

Issue 6 • June 2017



## ASEAN BRIEFING

From Dezan Shira & Associates



# Payroll Processing and Compliance in Singapore

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**P.08** Singapore as a Payroll Processing Center for Companies in ASEAN

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# Introduction



## ALBERTO VETTORETTI

Managing Partner  
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While managing payroll in Singapore is a relatively less complex process than elsewhere in ASEAN, companies based in the city-state will increasingly have to keep up to date with the country's constantly evolving regulatory environment. Furthermore, those Singapore-based companies with operations in the wider ASEAN region or those looking at regional expansion will find it even more daunting to keep track of the changing regional payroll environment.

Having said that, Singapore nevertheless retains its attractiveness as a destination for centralizing payroll processing for companies either entering ASEAN markets, or expanding their current operations. Regional proximity and strong business and political relations with most of its ASEAN neighbors lend Singapore-based companies a deeper understanding of the regional legal and regulatory landscapes.

The country's robust cybersecurity laws, reliable digital infrastructure, and its technically proficient labor pool also make it the ideal candidate for the centralization of a company's ASEAN payroll processes. With one of the most stable governments in Southeast Asia, Singapore's regulatory landscape favors transparency and pro-business efficiency, meaning that laws inimical to a foreign company's regional payroll processing are unlikely to be enacted.

In this issue of ASEAN Briefing magazine, we not only discuss payroll processing and reporting in Singapore, but also analyze the options the city-state offers foreign companies looking to centralize their ASEAN payroll processes. We begin by discussing the various regulations that impact salary computation and tax and social security calculation in Singapore. We then explore the potential for Singapore to emerge as the premier payroll processing center in ASEAN. Finally we consider the benefits of outsourcing payroll – both Singapore-based and ASEAN-wide – to a reliable third-party payroll processing provider.

We hope this issue enables your company to take more informed decisions related to your payroll processing in Singapore.

With kind regards,

Alberto Vettoretti



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Unit 507, 5/F, Chinachem Golden Plaza  
77 Mody Road, Tsim Sha Tsui East  
Kowloon, Hong Kong

#### Credits

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# Payroll Processing and Reporting in Singapore

By Dezan Shira & Associates

Managing payroll in Singapore is a relatively less complex process than elsewhere in ASEAN. However, it can be a challenging task for foreign companies planning to set up their businesses in the country, given Singapore's constantly evolving payroll environment. Singapore's Income Tax Act requires employers to assist their employees with individual income tax documentation, as well as make contributions to the social security fund on their behalf. It is, therefore, important for companies operating and hiring employees in Singapore to understand the key elements of the payroll process and stay updated on the latest regulatory changes when computing salary and social security contributions.

Singapore's main labor law is the Employment Act, which provides for the basic terms and conditions for all types of employees, with some exceptions. The Employment Act is applicable to both foreign and local employees, as well as employees who are under full-time, part-time, temporary, or contract terms of service. Employees who are a Manager or Executive with a monthly basic salary of more than S\$4,500, or as a Seafarer, a Domestic Worker, or a Statutory Board Employee or Civil Servant, are not covered under the Employment Act. The computation of basic salary excludes the payment of overtime, bonus, annual wage supplement, productivity incentive payment, reimbursement for special expenses, and all allowances.

## Salary

### *Salary definition*

The Employment Act of Singapore defines 'salary' as all remuneration including allowances, base salary, bonuses, commissions, and incentives, payable to an employee for work done under the contract of service.

Salary does not include:

- Any reimbursement made for expenses incurred by the employee during work;
- Allowances for travelling, food, housing, medical, and other amenities;
- Goodwill payment or gratuity payable on retirement;
- Retrenchment benefits payable; or
- Pension or provident fund contributions paid by the employer.

Salary is subject to mutual agreement between the employer and the employee. An employer in Singapore is not bound by any statutory requirements on minimum salary. However, while hiring foreign employees, the employer must consider the minimum salary requirements relevant to obtain various employment passes. The most commonly applied work passes are illustrated below:



**EMPLOYMENT PASS (EP)**

For a professional hired by a Singapore company.

Professionals need to earn at least S\$12,000 a month to qualify for EP.



**"S" PASS**

For a mid-level, skilled foreigner hired by a Singapore company.

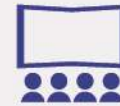
The minimum salary offered must be at least S\$2,200 a month to qualify for S Pass.



**PERSONALISED EMPLOYMENT PASS (PEP)**

For very highly skilled Employment Pass holders and overseas foreign professionals.

