

Beware of Omissions

Prevent risks and penalties from errors in tax reporting and CPF contributions



There has been no let-up in the efforts of the Inland Revenue Authority of Singapore (IRAS) and the Central Provident Fund Board (“CPF Board”) to crack down on employers who under-report employees’ remuneration or do not fulfil their CPF obligations.

In the financial year ending 2019/2020, the IRAS audited 9,843 cases and collected underpaid taxes and penalties amounting to more than \$443.5 million. The CPF Board has also recovered hundreds of millions of dollars in CPF arrears due partly to errors made by employers.

The risk of being examined by the IRAS or CPF Board is real and the consequences of having errors or omissions discovered via audit can be costly. In addition to heavy interest and penalties, the risk of damage to the Company’s reputation should not be overlooked. Under the law, penalties for any underpaid taxes can also be imposed on employees.

Common Errors Made by Employers

Besides remuneration, it is common for employers to offer various employee benefits such as health coverage, life insurance, employee stock ownership plans, gym memberships, club memberships, motor car benefit, car parking subsidies, flexible benefits plan, discounts on company products, free meals, childcare subsidies, etc. However, many employers are not aware that certain perks may be taxable or subject to CPF contributions.

For companies with expatriate employees,

the most common error made is the omission in reporting of income and benefits granted or paid by the overseas entities (e.g. employee stock gains, overseas remuneration, overseas pension contributions made by the employer).

For CPF contributions, common errors typically arise from the misclassification of ordinary wages versus additional wages which have different capping limits, resulting in the under-contribution of CPF and the misconception that reimbursements of benefits under a “flexi-benefit” scheme are not subject to CPF contributions.

Voluntary Disclosure Programme (“VDP”) for Tax Under-reporting

IRAS believes that most taxpayers or employers may be negligent or ignorant when errors are made in their tax reporting. Hence, they should be given a chance to correct their errors and stay compliant subsequently. As such, it introduced the VDP, a self-rectification programme, in view of encouraging taxpayers and employers to correct their own mistakes with a substantially reduced penalty.

Under the VDP, a concessionary rate of 5% penalty is imposed on taxpayers if the disclosure is **timely, accurate, complete** and **self-initiated**.

A voluntary disclosure is regarded as timely if it is made before any query or review is raised by the IRAS. Hence, timing is of paramount importance.

Other key considerations to qualify for the VDP include ensuring that the disclosures are accurate and complete. In order to meet this requirement, employers should consider carrying out a thorough review of its reporting positions before doing a voluntary disclosure. Under the statute of limitation, the time limit for IRAS to raise an assessment or additional assessment is four years. A voluntary disclosure exercise should therefore cover four back years.

The 5% penalty is charged on a compounded basis for each relevant year (up to four back years) in reporting the income. Voluntary disclosures made within a grace period of one year from the statutory filing deadline are not subject to any penalty. As an example, for the Year of Assessment 2021 (tax year 2020), the grace period for zero penalty will end on 15 April 2022. Without the VDP, penalties on tax undercharged can amount up to 400%, plus fines and even imprisonment. Another benefit of the VDP is that it allows the employer to elect for “global settlement” of the tax undercharged and penalty. Under the global settlement, the tax assessment notices and penalties will not be issued to individuals, only to their employers if they elect for it.

KPMG can assist with the review and remediation plan, including submission of the voluntary disclosure, to IRAS on an employer’s behalf.

CPF remediation for omission/under-contributions

Unlike the VDP for income tax reporting, there is no concessionary penalty rate for voluntary disclosures with regards to CPF contributions. Late payment interest and penalties (1.5% per month) will be computed and imposed according to the number of days the contributions are past due.

Additionally, the employer is required to pay both employer’s and employee’s share of back CPF contributions, and will not be entitled to recover the employee’s share of contributions after the statutory time limit (i.e. six months from the date of payment of Ordinary Wage; and six months from the end of the year in which contributions on the Additional Wage are payable). Lastly, since there is no statute of limitations under the CPF Act, the Company will need to review its records as far back as records are available. However, in recent years, CPF Board is prepared to accept reporting of up to four back years, with a voluntary disclosure.

The sooner the remediation exercise is undertaken, the easier it is to mitigate the financial impact. KPMG can assist in the review for CPF compliance and any submission to CPF Board on the employer’s behalf.




Our value proposition

We have a proven methodology built on specialised knowledge and proprietary tools, as well as our extensive experience in dealing with IRAS and CPF. Every year, we assist numerous companies to review the reporting of their payroll data. If the need arises, we will assist in voluntary disclosures and dispute resolution with IRAS or CPF.

Our services



Health Check
We can perform a review of payroll reporting to ensure accuracy and efficiency in the payroll process, as well as identify any omissions and gaps in employees' remuneration, benefits or CPF contributions.



Voluntary Disclosure
We can assist the company in making a voluntary disclosure to IRAS/CPF on any under-reporting of employee remuneration and benefits or under-contributions to CPF.



Training
We can provide training to the company's HR/Payroll personnel to ensure compliance on tax reporting or CPF contributions going forward.



Review
We can assist in reviewing the entire HR/payroll process and controls and recommend enhancements and changes to improve efficiency and accuracy.

Other employer obligations

It is important not to overlook the other employer obligations. These include, but are not limited to:

1. Skills Development Levy (SDL)

Employers have to contribute SDL for all employees (including full-time, casual, part-time, temporary and foreign workers rendering services wholly or partly in Singapore) up to the first \$4,500 of gross monthly remuneration at a levy rate of 0.25%, subject to a minimum of \$2, whichever is higher. For late/underpayment of SDL, a penalty based on 10% per annum of the amount outstanding may be imposed.

2. Self-Help Group (SHG) contribution

Employees are required to contribute monthly to the SHG funds at prescribed rates to help the less privileged and low-income households in the Chinese, Eurasian, Muslim and Indian communities, respectively. The prescribed amount is deducted by the employer from the wages of the employees. If the employees wish to contribute a different amount or opt out of the contribution, they have to obtain the relevant forms from the respective SHGs.



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