



Get Personal with Employment Tax

Understanding Challenges and Blindspots

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In recent years, amid an environment of increased information-sharing between government agencies and regulators using technology and data analytics to assess compliance, greater focus is required for employees' remuneration and Central Provident Fund (CPF) reporting, collectively referred to as Employment Tax.

Against this backdrop, Accredited Tax Advisor (Income Tax) Grace Huang, Director, Global Mobility Services, and Muhammad Ridzuan, Manager, Global Mobility Services of PwC International Assignment Services (Singapore), provided a timely update at a recent *Tax Excellence Decoded* session organised by the [Singapore Institute of Accredited Tax Professionals \(SIATP\)](#). They also shared best practices that can be taken by organisations to not only strengthen compliance but also become "audit-ready".

Key Legislative Changes Impacting Employers

BUDGET 2019 INDIVIDUAL TAX ANNOUNCEMENTS

As part of the bicentennial bonus, a personal income tax rebate of 50% of tax payable, capped at \$200, will be granted to all tax resident individuals for Year of Assessment (YA) 2019. Companies with tax-equalised employees may need to consider the possible impact of the newly-announced tax rebate.

Separately, the long-standing Not Ordinarily Resident (NOR) scheme, which allows an individual granted NOR status a five-year period to receive tax concessions (subject to meeting conditions), will lapse after YA 2020. It would be advisable for employers to consider their resourcing needs now as expatriate moves commencing in year 2020 may result in higher tax costs as the NOR scheme lapses.

LEGISLATIVE CHANGES TO COMPENSATION REPORTING

Simplifying Reporting for Employer-provided Car Benefit and Accommodation Benefits

The Inland Revenue Authority of Singapore (IRAS) announced that the prescribed formula for computing the taxable value of employer-provided car benefit will be revised from YA 2020. While employees' private mileage no longer needs to be tracked, the revised formula takes into account the actual running expenses borne by employers and aligns with the Land Transport Authority (LTA) regulations on how residual value is calculated.

The basis for computing employer-provided accommodation benefit is also simplified such that the taxable value will be based on the actual rent paid by the employer (less any rent paid by the employee), with effect from YA 2020, unless the property is owned by the employer.

Tightening of “Cost-plus Mark-up” Basis of Assessment

Clarifications provided by IRAS regarding the “cost-plus mark-up” (CM) basis of assessment for corporate income tax restrict the assessment basis only to service companies that provide routine support services to related parties, and adopt a 5% mark-up on costs as the arm’s length charge for such services. Service companies that do not qualify for the CM basis (but have been adopting the CM basis) are required to transit to the normal trading company (NTC) basis of assessment by YA 2020.

Transitioning from the CM basis to the NTC basis may impact reporting of employees’ remuneration. For example, group insurance premiums (which are taxable in the hands of employees of a company adopting the CM basis) may become exempt when the company transits to NTC basis (provided it forgoes the corporate tax deduction on the expense).

Following the revisions, employers will need to evaluate and communicate the impact to their employees, and ensure requisite information is captured for remuneration reporting. In addition, the shift in how such benefits are captured for tax reporting purposes presents an opportunity for employers to assess their compensation and benefits policies.



Accredited Tax Advisor (Income Tax) Grace Huang, Director, Global Mobility Services and Muhammad Ridzuan, Manager, Global Mobility Services of PwC International Assignment Services (Singapore), shared their insights on the intricacies and common pitfalls of employment tax.

Best Practices In Managing Employers’ Obligations

In managing their obligations, employers need to appreciate the intricacies of the rules and regulations governing the different aspects of employment issues.

STATUTORY LIMITS

For example, employers should be mindful that while there is a statutory time limit of four years for the Comptroller of Income Tax to raise any additional assessment (unless fraud is involved), no statutory limits exist for the CPF Board to require employers to make good any non-compliance given their role as trustees for CPF members’ savings unless separately agreed.