Must earn at least S\$18,000 a month to qualify, while current EP holders must earn at least S\$12,000 a month.



**TRAINING EMPLOYMENT PASS (TEP)**

For foreign professionals undergoing practical training.

Candidates must earn at least S\$3,000 a month to qualify for TEP.

*Salary computation*

Salary is calculated on the basis of a complete calendar month, irrespective of the total number of days in a month. An incomplete month would refer to a month in which employee

- starts employment after the first working day of the month
- leaves employment before the end of the month
- takes any unpaid leave during the month
- is on national service reservist training during the month

The formula for calculating salary for an incomplete month is as below:

$$\frac{\text{MONTHLY GROSS RATE OF PAY}}{\text{NUMBER OF WORKING DAYS IN THE MONTH}} \times \text{NUMBER OF DAYS THE EMPLOYEE WORKED IN THE MONTH}$$

Under the Employment Act, an employer must pay salary to his employees at least once a month. The employer may also pay the salary at shorter interval if they choose.

Salary must be paid within seven days after the end of the salary period. Or, in case of overtime work, within 14 days after the end of the salary period. Under other circumstances, salary payable is given in the table below.

*Individual income tax*

Singapore's tax system is progressive in nature, which means higher income earners pay a proportionately higher tax, with taxes currently ranging from zero to 22 percent. Individual income tax in Singapore is payable on an annual basis and is imposed only on the income sourced within the country. The income earned outside Singapore is exempt from taxation.

**Final Salary Payable to Employees under Different Situations**

Situation	Final salary to be paid
Employee resigns and serves the required notice period	On the last day of employment.
Employee resigns without notice and doesn't serve the notice period	Within seven days of the last day of employment.
Dismissal on grounds of misconduct	On the last day of employment. If this is not possible, then within three working days from date of dismissal.
Employer terminates the contract	On the last day of employment. If this is not possible, then within three working days from date of termination.

### Taxable persons

The income tax liability of the taxpayer is determined by the taxpayer's residency status.

An individual is a tax resident in Singapore if they are:

- a Singaporean;
- a Singapore Permanent Resident who resides in Singapore; or,
- a foreigner who has lived or worked in Singapore for 183 days or more in the previous calendar year.

If an individual is employed for three consecutive years in Singapore, however, said person will be considered a tax resident for those years - even if such a person was not physically present in Singapore for 183 consecutive days in all three years.

Partnerships, including limited liability partnerships, are not liable to tax at the entity level. Instead, each partner is liable to tax on his share of income from the partnership.

### Individual income tax

Singapore does not have a "pay-as-you-earn" system. However, every employer in Singapore is required to participate in the Auto Inclusion Scheme (AIS), a mechanism through which employers submit their employees' income information to the Inland Revenue Authority of Singapore (IRAS) electronically i.e. submission of form IR8E by March 1, each year. It is mandatory for all the employers with 10 or more employees, or who have received the "Notice to File Employment Income of Employees Electronically", to submit their employees' income information to IRAS. The submission must be furnished to IRAS not later than March 1 of each year.

Between March 1 to April 18 each year, individuals may file for their taxes electronically. The information provided under the AIS is pre-filled on the employees' electronic tax returns, and is included in their respective income tax assessments.

In Singapore, the basis period for the year of assessment starts on January 1 and ends on December 31 of the same year.

### Income Tax Rates for Tax Resident Individuals

Chargeable income in S\$	Chargeable income in US\$	Income tax rate (%)	Gross tax payable (S\$)	Gross tax payable (US\$)
First S\$20,000 Next S\$10,000	First US\$14,200 Next US\$7,100	0 2	0 200	0 142
First S\$30,000 Next S\$10,000	First US\$21,300 Next US\$7,100	- 3.50	200 350	142 248
First S\$40,000 Next S\$40,000	First US\$28,400 Next US\$28,400	- 7	550 2,800	390 1,988
First S\$80,000 Next S\$40,000	First US\$56,800 Next US\$40,000	- 11.5	3,350 4,600	2,378 3,266
First S\$120,000 Next S\$40,000	First US\$85,200 Next US\$28,400	- 15	7,950 6,000	5,644 4,260
First S\$160,000 Next S\$40,000	First US\$113,600 Next US\$28,400	- 18	13,950 7,200	9,904 5,112
First S\$200,000 Next S\$40,000	First US\$142,000 Next US\$28,400	- 19	21,150 7,600	15,016 5,396
First S\$240,000 Next S\$40,000	First US\$170,400 Next US\$28,400	- 19.5	28,750 7,800	20,412 5,538
First S\$280,000 Next S\$40,000	First US\$198,800 Next US\$28,400	- 20	36,550 8,000	25,950 5,680
First S\$320,000 More than S\$320,000	First US\$227,200 More than US\$227,200	- 22	44,550	31,630

Exchange rate: S\$1 = US\$0.71

## Income tax rates for non-residents

Non-residents are taxed at the flat rate of 15 percent or the progressive resident rates, whichever is a higher tax amount. There are two types of non-tax residency status:

1) If the individual is physically present in Singapore for 61-182 days, his/her employment income is taxed at 15 percent or progressive resident rates, whichever is higher. Director fees and other income are taxed at 22 percent. The individual is not entitled to tax reliefs.

