



# Managing Employment Tax Compliance

## Enhancing Employment Tax Governance And Risk Management

12 October 2022, Wednesday

Facilitated by:  
Accredited Tax Practitioner (Income Tax) Ms Grace Huang  
and Mr Adi Kesuma

### KEY TAKEAWAYS

- Generally, all gains and profits derived by an employee in respect of his employment in Singapore are subject to income tax in Singapore, unless they are specifically exempt from income tax or are covered by an existing administrative concession issued by the Inland Revenue Authority of Singapore (IRAS).
- Critical financial information must be recorded and retained, with safeguards put in place to ensure the data integrity.
- Companies should document and validate their end-to-end process for risk management purposes, and designate appropriate signoffs at each stage of processes to enhance accountability.

**T**he transformation of the global employment landscape since COVID-19 has been nothing short of astonishing. Unthinkable just a few years ago, remote and hybrid work arrangements are now the default arrangements for a large part of the global workforce. The continual evolution of established working norms and the rise of the gig economy have led to growing complexities for both companies and individuals in handling their compliance obligations.

“In view of the changing employment landscape, we expect further guidance from the authorities on the regulatory treatment for remote and hybrid work arrangements,” shared Accredited Tax Practitioner (Income Tax) Grace Huang, Partner and APAC Employment Tax Leader, and Adi Kesuma, Senior Manager, Vialto Partners, in a recent webinar organised by the [Singapore Chartered Tax Professionals](#). “In the meantime, companies should evaluate their readiness to meet increasingly complex compliance obligations, with an emphasis to enhance tax governance as tax administrations are gradually taking a more upstream approach to risk management.”

### Overview of Key Employer Obligations

An ‘employer’ is defined in Section 2 of the Singapore Employment Act as any person who employs another person under a contract of service. A contract of service is an agreement between both the employer and employee, which typically would indicate:

- a) an employer-employee relationship;
- b) the employee does business for the employer; and
- c) the terms of employment such as working hours, leave benefits, etc.

In Singapore, an entity that meets the definition of an employer would have numerous compliance obligations, spanning from the annual reporting of the employee’s remuneration and employer tax clearance return to making contributions to the Central Provident Fund (CPF), Skills Development Levy (SDL), Self-Help Groups (SHG), and Foreign Worker Levy (FWL).

## **ANNUAL REPORTING OF EMPLOYEE'S REMUNERATION**

Employers are required to report the annual remuneration and other taxable benefits of all Singaporean employees (including Singapore permanent resident (PR) who have resigned, signed a letter of undertaking, and are not leaving Singapore permanently) and other employees who remain employed as of 31 December. The completed Form IR8A and the relevant appendices need to be filed by 1 March of the following year.

## **EMPLOYER TAX CLEARANCE RETURN**

An employer of non-Singaporean employees who are ceasing their Singapore employment, starting an overseas posting, or leaving Singapore for any period exceeding three months, is required to file the Form IR21 one month prior to the employee's departure or cessation of the Singapore employment, whichever is earlier.

## ***Taxation of Employment Income***

---

Generally, all gains and profits derived by an employee in respect of his employment in Singapore are subject to income tax in Singapore, unless they are specifically exempt from income tax or are covered by an existing administrative concession issued by the IRAS. While the tax principle may seem straightforward, its application in practice is often not as simple as one may envisage.

Consider a scenario where John, a Singapore citizen, is employed by a company headquartered in China and is ordinarily based in China. In July 2022, John returned to Singapore for a holiday and plans to work remotely in Singapore for the rest of 2022 to avoid the quarantine requirements in China. John has not decided on when he will return to China.

The employer also needs to withhold all monies due to the employee from the date that it is made aware of the employee's cessation of employment or departure from Singapore. Otherwise, in the event of tax payment default, the employer may be held liable for the employee's tax liability.

## **CENTRAL PROVIDENT FUND**

CPF is a comprehensive social security system that is applicable to all Singapore citizens and Singapore PRs. Employers are required to pay the total CPF contributions (both the employer's and employee's contributions) to the CPF Board by the end of the calendar month or by the 14th of the following month (grace period). Otherwise, enforcement actions would be taken against employers who fail to pay by the 14th day of the following month.

From an employment tax perspective, John's situation raises many questions:

- Should John remain on the China entity's payroll while he is working remotely in Singapore?
- Which entity (the China head office or the Singapore subsidiary, if any) should handle the employer's reporting while John is in Singapore?
- Does the company need to fulfil employment tax obligations in Singapore (for example, CPF, SDL and SHG)?
- Are there any double taxation implications?
- Will John create a permanent establishment (PE) for the China entity in Singapore?

