

## **SUPPLEMENTARY RETIREMENT SCHEME (SRS)**

The SRS is part of the Singapore government's multi-pronged strategy to address the financial needs of a greying population, which were highlighted in the Report of the Inter-Ministerial Committee (IMC) on the Ageing Population, released in November 1999.

The SRS complements the Central Provident Fund (CPF). CPF savings are meant to provide for housing and medical needs and for basic living needs after retirement. Unlike the CPF scheme, participation in SRS is *voluntary*. Participants can contribute a varying amount to SRS (subject to a cap) at their own discretion. The contributions may be used to purchase various investment instruments.

With the SRS, the government hopes to encourage Singaporeans to save more for their old age, by means of voluntary contributions to their SRS accounts. The SRS will be effective from 1st April 2001. It will be operated by the private sector.

The SRS offers attractive **tax benefits**. Contributions to SRS are eligible for tax relief, investment returns are accumulated tax-free (with the exception of Singapore dividends from which tax is deducted or deductible by the payer company under section 44 of the Income Tax Act) and only 50% of the withdrawals from SRS are taxable at retirement.

This handbook tells you how the SRS works, and who can participate in it. It also explains the benefits of the scheme, and provides information on when and how you can make contributions or withdrawals, as well as where you can invest your SRS funds.

### **WHAT YOU NEED TO KNOW ABOUT THE SRS**

#### ***ELIGIBILITY***

##### **1. Who is eligible to open an SRS account?**

All Singaporeans, Singapore Permanent Residents (SPRs) and foreigners who

- are at least 21 years old;
- are not undischarged bankrupts; and
- are not of unsound mind.

##### **2. Who is allowed to contribute to SRS?**

If you earned employment income (excluding directors' fees) or were a self-employed in the preceding year, you are allowed to contribute to SRS in the current year.

*Note: There will be some changes with effect from 1 Oct 2008. Please refer to the MOF SRS website for more details.*

### **3. Can my employer contribute to my SRS account?**

No. The voluntary SRS contribution can only be made by employees and self-employed individuals to their own accounts.

*Note: There will be some changes with effect from 1 Oct 2008. Please refer to the MOF SRS website for more details.*

## ***BENEFITS***

### **4. Why should I contribute to SRS?**

Besides the obvious benefit of having more savings to draw on when you retire, you will enjoy the following tax benefits on contributions to SRS:

- 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.
- Investment gains will accumulate tax-free in SRS with the exception of Singapore dividends from which tax is deducted or deductible by the payer company under section 44 of the Income Tax Act, which are taxable at your individual tax rate.
- Tax will be payable only when you withdraw your savings from SRS. If you withdraw your savings upon retirement, only 50% of the savings withdrawn will be subject to tax. You may also spread your withdrawals over a period of up to 10 years (or more if the statutory retirement age increases) to meet your financial needs. Spreading out your withdrawals will generally result in greater tax savings.

## ***PARTICIPATION***

### **5. How do I participate in SRS?**

You must first open an SRS account. You can open an SRS account at participating branches of any of the 3 SRS Operators:

- Development Bank of Singapore (DBS) Ltd
- Overseas-Chinese Banking Corporation (OCBC) Ltd

- United Overseas Bank (UOB) Ltd

**6. Can I have more than one SRS account?**

No. You may not have more than one SRS account at any point in time.

**7. Can I transfer my SRS account from one SRS Operator to another?**

Yes. You may transfer your SRS account between different SRS Operators.

**8. Will I be charged for operating an SRS account?**

Yes. Each SRS Operator may levy charges according to its own schedule of charges. The charges will be deducted from your SRS account.

**9. I am interested in joining the SRS scheme. If I contribute for 6 years and then cease employment in Singapore, what is the status of my SRS account?**

There is no change to your SRS account. Your funds will remain in the account for you to withdraw them later.

**10. If I have lost my SPR status due to a permanent posting to another country, am I still entitled to participate in SRS scheme, and withdraw the money after retirement? Will I be forced to make a lump-sum withdrawal instead and be taxed on the full withdrawal amount?**

If you lose your SPR status, you are still eligible for participation in the SRS scheme. You may also decide to make SRS withdrawals at a later stage. However, as a foreigner, you would qualify for an additional concession (penalty-free withdrawal). This concession is available to foreigners who withdraw their SRS monies entirely in one withdrawal transaction. The conditions for this concession are as follows:

i) you have been a non-Singaporean for a continuous period of 10 years preceding the date of withdrawal ; and

ii) you have maintained your SRS account for a period of not less than 10 years from the date of your first contribution to your SRS account.

