

Singapore personal taxation

The below information is intended as a general guide to Singapore personal taxation for foreign employees and is current as at August 2004.

On arrival in Singapore

There are no procedures or forms which you need to complete for tax purposes at this time. However, please note the following recommendations:

- Where you are paid a relocation allowance, you should maintain receipts of any relocation expenses and settling in expenses which you incur (see below for details)
- You should maintain a travel schedule clearly showing your days of arrival in and departure from Singapore and whether the trips were business or vacation

On departure from Singapore

As a foreigner, you will generally need to seek tax clearance and pay all your outstanding Singapore taxes prior to you leaving Singapore /ceasing employment. Details of this process are shown below. Therefore, we suggest that you:

- Discuss the tax implications of the timing of your departure from Singapore with your Human Resources Department and PricewaterhouseCoopers
- Take note of the tax clearance procedures below and notify your HR department as soon as possible if you intend to cease employment/leave Singapore
- Ensure that you have sufficient funds to pay all outstanding taxes (if Singapore taxes not borne by employer)
- Note that you may have to pay tax on a "deemed" basis in respect of any stock options/stock awards which you hold. This is also detailed below

- Note that any income which is paid after you cease employment/leave Singapore, which relates to Singapore employment, e.g. a bonus, is taxable in Singapore

Residence status

Generally, as a foreigner, you will be considered resident in Singapore for tax purposes for a whole tax year if you are physically present in Singapore or exercise an employment in Singapore for 183 days or more in the year concerned.

Even if you are present and employed in Singapore for less than 183 days in the year of arrival in or departure from Singapore, by concession, you may be a tax resident in Singapore provided that your stay in Singapore spans 3 consecutive years (3 years administrative concession). For example, if you arrive in Singapore in October 2004, provided your stay in Singapore extends to 2006, you may be considered a tax resident in 2004 and 2006, regardless of the time you are present and employed in Singapore during these years.

You may also be tax exempt in Singapore if you are employed and present in Singapore for less than 60 days in a year. For example, if you relocate to Singapore and commence employment on 5 November 2004, your employment income for the period 5 November 2004 to 31 December 2004 would initially be tax exempt. However, once your stay in Singapore extends to the third year, i.e. sometime in 2006, this exemption will be withdrawn. In such a case, you will be taxed as a resident for the year of arrival under the 3 year administrative concession, unless you opt to be taxed as a non resident. Although being considered a tax resident may result in lower taxes for the year in question, there may be implications which you need to consider under the Not Ordinarily Resident scheme below. This is a complex area and your individual situation should be reviewed before action is taken.

Taxation of employment income

Income from an employment exercised in Singapore will be taxable in Singapore, regardless of whether or not you are tax resident in Singapore. The taxability of employment income usually depends on where the services are performed, not on where the payment is made or which company is your legal employer.

The Singapore tax treatment of common remuneration items are shown below:

- **Salary and allowances** - taxable
- **Bonuses** – taxable to the extent related to Singapore employment. This includes bonuses paid post departure from Singapore which are in respect of Singapore employment. Timing of taxation of bonuses differs depending on type of bonus – non contractual (e.g. discretionary bonuses) are taxed in the year they are determined, contractual bonuses (i.e. bonuses guaranteed by contract) are taxed in the year which the relevant services occur, regardless of when paid.
- **Accommodation** (including serviced apartments) – taxable value is calculated as the lower of:
 - (a) 10% of all other remuneration during period accommodation was occupied; or
 - (b) rent paid by company for premises and services/maintenance

Where furniture and fittings are provided an additional prescribed value is added.

For hotel accommodation a prescribed formula is used to calculate the taxable amount.

- **Car** – the taxable value of a leased car is calculated as 3/7 of lease costs, plus, where the company bears petrol costs, S\$0.10 per private km driven.

Where a company owned car is provided, the taxable value is generally:
 $3/7 \times (\text{Car cost} - (0.8 \text{ OMV}))/10$ plus S\$0.45 per private km driven, or S\$0.55 per private

km driven where the company bears petrol costs. (OMV = Open market value of car).

