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**Singapore – New  
Guidance Issued on  
Taxation of Employer-  
Provided Insurance**

by KPMG Services Pte Ltd,  
Singapore (KPMG in Singapore  
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## *flash* International Executive Alert

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The Inland Revenue Authority of Singapore (IRAS) has recently issued further guidance on the tax treatment of insurance policies purchased by employers for their employees.<sup>1</sup> The new rules may change the way employers treat insurance premiums and pay-outs when preparing the Form IR8A reporting of taxable remuneration.

### **Employer Is Beneficiary of Policy/No Named Beneficiary**

Previously, a contractual obligation to pay insurance benefits to the employee was not a factor in determining taxability. So, the premiums paid by the employer were not taxable in the hands of the employee; hence there were no reporting requirements by the employer.

Under the new rules, the taxability of the benefits depends on whether the employer has a contractual obligation to pay the insurance benefits to the employee.

Premiums would now be taxable to the employee if the employee, the employee's nominated beneficiaries, or the employee's next-of-kin is contractually entitled to the pay-out, notwithstanding that the employer is the beneficiary or there is no named beneficiary. A contractual entitlement may arise under the terms of the employment contract, the company's HR policy/employee handbook, or where the company claims a corporate tax deduction for the premiums paid.

Where there is no contractual obligation for the employer to disburse the pay-out to the employee, the insurance premium paid by the employer would not be taxable in the hands of the employee. However, where the employer subsequently disburses the pay-out to the employee, the pay-out would be taxable unless it is received by way of death gratuity or as consolidated compensation for death or injuries (which are statutorily exempted from tax).

### **Employee Is Beneficiary of Policy**

The new rules do not affect the previous tax treatment where the employee is the beneficiary of the policy. As such, insurance premiums paid by the employer continue to be taxable in the hands of the employee where the employee is the beneficiary of the policy. Additionally, any subsequent pay-outs would not be taxable.

The above rules do not apply to group medical insurance where such benefit is available to all staff, travel insurance covering the period of business travel, and workmen compensation insurance.

### **KPMG Note: Implications for Employers**

As employers begin preparations for the annual Form IR8A reporting due on 1 March 2013, we recommend that employers review their contractual obligations if any for

### KPMG Note (cont'd)

employee insurance to determine if there would be a reporting requirement.

While it is easy to calculate the premiums that are taxable in straightforward cases (e.g., where the beneficiary is named in the policy), in other cases the calculation of the taxable premium may present a challenge. For example, where employers have a contractual obligation to pay the benefits under their group life insurance plans, the amount of the taxable premium of each employee may not always be easily determinable without detailed calculations. One practical solution to this conundrum is to use a reasonable basis to estimate each employee's taxable premium every year.

#### Footnote:

1 For more information on the tax treatment of insurance premiums, see the IRAS Web page at: <http://www.iras.gov.sg/irasHome/page04.aspx?id=1826>.

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