MANAGING TAX REPORTING

Income from employment exercised in Singapore is subject to tax (unless it is specifically exempt or is covered by an administrative concession). This is regardless of where the employment contract is signed where the employee is paid, and who pays the employee.

A common reporting error often made by employers is the failure to declare taxable off-payroll benefits (for example, employee equity awards or flexible benefits). This happens when the income does not flow through payroll or is administered by another team within the organisation.

Employers often incorrectly report the gains from employee equity awards, either from obtaining the wrong information from overseas equity administrators or not having a clear understanding on how share-based plans should be reported. One example is how share-based plans are sourced differently in Singapore vis-à-vis countries adopting the Organisation for Economic Co-operation and Development (OECD) model.

Equity awards granted while an employee is exercising employment in Singapore are considered entirely Singapore-sourced and subject to Singapore tax in full, irrespective of the date or place of vesting of those share awards. Conversely, share awards granted while an employee is exercising employment outside Singapore are considered entirely foreign-sourced and would not be taxed in Singapore, even if they vest while the individual is exercising Singapore employment.

Any unvested equity awards which remain unvested or restricted when a non-Singapore citizen employee ceases Singapore employment will be subject to the “deemed exercise rule”. In such an event, the point of taxation for those shares are accelerated to one month prior to cessation/departure or date of grant, whichever is later. The deemed exercise rule is also applicable to Singapore Permanent Residents posted to work overseas or leaving Singapore permanently.



Grace Huang and Muhammad Ridzuan dispelled doubts with their wealth of knowledge on the subject.

Connecting The “Dots”

Remuneration reporting errors most commonly occur when there is incorrect or insufficient data that flows through to payroll from business units, or inadequate measures taken by payroll teams to keep up-to-date with legislative changes.

There is urgency for companies to re-evaluate their end-to-end payroll operations to ensure that all the “dots” are connected.

MANAGING CPF REPORTING

There are four main areas which employers can focus on for CPF reporting, namely:

1. Classification of wages

Incorrect classification of wages (for example, overtime that does not fall under the definition of Ordinary Wages) will result in under-contribution of CPF where the monthly Ordinary Wage ceiling cap is applied when computing CPF contributions, instead of the Additional Wage ceiling.

2. Timing of payments Employers are required to pay both the employer’s and employees’ share of CPF contribution at the end of every month (with a grace period of 14 days) to the CPF Board, with the employees’ share to be recovered from their wages.

3. Applying the correct rate/ threshold Incorrect rates are often applied when employees move into a different age group or when a foreign employee first obtains Singapore Permanent Residence and becomes subject to CPF contributions.

4. Benefits attracting CPF contributions The CPF Board has recently focused on whether employers have been collecting CPF on employee benefits for which CPF should have been applied, such as private gym membership reimbursements.

It is critical for employers to revisit how CPF reporting is currently managed in their organisations to avoid errors arising from the above areas.

This means that all relevant functions and teams dealing with employment issues (including payroll, human resource, human mobility, tax and finance) must be in sync with one another. Not doing so may expose an organisation to unnecessary compliance and operational risks, and may ultimately result in significant financial (that is, through interest and penalties) and reputational consequences for the organisation.

Gone are the days where the payroll function is perceived to be straightforward and treated as a simple back office function whose only concern is about paying salaries on time. The modern payroll function has evolved to become a critical business partner performing a myriad of vital corporate roles, such as ensuring compliance to statutory requirements, administering tax efficient schemes, liaising with regulators as well as supporting internal and external audits.

Achieving “audit-readiness” does not stop there – it is best practice to perform annual implementation reviews to ensure that the systems, processes and especially the competencies of employees are able to meet compliance standards. This will allow the company to uncover potential issues and identify new key risk areas on a timely basis.

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Essentially, companies aiming to be “audit-ready” can start by systematically consulting each relevant function and team, creating an accountability framework, mapping end-to-end processes, and reviewing service level agreements with vendors to put in place accountability and engagement with stakeholders.

Facilitators



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