Under the above conditions, only 50% of the lump-sum withdrawal is taxable.

### ***SRS CONTRIBUTIONS***

**11. What is the amount I can contribute to SRS? Is there a limit?**

You may contribute any amount to your SRS account up to your SRS contribution cap.

**12. How is my SRS contribution cap determined?**

Your SRS contribution cap is determined by multiplying the appropriate SRS contribution rate by an absolute income base.

SRS contribution rate

The SRS contribution rate for Singaporeans and Singapore Permanent Residents (SPRs) is 15% while the SRS contribution rate for foreigners is 35% in view of the fact that they do not enjoy tax relief on their CPF contributions. If you are a foreigner, you are required to give a written declaration of your foreign status for the calculation of your SRS contribution cap. You must make such a declaration whenever the SRS Operator calculates your SRS contribution cap.

Income base

The absolute income base is \$76,500 per annum.

**13. I am currently contributing to the SRS at the rate of 35% as a Foreigner. Is my SRS contribution cap still valid if I obtain Singapore Permanent Resident (SPR) status in the latter part of the year?**

No. You should contact the SRS operator to have your contribution cap recalculated.

**14. Do I need to contribute regularly to SRS?**

No. You may contribute to SRS at any time and as often as you wish on or before 31 December each year\* but your total annual contributions cannot exceed the SRS contribution cap.

(\* Please note however, that you may no longer contribute to SRS after you start withdrawing from your SRS account at or after your retirement, or after you reach the prevailing statutory retirement age, whichever is earlier. Please see Q.18.)

**15. What documents do I need to submit to the SRS operator when I wish to make SRS contributions?**

If you are a Singaporean Citizen or Singapore Permanent Resident, no documents are needed.

If you are a foreigner, you are required to give a written declaration of your foreign status for the calculation of your SRS contribution cap. You must make such a declaration whenever the SRS Operator calculates your SRS contribution cap.

**16. Can I make SRS contributions in the form of investments (i.e. transfer investments into my SRS account)?**

No. All SRS contributions must be made in cash.

**17. Under what situations am I not be allowed to contribute to my SRS account?**

You may no longer contribute to SRS after you start withdrawing from your SRS account at or after your retirement, or after you reach the prevailing statutory retirement age \*, whichever is earlier.

(\* This is determined by the date on which you attain the prevailing statutory retirement age.)

**18. Why is there a cap on SRS contribution?**

SRS is meant to help employees and self-employed to save part of their income, on top of their CPF contributions, for retirement, not give asset-rich or high-income individuals an undue tax advantage. There is hence a cap on the SRS contributions. The 15% cap for locals' contributions was decided after a public consultation in the early part of year 2000. The absolute income base is similar to that for CPF contributions (i.e. capped at a salary of \$4,500 per month from 1 January 2006).

**19. If I have made a withdrawal from my SRS account, can I still make SRS contributions?**

If you withdraw funds from your SRS account before retirement, you can still continue to contribute to SRS after the withdrawal.

However, if you start withdrawing from your SRS account at or after retirement, or after you reach the prevailing statutory retirement age \*, whichever is earlier, you may no longer contribute to SRS.

(\* This is determined by the date on which you attain the prevailing statutory retirement age.)

**20. Why can't I contribute to SRS beyond the statutory retirement age?**

In deciding the age limit for participation in the SRS, the Government has to weigh the desire of those who want to withdraw their SRS savings as early as possible with the tax benefits, against those who want to contribute to the SRS for as long as they wish.

A fair solution is to peg the age limit to the prevailing statutory retirement age \*, currently 62. This means that beyond age 62, the SRS account will be closed to contributions but the SRS savings can be freely withdrawn without penalty, and the taxpayer will enjoy the concession of being taxed only on 50% of the sum withdrawn.

The date on which SRS participants can start withdrawing their SRS savings is also the date new contributions will stop. Otherwise there will be "round-tripping" simply for the purpose of gaining the tax benefits without subjecting the contributions to the investment risks which justify the 50% tax concession on sums withdrawn.

The age limit for participating in SRS will rise along with any rise in the statutory retirement age in the future.

(\* This is determined by the date on which you attain the prevailing statutory retirement age.)

