KPMG

GMS Flash Alert

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Singapore – Update to Removal of Non-Residency Election for Singaporeans Working Overseas

This GMS *Flash Alert* explains the recent clarification that the KPMG International member firm in Singapore ("KPMG") had sought from the Inland Revenue Authority of Singapore (IRAS), and supersedes the GMS *Flash Alert* issued in August 2019 (GMS *Flash Alert* 2019-135).

In summary, the clarified updates to the Removal of Non-Residency Election for Singaporeans Working Overseas are as follows:

1. Overseas-based Singaporean employees still have the option to elect to be assessed as nonresidents of Singapore, on the condition that they had been employed overseas during the whole of the year preceding the year of assessment ("YA").

2. Consequently, the 60-day tax exemption on income derived from employment exercised in Singapore under section 13(6) of the Singapore Income Tax Act may be applied to overseas-based Singaporean employees on business travel to Singapore.

WHY THIS MATTERS

The new rules could lead to a lightening of tax compliance and administrative burdens and a reduction in related costs, because if a Singapore citizen working overseas opts to be assessed as a nonresident and limits his or her business trips to Singapore, he or she could enjoy a tax exemption for the income relating to the business trips in Singapore.

Background

On 6 August 2019, the IRAS announced that the administrative concession which allows Singaporeans the option of being assessed as nonresidents will be removed, as it is no longer relevant in furthering its objective of removing the disincentive for Singaporeans to work overseas.[1] The removal is effective from YA 2021 (Income Year 2020).

In general, this announcement meant that Singapore citizens working overseas would be regarded by the IRAS as tax residents of Singapore, as their absence is viewed as temporary (i.e., without a view or intent to establish a residence abroad).

Prior to 1 January 2004, foreign-sourced income remitted into Singapore by resident individuals was subject to tax. Hence, for Singaporeans working overseas, the portion of the overseas employment income remitted into Singapore was taxable (although foreign tax credit could be claimed). To remove any disincentive for Singaporeans to work overseas, as an administrative concession, the IRAS had allowed Singaporeans the choice of being treated as nonresidents for any tax year during which they had been working abroad for at least six months. As nonresidents, any remittances would then not be subject to tax in Singapore.

From 1 January 2004, remittances of foreign-sourced income by Singapore tax residents have been exempt from tax under section 13(7A) of the Singapore Income Tax Act.

With the exemption of remittances of foreign-sourced income, Singapore tax resident status would generally result in lower tax liability. This is because any Singapore-sourced income is taxed at graduated rates ranging from 0 percent to 22 percent, after deducting personal reliefs; whereas, for a nonresident, Singapore-sourced employment income is taxed at the higher of a flat rate of 15 percent or the graduated rates of a resident. Other types of income (e.g., income from rental properties in Singapore) are taxed at a flat rate of 22 percent.

There are no personal relief deductions for a nonresident individual.

KPMG NOTE

In light of the above, the IRAS views that the administrative concession that allows Singapore citizens to elect to be assessed as nonresidents is no longer relevant. Hence, this concession will be removed with effect from YA 2021.

Further Clarified Updates to Removal of Concession

The IRAS has recently advised KPMG that the change announced on 6 August 2019, would **only** affect Singaporeans who have not been employed overseas for the whole year.[2] It will **not** affect the treatment of Singaporeans who have been employed overseas during the whole of the year preceding the year of assessment.

Business Travellers to Singapore

Section 13(6) of the Singapore Income Tax Act provides for a tax exemption on income derived from employment exercised in Singapore for not more than 60 days in a year by nonresident individuals (not applicable to company directors and public entertainers).

Hence, under these current rules, if a Singapore citizen working overseas opts to be assessed as a nonresident and limits his or her business trips to Singapore to **not more than 60 days** in a calendar year, the income relating to the business trips in Singapore would be **exempt from tax.**

KPMG NOTE

The availability of the non-residency option is a welcome relief for both Singaporean employees and their overseas employers, as it results in related tax compliance and administrative costs being alleviated or altogether avoided. With this clarification, the section 13(6) exemption would still be applicable to Singaporeans who make business trips to Singapore for not more than 60 days in the calendar year while they are working outside Singapore for the full year.

However, as nonresidents, other Singapore-sourced income (e.g., rental income) will be assessed at nonresident rates.

The non-residency option should be assessed in view of an individual's circumstances and the overall tax position should be carefully considered before an election is made.

FOOTNOTES:

1 For more about changes to the administrative concession which allows Singaporeans to opt to be assessed as nonresidents for tax purposes, go to the IRAS webpage for "Individual Income Tax" (scroll down to entry dated 6 August 2019).

2 Representatives of the KPMG International member firm in Singapore received this information from the IRAS authorities (please note this information was disclosed to us, but not confidentially or with any restrictions on its use/disclosure).

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