19 January 2023

Tax update

Withdrawal of concessionary tax treatment for overseas pension contributions

The Inland Revenue Authority of Singapore (IRAS) has announced the withdrawal of the concessionary tax treatment that provides exemption on employers' contributions to mandatory overseas pension and provident funds.

With effect from Year of Assessment (YA) 2025, this concessionary tax treatment will cease, and all employers' contributions made on or after 1 January 2024 to an overseas pension or provident fund will be taxable in the hands of employees.

This alert provides an overview of the concessionary tax treatment and the key implications of its withdrawal.

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Current concessionary tax treatment

Under the current concessionary tax treatment, an employer's contributions to an overseas pension or provident fund are not taxed in the hands of the employees if the following conditions are satisfied:

- Contributions are mandatory under social security schemes operated, regulated and supervised by the employees' home country government even though the employees are working outside their home country.
- Contributions are not borne by, or no deduction is claimed by, any permanent establishment or company in Singapore.

The concessionary tax treatment is not applicable for employees of entities that are investment holding companies, service companies adopting the “cost plus mark-up” basis of assessment, tax-exempt bodies, representative offices or foreign companies not registered in Singapore.

This concessionary tax treatment is in place up to YA 2024 (calendar year 2023).

Change with effect from YA 2025

From YA 2025 (calendar year 2024), the above concessionary tax treatment will cease to apply. This means that the employer's contributions made on or after 1 January 2024 to an overseas pension or provident fund, regardless of whether they are mandatory and non-mandatory, will be fully taxable in the hands of employees upon contribution and deductible to employers, subject to the normal tax rules.

Key implications

For employers and employees who have been adopting the above concessionary tax treatment, there will be an increase in tax costs for the employee (or the employer, if the employee’s income tax is borne by the employer) when the concessionary tax treatment is withdrawn.

On the other hand, employers will no longer have to keep track of the contributions that are exempted in the hands of employees under the concessionary treatment to make the relevant tax adjustments in their own tax return, as they will be able to claim tax deductions on all pension or provident fund contributions going forward, subject to the normal tax rules. However, this only applies if the Singapore employer bears the contributions. If the contributions are borne by an overseas entity and the Singapore employer does not incur the costs, no tax deduction will be available.

If you would like to know more about the issues discussed or EY services, please contact one of the following or your usual EY contact:

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