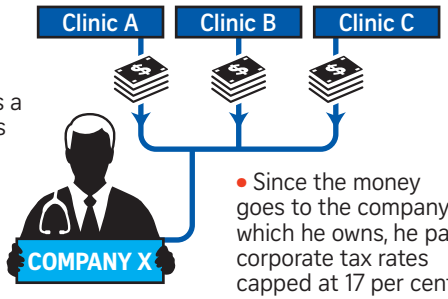
Examples of tax avoidance

Schemes some doctors and dentists are using to avoid paying taxes are rather ingenious. Here are four real examples of unacceptable tax avoidance the Inland Revenue Authority of Singapore has uncovered among the medical/dental profession in recent years.

ASSIGNING INDIVIDUAL INCOME TO A COMPANY

- A doctor or dentist working as a locum – which means he stands in for another who is away – forms a company to collect the money he is paid by various clinics for his services. He does not employ any staff.

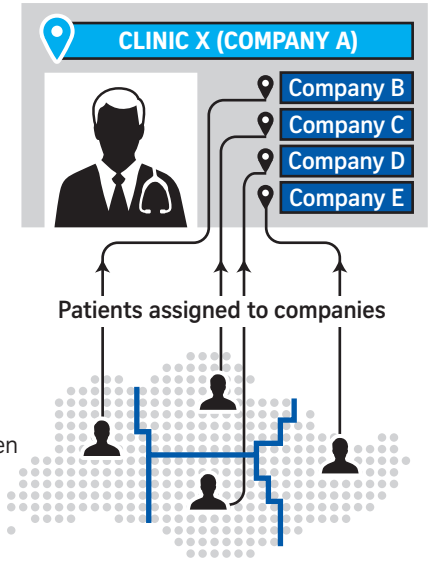


- Since the money goes to the company which he owns, he pays corporate tax rates capped at 17 per cent.

MULTIPLE COMPANIES FOR ONE BUSINESS

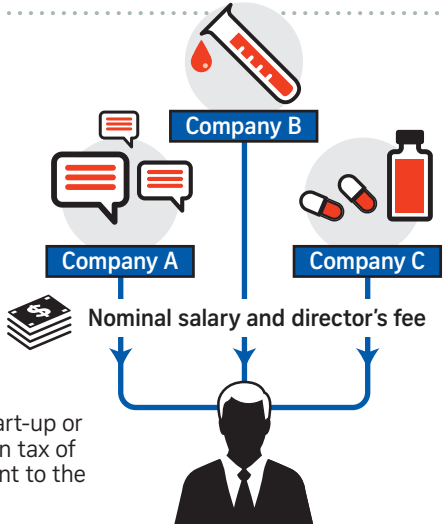
EXAMPLE 1

- A doctor or dentist operates out of one physical clinic.
- He then sets up four companies, each representing a geographical location in Singapore. The four companies share the clinic, its assets and staff.
- When patients see him, he assigns them to one of his four companies, based on their address.
- When filing his tax returns, each of the four companies claims either start-up or partial tax exemptions. This is on top of the lower tax rate for a company.
- In one case, the tax avoider had been operating this way for more than two years before he was told by Iras that it was not acceptable. Iras collected more than $200,000 in back taxes.



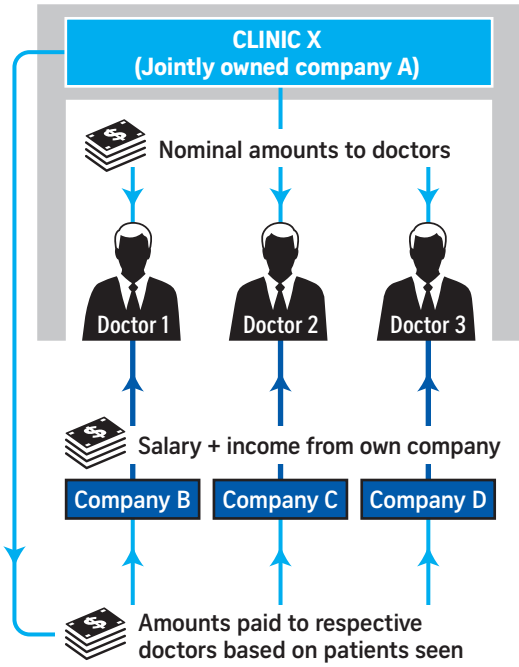
EXAMPLE 2

- A specialist doctor set up three companies though he operates out of only one clinic.
- One company was for patient consultation. The second was to sell the medicine he prescribes to patients. The third was used when patients needed procedures or investigations, such as blood tests.
- He received nominal salary and director's fee from the three companies.
- Each company enjoyed either start-up or partial tax exemption, with a cap on tax of 17 per cent. The profit after tax went to the doctor as tax-exempt dividend.



MULTI-TIERED STRUCTURE WITH ASSIGNMENT OF PERSONAL INCOME TAX

- Three doctors set up a company to run a clinic. Each doctor also set up a separate company to receive his share of the income from the clinic.
- The reason given was that the jointly owned company did not want to deal with individuals, only with corporates.
- The joint company paid each of the other three companies according to the patients seen by the doctor who owned the company.
- Each doctor drew only a nominal salary from his company. The three individual companies as well as the jointly owned one claimed start-up or partial tax exemption when declaring tax returns.
- The three doctors also received tax-exempt dividends from the companies as directors and shareholders.



DIFFERENCE IN TAX PAYABLE BY PRIVATE LIMITED COMPANIES AND SOLE PROPRIETORS

	Sole proprietor	Company
Total income	$370,000	$370,000
Reliefs	$30,000	$200,000*
Chargeable income	$340,000	$170,000
Tax payable	**$48,950**	**$28,900**
Total income	$500,000	$500,000
Reliefs	$30,000	$200,000*
Chargeable income	$470,000	$300,000
Tax payable	**$77,550**	**$51,000**
Total income	$1,000,000	$1,000,000
Reliefs	$30,000	$200,000*
Chargeable income	$970,000	$800,000
Tax payable	**$187,550**	**$136,000**

NOTE:
*Tax exemption for the first three years

- **Start-up Exemption Scheme (applicable in the first three years):** $34,000 in savings on the first $300,000 of chargeable income a year.
- **Partial Tax Exemption Scheme (from year four onwards)** $25,925 in savings on the first $300,000 of chargeable income a year.

Source: IRAS STRAITS TIMES GRAPHICS