Featured Articles

Saving your money in piggy bank is not the key to financial planning.

Key to Total Financial Planning…

- ***Save for Retirement***
- ***Grow the money***

Reduce Income Tax with Supplementary Retirement Scheme (SRS)

Supplementary Retirement Scheme (SRS) is a voluntary saving scheme introduced by the government to encourage individuals to save more for retirement, in addition to their CPF savings. Singaporeans, Singapore Permanent Residents (SPRs) and foreigners can open an SRS account at any branches of the 3 SRS Operators - DBS, OCBC and UOB. Singaporeans and SPRs can then contribute up to $15,300 yearly to their SRS accounts. For foreigners, the maximum yearly contribution is $35,700.

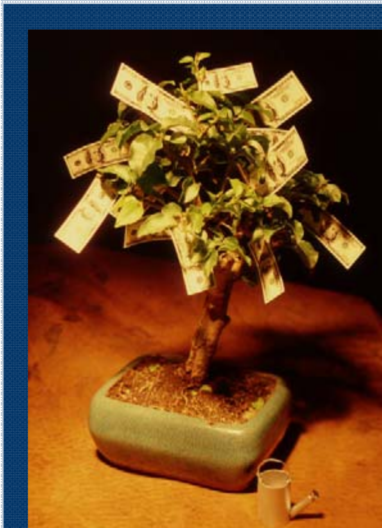
One immediate benefit for participating in SRS is that you can claim tax relief and save up to $3,366.

Benefits

One immediate benefit for participating in SRS is that you can claim tax relief for contributions made to SRS. Each dollar of SRS contribution will reduce your income chargeable to tax by a dollar. This works out to be a total savings of up to $3,366 for Singaporean and SPRs, depending on your Income Tax Bracket and the SRS contribution. You will need to contribute to the SRS account before 31 Dec of each year in order to enjoy the tax relief in the next year of assessment (YA) of income tax. From YA 2018, the total amount of personal income tax reliefs which can be allowed is subject to an overall relief cap of $80,000 per YA.

Example 1: Mdm Lim earns $3,500 a month and contributes $6,300 to SRS.

	No SRS Contribution	With SRS Contribution
Annual Income	$42, 000	$42, 000
Less SRS Contribution	-	$6, 300
Chargeable Income	$42, 000	$35, 700
Income Tax*	$690	$399.50
Tax Savings	-	$290.50



Managing and growing the money is.

Example 2: Mr Chan earns $7,000 a month and contributes the maximum of $15,300 to SRS.

	No SRS Contribution	With SRS Contribution
Annual Income	$84, 000	$84, 000
Less SRS Contribution	-	$15, 300
Chargeable Income	$84, 000	$68, 700
Income Tax*	$3, 810	$2, 559
Tax Savings	-	$1, 251

The above examples assume no other tax relief claimed.

* Individual Income Tax Rate for YA2018

With effect from 1 Oct 2008,

- Employers can contribute to their employees' SRS accounts and claim full tax deduction. Employees will enjoy tax relief on the contribution made by their employers.
- SRS members can contribute beyond the prevailing statutory retirement age when the SRS account was opened, up to the point of their first penalty-free withdrawal. The SRS monies can be withdrawn over the next 10 years from the date of the first penalty-free withdrawal.
- Individuals without any earned employment income in the previous year can also contribute to the SRS in the current year.

For Singapore Citizen and SPR, you will be able to withdraw the SRS money from prevailing statutory retirement age when you first made the SRS contribution, currently at age 62. As only the 50% of the amount withdrawn are subjected to income tax, you can plan and spread out the withdrawal amount for the next 10 years which will result in greater tax savings.

However, if you withdraw before the penalty-free period, which is age 62 currently, 100% of the withdrawal amount will be taxed and there will be a 5% penalty on the withdrawal amount. This 5% penalty will be waived for bankrupts. If the withdrawal is made due to death, on medical ground such as physical/mental incapacity or terminal illness, besides waiving the 5% penalty, only 50% of the withdrawal amount is subjected to Income Tax. From YA 2016, a tax exemption of up to $400,000 would be granted for SRS funds withdrawn in full on the grounds of terminal illness or deemed withdrawn upon an SRS member's demise. This is to ensure that SRS members are not unduly disadvantaged due to terminal illness or death.