2) For individuals who are employed for 60 days or less, their short-term employment income is exempt from tax. If the individual is a director of a company; a public entertainer; or a professional in Singapore, then the employment income is taxable in full at 15 percent or progressive resident rates, whichever is higher.

### Withholding tax

Under the Withholding Tax Act, a tax resident has a legal obligation to withhold a certain percentage of the payment when making payments of a specified nature to a non-resident and pay the amount withheld to IRAS.


## Social security

### Central Provident Fund (CPF)

CPF is a comprehensive social security scheme that upholds the financial security of Singapore citizens and permanent residents. It addresses home-ownership, asset enhancement, medical requirements, and the protection of dependents.

The CPF Act makes it mandatory for employers and employees to make CPF contribution based on the rates set by the CPF board (table). CPF contributions payable should be based on the employee's actual total wages earned for the calendar month; this includes additional payments such as overtime pay, cash incentives, allowances, commissions, and bonuses. CPF contributions are not payable on items such as reimbursements, termination benefits (such as retirement gratuities), and gifts in kind.

Employers are exempted from making CPF contributions for foreign employees on Singapore employment/professional visit pass or work permit. However, CPF contributions are required once the foreign employee obtains Singapore permanent resident status.

Employers must pay the employer's and employee's share of CPF contribution monthly for all employees within a period of 14 days after the end of the month. Employers who fail to do so might face penalties or fines. 

### Withholding tax on payments to non-residents (selected transactions)



The above rates may be reduced under an applicable Avoidance of Double Taxation Agreement with some countries:

- (1) Final tax - applicable if income is not derived through operations carried out in Singapore. Otherwise, 17% (for non-individuals) or 22% (for individuals) applies. Tax exemption applies for interest payments made by banks, finance companies and certain approved entities.
- (2) No withholding tax is applicable where the services were performed wholly outside Singapore, subject to conditions
- (3) If payments are to individuals, the tax is to be withheld at the rate of 22%.
- (4) Lower withholding tax rate may be applicable in respect of payments to related parties.

Employee's age (years)	Contribution rates for monthly wages ≥ s\$750 (US\$532)		
	By employer (% of wage)	By employee (% of wage)	Total (% of wage)
55 and below	17	20	37
55 – 60	13	13	26
60 – 65	9	7.5	16.5
Above 65	7.5	5	12.5

Source: IRAS, 2017

# Singapore as a Payroll Processing Center for Companies in ASEAN

By Dezan Shira & Associates

Located in the heart of Southeast Asia, Singapore is an attractive destination for centralizing payroll processing and wider regional HR functions for companies either entering ASEAN markets, or expanding their current operations. Singapore is well connected with all ASEAN member states and offers digital and communication infrastructure at global standards.

The high volume of regional headquarters already operating in Singapore makes the city-state an even more attractive destination for centralizing payroll. Additionally, Singapore's unique history

