

Becoming a Singapore Permanent Resident

What you need to consider

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It is not uncommon for expatriate employees who originally intended to remain only for the duration of their Singapore assignment to choose to stay on a more permanent basis. In doing so, many consider applying for Singapore Permanent Resident (SPR) status. While different factors motivate an expatriate to reside permanently in Singapore, many may not have fully considered the implications of becoming an SPR.

This article focuses on the significant tax and non-tax related aspects relevant to an expatriate who enters Singapore on an employment pass and who subsequently takes up SPR status under the Professionals/Technical Personnel and Skilled Workers (PTS) Scheme.

Central Provident Fund (CPF) tax relief

An important, and generally positive, implication for becoming an SPR is the mandatory participation in the Central Provident Fund (CPF). CPF participation is only open to Singapore citizens and SPRs.

Extensive changes have been made in recent years to refine the CPF scheme, making it more relevant in today's global economy. Nevertheless, the primary purpose of the CPF is to provide its members with financial security in old age. Additionally, CPF savings help to meet the needs of families in terms of healthcare, home-ownership, family protection, and asset enhancement.

The CPF is a fully-vested scheme whereby all contributions made by the employer and the employee are credited to the account of the participant. The monies in the CPF account can be withdrawn by the participant before retirement to invest in certain approved investments, real properties and approved expenditures. The general CPF contribution rates are 20 percent for the employee and 13 percent for the employer, subject to certain wage capping rules (please refer to Table of Maximum Permissible CPF Contributions).

**Table 1 Maximum Permissible CPF Contributions on Total Wages
(Workers aged 50 and below)**

	Year 2005	Year 2006
Maximum contributions for		
Employee	$20\% \times \$85,000^1 = \$17,000$	$20\% \times \$76,500^2 = \$15,300$
Employer	$13\% \times \$85,000^1 = \$11,050$	$13\% \times \$76,500^2 = \$9,945$
Total	\$28,050	\$25,245

Lower rates apply to older workers. Mandatory contributions made by the employer are not subject to tax in the hands of the employee and the employee's share of the contributions is allowable as a tax relief. Income accruing to the CPF account (such as interest and gains from sale of investments using CPF funds) is not subject to tax. Dividends received are however taxable at the individual participant's tax rate, unless the company is subject to the one-tier corporate tax system in which case the participant would receive the dividends tax-free.

There are phase-in rates of mandatory contributions for a new SPR. Lower rates in the first and second years of obtaining SPR status would be applicable, unless both the employer and employee elect to contribute using the maximum rates.

The CPF contributions and accumulated earnings are also tax-exempt when they are withdrawn by the SPR at retirement or withdrawn upon the permanent departure of the SPR. However, an SPR who has not reached retirement age cannot withdraw the CPF monies unless he or she gives up SPR status and leaves Singapore and West Malaysia permanently with no intention of returning for further employment or residence. In addition, the SPR has to settle all outstanding taxes before the SPR status can be given up. Malaysian citizens who are SPRs and who leave Singapore permanently to reside in West Malaysia are generally only allowed to withdraw the CPF monies under certain specific conditions (e.g. attainment of age 55 years or older, physical or mental incapacitation, etc).

Singapore income tax savings would be achieved since the individual would benefit from the ability to deduct his or her mandatory CPF contributions for tax purposes. Furthermore, the mandatory employer's contributions, which are tax exempt, would augment the individual's CPF account balance.

The CPF scheme however may not be recognised under the SPR's home country tax laws as a qualified retirement plan. For example, an expatriate SPR who is also a U.S. citizen is generally subject to tax on employer CPF contributions on a current basis (i.e. no tax deferral or exemption is generally allowed).

¹ Equivalent to 17 months multiplied by the monthly CPF salary ceiling of \$5,000.

² Equivalent to 17 months multiplied by the monthly CPF salary ceiling of \$4,500.

Cessation of employment and tax clearance

In general, tax clearance is required when an expatriate employee ceases employment in Singapore. Tax clearance refers to the process whereby the expatriate employee must settle all taxes upon cessation of employment. During this process, employers are generally required to notify the Inland Revenue Authority of Singapore (IRAS) of the employee's cessation of employment and withhold monies payable to the employee.

However, as an exception, tax clearance is not required for an SPR who is merely changing jobs in Singapore and who is not leaving Singapore permanently.

"Deemed Exercise" taxation rule

An SPR employee who qualifies for the tax clearance exception discussed above would also generally not be subject to the "deemed exercise" rule in relation to the taxation of any gains from certain stock options under an Employee Stock Option Plan (ESOP) and shares under an Employee Share Ownership Plan (ESOW) plan.

Under the law, a non-citizen or non-SPR expatriate is deemed to have derived a final gain in respect of all unexercised stock options under an ESOP and/or unvested/restricted ESOW shares at the time he or she ceases employment. The deemed exercise rule also applies to SPRs leaving Singapore permanently. The potential downside of the deemed exercise rule is that the affected expatriate would have to fund the tax liability prior to actual realisation of any gains from the options and shares. The "deemed exercise" rule would apply to any ESOP options or ESOW shares granted on or after January 1, 2003 in respect of Singapore employment.

Home leave tax concession

As a concession, the taxable value of home leave passage for a non-SPR and non-Singaporean expatriate and his or her family is restricted to 20 percent of one return fare each for the expatriate and his or her spouse, and 20 percent of two return fares for each child, for trips to the expatriate's home country. An SPR expatriate employee does not enjoy the tax concession on home leave.

Overseas pension contribution tax concession

In general, any employer's contribution to an expatriate's non-mandatory overseas pension plan is regarded as taxable compensation in Singapore. Expatriates who qualify as Not Ordinarily Resident taxpayers may however obtain a tax exemption subject to certain capping rules. However, SPRs will not enjoy this concession.

National Service (NS)

In general, male SPRs who are granted SPR status under the first generation PTS Scheme are exempt from NS. However, male children who are granted SPR status under their parents' application are required to register for NS upon reaching 16½ years old. They will generally be enlisted for two years of full-time NS immediately upon reaching 18 years of age, unless deferment from enlistment to a later date is granted. They are also required to serve 40 days of Operationally Ready National Service every year until the age of 50 years (for officers) or 40 years (for non-officers). Children of non-SPR or non-citizen expatriates are not required to submit to NS.



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Children's Schooling

In general, even if the parent is a Singapore citizen or SPR, the child will be regarded as a foreign student unless the child is a Singapore citizen or SPR. Foreign students are generally required to make biennial donations to the Education Fund and generally pay higher school fees than Singaporean students.

Buying Real Property

Recent fine tuning to rules under the Residential Property Act will allow foreign persons (including SPRs) to purchase apartments in non-condominium developments of less than 6 levels without the need for prior approval. However, any purchase of landed properties would still require permission.

Besides obtaining SPR status via the PTS scheme, the foreign individual can apply for SPR status under the Global Investor Programme that requires a minimum sum to be invested in certain investment instruments. Recent changes have now expanded the investment instruments to include private residential properties.

Human Organ Transplant Act (HOTA)

HOTA generally allows for the organs of Singapore citizens and SPRs to be removed in the event of death for the purpose of transplantation. It applies to non-Muslim individuals between the ages of 21 and 60 years unless the individual opts out of it.

As you can see, before making a decision to apply for SPR status, there are many variables for the foreigner individual to consider, many of which are personal. Depending on one's circumstances, and life goals, it is a decision that could require considerable thought. Detailed "what-if" scenarios may need to be examined before any final decision is made.

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