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What is Supplementary Retirement Scheme?

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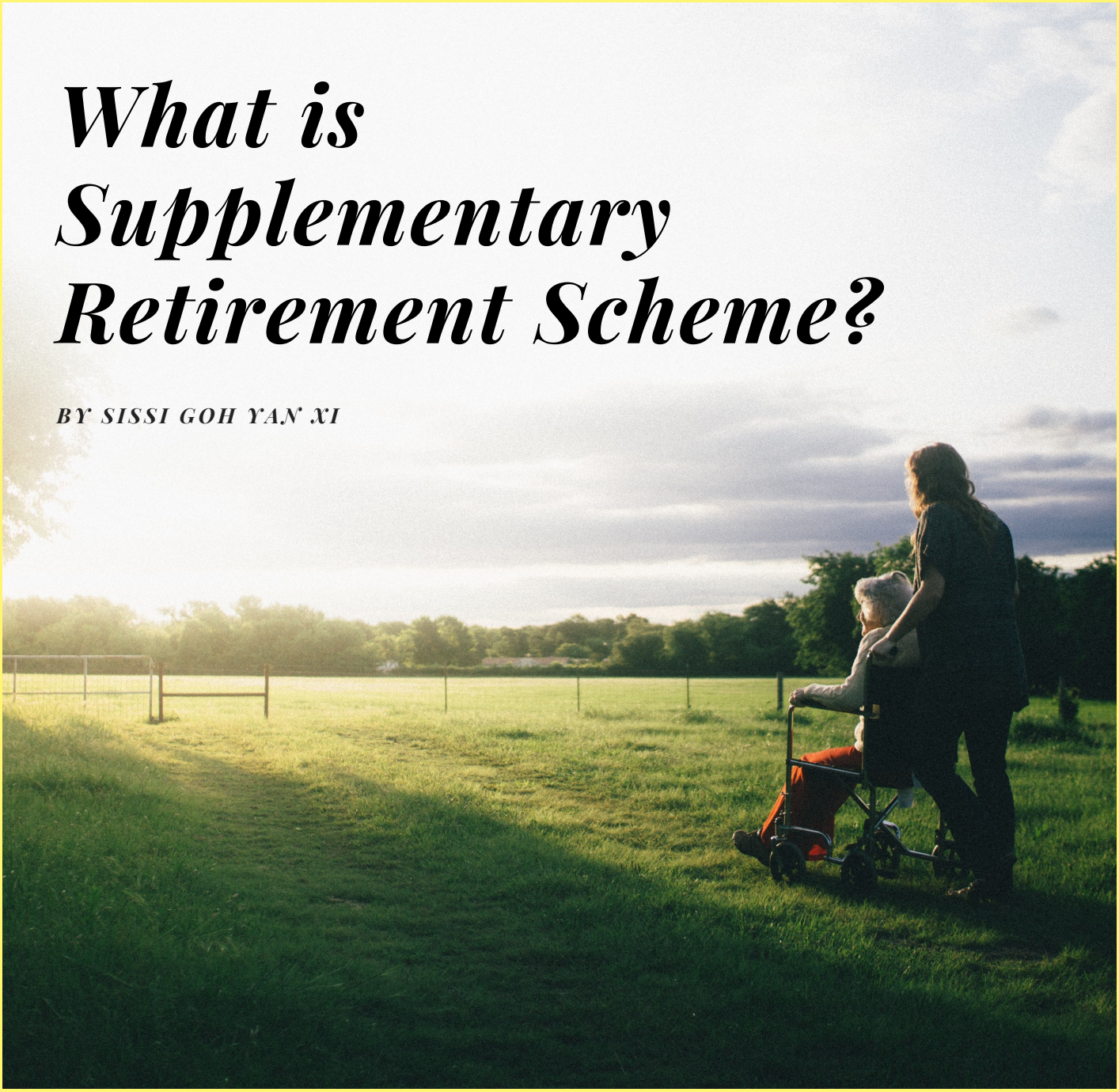

Peter is an expat in Singapore working as a division head of a cyber-security firm, drawing an annual income of $200,000, and considered a tax resident of Singapore. As he is not a Singapore citizen, nor a Singapore Permanent Resident (SPR), he cannot make CPF contributions. Peter is quite upset about it. His HR director mentioned to him that he can make use of Supplementary Retirement Scheme (SRS) as a tax deferment tool for retirement planning purposes, and he wonders how it works.

WHAT IS SRS?

SRS is a voluntary scheme to encourage individuals to save for retirement, over and above their CPF contributions. In Peter's case, he can enjoy tax deferment on his SRS contributions. Each dollar of SRS contribution will reduce his taxable income by a dollar. The annual SRS contribution cap is currently set at $35,700 for foreigners (the cap is $15,300 for Singapore citizens and permanent residents).

If Peter contributes $35,700 to his SRS account, his taxable income will be reduced to $164,300, which means he will enjoy tax savings of $6,750 (based on a tax resident's tax rate of 18% for income within the $160,000 to $200,000 bracket).

Additionally, he can discuss with his employer to have an agreement which allows his company to automatically contribute part of his remuneration/salary to his SRS account on his behalf, and this portion will enjoy the above mentioned tax relief. Now that we have covered the contributions for SRS, let's discuss the more important area of withdrawal.

There are 2 common scenarios for Peter's case as reflected here on the right side of the column ;

SCENARIO 1: PETER BECOMES A SINGAPORE CITIZEN OR SPR

If Peter plans to retire at age 65, he can enjoy tax concession for his SRS withdrawals over a 10 year period; 50% of his accumulated SRS savings will not be taxed when he withdraws after reaching the statutory retirement age. If he has $400,000 in his SRS account, he can take out $40,000 every year from age 65 to age 74, without having to pay any tax (as the non-taxable income is $20,000), assuming he has no other income at that point in time. This withdrawal will help in boosting his monthly income by $3,333 during this 10 year period.

SCENARIO 2: PETER LEAVES SINGAPORE AFTER 10 YEARS

If Peter decides to return to his country, he does not need to worry that his SRS funds will be locked up; 50% of his accumulated SRS savings will not be taxed and he will not need to pay any penalty on the withdrawal, assuming conditions are met. The SRS can reduce the amount of taxable income and at the same time, help you to set aside money for retirement. Whether you are a Singapore citizen, SPR or foreigner, as long as you derive any form of income in Singapore, SRS could be an important component of your retirement and tax planning.

For more information, you can refer to the SRS guide by the Ministry of Finance.

Disclaimer: For Tax advice, please consult your tax accountant or tax lawyer.

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