

WHY SHOULD YOU GET STARTED ON YOUR SRS ACCOUNT?



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Do you want a legitimate way of reducing your taxes? If your answer is yes, please continue reading. The Supplementary Retirement Scheme (SRS) was started in 2001 as the Government's strategy to help address the retirement concerns of our greying population by helping them to save. This is the only approved scheme to save tax besides contributing to your own CPF or your spouse/parent's CPF.

It is currently operated by the private sector (OCBC, UOB, DBS). So, all you need to do is to apply for the account online or at the branch itself with any of the 3 local banks.

SRS is a government scheme that complements your CPF savings for retirement. However, the contribution to your SRS account is entirely on a voluntary basis. Also, it is not compulsory to contribute yearly, so this gives you the flexibility to decide when you wish to do this.

Monies in SRS can be used to purchase a range of investment vehicles. Currently you can only purchase single premium products, such as Unit Trusts, Endowments, Fixed Deposits, Shares/Stocks.

The whole purpose of the SRS is for you to build your retirement nest egg so that you can have a more comfortable retirement.

Contribution amounts vary, but is subject to a cap. The maximum contribution (Eligible for Relief) for Singaporeans & PRs are currently set at \$15,300/year.

For Foreigners, it is set at \$35,700/year. Depending on your tax bracket, you can have savings from \$306/year to \$3,366/year

Here's an example of George who doesn't contribute to his SRS.

George, 35 years old

Monthly Income : \$6,000

Year End Bonus : 3 months

Total Income : \$90,000

Total Tax Payable : \$4,500

What if George decides to contribute \$15,300 to his SRS?

SRS Contribution

NEW Total Income : \$15,300
: \$90,000 - \$15,300

NEW Total Tax Payable = \$74,700

Tax Savings : \$2,979
: \$4500 - \$2,979

Immediate ROI = \$1,521
: 9.94%

What are the benefits and restrictions of the SRS then, you may ask?

You can withdraw anytime! However, do note the amount that you withdraw is subjected to 5% Penalty and it is 100% Taxable. Which means, on withdrawal of the amount, it adds back to your chargeable Income for the year.

For example,

Income : \$90,000

Withdrawal : \$12,000

Total Chargeable Income : \$102,000

If one is unemployed and doesn't earn any income for the year, it would mean that the individual can withdraw up to \$20,000 and this amount will be tax free base on the prevailing tax rates. However, do note that this \$20,000 will be subjected to 5% penalty.

So, when can I start withdrawing without incurring a penalty? You can do this after 62. Adding on, you must withdraw all the monies in your SRS over a period of 10 Years. Only 50% of the amount that you withdraw is subjected to tax for the year of assessment. Which means that you can withdraw up to \$40,000 per year and it will be tax free.

I hope that this article helps you to better understand the SRS account and how you can better leverage on it to save on taxes!

ABOUT THE AUTHOR

Cyril Ng is a licensed Financial Practitioner and an active IFPAS member. He holds the Chartered Financial Consultant (ChFC®/S), Certificate Estate Planner (CEP) designations and has a Certificate in Retirement Adequacy Planning.

