

To All Our Most Valued Clients

TAX AUDIT & INVESTIGATION UPDATE FOR INDIVIDUALS

Capital Statements: Do Your Assets Match Against Your Declared Income?

The Inland Revenue Board (here-in-after referred to as "IRB") commonly uses the "Capital Statement" method in discovering whether an individual has under-declared his or her taxable income for a year of assessment.

The principle behind Capital Statement is "Past Savings and Current Income (here-in-after referred to as "Inflow") equals Current Spending and Current Savings (here-in-after referred to as "Outflow")". If Inflow does not reconcile with one's Outflow, you may be exposing yourself to the IRB's scrutiny.

Inflow refers to available cash for the year which includes past savings and current income which comprises both taxable income (eg. salaries, fees, commissions, rentals, share of profits from proprietorships, etc.) and non-taxable income (eg. dividends, foreign source income, asset disposal which may be subject to indirect taxes, etc.).

Outflow refers to cash payments for the year which includes daily sustenance, rental expenditure, loan repayments, education expenditure, asset acquisition, current savings, etc.

Generally, every entity, i.e. companies, partnerships, trusts, etc. is required to maintain a balance sheet and income statement together with the supporting documents for each financial year. And in the case of individuals, it is required that a proper record of all of their income and expenditure be maintained. However, keeping track of daily sustenance spending is not a normal practice of every individual and as such, the IRB will normally request for estimated monthly expenditure. However, records of other expenditure like purchase of properties, unit trusts, repayment of loans, etc. should be fully maintained. All these records / documents inclusive of all bank statements, loan statements, etc. should be maintained for a period of 7 years from the date of the filing of the tax returns.

Since the introduction of self-assessment for individuals in 2014, taxpayers are required to assess their own income to tax each year. In the event, the IRB undertakes a tax audit or tax investigation on an individual, a Capital Statement would be requested to be furnished by the individual as it is one of the more common methods used in assessing whether there is any under-declaration of taxable income by the individual.

Please do not hesitate to contact us if you require further clarification.