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IRAS' VDP and Voluntary Disclosure to CPF

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What is voluntary disclosure?

Employee remuneration reporting is a complex area, and employers may inadvertently make errors in their employees' tax reporting and/or Central Provident Fund (CPF) contributions for various reasons, often due to a lack of awareness.

The Inland Revenue Authority of Singapore's (IRAS) Voluntary Disclosure Programme (VDP) encourages employers and taxpayers who have made errors or omissions in past tax reporting of income to come forward voluntarily, in a timely manner, to rectify these errors or omissions. Similarly, if any non-compliance with employees' CPF contributions and reporting is identified, employers can make a voluntary disclosure to the CPF Board to rectify past contributions not made. At times, the rectification of CPF may also impact the tax reporting.

A voluntary disclosure should be:
- Accurate and complete; and
- Timely and self-initiated.

A voluntary disclosure is considered timely and self-initiated if either of the following conditions is met:
- Before the employer/individual receives queries from the IRAS/CPF Board regarding the income identified in the disclosure; or
- Before the employer/individual receives a notification from the IRAS/CPF Board about the commencement of an audit or investigation.

Benefits of making a voluntary disclosure

Income Tax

Under Singapore tax laws, the penalties for incorrect reporting of income may be as high as 400% of the tax undercharged. However, if the taxpayer or employer makes a disclosure under the VDP, the IRAS is prepared to grant concessionary rate of penalties as follows:

Concessionary rates of penalties under the VDP	
Within the one-year grace period from statutory filing deadline.	No penalty.
After the one-year grace period from statutory filing deadline.	Reduced penalty of 5% of the tax undercharged for each year the error was late in being rectified (generally capped at 20% for disclosures relating to four back years of assessment).

In addition, the VDP submissions will be kept confidential by the IRAS, reducing the reputational risk of negative publicity when a voluntary disclosure is made to the IRAS, as opposed to when the IRAS undertakes an audit or investigation.

CPF

There is no concessionary penalty rate for voluntary disclosures related to CPF contributions. Late payment interest of 1.5% for each month of underpayment, starting from the day after the due date, will be computed and imposed accordingly. An appeal for a waiver of the interest penalty can be submitted. However, any waiver amount will be subject to the CPF Board's assessment.

Tax and CPF Audits—Are You Ready?

In this increasingly complex and global environment, it is no surprise that audit activity by the authorities is on the rise. Employers need to be prepared for potential payroll audits, whether related to the reporting of income for employees or CPF contributions made.

To be prepared, employers should proactively and regularly review their payroll policies, processes, and systems to ensure compliance with income tax and CPF reporting obligations. If any underreporting of income or incorrect CPF contributions are identified, it is imperative that remedial actions are undertaken as soon as possible through the VDP with the IRAS or voluntary disclosure to CPF Board, to avoid higher penalties and reputational risk of negative publicity.

Some common errors in employer tax and CPF reporting include:

Overseas payroll is omitted

- Common for employees under split-pay arrangements.
- Local teams not privy to overseas payroll.

"Off-payroll" benefits-in-kind (BIK) omitted from tax reporting and CPF contributions

- BIK provided through relocation companies.
- BIK captured by Finance/Human Resources (HR) teams.
- Misconception that reimbursements of benefits under the "flexible benefits" scheme are not subject to tax or CPF contributions.

CPF contributions

- Employee CPF contributions made during overseas assignment are incorrectly included in Form IR8A/8E.
- Misclassification of Ordinary Wages (OW) versus Additional Wages (AW), which have different capping limits.
- Underpayment of CPF contributions due to the application of the OW ceiling on AW (e.g., bonuses).
- Omission to recalculate the AW ceiling when the employee ceases employment within the current year.

Incorrect reporting of equity income

- Reporting gains based on incorrect taxable event.
- Failure to apply the "deemed exercise" rule on unvested and/or unexercised share options or awards for non-Singapore citizen employees ceasing employment in Singapore.
- Local teams not privy to equity plans administered at global level.

Contacts

Should you have any questions, please contact anyone listed below or any member of the Singapore Tax & Legal team.

Sabrina Sia
Partner
Global Employer Services Leader
Deloitte Southeast Asia & Singapore
+65 6216 3186
ssia@deloitte.com

Christina Karl
Partner
Global Immigration Leader
Deloitte Global
+65 6800 3997
ckarl@deloitte.com

Dion Thai
Partner
Global Employer Services
Deloitte Singapore
+65 6800 3986
dthai@deloitte.com

Michele Chao
Partner
Global Employer Services
Deloitte Singapore
+65 6216 3387
micchao@deloitte.com

Joanne Lee
Partner
Global Employer Services
Deloitte Singapore
+65 6530 8042
joalee@deloitte.com

Jod Gill
Partner
Deloitte Singapore
+65 6531 5224
jgill@deloitte.com

Sandip Bhandal
Partner
Immigration Services
Deloitte Singapore
+65 6800 2257
sbhandal@deloitte.com

Gayal Karunasena
Partner
Business Process Solutions Leader
Deloitte Singapore
+65 6531 5077
gkarunasena@deloitte.com