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How tax rates can achieve greater savings for married couples

This article was first published in the February/March 2019 Singapore edition of Accounting and Business magazine. 2019 February.

In the second of our two-part guide, Khoo Teng Aun and Clement Tan Kai Guan look at how to use tax rates to achieve greater savings for married couples.

"Generally the optimal decision is for a spouse with a higher MR to claim all of the shareable personal reliefs "

In last month's article, we considered how marginal tax rates (MR) apply to resident individuals. This article looks specifically at married couples.

Shareable personal reliefs

Certain personal reliefs (PR) – for example, parent relief/handicapped parent relief¹, qualifying child relief (QCR) and handicapped sibling relief – may be shared with other claimants² based on an agreed apportionment.

For a married couple, generally the optimal decision from a tax perspective is for a spouse with a higher MR to claim all of the shareable personal reliefs so as to achieve the highest tax savings for the couple as a whole.

In table 1, we look at a married couple with one child, with the husband and wife claiming the full amount of the QCR in scenarios 1 and 2 respectively. The MR of each still remains the same before and after claiming the QCR.

As the wife has higher chargeable income (before taking into account QCR) and hence a higher MR than her husband, from the married couple's perspective it makes more sense for the wife instead of the husband to claim the QCR. Although the husband will have to pay more tax³, the additional tax savings his wife receives will outweigh this. Consequently, the couple as a whole will save another S\$120⁴ in taxes.

Change in MR

What if there's a change in MR after claiming the shareable personal reliefs?

Table 2 shows a married couple with one child (the subject of a QCR claim) supporting two aged parents (the subject of a parent relief claim) who are not staying with them⁵. The chargeable income of husband and wife, after claiming their respective PR but before claiming QCR and parent relief (QCRnPR) is S\$125,100 and S\$130,850 respectively. Both their MRs are the same at 15%.

In scenario 3 (scenario 4), the husband (wife) claims the full amount of QCRnPR. Although scenario 4 has a lower total tax payable for the couple as a whole by S\$202⁶, it is still not an optimal scenario because the wife's MR after claiming the QCRnPR falls from 15% to 11.5% as she is now in a lower income tax bracket than before, hence part of the tax savings is realised at a lower MR of 11.5% while the husband's MR is at 15%.

When a spouse's MR is higher, deduction of QCRnPR will accord a higher tax saving for that spouse. Hence, the shareable QCRnPR should be allocated between the couple in such proportion as to ensure that their respective chargeable income (CI) after QCRnPR still remains within the same tax bracket as their CI before QCRnPR, ie their respective MRs will remain the same as before, which is higher than the MR if the CI after QCRnPR were to fall into the next lower income tax bracket.

In table 3, as both their CI before QCRnPR is greater than S\$120,000 (the level below which the MR will fall to 11.5%), the allocation of the shareable QCRnPR between the couple should preferably be such that their respective CI after QCRnPR remains at least S\$120,000 after the allocation in order to maintain their MR at 15%.

Scenario 5 in table 3 shows one of many possible allocations of QCRnPR. When compared with scenario 4, S\$5,000 of the shareable QCRnPR is reallocated from the wife to the husband. As a result, total tax payable for the couple is further reduced by another S\$145. This represents an optimal scenario as tax savings arising from the deduction of QCRnPR are now fully realised at their respective original MR of 15%.

The difference in tax payable of S\$145 between scenarios 4 and 5 can alternatively be explained using the concept of MR as shown in table 4.

