

Singapore: Withdrawal of Administrative Concession for Employer's Contributions to Mandatory Pension/Provident Fund

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Background

Technically, employer's contributions to any overseas pension plan or social security scheme are taxable benefits that must be reported by the employer to the Inland Revenue Authority of Singapore (IRAS) in the relevant Return of Employee's Remuneration Form. However, as an administrative concession, the IRAS treats such employer's contributions as not taxable if ALL the following conditions are satisfied:

- ▶ Contributions are made by the employer to a social security scheme operated, regulated and supervised by the employees' home country government;
- ▶ Contributions are mandatory even though the employees are working outside their home country;
- ▶ Contributions are not borne by, or no deduction is claimed by, any permanent establishment/company in Singapore; and
- ▶ The Singapore company is not an investment holding company, a tax-exempt body, a representative office, or a foreign company not registered in Singapore.

Changes

With effect from the Year of Assessment 2025, the concessionary tax treatment will cease to apply. With the removal of the concessionary tax treatment, all contributions by the employer to an overseas pension fund or social security

schemes made on or after 1 Jan 2024 will be taxable in the hands of the employees. This is regardless of whether the contributions are considered mandatory or non-mandatory for the employees during their period of employment in Singapore.

With these changes, the contributions to the overseas pension will be deductible to the employer provided that the normal tax rules for deductions of business expenses are met.

Comments:

The withdrawal of the administrative concessions above follows removals of other administrative concessions such as home leave passage and provision of housing benefits previously available to foreign employees working in Singapore. The change is in line with the IRAS' intention to have a consistent application of the principle of taxability of income and benefits in the hand of the employees and will likely increase the tax liability of foreign employees working in Singapore. As the changes will take effect from 1 January 2024, this should give employers sufficient time to prepare for the change in tax treatment. Employers are encouraged to review their systems to ensure that information is readily available to meet the tax filing needs.

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