GMS Flash Alert

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Singapore - Changes to IRAS's Voluntary Disclosure Program

The Inland Revenue Authority of Singapore (IRAS) has implemented immediate changes to its Voluntary Disclosure Program (VDP).[1] This adjustment significantly alters the way under-reporting cases are resolved.

WHY THIS MATTERS

IRAS will cease to accept remediation made by way of a single adjustment charged to the employer in satisfaction of any under-reporting. Instead, 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.

IRAS's 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 foster accurate reporting.

KPMG in Singapore 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 Voluntary Disclosure Program 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 IRAS.

Previously, as an administrative concession, voluntary disclosure cases could be settled by employers through a “Global Settlement” approach, i.e., having the employer settle the under-paid 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 IRAS, thereby reducing compliance and administration costs.

New Approach

IRAS has observed an increasing trend in government payments to individuals, where the accuracy of IRAS income data may be relied upon for determining these entitlements. To help ensure the accurate capture of individual income data, 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 INSIGHTS

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:** IRAS's emphasis on accurate reporting underlines the criticality of correct past and future reporting of income since this may be an area of greater scrutiny in the future. Employers should strive to make their reporting processes robust, and based on accurate and complete data, so as to help avoid errors, given that 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 mitigate future errors, employers should:

  - make sure 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 IRAS's 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 mitigating chances of incurring hefty penalties.

KPMG INSIGHTS (cont'd)

If an employer is in the 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 can foster a collaborative environment and can reduce potential employee disruption.

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

Employers that are 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 Contacts section).

FOOTNOTE:

1 IRAS has announced these changes in discussions with impacted clients and their advisors.

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Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Singapore:

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