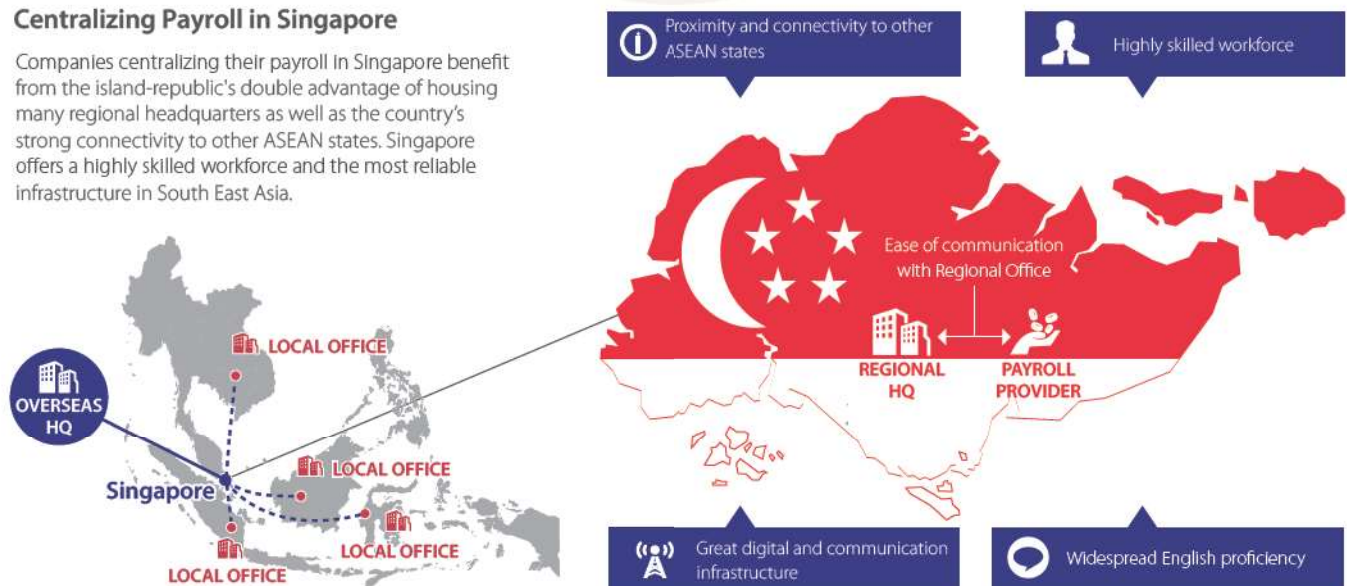
makes the city-state well equipped to maneuver the cultural worlds of Southeast Asia, Europe, and North America – an important skill when collecting information from offices in Asia and communicating the information to regional and overseas headquarters.

## The Singapore advantage

Singapore's bustling port and airport offer efficient and reliable connectivity throughout Southeast Asia. Strategically located, Singapore is never more than an hour and a half ahead or behind

### Centralizing Payroll in Singapore

Companies centralizing their payroll in Singapore benefit from the island-republic's double advantage of housing many regional headquarters as well as the country's strong connectivity to other ASEAN states. Singapore offers a highly skilled workforce and the most reliable infrastructure in South East Asia.





other ASEAN member states – making same-day communication between regional staff and offices elsewhere in ASEAN practical.

## Singapore as a guide to ASEAN

Singapore has a history of facilitating cross-cultural trade and commerce. A former British colony, the island-republic has served as an important trading hub and port for much of Southeast Asia.

Regional proximity and strong business and political relations with its neighbors lend Singapore-based companies a deeper understanding of the legal and regulatory landscapes of ASEAN states. Centralizing payroll processing in Singapore allows professionals with in-depth knowledge of ASEAN regulations to ensure a company delivers timely and state-compliant pay to its diverse workforce.



### *Technological advantages*

Using new technologies to input and organize payroll information increases levels of transparency and efficiency; digitizing payroll systems makes information easier to access and faster to process. Singapore has the best digital connectivity among all ASEAN states, making it the best provider of tech-based payroll solutions.

Perhaps more important than efficiency when a company considers digitizing its payroll system is security. Singapore has robust cybersecurity laws, reliable digital infrastructure, and a technically proficient labor pool. Centralizing payroll in the city-state minimizes the risk of personal information being stolen or lost.



### *English as a language of business*

English is the main working language in Singapore. Having a payroll team fluent in English makes communication with head offices outside of ASEAN states easier and more efficient. Fluency in English also means a stronger paper trail which a foreign manager can understand when examining work

in case of disputes or discrepancies. Companies centralizing their payroll processing in Singapore will not face the same linguistic hurdles common in other ASEAN states.



### *Efficient business environment*

While labor costs in Singapore are typically higher than in other ASEAN states, the standards of quality are also much higher. Singapore boasts world renowned universities and business centers. Its existing financial infrastructure and higher wages has created a competent workforce with an internationalist perspective.

Singapore, furthermore, is a politically stable country. Its own regulatory landscape favors transparency and pro-business efficiency, meaning that the government is unlikely to enact laws which create difficulty or confusion in processing a foreign company's payroll.

## Why choose Singapore?

Singapore's government has a history of business-friendly policies and is one of the most stable regimes in Southeast Asia. Singapore boasts world renowned universities and its work force is highly skilled – meeting international standards in terms of quality and reliability. As Singapore is already a business and technology hub of Asia, the city state offers exceptional digital and communication infrastructure. Similarly, Singapore has recently passed robust cybersecurity laws and has the existing capacity to offer protection from digital hacks.