*Note: There will be some changes with effect from 1 Oct 2008. Please refer to the MOF SRS website for more details.*

- 21. If employees of a company want to contribute to SRS, can the company facilitate the contribution by deducting from their payroll and make payment to their SRS accounts? On the same note, these employees have payments made to them via cheques from the company. Are they able to deposit these cheques into their SRS accounts?**

An employee may deposit his pay cheque into his SRS account, subject to the SRS contribution cap. An employee may also authorise his employer to deposit part of his salary into his SRS account (again subject to the SRS contribution cap), just as he may authorise his employer to deposit his salary into any bank account. However, direct employer's contribution to one's SRS account is strictly prohibited.

- 22. Since the Ministry says that an SRS contribution made on or before 31 December would qualify for tax relief in the following Year of Assessment, can an SRS operator stop accepting an SRS contribution before 31 December?**

The cut-off date for SRS contribution (at any SRS operator) is a commercial decision. SRS members should ask their SRS operator about the cut-off date for SRS contributions.

(\* Except if you have started withdrawing from your SRS account at or after your retirement, or if you have reached the prevailing statutory retirement age, whichever is earlier. Please see Q.18.)

- 23. Can a retiree who is under the statutory retirement age of 62 years open an SRS account with the money that he has withdrawn from his CPF account?**

Anybody can open an SRS account as long as he has not reached the statutory retirement age. However only those who earned employment income (excluding directors' fees) and who were self employed in the preceding year are allowed to contribute to SRS in the current year.

**24. If a person is a non-PR in 2001 but is a PR in 2002, what will be his SRS contribution cap in 2002?**

If a person is a non-PR in 2001 but is a PR in 2002, his SRS contribution cap in 2002 should be computed at the rate of 15%, which is the rate applicable to a PR.

**25. After the SRS operator has computed my SRS contribution cap for the year, is it mandatory for me to make a contribution up to the cap set?**

You can contribute any amount up to your SRS contribution cap.

***WITHDRAWALS FROM SRS***

**26. When can I make a withdrawal from my SRS account?**

Anytime. However if you make a withdrawal before the statutory retirement age prevailing at the time of your first contribution, 100% of the sum withdrawn will be subject to tax. A 5% penalty for premature withdrawal will also be imposed.

**27. Are there circumstances under which the 5% penalty for premature withdrawal does not apply?**

Yes, these circumstances are:

- a. death;
- b. permanent incapacitation;
- c. bankruptcy; and
- d. the full withdrawal of the SRS balance by a foreigner who has maintained his SRS account for at least 10 years from the date of his first contribution.

**28. I made a premature withdrawal recently and had to pay a penalty on the withdrawal. If I were to reinstate the amount withdrawn, would the amount of penalty paid earlier be refunded to my account?**

No. You cannot expect a refund of the penalty to your SRS account by reinstating the amount that was withdrawn prematurely.

**29. How much can I withdraw from the SRS account?**

You may withdraw any amount of SRS savings you desire. There is no specified minimum or maximum sum of withdrawal.

**30. Can I make SRS withdrawals in the form of investments (i.e. transfer investments out of SRS account)?**

No. All SRS withdrawals must be made in cash.

**31. How will my withdrawals be taxed?**

Withdrawals from SRS accounts are subject to tax in the Year of Assessment following the year of withdrawal.

For example, if you withdraw \$6,000 from your SRS account in 2007, either 50% or 100% of the withdrawal amount, depending on the type of withdrawal (see below), will be regarded as part of your income in 2007 and subject to tax for Year of Assessment 2008.

50% of the sum withdrawn will be taxed for the following types of withdrawal:

- a. withdrawal on or after the statutory retirement age prevailing at the time of your first contribution (prescribed retirement age);
- b. withdrawal on medical grounds;
- c. withdrawal on death; and
- d. withdrawal by a foreigner who has maintained his SRS account for at least 10 years from the date of his first contribution.

100% of the sum withdrawn will be deemed as your income and taxed in all other situations.

If you are a non-Singaporean who no longer works and lives in Singapore, you will be taxed as a non-resident when you withdraw the fund from your SRS account.

**32. Can I spread my withdrawals over a period of time so as to enjoy the 50% tax concession?**

Yes, if you withdraw your SRS savings after the prescribed retirement age or on medical grounds. The maximum period over which you can spread your withdrawals is generally 10 years. However, the period for withdrawals at retirement may be longer if the statutory retirement age has been increased.

*Note: There will be some changes with effect from 1 Oct 2008. Please refer to the MOF SRS website for more details.*

**33. How exactly is the withdrawal period determined at retirement?**



The withdrawal period starts when you reach the prescribed retirement age (i.e. statutory retirement age at the time of your first contribution). The withdrawal period ends either

- a. 10 years from the statutory retirement age prevailing when you make your first penalty-free withdrawal; or
- b. 10 years from the prevailing statutory retirement age, whichever is earlier.

