

# Income Tax



With the calendar year coming to an end, it also means that it would soon be time to file income tax returns in the upcoming April. What should you do to reduce your tax payable, legally?

Tax planning is not just for the rich with access to business trusts and offshore tax havens. Assuming you are a middle-class Singaporean with income that is taxable in Singapore, these are 3 of the best ways to do some tax planning.

### 01 Contribute to the SRS (Supplementary Retirement Scheme)

#### **Pros:**

- SRS contributions are eligible for tax relief (up to \$12,750), with no restrictions on age
- Only 50% of the withdrawals from SRS are taxable at retirement

#### **Cons:**

- Withdrawals are treated as income and therefore subjected to income tax
- A 5% penalty for premature withdrawal will be imposed

### **How:**

- Open an SRS account with a local bank. This can be done via internet banking (such as via OCBC)
- If you are investing in equities (or unit trusts), inform your stock broker (or funds distributor) your SRS account number

### **More information:**

- [http://app.mof.gov.sg/supplementary\\_retirement\\_scheme.aspx](http://app.mof.gov.sg/supplementary_retirement_scheme.aspx)

## **02 Making a Voluntary Contribution to your CPF Medisave Account**

### **Pros:**

- Funds in the Medisave Account enjoy 4% interest (as do those in the Special Account), compared to the 2.5% in the Ordinary Account

### **Cons:**

- Voluntary contribution to all 3 CPF Accounts are non-tax deductible
- Contributions cannot be used for housing or investments

### **How:**

- CPF E-Payment (internet banking), AXS Station, iNETS Kiosk, GIRO or cheque

### **More information:**

- <http://ask-us.cpf.gov.sg/Home/hybrid/show.asp?project=1734594&CCT=YES&op=YES&mesid=378184>

## **03 Making Cash Top-ups under the CPF Minimum Sum Topping-Up Scheme**

### **Pros:**

- Two separate tax reliefs are applicable (\$7,000 relief for topping to own CPF account and another \$7,000 for topping up to family members). Each caregiver who contributes is eligible for up to \$7,000 in relief, even if the top-up is to the same recipient
  - Top-ups to SA can be used for investments, provided the SA has more than \$40,000
  - Funds in SA earn 4% interest

### **Cons:**

- Tax relief restricted to tops up for parents, grandparents, spouse and siblings
- Tax relief for siblings/spouse is subject to the condition that the recipient earns \$4,000 or less in the preceding year (starting from Year of Assessment 2011)
- Tax relief is not applicable for CPF-to-CPF top-ups

### **How:**

- CPF E-Payment (internet banking)

### **More information:**

- <http://www.iras.gov.sg/irasHome/page04.aspx?id=196>
- <http://ask-us.cpf.gov.sg/explorefaq.asp?category=23018>

### **Which Way to Choose?**

If you are constrained by the amount of cash you can deploy (as most of us are), how should you prioritize your contributions?{loadposition advert1}

#### ***Caring for elderly parents/grandparents***

If you have elderly parents or grandparents who have already reached the minimum sum draw-down age (which is currently 62 and will rise to 65 in the year 2019), then topping up their CPF accounts may be the most logical thing to do, since they have immediate access to the cash you topped up.

#### ***Growing portfolio with excess funds and appetite for risk***

On the other hand, if you are focused on aggressively building up your investment portfolio (e.g. in equities and unit trusts) with your excess funds which are not expected to be utilized in the foreseeable future, then contributing to the SRS would allow you to achieve the same objective, while getting tax relief at the same time.

#### ***Have more than \$40,000 in SA and looking to invest conservatively***

If you already have \$40,000 or more in your Special Account, then topping up your own SA would allow you to invest what you contribute, under a set of conservative rules under the CPFIS-SA. If you are not looking to invest or are waiting for the right opportunity, the 4% interest in the SA doesn't hurt.

### ***Saving for medical emergencies and risk averse***

If you are risk averse and are looking for a higher than fixed deposit rate of return, with the intention of saving for medical emergencies in the future, then making contributions to the Medisave account is your best bet.

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