosecution.

As can be seen from the above, the beauty of the VDP is that there would not be any penalty imposed if the disclosure is made within the one-year grace period, and if the disclosure is made after the one-year grace period, reduced penalty would be allowed depending on when the disclosure is made. Therefore, companies that have failed to comply with the relevant compliance requirements are encouraged to make a voluntary disclosure to IRAS before they are uncovered in an audit in order to benefit from reduced penalties.

Let Us Help You!

Having better awareness of the IRAS compliance programmes, the potential implications of non-compliance, and the benefits of coming forward voluntarily to disclose errors, it would be in the interest of any company to review its tax compliance matters on a regular basis.

If you have any concerns regarding the tax compliance matters of the company, feel free to speak with us and we will be able to assist to conduct the relevant health check for your company, on your specific area of concerns, or general matters of the company. If any errors are discovered, we would be able to support you in disclosing them voluntarily to the IRAS in order to avail of the reduced penalties. Reach out to us today!



References

1. [After Filing Form C-S/ Form C-S \(Lite\)/ Form C](#)
2. [Encouraging Tax Compliance](#)
3. [Getting Companies to Comply](#)
4. [Penalties for Errors in Tax Returns](#)
5. [Voluntary Disclosure of Errors for Reduced Penalties](#)

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