However, the 10-year period does not apply to investments in life annuities. So long as you continue to receive your annuity streams in perpetuity, the 50% tax concession will apply.

*Note: There will be some changes with effect from 1 Oct 2008. Please refer to the MOF SRS website for more details.*

**34. Do I have to withdraw all my SRS funds at the end of the 10-year withdrawal period?**

No. However, whatever remains in your SRS account at the end of the withdrawal period will be taxed at 50% concession.

**35. Will the SRS Operator deduct any tax on my SRS withdrawals?**

There is a withholding tax imposed on all SRS withdrawals by foreigners and SPRs. The SRS Operator will withhold an amount of tax at the prevailing non-resident tax rate. Hence, the actual amount of cash you receive will be less than the amount you requested to withdraw. For Year of Assessment 2008, the rate of withholding is 20%. This is in addition to the 5% premature withdrawal penalty, if applicable.

**36. As savings withdrawn from SRS are subject to tax, would I not be paying a lot of tax when I retire?**

No, only 50% of your withdrawals are subject to tax. Moreover, you are allowed to spread out your withdrawals over a period of time. With lower or nominal income at retirement, you may end up paying little or no income tax.

**37. Can I withdraw my SRS money before the age of 62? I might be in poor health and need the money for medical treatment, or I might retire early before the age of 62.**

SRS account holders may withdraw their SRS savings anytime, albeit early withdrawals are fully subject to tax and attract a 5% penalty.

To incentivise individuals to withdraw their SRS at age 62 (the statutory retirement age) or later, the Government grants a 50% tax concession (only 50% of the withdrawal is subject to tax) for such withdrawals. Such withdrawals also do not attract a 5% penalty.

We appreciate that some individuals may wish to retire before the age of 62, but we would still want to encourage them to keep their savings for their old age, after age 62. We want to highlight that individuals who are physically or mentally handicapped (for example bedridden) may withdraw their SRS savings penalty-free and with a 50% tax concession anytime, regardless of their age.

SRS is a voluntary scheme and the contributions are determined by each individual. If a person wishes to have access to funds before the statutory retirement age, he may wish to set aside some funds outside of SRS savings.

- 38. If I am a foreigner and start contributing to SRS at the age of 55, am I allowed to withdraw my SRS contribution without penalties, at the age of 62? Do I need to wait for 10 years to make a penalty-free withdrawal?**

A foreigner may withdraw his SRS without penalties at the age of 62, if that is the statutory retirement age prevailing at the time of his first contribution.

- 39. I am a foreigner who no longer works and lives in Singapore and I make an SRS withdrawal. How will I be taxed?**

A foreigner will be taxed as a non-resident in this instance. He will generally be taxed at 15% or the local resident rate, whichever is higher. If the withdrawal is made after the statutory retirement age or more than 10 years after the date of the first contribution, only 50% of the SRS withdrawal will be subject to tax.

- 40. I wish to purchase a single premium insurance product which will mature at the age of 65. Is it allowable under SRS? If yes, will my last withdrawal age be 72 or 75?**

Such a product is generally allowable. The end of the withdrawal period is pegged to 10 years from the prevailing statutory retirement age. As the prevailing statutory retirement age is 62, the last withdrawal age is 72, not 75.

- 41. Please explain the withholding tax imposed on the withdrawal of SRS funds.**

All Singapore Permanent Residents (SPRs) and foreigners who make a withdrawal from their SRS accounts will be subject to a withholding tax on their withdrawal. The withholding tax rate is the prevailing non-resident tax rate, which is 20% in YA2008.

For example, if an individual has accumulated \$200,000 in his SRS account by the age of 62 (the retirement age) and decides to withdraw all his SRS monies, he will be taxed on half of the amount withdrawn as a result of the 50% tax concession. If he is a SPR or a foreigner, the tax withheld on the withdrawal will be  $20\% * \$100,000 = \$20,000$ . He therefore receives  $\$200,000 - \$20,000 = \$180,000$ .

The withholding tax however does not represent the final tax payable on the withdrawal. If the SPRs and foreigners are Singapore tax residents, the actual tax payable on their

SRS withdrawals will be based on the graduated personal income tax rates ranging from 0%-20% (YA2007 onwards). If the SPRs and foreigners are not Singapore tax residents, the actual tax payable on their SRS withdrawals will be 15% or based on the graduated personal income tax rates, whichever is higher. The tax withheld on the withdrawal is a tax credit which a taxpayer can use to offset his actual tax liability; any unused tax credit will be refunded to the taxpayer.

