This Tax Alert highlights the potential opportunity available for certain non-citizen employees who have previously worked in Singapore to apply for a tax refund if the actual gain realised upon the exercise or vesting of shares is lower than the gain previously subjected to tax under the Singapore deemed exercise rule. Below is a summary of the deemed exercise rule and the potential tax refund opportunity.

**Why this matters**

As global equity markets have dropped significantly over the past few weeks and may remain depressed, non-citizen employees who previously paid taxes in Singapore under the deemed exercise rule may qualify for a tax refund. The reassessment opportunity would benefit individual taxpayers, or their employers that funded the tax on the deemed gains under a corporate tax equalisation programme.

**Background**

Under Singapore tax law, certain non-citizen employees are deemed to derive taxable gain from unexercised stock options and unvested share awards when they cease employment in Singapore.

This deemed exercise rule applies to any unexercised or restricted employee share options (ESOP) or any unvested or restricted shares under an employee share ownership (ESOW) plan granted while the non-citizen employee was working in Singapore.

**Tax Treatment**

When the deemed exercise rule applies, the non-citizen employee is deemed to have derived final gain from ESOP or shares under an ESOW plan.

The deemed gains are calculated based on the Open Market Value (OMV) of the shares as at one month prior to the cessation of employment or the date of grant of the ESOP or ESOW (whichever is later), less the price payable (if any) by the employee to acquire the shares.
Tax Refund
If the amount of deemed gain computed and reported on the tax clearance return is greater than the actual gain realised by the individual upon exercise or vesting, upon application, the Comptroller of Income Tax (CIT) may reassess the individual’s tax liability based on the actual gain computed for the assessment year to which the deemed exercise relates.

To apply for a reassessment of tax liability, the individual must submit:
(a) an application to the CIT within four years from the year of assessment following the year in which the deemed exercise rule applied; and
(b) relevant documentation to support that the actual tax liability is lower than that computed under the deemed exercise rule.

Where the actual gain realised at exercise or vesting is greater than the deemed gain computed under the deemed exercise rule, no additional tax is assessed.

Recommended next steps by KPMG
With the depressed global equity markets, the actual gains realised upon exercise of the ESOP and/or vesting of the ESOW shares previously subjected to tax under the deemed exercise rule may be lower than the deemed gains.

The reassessment opportunity presents taxpayers and employers a potential avenue to recover taxes previously paid. It is recommended that interested parties consult with their professional tax advisers to assess their situations and determine next steps.

About KPMG Tax Alert
KPMG Tax Alert highlights the latest tax developments, impending change to laws or regulations, current practices and potential problem areas that may impact your company. As certain issues discussed herein are time sensitive, it is advisable to make plans accordingly.

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Authors
Anna Low
Partner
T: +65 6213 2547
E: alow@kpmg.com.sg

Dennis McEvoy
Partner
T: +65 6213 2645
E: dennismcevoy@kpmg.com.sg
Contact us

Tay Hong Beng
Partner
Head of Tax
T: +65 6213 2565
E: hongbengtay@kpmg.com.sg

Ajay K Sanganeria
Partner
Deputy Head of Tax
T: +65 6213 2292
E: asanganeriah@kpmg.com.sg

BANKING & INSURANCE
Alan Lau
Partner
T: +65 6213 2027
E: alanlau@kpmg.com.sg

REAL ESTATE & ASSET MANAGEMENT
Teo Wee Hwee
Partner
T: +65 6213 2166
E: weehweehteo@kpmg.com.sg

Agnes Lo
Partner
T: +65 6213 2976
E: agneslo1@kpmg.com.sg

Anulekha Samant
Partner
T: +65 6213 3595
E: asamant@kpmg.com.sg

Leonard Ong
Partner
T: +65 6213 2038
E: leonardong@kpmg.com.sg

ENERGY, TECHNOLOGY, MEDIA & TELECOMMUNICATION
Gordon Lawson
Partner
T: +65 6213 2864
E: glawson1@kpmg.com.sg

Larry Sim
Partner
T: +65 6213 2261
E: larrysim@kpmg.com.sg

Lim Li Peng
Partner
T: +65 6213 3709
E: lipenglim@kpmg.com.sg

INFRASTRUCTURE, GOVERNMENT & HEALTHCARE
Chiu Wu Hong
Partner
T: +65 6213 2569
E: wchiiu@kpmg.com.sg

Gan Kwee Lian
Partner
T: +65 6213 2546
E: kweeliangan@kpmg.com.sg

Toh Boon Ngee
Partner
T: +65 6213 2052
E: btoh@kpmg.com.sg

CONSUMER & RETAIL
Tan Chee Wei
Partner
T: +65 6213 2470
E: cheeweitan@kpmg.com.sg

CORPORATE TAX PLANNING & COMPLIANCE
Mak Oi Leng
Partner
T: +65 6213 7319
E: omak@kpmg.com.sg

Pauline Koh
Partner
T: +65 6213 2815
E: paulinekoh@kpmg.com.sg

PERSONAL TAX & GLOBAL MOBILITY SERVICES
Anna Low
Partner
T: +65 6213 2547
E: alow@kpmg.com.sg

Dennis McEvoy
Partner
T: +65 6213 2645
E: dennismcevoy@kpmg.com.sg
Contact us

GOODS AND SERVICES TAX
Lam Kok Shang
Partner
T: +65 6213 2596
E: kokshanglam@kpmg.com.sg

Gan Hwee Leng
Partner
T: +65 6213 2813
E: hweelenggan@kpmg.com.sg

TRANSFER PRICING
Felicia Chia
Partner
T: +65 6213 2525
E: fchia@kpmg.com.sg

Lee Jingyi
Partner
T: +65 6213 3785
E: jingyilee@kpmg.com.sg

PROPERTY TAX & DISPUTE MANAGEMENT
Leung Yew Kwong
Principal Consultant
T: +65 6213 2877
E: yewkwongleung@kpmg.com.sg

R&D & GRANTS CONSULTING
Harvey Koenig
Partner
T: +65 6213 7383
E: harveykoenig@kpmg.com.sg

TAX TRANSFORMATION & GOVERNANCE
Alia Lum
Partner
T: +65 6213 3203
E: alum1@kpmg.com.sg

US TAX SERVICES
Daniel Joe
Partner
T: +65 6213 2626
E: danieljoe@kpmg.com.sg

TAX – DEALS, M&A
Adam Rees
Principal Advisor
T: +65 6213 2961
E: adamrees@kpmg.com.sg

KPMG
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581
T: +65 6213 3388
F: +65 6220 9419
E: tax@kpmg.com.sg

KPMG.com.sg

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