



# Lump Sum Payments

Tax treatment of lump sum payments given to employees including death gratuities, gratuities for X years of service, retrenchment payments and retirement benefits.

## Tax Treatment of Lump Sum Payments (Summary Table)

Nature		Taxable/ Not taxable
1	Death gratuities/ injuries or disability payments/ Workmen compensation	Not taxable
2	Gratuity paid for completing "x" years of service	Taxable  Report the gratuity in the year which the employee completes the "x" years of service and is eligible for payment
3	Payment made to a potential employee to induce him to join the company.  Sum may be a negotiated sum, or based on the notice-in-lieu that he has to pay his existing employer to leave the company without service notice, etc	Taxable
4	Retrenchment payment made to compensate for loss of employment	Not taxable  See <a href="#">Retrenchment Payment</a> (below).
5	Retirement benefits	Taxable unless they are received from the following tax exempt pension schemes/funds:  1. Government pension schemes under any written law relating to pensions in Singapore (including the Pension Act, Singapore Armed Forces Act and Parliamentary Act).  2. CPF/designated funds.  For approved pension and provident funds, the retirement benefits accrued from such funds up to <b>31 Dec 1992</b> will be tax-exempt when they are paid out on the date of retirement based on the statutory retirement age.  See <a href="#">Retirement Benefits</a> (below).
6	Payment made to employee for entering into covenant which restricts employee's rights	Not taxable

Nature		Taxable/ Not taxable
7	Salary in lieu of notice/notice pay paid by employer to employee to compensate for early termination	Taxable

## Retrenchment Payment

Severance payments that are made to compensate for the loss of employment are **not taxable** to the retrenched employee because they are capital receipts.

This applies even if the payments to compensate for the loss of the employment are provided for in the contract of service or collective agreement, or are computed based on the number of years of service with the employer.

However, other payments such as salary in-lieu of notice, ex-gratia and gratuity for past services are not payments for loss of office. They are payments for services and are therefore taxable.

## Outplacement Support

The type of outplacement support may vary from one company to another. Generally outplacement support may include providing counselling and moral support to affected employees and to assist them in their search for jobs.

Outplacement support that arises from a retrenchment exercise is not taxable when the following conditions are met:

1. The outplacement support is provided as part of a retrenchment package to compensate for loss of employment and is only available to employees who are retrenched;
2. The only expense incurred by the employer to provide the outplacement support is the fees paid to the outplacement agents or cost incurred to provide other forms of outplacement support, whichever the case may be; and
3. Any employee who is eligible for outplacement support but chooses not to accept it is not entitled to any other compensation in lieu, whether in cash or otherwise.

## Retrenchment Exercises

If the company is undertaking a retrenchment exercise, it should check with IRAS on the taxability of the payments once the retrenchment package has been finalised. Please provide the details in the [lump sum payment template](#) (XLS, 34KB) and send an email to [taxqueries@iras.gov.sg](mailto:taxqueries@iras.gov.sg).

IRAS will confirm the taxability of each component. With this confirmation, the employer needs to declare only the **taxable items** in the annual Form IR8A.

### Employers who are not participating in the Auto-Inclusion Scheme for Employment Income

Please complete 'item d4' of the Form IR8A by providing the breakdown of the retrenchment benefit package, reason and basis of arriving at the payment.

### Employers who are participating in the Auto-Inclusion Scheme for Employment Income

Please complete 'item d4(i)' and 'item d4(ii)' of the Form IR8E by providing the taxable amount and the amount for compensation for loss of office respectively. State the date of approval if clarification has been sought from IRAS on the taxability of the retrenchment benefit components.

For details on tax clearance for foreign employees, please refer to [Tax Clearance](#).

## Retirement Benefits

All benefits paid out of the approved funds to the employees upon retirement are taxable at the time of receipt. However, the amount accrued from such funds up to 31 Dec 1992 remains tax-exempt.

The tax exemption will apply when they are paid out on the date of retirement based on the statutory retirement age. Any amount paid before retirement will not be eligible for tax exemption.

### Deductions for Contributions to Pension/Provident Funds

For employers with the approved pension and provident funds, they will be allowed a deduction of the contributions made from 1 Jan 1993.

Existing employees who are required under the present rules of the approved funds to make contributions will be allowed a deduction of their contributions.

### Setting Up Approved Pension or Provident Funds

Employers who wish to set up approved pension or provident funds under Section 5 of the Income Tax Act as a means to retain staff may apply to the Comptroller of Income Tax for approval with details of their proposed funds.

### Computing Tax Exempt Retirement Benefits

For pension and provident funds or plans approved under Section 5 or Section13(1)(x) of the Income Tax Act, you can compute the amount of tax-exempt retirement benefits accrued up to 31 Dec 1992 as follows:

1. Where the fund or plan provides for contributions to be made based on actuarial or other acceptable basis to enable a level of defined benefits to be paid, use the last drawn salary on the date of retirement; and
2. Where the fund or plan provides for contributions to be made to the individual accounts of the employees, the balance amount in the account as at 31 Dec 1992 plus interest accrued at CPF interest rates until the date of retirement.

### Conversion to Pension for Life or Paid Over a Period of Time

You can convert the taxable portion of the retirement benefits payable to an employee under the approved pension/provident fund into a pension for life or paid over a period of 5 years. Earned income relief will be allowed.

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