To illustrate, suppose that in the above example, the actual tax rate applicable for the SRS withdrawal is finally determined to be 15%. The actual tax payable on the SRS withdrawal (of \$200,000) will be  $15\% * \$100,000 = \$15,000$ . Assume also that the SRS member has no other tax liability. The Inland Revenue Authority of Singapore (IRAS) will therefore refund \$5,000 (which is  $\$20,000 - \$15,000$ ) to him.

The SRS operator is also required to deduct a 5% penalty on premature withdrawals. The 5% penalty is non-refundable and should not be confused with the withholding tax.

**42. I am thinking of withdrawing all my SRS monies. After making a full withdrawal, can I open a new account and make new contributions again?**

If you open a new SRS account (after completing all withdrawals from the previous account), you will be able to contribute again to the new account. The date of first SRS contribution, if it is relevant in deciding your qualification for any SRS concession, will be the date of first contribution to your new account and NOT the date of first contribution to your previous account.

**43. I am a foreigner. What happens to my SRS deposits when I leave Singapore?**

Any cash proceeds from the maturity of any SRS investments/deposits will be retained in the SRS account. You may withdraw your SRS monies anytime. You may also continue to operate your SRS account after leaving Singapore.

As for the taxability of the SRS withdrawals, all withdrawals are generally taxable. In addition, all withdrawals made before the retirement age (currently 62) attract a 5% penalty.

As a concession, the 5% penalty is waived for foreigners who withdraw their SRS monies entirely in one lump sum after maintaining their SRS accounts for at least 10 years. The SRS operators will be withholding tax (and the 5% penalty if applicable) on withdrawals made by non-Singaporeans.

**44. I am a Singapore PR now. If I cancel my PR status before I reach the statutory retirement age, when can I withdraw my SRS funds without penalty?**

Currently all SRS account holders, regardless of their nationality, can withdraw their SRS monies penalty-free if they:

- a) have reached the statutory retirement age prevailing at their first contribution; or
- b) are physically or mentally incapacitated from ever continuing in any employment, are found to be of unsound mind or are suffering from a terminal illness or disease.

Only 50% of the withdrawal is subject to tax under the above circumstances.

Once you have cancelled your PR status (and have not applied for Singapore citizenship), you would qualify for an additional concession (penalty free withdrawal). This concession is available to foreigners who withdraw their SRS monies entirely in one withdrawal transaction. The conditions for this concession are as follows:

- i) you have been a non-Singaporean for a continuous period of 10 years preceding the date of withdrawal; and
- ii) ii) you have maintained your SRS account for a period of not less than 10 years from the date of your first contribution to your SRS account.

Similarly, only 50% of the withdrawal is subject to tax.

**45. Would the authorities consider waiving the tax on withdrawal completely and raising penalties for early withdrawal instead? This may encourage even non-taxpayers, who already do not benefit from tax deductions, to make SRS contributions.**

People who do not pay tax today (i.e. the lower income earners) are unlikely to pay tax on their SRS withdrawals. This is because of the significant effective tax exemption on much of their SRS withdrawals, as elaborated below.

With effect from Year of Assessment 2003, all taxpayers are not subject to tax on their first \$20,000 of income (zero tax rate income band). Retirees not only enjoy this tax exemption for their SRS withdrawals, they also enjoy a further 50% tax concession on their SRS withdrawals, that is, only 50% of SRS withdrawal is subject to tax. The result is that a retiree is taxed only on the amount of SRS withdrawals exceeding \$40,000, (assuming that he has no other sources of income).

To illustrate, consider a retiree making an SRS withdrawal of \$50,000. As a result of the 50% tax concession, only \$25,000 is subject to tax. However due to the zero tax rate for the first \$20,000 of income, the retiree is actually subject to tax on only \$5,000 of SRS withdrawal. Non-taxpayers should therefore not be deterred from making SRS contributions by the tax on withdrawals. Over a 10 year withdrawal period, a retiree can withdraw \$400,000 from SRS tax free (assuming that there is no further change to marginal tax rates).

- 46. If a foreigner who has held her SRS account for 7 years is leaving Singapore, can she opt to leave the account alone for 3 more years, so as to take advantage of the 50% tax deduction benefit and also get around the withdrawal penalty?**

Yes, she may; she would enjoy the 50% tax deduction benefit if she withdraws all funds in her SRS account at least 10 years after the date of her first SRS contribution. Please note that she should also have been a foreigner for at least 10 years since her first SRS contribution, to qualify for this benefit.