## **Common Pitfalls**

---

### **OVERSEAS PAYMENTS NOT REPORTED**

One common employment tax pitfall relates to split payroll arrangements where payments made by the overseas payroll in relation to a Singapore employment are not reported in Singapore, leading to an under-reporting of taxable income in Singapore.

### **TAXABLE REIMBURSEMENTS**

Depending on the set-up of a company, reimbursements may not be handled by the payroll department. If a taxable reimbursement is not processed via payroll, the company may overlook the reimbursement and under-report its taxable income.

### **INCOME VERSUS CAPITAL PAYMENTS**

Some of the employment income may be incorrectly treated as capital payment and accordingly, not brought to tax (for example, severance payment). While severance payments that are made to compensate for the loss of employment are capital receipts and therefore not taxable, other payments such as salary in lieu of notice, ex-gratia and gratuity for past services are payments for services and therefore, taxable to the employee.

## **Navigate the Complex Employment Tax Landscape**

---

In view of the changing employment norms and the heightened scrutiny by tax authorities, companies should put in place a comprehensive risk framework and governance to handle the entire life cycle of employment – from the moment an employee joins the organisation to the moment the employee leaves. Critical financial information (such as remuneration, benefits, expenses, reimbursements and CPF contributions) must be recorded and retained, with safeguards put in place to ensure the data integrity.

### **INITIAL SET-UP**

It is critical for the organisation to be aware of and set up all of the employer's statutory reporting requirements correctly from the onset. Professional tax advice should be sought where necessary as even the best system would not be useful if the organisation has misinterpreted the requirements.

Once the statutory reporting requirements and filing deadlines have been established, the organisation may then set up the system based on its specific needs. When setting up the system, the company should include all payroll codes including off-payroll items. The mapping of the codes to the various statutory filing should then be reviewed for accuracy.

### **RISK AND GOVERNANCE**

There should be a clear segregation of roles and responsibilities to manage risk and enhance governance. Some organisations adopt the RACI matrix (which stands for Responsible, Accountable, Consulted and Informed) to enhance the clarity of employee roles and responsibilities for each task, milestone and decision.

### **MONITOR AND CONTROL**

Potential exposures and gaps in the system or process should be identified through periodic checks, and any gaps identified should be proactively resolved with the relevant authorities. Regular trainings should be conducted to help employees remain relevant and competent.

### **GOVERNANCE AND DOCUMENTATION**

Companies should document their end-to-end process for risk management purposes, and designate appropriate signoffs at each stage of processes to enhance accountability. All relevant records must be retained to support the various compliance and reporting.

While employment tax compliance may not usually be in the spotlight, the recent transformation of the global employment landscape and the continual evolution of established working norms have raised questions of companies' readiness to meet the increasingly complex compliance obligations. It is thus timely for companies to put on new lenses to relook their employment tax compliance.

Please click [here](#) to rate this article.

---

## Facilitators



**Ms Grace Huang**

Partner and APAC Employment Tax Leader

Vialto Partners

*Accredited Tax Practitioner (Income Tax)*

Email: [grace.wj.huang@vialto.com](mailto:grace.wj.huang@vialto.com)



**Mr Adi Kesuma**

Senior Manager

Vialto Partners

Email: [adi.ak.kesuma@vialto.com](mailto:adi.ak.kesuma@vialto.com)

---

This technical event commentary is written by SCTP's Tax Head, Accredited Tax Advisor (Income Tax) Felix Wong. For more insights, please visit <https://sctp.org.sg/Tax-Articles>.

This article is intended for general guidance only. It does not constitute professional advice and may not represent the views of Vialto Partners, the facilitators or the SCTP. While every effort has been made to ensure the information in this article is correct at time of publication, no responsibility for loss to any person acting or refraining from action as a result of reading this article or using any information in it can be accepted by Vialto Partners, the facilitators or the SCTP.

SCTP reserves the right to amend or replace this article at any time and undertake no obligation to update any of the information contained in this article or to correct any inaccuracies that may become apparent. Material in this document may be reproduced on the condition that it is reproduced accurately and not used in a misleading context or for the principal purpose of advertising or promoting a particular product or service or in any way that could imply that it is endorsed by Vialto Partners, the facilitators or the SCTP; and the copyright of SCTP is acknowledged.

© 2023 Singapore Chartered Tax Professionals. All Rights Reserved.