

Tax alert

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Singapore – Changes to the IRAS’ Voluntary Disclosure Program

The Inland Revenue Authority of Singapore (IRAS) has implemented immediate changes to its Voluntary Disclosure Program (VDP). This adjustment significantly alters the way under-reporting cases are resolved.

Why this matters

The IRAS will cease to accept remediation made by way of a single adjustment charged to the employer in satisfaction of any under-reporting. Instead, the IRAS has indicated that it will shift immediately to issuing Notices of Assessment (NOAs) directly to individuals. This marks a significant departure from its previous approach. The IRAS’ approach emphasises the importance now being placed on accurate income recognition of each individual’s income because of the implications it can have for other income-based levies and benefits. This, in turn, reinforces the need for employers to ensure accurate reporting. KPMG expects this change to bring greater focus on how employers manage tax compliance and the approach that needs to be taken when remediation is required.

Background

The VDP is designed for employers to voluntarily disclose any past tax errors or omissions. This

program encourages employers to rectify their tax affairs by proactively reporting inaccuracies or under-reporting in their tax submissions. It aims to encourage voluntary compliance by reducing the risk of penalties through a more lenient framework for those who come forward voluntarily, compared to situations where discrepancies are discovered during audits or investigations by the IRAS. Previously, as an administrative concession, voluntary disclosure cases may be settled by employers through a ‘Global Settlement’ approach, i.e. having the employer settle the underpaid tax without issuing NOAs to employees. This approach streamlined the process, minimised direct engagement with employees, and reduced the administrative burden of addressing employee inquiries or dissatisfaction about under-reporting. It simplified the resolution process for both employers and the IRAS, thereby minimising compliance and administration costs.



New Approach

The IRAS has observed an increasing trend in government payments to individuals, where the accuracy of the IRAS income data may be relied upon for determining these entitlements. To ensure the accurate capture of individual income data, the IRAS now mandates the issuance of NOAs to individuals to reflect any under-reported income, even if the taxes are settled by the employer.

KPMG NOTE

Implications for Employers

The requirement to issue assessments on individuals will mean that resolving voluntary disclosures will become more challenging for employers, including:

- **Increased Complexity:** The new IRAS approach complicates tax discrepancy resolutions. Employers must now navigate a more intricate process, involving direct assessments to employees, potentially leading to more questions and issues requiring resolution.
- **Focus on Accurate Reporting:** The IRAS' emphasis on accurate reporting underlines the criticality of correct past and future reporting of income as this may be an area of greater scrutiny in the future. Employers must gain comfort that their reporting processes are robust, and based on accurate and complete data, to avoid errors, as the IRAS can be expected to be more vigilant about inaccuracies.
- **Employer Vigilance:** Greater diligence is required from employers in the remediation process. This entails not only addressing discrepancies but also having a plan and channels to communicate effectively with employees, and ex-employees, about any issues arising from under-reporting.
- **Proactive Reporting:** To minimise future errors, employers should:
 - Ensure that reporting is based on complete and reliable data sources.
 - Accurately identify positions and other common sources of reporting errors.

These steps are crucial if employers are to successfully adapt to the new IRAS requirements and maintain compliance.

Prepare Now: Avoid Tax Compliance Pitfalls

The recent change to the IRAS' VDP may be the impetus for a proactive approach by employers. Waiting for discrepancies to surface can be detrimental; therefore, it is important to verify the completeness and accuracy of data sources, including a review of all staff benefits for accurate tax reporting. This proactive and ongoing review, including regular payroll audits, is key to identifying and rectifying any inconsistencies before they become bigger issues, which can go a long way to reducing complications and incurring hefty penalties.

If an employer is in a position that a voluntary disclosure is required, communication channels and an employee management strategy should be agreed as an essential part of the project plan. Building trust through effective communication fosters a collaborative environment and reduces potential employee disruption.

The issuing of NOAs to employees may cause some concern for employees.

Employers concerned about the effect of the above-noted changes and believe they may need to make some adjustments to their policies and processes around voluntary disclosure and the VDP, should reach out to their qualified tax professional or a member of the Global Mobility Services team with KPMG in Singapore (see the Contact Us section).



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