### ***INVESTING SRS FUNDS***

- 47. What investment instruments can I purchase using my SRS funds?**

You may invest in a wide range of financial assets, including those offered by financial institutions (product providers) other than your SRS Operator. Your product providers will be able to provide information on the products that they are offering for SRS. However, direct property investments are not allowed. As for life insurance products, the following conditions shall apply:

- Only single premium products are allowed (including recurrent single premium products, encompassing both annuity and non-annuity plans).
- Life cover (including total and permanent disability benefits) will be capped at 3 times the single premium.
- Plans can allow for a contribution continuation feature/benefit upon disability.
- Other types of life insurance e.g. critical illness, health and long-term care are excluded.

You should note that investment choices are made on a caveat emptor basis.

- 48. When can I sell the investments bought using my SRS funds?**

Anytime.

- 49. Does the use of SRS funds for investment constitute a withdrawal from the account?**

No.

- 50. Must all proceeds from the sale of my SRS investment instruments be returned to my SRS account?**

Yes.

**51. Is there a guaranteed rate of return on the investments I make with my SRS funds?**

No.

**52. Is there any interest paid on the balance in the SRS account, and if yes, what is the interest rate?**

The interest rate on funds in SRS accounts are set by the market. Each SRS operator decides on the interest, if any that it pays on funds in the SRS account. You may wish to approach the SRS operators for further information as they would be better placed to advise you.

**53. What happens if the SRS operator or the financial institution where I make my SRS investments goes bankrupt? Can I still get back my money since it is meant for my retirement?**

Savings and investment products, including SRS, placed with financial institutions are not guaranteed against losses in the event of the financial institution's bankruptcy. When placing their monies with any financial institution, investors should assess and monitor for themselves the financial soundness of that institution.

**54. What investment products can I purchase within SRS? Is there a list of approved SRS investment products?**

The Government has few restrictions on SRS investments with the exception of direct property investments and certain insurance products. You should be able to make a wide variety of investments, including share, insurance, bond, unit trust and fixed deposit. We currently do not maintain a list of financial institutions offering products under SRS (this is a commercial decision). We suggest that you seek advice from the SRS operators and the financial institutions which you are interested in purchasing products from.

**55. Why is it that I cannot use my SRS funds to purchase the investment product I want? The range of investment products in SRS is limited.**

While the Government prescribes few restrictions on the range of possible SRS investments (other than those on certain insurance products and property investments), SRS operators and other financial institutions generally decide the SRS products that they wish to offer based on commercial considerations.

**56. Are ETFs (Exchange Traded Funds) which are traded in Singapore Stock Exchange eligible SRS investments?**

The Government does not have any restriction on the use of SRS money for the purchase of Exchange Traded Funds (ETFs) listed on the Singapore Stock Exchange. You may wish to make some enquiries with your SRS operator on the possibility of using your SRS funds to purchase ETFs.

**57. Are dividends received from unit trusts purchased with SRS funds taxable?**

One-tier exempt dividends and distributions from unit trusts purchased with SRS funds and deposited into the SRS account are not taxed when they are credited into the SRS account. However, tax will be imposed on the amount subsequently withdrawn from the SRS account.

**58. Can I use the SRS funds to exercise the stock options issued by my company?**

The Government does not restrict the exercise of stock options within SRS, provided that the following conditions are met:

- i) The monies used to exercise the stock options must come from the SRS account;
- ii) The shares from the exercise of the stock options must be retained within the SRS account;
- iii) The shares from the exercise of the stock options must be listed shares; and
- iv) The proceeds from the sale of the shares (from the exercise of the stock options) must be returned to the SRS account.

The conditions listed above are also applicable for most other investments.

However, the SRS operators may not facilitate the exercise of stock options with SRS monies. This is a commercial decision. We advise that you approach your SRS operator for more information.

**59. Can I surrender my annuity policy after my SRS account is deemed closed at age 72, i.e. 10 years from the date of the prevailing retirement age?**

An SRS member is not allowed to surrender the policy after the SRS account has been closed or deemed closed.

**60. Must the investment mature when one reaches the prescribed retirement age, i.e. currently at age 62, or can it mature anytime within the 10-year withdrawal period starting from age 62? E.g. can an investor purchase a single-premium endowment plan maturing at age 62, another maturing at age 63, and so on until age 71?**

The investment may mature anytime within the 10-year withdrawal period. An investor may purchase a single-premium endowment plan maturing at age 62, another maturing at age 63, etc.