- **Home leave** – Provided you are not a Singapore Permanent Resident, you will only be taxed on 20% of the flight costs to your home country in respect of one trip per year for you and your spouse, and two trips per year for your dependent children. Any trips in excess of these limits, trips to other locations and other expenses, e.g. hotel costs, will be fully taxable.
- **School fees**, including associated costs such as transportation – taxable
- **Club membership** – Entrance fees to a club are generally taxable unless they relate to a corporate membership. Club subscriptions are taxable to the extent that the club is used for private purposes.
- **Relocation allowances** – Relocation allowances paid in respect to relocation to Singapore are taxable, unless spent on relocation costs or on qualifying settling expenses. Settling in expenses are not defined, but are generally taken to be costs in respect of small, consumable items.
- **Employer's overseas pension contributions**, e.g. Company pension scheme – taxable, subject to relief under the Not Ordinarily Resident scheme (see below)
- **Employer's overseas social security fund contributions** – taxable unless certain conditions are met.

Stock Options/Awards

The taxation of stock option/stock award gains in Singapore is dependent upon the timing of grant of the stock options and your employment situation at this time. Please note that the below is a guide only. This is a complex area and the below may vary depending in which plan(s) you participate. Please note that “vesting” refers to the point at which you receive the benefits of share ownership, although you may not yet be able to sell the shares at this point. When vesting occurs will vary depending on the features of the stock plan in question.

Stock options/awards granted during non Singapore employment

Gains from stock options/stock awards which are granted during non Singapore employment, e.g. prior to

your Singapore employment, are not taxable on exercise/vesting. The gains arising from exercise/vesting of such stock options/awards will be considered foreign income for Singapore tax purposes. It was announced in the 2004 Singapore Budget that foreign income would be exempt from Singapore tax in respect of individuals from 1 January 2004. Therefore, subject to review of the new legislation covering this point, such gains may not be taxable in Singapore, even if the shares are sold and the sale proceeds are remitted to Singapore.

Stock options/awards granted during Singapore employment prior to 1 January 2003

Gains on exercise of stock options/vesting of stock awards granted during Singapore employment prior to 1 January 2003 are taxable if exercise/vesting occurs during a period of Singapore employment or physical presence. Where gains are taxable, the difference between the market value of the shares at exercise/vesting and any amount paid by you for the shares (e.g. in the case of stock options, the exercise price) is taxed as employment income.

Stock options/awards granted during Singapore employment on or after 1 January 2003

Gains on exercise of stock options/vesting of share awards granted during Singapore employment on or after 1 January 2003 are taxable regardless of when/where exercise/vesting occurs, i.e. even if after you have departed Singapore or are on an overseas secondment. In addition, where the underlying shares are subject to a holding period, i.e. cannot be sold for a fixed period, the point of taxation will be on lifting of the holding period.

However, for stock options/stock awards granted during Singapore employment on or after 1 January 2003, where as a foreign employee you cease Singapore employment and tax clearance is required, you will be taxed on deemed gains as part of the tax clearance process. The deemed gains will be calculated as if the taxing point occurred one month prior to departure/cessation of employment, or date of grant if later. The deemed gains will be calculated as the market value of the shares at this point less any amount which you would hypothetically pay for the

shares, e.g. in respect of stock options, the exercise price.

Should the gains on the actual taxing point of the shares be less than the deemed gains, you may request that the relevant tax assessment is revised to report the actual gains, provided that this occurs within 6 years of the relevant year of assessment. In such a case, excess taxes paid will be refunded to you.

Alternatively, your employer can apply to the Revenue authorities for a waiver of the deemed exercise rule if they satisfy certain conditions and is able to provide an undertaking for payment of taxes. This is subject to the Revenue's approval. Once approved, the company will need to track the unexercised options/unvested awards for the departing expatriate employee.