For foreigners, you are allowed to withdraw the SRS monies with 50% subject to tax as long as you have maintained the SRS account for at least 10 years from the date the first contribution has been made.

Where to invest your SRS fund?

The amount deposited into SRS account will earn you low interest rate offers by the bank. You can, however, use the SRS contributions to purchase various investment instruments such as shares listed on the Singapore Exchange, bonds, unit trusts, fixed deposits and single-premium insurance plans, with the exception of direct property investment.

A comparison of the expected return from various Investment Instruments for a period of 20 years of principal amount $15,300, and the Pros and Cons of the different investment strategies are given below.

Investment Instrument	Assumed Interest Rate Per Annum	Projected Future Amount	Pros & Cons
Save in bank	0.125%	$15, 687	***Pros*** No risk ***Cons*** Money depreciates in value since inflation is higher than interest rate.
Endowment Plan	4%	$33,524	***Pros*** Low Risk for endowment plan. Beat Inflation Rate and hence money appreciates in value. ***Cons*** Tied-in for the 20 years.
Investment-linked Plan/Unit Trust	8%	$71,312	***Pros*** Good appreciation in value. Diversification through many companies in portfolio ***Cons*** Returns depend on market volatility.
Stock	>10%	>$102,930	***Pros*** Good appreciation in value with lower charges than unit trust in general. ***Cons*** Returns depend on market volatility. Risk of loss all investment if company goes bankrupt.

Balances in SRS account

The balance in your SRS account is made up of your SRS contribution and investment returns accumulated over the years. The amount (except for life annuities) in the SRS account will be deemed to be withdrawn immediately after the end of the 10-year withdrawal period. If the SRS member has insurance policies such as endowment and termed annuities in his SRS account on expiry of the 10-year withdrawal period, he does not need to close his SRS account or surrender his insurance policies. The value of the insurance policies (i.e. surrender values as determined by the insurance companies) together with cash and market value of other investments in the SRS account will be deemed withdrawn. For investments in life annuities, the 10-year withdrawal period does not apply. So long as you continue to receive your annuity streams in perpetuity, 50% of the annual stream will be subject to tax.

Withdrawal in the form of investment

From July 2015, SRS members will be able to apply to their SRS operators to withdraw an SRS investment by transferring the investment out of their SRS accounts (e.g. into their personal Central Depository (CDP) account), without having to liquidate their SRS investments. This is only applicable for the following types of withdrawals, which qualify for the 50% tax concession:

1. withdrawal on or after the statutory retirement age prevailing at the time of an SRS member's first contribution (currently age 62);
2. withdrawal on medical grounds;
3. withdrawal in full by a foreigner who has maintained his SRS account for at least 10 years from the date of his first contribution; and
4. actual withdrawal made by an SRS member or his legal personal representative (if he is deceased) from his SRS account, after the SRS investment that is to be withdrawn had earlier been deemed withdrawn upon death or after the expiry of the 10-year withdrawal period.

All other withdrawals from an SRS account, including premature withdrawals, must be made in cash.

Conclusion

As suggested, contributing to SRS not only offers immediate benefit in reducing income tax but also provides wider and wiser options for you to grow your money for your retirement.

For more information on SRS and individual income tax rates and Income insurance plans, please visit the Ministry of Finance, Inland Revenue Authority of Singapore and NTUC Income websites respectively at

- https://www.mof.gov.sg/MOF-For/Individuals/Supplementary-Retirement-Scheme-SRS
- https://www.iras.gov.sg/irashome/Quick-Links/Tax-Rates/Individual-Income-Tax-Rates/

Update the figures quarterly and also whenever there is a major change in life goals or financial commitment.

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