**61. Can a customer purchase a single premium endowment policy that matures at age 65 under SRS? What happens to the cash proceeds upon maturity?**

An SRS account holder may purchase a single premium endowment policy that matures when he/she reaches the age of 65. The cash proceeds upon the maturity of any investment (including a single premium endowment policy) would generally have to be returned to the SRS account.

**62. How long will it take before I can utilize my money in the SRS account for investment after I have contributed it to my SRS account?**

You should generally be able to utilise your SRS monies for investment once your SRS operator has confirmed the receipt of the monies (for example after it has cleared your cheque) and credited the monies to your SRS account. You may wish to check with your SRS operator on the actual time lag between making a contribution and being able to make an SRS investment.

**63. Can I do a direct purchase of equities on the Singapore Stock Exchange or any other exchange in the world?**

The Government does not prohibit a person from purchasing shares listed in Singapore or any other countries. However, while an SRS operator would facilitate the purchase of a share listed in Singapore, it might not offer the option of purchasing (with SRS monies) a share listed in a foreign exchange. We advise that you consult your SRS operator, if you wish to purchase a share listed on a foreign exchange.

**64. If I make an SRS contribution and use the full sum to buy unit trusts over the years, am I allowed to start withdrawing from my SRS account without selling any of the unit trusts? Is it mandatory for me to sell my unit trusts and the sales proceeds put back to the SRS account before I can withdraw them?**

As only cash withdrawals are allowed under SRS, the unit trusts have to be sold and the proceeds returned to your SRS account before you may make your SRS withdrawal at the age of 62.

**65. If I buy an annuity using my SRS funds, will the monthly annuity payouts be paid into my SRS account after I have reached 62 years of age, or can they be paid into my bank account directly? Will I be taxed only on 50% of the total annuity payouts for each year for 10 years (that is, until I am 72 years old)? If I live longer than that, will my monthly annuity payouts be no longer taxable under the SRS scheme?**

If your SRS account is still open after you have reached 62 years old, your monthly annuity payouts must be returned to the SRS account before you withdraw them. If your SRS account is closed after you have reached 62 years old, your monthly annuity payouts may be paid into your bank account direct. After reaching the prevailing statutory retirement age at the point of first SRS contribution, an SRS member is taxed on only 50% of the total annuity payouts each year, perpetually.



## ***CLAIMING TAX RELIEF***

### **66. When can I get a tax relief on my SRS contributions?**

Tax relief will be granted in the year following the year of contribution provided that you are assessed as a tax resident. For example, you will get tax relief for contributions made in year 2001 and the tax relief will be given in Year of Assessment 2002, if you are regarded as a tax resident in Year of Assessment 2002.

### **67. How do I make a claim for the tax relief that I am entitled to because of my SRS contributions?**

You do not need to make a claim in your annual income tax return. IRAS will grant the tax relief to you automatically, based on information provided by the SRS operators. To open an SRS account, you will need to authorise your SRS operator to provide this information to IRAS.

### **68. I am a foreigner who is leaving the country in the middle of the year. How do I claim SRS tax relief when seeking tax clearance before leaving the country?**

You should obtain a statement of account specifically for the purpose of tax clearance from your SRS Operator. The IRAS will grant you the tax relief when you present such a statement.

## ***OTHER CLARIFICATIONS***

### **69. Can I use my SRS account balance as collateral, security or guarantee for any financial transaction?**

No.

### **70. Is my SRS account balance protected from creditors?**

No.

### **71. What is the criteria for Approved SRS fund Managers and how does a fund manager register itself as an approved manager?**

Any financial institution licensed by MAS may offer its products to SRS account holders. There is no additional registration process for SRS product providers. However product providers should clarify with the SRS operators the settlement procedures for SRS transactions.

We want to highlight that SRS product providers must generally 'tag' the product purchased with SRS funds. Specifically, an SRS product provider must comply with the following:

- It must return the cash from the liquidation of any product originally purchased with SRS fund to the SRS account (i.e. to the SRS operator) and not to the account holder directly.
- It should be prepared to supply any information relating to the SRS investments to the SRS operators (which they may need in fulfilling their reporting requirement prescribed by the authorities).
- All returns from the investments (distributions, dividend etc) must also be paid to the SRS account and not to the account holder directly.

**72. Can I nominate a beneficiary for my SRS funds?**

We do not have a provision in the SRS allowing for the nomination of a beneficiary of an SRS account. When an SRS account holder passes away, the SRS balances forms part of his estate and will be distributed according to his will or the law (if a will does not exist). There will be no 5% penalty on withdrawal and only 50% of the withdrawal will be subject to income tax. Please note that SRS operators may require the Grant of Probate or Letters of Administration to be produced by the executor or administrator of the estate to ensure that the assets in the SRS are distributed correctly.

