

In this issue, we discuss the expansion of the Compulsory Auto-Inclusion Scheme and Enhanced Voluntary Disclosure Programme.



## Expansion of Compulsory Auto-Inclusion Scheme to Employers with 50 or more Employees

The Inland Revenue Authority of Singapore (IRAS) has announced that the Auto-Inclusion Scheme (AIS) will be expanded to include employers with 50 or more employees from the Year of Assessment (YA) 2010 (calendar year 2009).

IRAS first implemented mandatory AIS from YA 2009 starting with employers who employ 100 or more employees.

Under current law, an employer is required to report the annual taxable remuneration of each employee working in Singapore on the Form IR8A (Return of Employee's Remuneration). The Form IR8A for any year of employment is provided to the employee by 1 March of the following year to enable the employee to file his income tax return.

Under AIS, employers need not prepare paper copies of IR8A to issue to each of their employees. Instead, Form 8E is transmitted electronically to IRAS by the employer or through the employer's appointed service provider.

Employees would generally find it easier and more convenient to file their income tax returns as the employment income information is already provided to IRAS directly by their employers.

The definition of "50 or more employees" includes the following individuals:

- Full-time resident employees
- Part-time resident employees
- Non-resident employees
- Company Director (including non-resident director)
- Pensioners.

Employees who have left the company are also included.



For employers with fewer than 50 employees, IRAS is aware that not all have electronic payroll systems in place. These employers may require more time to comply with the compulsory AIS and hence they will be included in the scheme from YA 2011. IRAS will also be working with various business bodies and associations to ensure the smooth expansion of the compulsory AIS.

Under the law, failure to file the Form IR8A is an offence. Any person found guilty of this offence shall be liable on conviction to a fine not exceeding S\$1,000 and in default of payment to imprisonment not exceeding six months.

#### **KPMG Comment**

The AIS has an early filing due date of 1 March of the following year. Although the employer may obtain an extension of time to file (for valid reasons subject to IRAS approval), the employer should nevertheless plan early in order to help ensure timely filing.

This is especially so for employers hosting expatriate employees seconded from other countries whereby certain payroll information may not be located in Singapore. Thus, more than ever, advance planning and coordination would be required to collate the necessary information for analysis, preparation and timely filing.

Remuneration items to report may include wages and benefits from home country payroll, employer contributions to overseas pension schemes, share awards from parent company, local benefits-in-kind such as housing, motor car, home leave, and children's education.

In addition, when a non-Singapore citizen employee ceases employment in Singapore, the employer is required to seek tax clearance from IRAS using the filing of Form IR21 at least one month before the cessation of employment.

Unlike AIS, it is currently not mandatory for Form IR21 to be e-filed although IRAS is encouraging employers to do so and may mandate e-filing in the future.

#### **KPMG e-Filing Services are available**

As AIS has a very tight filing deadline, it is imperative that the employer is well prepared in advance of the 1 March due date. KPMG would be able to assist employers who require assistance with AIS compliance.

#### **Enhanced Voluntary Disclosure Programme and Applicability to Employers**

The IRAS recognises that all employers are generally compliant in their tax reporting and filing obligations in relation to employees' remuneration. However, there may be some employers that fail to comply because of reasons of negligence or ignorance.

For employers that voluntarily disclose any past errors or omissions, the IRAS is generally prepared to consider the imposition of a reduced penalty (e.g. 10 percent per annum of the tax underpaid) on the employer based on the surrounding facts and circumstances.

Without a voluntary disclosure, the employer could be subject to penalties of up to 200 percent of the tax undercharged. Serious cases of omissions or errors may be subject to court prosecution.



The IRAS has recently enhanced its Voluntary Disclosure Programme (VDP) by allowing qualifying voluntary disclosures to be assessed either at a zero penalty or a reduced penalty of five percent per annum.

A qualifying voluntary disclosure is one that is self-initiated by the employer and timely i.e. it is made before the employer receives an IRAS query relating to the tax assessments of its employees, or notification of the commencement of an audit or investigation.

For cases that are already under query, audit or investigation, the employer may still qualify for the VDP if the disclosure does not relate to the immediate scope of the ongoing query, audit or investigation.

If the voluntary disclosure is made within a grace period of one year from the original statutory filing due date, no penalty will be assessed. For disclosures made outside of this one year grace period, a penalty of five percent per annum will be imposed.

The above VDP penalty reliefs are generally only available once to taxpayers as IRAS expects taxpayers to put in sufficient controls to prevent a repeat of similar errors or omissions.

The VDP applies to both Income Tax and Goods and Services Tax but is not available to taxpayers who wilfully evade taxes.

#### KPMG Comment

With the enhanced VDP, employers should take the opportunity to review their past reporting of employees' remuneration for any errors or omissions.

Likewise, employers should consider a periodic 'health review' of their compensation and benefits reporting system. This includes IR8A forms of previous years to ensure full compliance.

In reviewing any prior years' reporting, attention must be paid to tax laws prevailing at that time. For example, certain administrative concessions granted by IRAS to exempt taxation of certain benefits are only effective from the year 2005.

Employers are advised to seek professional help with a health review. This is especially so where a voluntary disclosure is required in the event of omissions of income and benefits.

In a business world where regulation and reporting requirements are becoming tighter, the possibility of being investigated by IRAS looms ever larger.

Reputation damage and penalties for non-compliance can be costly. Employers should address any past non-compliance in a timely fashion, if they are to confidently move forward with a clean slate.

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