Not Ordinarily Resident scheme

An employee who is granted NOR status may apply for the following benefits, provided certain conditions are fulfilled.

- (1) Calculation of Singapore income tax only on the portion of employment income relating to days spent in Singapore (time apportionment), subject to a minimum of 90 overseas business days and a 10% minimum tax.
- (2) Exemption of tax on employer's contributions to non-mandatory overseas pension and social security funds, subject to limitations (not available to foreign employees who are Permanent Residents)
- (3) Exemption of tax on remittances of pre-assignment income (this may not be relevant from 2004 onwards, as foreign income should be tax exempt for all individuals from this year)

To qualify for NOR status, employees are required to be tax resident in Singapore for the first year in which NOR status applies. They must also generally be non resident in Singapore for 3 years prior to this year, although for employees arriving in Singapore prior to 2005, this required non resident period may be shortened to one or two years.

Important note: Generally as a foreign employee, to qualify for the above benefits, you must be employed or present in Singapore for at least 183 days in the year concerned.

Personal income

Singapore currently exempts most forms of personal income from tax, with the exception of Singapore rental income. Capital gains are tax exempt, unless an individual is viewed as trading in shares.

For residents, bank interest from Singapore standard savings, current and fixed deposit accounts on deposits in excess of S\$100,000 is tax exempt. For 2003, interest of S\$152 is deemed to be earned on deposits of S\$100,000. Interest received on deposits of up to S\$100,000 in a POSB account is also tax exempt. From 2005, all Singapore bank interest will be tax exempt. Dividends from Singapore companies are either exempt from personal tax or carry a tax credit at the corporate tax rate.

Non residents are exempt from tax on interest from approved Singapore banks or financial institutions.

It was announced in the Singapore 2004 Budget that with effect from 1 January 2004, foreign income which is paid in or remitted to Singapore will no longer be taxed in Singapore. At the time of writing this summary legislation covering this point had not been published.

Calculating Singapore income tax

Residents are taxed at graduated rates of tax (see Appendix I) and are granted personal reliefs.

Non-residents are taxed on employment income at either a flat rate of 15% with no personal reliefs, or at graduated tax rates with personal reliefs, whichever results in a higher income tax liability. Where personal income is taxed in Singapore, non residents are subject to tax at the prevailing corporate rate of tax, currently 20%.

Administration

The Singapore tax year is the calendar year. Tax is assessed in the year following which income is earned, e.g. income earned in 2003 will be assessed in 2004. Tax returns, and relevant Not Ordinarily Resident (NOR) application forms, must be filed by 15 April following the income year. An extension of time to file a return and NOR forms may be applied for, subject to agreement by the Inland Revenue.

Tax clearance

Tax clearance must be sought on leaving Singapore and/or on leaving employment in Singapore, unless you are a Singapore Permanent Resident merely changing employment in Singapore. Employer reporting form, Form IR21, must be filed by the company one month prior to you leaving employment/ Singapore and the company is required to withhold any monies due to you at this time. All outstanding taxes should be paid prior to departure from Singapore/ leaving of employment. As part of this process any stock options and stock awards granted to you on or after 1 January 2003 during Singapore employment will be deemed to have reached the taxing point. Tax will be due on any deemed gains at this time. See "Stock Options/Awards" above for further details.

Appendix I

Singapore personal income tax rates ⁽¹⁾

	Taxable Income ⁽²⁾	Rate	Tax
	\$	%	\$
On the first	20,000	0	0.00
On the next	10,000	4	400.00
On the first	30,000		400.00
On the next	10,000	6	600.00
On the first	40,000		1,000.00
On the next	40,000	9	3,600.00
On the first	80,000		4,600.00
On the next	80,000	15	12,000.00
On the first	160,000		16,600.00
On the next	160,000	19	30,400.00
On the first	320,000		47,000.00
On income above	320,000	22	

(1) Rates of tax are applicable from income year 2002 (Year of Assessment 2003)

(2) Taxable income is income after deduction of any reliefs and allowances