**73. Can an SRS account holder transfer his balance in the SRS account to the CPF special account?**

An SRS account holder is not permitted to transfer his balance in the SRS account to the CPF special account. This is because the SRS and CPF are two different retirement schemes. Unlike the CPF scheme, which is a completely tax exempt scheme, the SRS scheme is a tax deferral scheme. SRS contributions qualify for a tax relief but 50% of the withdrawals made at or after retirement are taxable. Any transfer of balances out of the SRS account constitutes a taxable withdrawal.

CPF qualifies for more favourable tax treatment than SRS because CPF caters for basic retirement needs while SRS caters for supplementary retirement needs. Allowing the transfer of monies between the two schemes blur the distinction between the scheme and goes against the objective of having two schemes in the first place.

**74. Which income group is most likely to benefit from the SRS scheme?**

Any non-SRS contributor who currently pays tax will enjoy tax savings in the following year if he or she starts making SRS contributions based on his or her preceding year's earned income.

**75. 50% of SRS withdrawal is taxable without distinguishing capital gains, income and contribution. Is the Government taxing capital gains with the introduction of SRS?**

SRS is a tax deferral scheme. Under a typical tax deferral scheme where a sum of money is not taxed upfront but instead taxed at a later time after netting off all subsequent capital gains and losses from investments, the individual will be no worse off than if the sum of money was taxed upfront and all subsequent capital gains were exempt from tax.

As an illustration, consider a person who has an earned income of \$10,000. Assume his marginal tax rate is 10%. He pays an income tax of \$1,000 and invests the balance of \$9,000. He makes a capital gain of 3% each year until he reaches the retirement age 10 years later. Assume his marginal tax rate remains at 10% at retirement. At the end of 10 years, he will have a total of \$12,095.

$$\text{Total} = (\$10,000 * 0.9) * 1.03 * 1.03 * \dots (\text{for 10 years}) = \$12,095$$

Next, consider another person with the same earned income of \$10,000 but who invests the sum under a tax deferral scheme. He does not pay income tax on \$10,000 and is able to invest the full \$10,000. He makes the same capital gain of 3% each year until he reaches the retirement age 10 years later. The capital gains accumulate tax-free in the account. At the end of 10 years, everything in the account is taxed at the same marginal tax rate of 10%. After paying tax, he will also have a total of \$12,095.

$$\text{Total} = \$10,000 * 1.03 * 1.03 * \dots (\text{for 10 years}) * 0.9 = \$12,095$$

In fact, under the SRS, the individual will be better off, as only 50% of the withdrawals will be taxed. The same person above will have a total of \$12,768 if he withdraws everything in the first year of retirement.

$$\begin{aligned} \text{Total} &= 0.5 * (\$10,000 * 1.03 * 1.03 * \dots (\text{for 10 years})) \\ &\quad + 0.5 * (\$10,000 * 1.03 * 1.03 * \dots (\text{for 10 years})) * 0.9 \\ &= \$12,768 \end{aligned}$$

He will have even more if he spreads his SRS withdrawals over a period of 10 years (or more if the statutory retirement age increases), which is allowed under the SRS.

**76. Why is the tax treatment of SRS withdrawals not changed even though locally-sourced investment income is now exempted from tax?**

The current tax treatment of SRS withdrawals is already attractive. Only 50% of SRS withdrawals at/after retirement age are taxed. With careful planning, a retiree who is likely to have a low marginal tax rate, may end up paying little or no tax on his SRS withdrawals.

**77. If I have already contributed an amount equal to my SRS contribution cap, but still do not have sufficient cash in my SRS account to exercise my rights entitlement in**

**respect of shares bought using my SRS funds previously, can I make an additional contribution to meet the shortfall?**

No. You may however sell your rights entitlements or sell some other investments in your SRS account to exercise your rights entitlements

**If you have further queries, you may refer them to your SRS operator, or contact us via the following:**

<b>Ministry of Finance website</b>	: <a href="http://www.mof.gov.sg">http://www.mof.gov.sg</a>
<b>Ministry of Finance SRS website</b>	: <a href="http://www.mof.gov.sg/taxation/srs.html">http://www.mof.gov.sg/taxation/srs.html</a>
<b>IRAS website</b>	: <a href="http://www.iras.gov.sg">http://www.iras.gov.sg</a>
<b>IRAS Enquiry Telephone Number :</b>	1800-356-8300