While labor costs in Singapore are relatively higher than in neighboring countries, centralizing payroll processing in the city-state can save a company money in the long term. Choosing Singapore as a payroll processing center minimizes communication gaps and frees up management to focus on expanding and strengthening their ASEAN operations. 🌟

# Payroll Outsourcing: Allowing Companies to Focus on Regional Expansion in ASEAN

By Dezan Shira & Associates

Managing payroll in Singapore has its own inherent challenges. While Singapore-based companies may find it challenging to keep track of the country's changing social security, tax, and regulatory norms when computing payroll for its employees, those with operations in the wider ASEAN region are likely to find the task even more daunting.

When a company operates in multiple countries, its internal HR teams often struggle to stay updated with changing payroll regulations. Indeed, payroll regulations in emerging markets can change quickly and without proper notification. HR staff doing payroll without up-to-date information may, inadvertently, lead to issues of non-compliance. Non-compliance, even accidental, can invite unwanted scrutiny from authorities, heavy fines, and may negatively impact the morale of employees adversely affected.

Under such circumstances, it is advisable that Singapore-based companies, including those with operations in the wider ASEAN region, outsource their payroll management to a professional payroll processor. Individual HR employees can learn and monitor regulatory changes in Singapore and across ASEAN states. However, if that individual is absent or switches jobs, the company effectively loses its knowledge of payroll regulations in the country and across ASEAN.

Choosing a Singapore-based third-party payroll service provider will ensure continuity in payroll

processing as regulatory knowledge is institutional and not dependent on individuals.

## Who should outsource payroll processing?

- New market entrants who are unfamiliar with local labor regulations in Singapore and the wider ASEAN region;
- SMEs with limited budgets for an independent internal HR department;
- SMEs that desire access to advanced payroll automation software without incurring the related costs; and,
- Rapidly expanding companies that need to manage limited time and resources while concentrating on core business goals.

## Why should you outsource payroll processing?

- Improved compliance: Outsourcing payroll processing improves a firm's compliance and oversight record, and therefore limits associated risks. Professional payroll service providers have dedicated staff that specialize in monitoring the latest updates in rules and regulations at the local, state, national, regional, and industry levels, as well as changes in the withholding tax rates. They calculate social insurance deductions, manage filings and payments, and will undertake

the cost of penalties due to incorrect calculations, under-reporting, or delayed payments so long as accurate personnel information and funds are provided on time.

- **Streamlined HR:** An internal payroll division involves staffing concerns and running costs, but firms outsourcing payroll can streamline their internal HR department to focus on managing the company's relationship with its employees and strategic issues.
- **Confidentiality and transparency:** The more employees aware of salary details in an organization, the greater the risk that such information becomes public knowledge within the company. Outsourcing payroll ensures that sensitive data stays secure, and only key decision-makers and senior personnel in the firm are aware of the payroll details. At the same time, outsourcing increases transparency in the payroll process – errors can be reported immediately and directly to management without the complications of inter-departmental reporting structures.
- **Mediate cultural issues:** Cultural barriers can lead to miscommunication when collecting data from diverse workforces. Good payroll processing maintains confidentiality – even among a company's own workforce – and cultural miscommunication can compromise that privacy. Multinational companies with operations in different countries in ASEAN can face work-issues and incomplete data when internal HR staff overlook nuanced cultural differences. Given Singapore's unique history, the city-state is well suited to act as a cultural mediator between ASEAN states and foreign companies. When collecting, processing, and explaining payroll data, Singapore-based third party operators can understand the nuances in cultural differences and act accordingly – thus minimizing the risk of miscommunications.

## Choosing the right service provider

Given ASEAN's complex tax and labor regulations, only payroll processors with capabilities and experience of operating across several jurisdictions in the region can provide reliable services. It is advisable that companies looking to outsource payroll conduct professional due diligence into a potential payroll partner to ensure it has compatible resources to run payroll processing that are customized to their needs.

Payroll management has taken on an expanded functionality today, offering client firms an array of services while ensuring the efficient distribution and management of payroll, maintaining compliance, and securing confidentiality of payroll data. In recent years, firms specializing in payroll outsourcing invest in advanced software that enables them to produce reports according to the exact specifications required by the tax authorities and banks. Small firms or companies outsourcing their payroll functions benefit from access to this human resource information system as well, and without incurring any of the direct costs.

Thus, even though payroll outsourcing incurs an overhead expense to the firm, it effectively reduces their overall liabilities and costs, and ensures that more time and resources get spent on critical business functions instead, including the consolidation of their ASEAN expansion. 🌐



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