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Table 1: Tax computation for couple 1				
	Scenario 1		Scenario 2	
	Husband	Wife	Husband	Wife
Salary	S\$160,000	S\$250,000	S\$160,000	S\$250,000
Less PR (excluding QCR)	S\$22,900	S\$59,650	S\$22,900	S\$59,650
CI (before QCR)	S\$137,100	S\$190,350	S\$137,100	S\$190,350
MR (before QCR)	15%	18%	15%	18%
Less:QCR	(S\$4,000)	-	-	(S\$4,000)
CI (after QCR)	S\$133,100	S\$190,350	S\$137,100	S\$186,350
MR (after QCR)	15%	18%	15%	18%
Tax on first S\$120,000/ S\$160,000	S\$7,950	S\$13,950	S\$7,950	S\$13,950
Balance of tax payable	S\$1,965	S\$5,463	S\$2,565	S\$4,743
Total tax payable	S\$9,915	S\$19,413	S\$10,515	S\$18,693
Total tax payable as a couple	S\$29,328		S\$29,208	
Tax savings as a couple	S\$120			

Table 2: tax computation for couple 2 (with either one claiming the QCRnPR)

	Scenario 3		Scenario 4	
	Husband	Wife	Husband	Wife
Salary	S\$148,000	S\$180,000	S\$148,000	S\$180,000
Less: PR (excluding QCRnPR)	S\$22,900	S\$49,150	S\$22,900	S\$49,150
CI before QCRnPR	S\$125,100	S\$130,850	S\$125,100	S\$130,850
MR (before QCRnPR)	15%	15%	15%	15%
Less: shareable PR				
QCR	(S\$4,000)	–	–	(S\$4,000)
Parent relief	(S\$11,000)			(S\$11,000)
CI (after QCRnPR)	S\$110,100	S\$130,850	S\$125,100	S\$115,850
MR (after QCRnPR)	11.5%	15%	15%	11.5%
Tax on first S\$80,000/ S\$120,000	S\$3,350	S\$7,950	S\$7,950	S\$3,350
Balance of tax payable	S\$3,462	S\$1,628	S\$765	S\$4,123
Total tax payable	S\$6,812	S\$9,578	S\$8,715	S\$7,473
Total tax payable as a couple	S\$16,390		S\$16,188	
Tax savings as a couple	S\$202			

Table 3: tax computation for couple 2 (with both claiming the shareable QCRnPR)

	Scenario 4		Scenario 5	
	Husband	Wife	Husband	Wife
Salary	S\$148,000	S\$180,000	S\$148,000	S\$180,000
Less: PR (excluding QCRnPR)	S\$22,900	S\$49,150	S\$22,900	S\$49,150
CI before QCRnPR	S\$125,100	S\$130,850	S\$125,100	S\$130,850
MR (before QCRnPR)	15%	15%	15%	15%
Less: shareable PR				
QCR	–	(S\$4,000)	(S\$4,000)	
Parent relief		(S\$11,000)	(S\$1,000)	(S\$10,000)
CI (after QCRnPR)	S\$125,100	S\$115,850	S\$120,100	S\$120,850
MR (after QCRnPR)	15%	11.5%	15%	15%
Tax on first S\$80,000/ S\$120,000	S\$7,950	S\$3,350	S\$7,950	S\$7,950
Balance of tax payable	S\$765	S\$4,123	S\$15	S\$128
Total tax payable	S\$8,715	S\$7,473	S\$7,965	S\$8,078
Total tax payable as a couple	S\$16,188		S\$16,043	
Further tax savings as a couple	S\$145			

Table 4: alternative calculation of tax savings in table 3 using the concept of MR

	Tax savings
Husband claiming the S\$5,000 shareable QCRnPR in scenario 5	$S\$5,000 \times 15\% = S\750
Had the wife claimed the S\$5,000 QCRnPR instead	$(S\$850 \times 15\%) + (S\$4,150 \times 11.5\%) = S\605
Additional tax savings from husband claiming the S\$5,000 shareable QCRnPR	S\$145

1 May be claimed by those who support their parents, grandparents, parents-in-law or grandparents-in-law but up to a maximum of two dependants. **2** QCR can be shared on the same child only between spouses on an agreed apportionment basis. **3** Increase in tax payable from S\$9,915 to S\$10,515, a difference of S\$600. This illustration assumes the married couple's objective is to achieve the highest overall tax savings, although in practice this may not be the case. **4** Alternatively, this may be computed by the difference in their MR of $3\% \times S\$4,000 = S\120 . **5** For children who support their aged parents who are not staying with them, the relief is S\$5,500 per dependant. **6** S\$16,390-S\$16,188.