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Taxing issue for short term employees

Many shipping companies and oil drilling companies have ships, drillships and oil rigs docked at various shipyards in Singapore for construction, upgrading and repair. Such companies employ foreign nationals who may be assigned to Singapore to work at the shipyard for short periods of time. During their Singapore assignment, these employees often go overseas on training or on leave. If such employees exceed a total period of "employment exercised in Singapore" of 60 days during a calendar year, they may be taxable in Singapore. Depending upon their employment arrangements, the period of "employment exercised in Singapore" may also need to include their overseas leave or training periods.

As per the Singapore tax law, employers have tax reporting obligations for their employees and even withholding obligations for foreign nationals as part of the tax clearance procedures. Failure to meet these obligations could lead to enforcement action by the Inland Revenue Authority of Singapore (IRAS) to collect the outstanding tax, interest and penalty from the employer.

Companies with such employees should undertake a review of their employees' duties performed inside and outside Singapore, assignment terms and travel records to assess the period of their employment in Singapore. This will enable them to evaluate their tax exposure and take the necessary action.

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The war for talent – Singapore initiatives

In the current economic climate, increasing numbers of foreign employees are joining the growing Singapore workforce. This trend is in line with the Government's overreaching objective to attract and retain foreign talent in Singapore. A number of recent immigration related initiatives reflect this, as we outline below.

Now that the Personalised Employment Pass (PEP) has been available since 1 January 2007, and following a recent promotional campaign by the Ministry of Manpower (MOM), there has been increased interest in this new scheme. HR departments are experiencing an increase in the volume of PEP related queries which is prompting a review of their policy and consideration of the renewed obligations of the company and employee.

From 2 May 2007, applications for the Employment Pass Eligibility Certificate (EPEC) can be made on-line to the MOM. This scheme is aimed at encouraging foreign talents to spend time in Singapore seeking employment. If successful, the applicant will be granted a 12-month Social Visit Pass to enable them to seek work in Singapore.

The MOM has recently announced the introduction of a new venture - the Work Holiday Programme. This will be effective from 1 December 2007. The scheme allows eligible undergraduates and graduates from certain overseas locations to experience living and working in Singapore for a period of up to 6 months.

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To localise or not to localise?

Mobility trends in Asia tend to suggest that traditional expatriate assignments are on the decline and are being replaced by either fully localised or “local-plus” packages (i.e. local employment with limited benefits such as housing and education). This is increasingly so as the skill-set, nationality and job role of mobile talent has changed over time in this region.

Many multinationals are also undertaking strategic reviews of their existing expatriates and the positions they hold with a view to localising these individuals and/or the positions they hold.

With Singapore being an expatriate destination of choice in this region with a low income tax rate, high standard of living and credible international schools, many employers are keen to explore localisation options as part of their talent management, succession planning and cost management initiatives.

In evaluating localisation options, issues such as pension and social security coverage, adequate medical coverage, continued assistance for housing and education are just some of the challenges employers need to address.

Understanding the cost implications of localisation options and the impact it would have on the expatriate’s net compensation are also key in determining the localisation strategy to be adopted.

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Pensions – Recruit, reward, retain

With an increasingly tight local labour market, staff recruitment and retention are key issues for HR Directors in Singapore. At the same time, demographic trends pose a threat to living standards at retirement as changing family dynamics mean Central Provident Fund (CPF) distributions may not be enough to maintain an individual and their dependents in later life.

One strategy an increasing number of companies are adopting to address these two very different challenges is the implementation of an IRAS-approved “Section 5” retirement plan. These all-employee plans have numerous advantages for companies who wish to be seen as employers of choice. These plans can help attract employees, and the vesting of the benefits over time can then aid the company in retaining those individuals. This is a huge advantage in what is currently a very tight labour market. The employer can also choose the level at which it wishes to reward employees through contributions to the Section 5 plan, and these plans can incorporate both local and foreign hires.

Needless to say, contributions to these plans are treated favourably from a tax perspective and may also present some interesting tax planning opportunities for certain internationally-mobile employees.

Finally, for the employee, additional retirement provisions above and beyond the CPF should ensure a more comfortable and secure retirement.

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