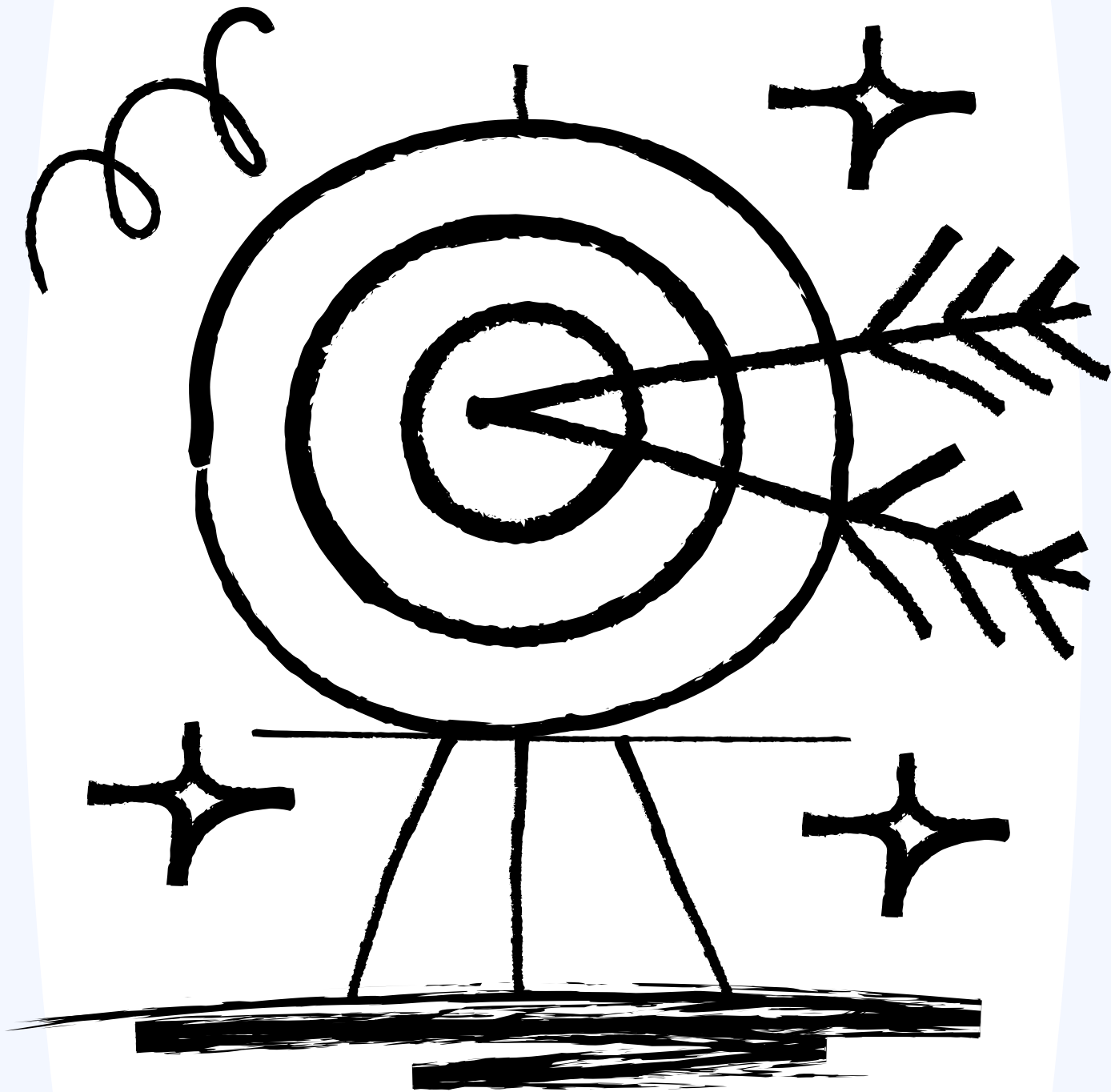


A guide to payroll in Singapore



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Disclaimer

The information provided in this knowledge base article is informative and general in nature and is not intended to be given as professional advice. Whilst the information set out in this article is to the best of our knowledge correct at the time of writing (12 April 2022), employment law is an ever-changing subject. If you are unsure about how this information applies to your specific situation, we recommend you seek personalised advice from an employment lawyer or visit [mom.gov](https://www.mom.gov) for more information.

Foreword

I often get asked why I started Employment Hero and it always comes back to being passionate about our mission – I want to help make employment easier and more valuable for everyone.

During my early career as an employment lawyer, I learned a few fundamental truths; no one starts a business to be an employer, and many new business owners have a steep learning curve in managing the responsibilities of employment and payroll legislation.

Payroll regulations are incredibly complex, and the reality is if you're an employer and you get it wrong, there can be disastrous implications. As a lawyer, I saw this happen time and time again. I was sick of seeing hard-working small businesses lose everything just because they didn't know any better. With SMEs making up [99% of businesses](#) in Singapore, they're the backbone of the economy and yet are often left to figure things out by themselves.

With so much growth underway in the economy, plus a rapid rush to retain and recruit employees during the [Great Resignation](#), there's never been a more important time for Singaporean businesses to make sure they're paying their employees compliantly.

We want to empower you to feel confident when it comes to paying your team in accordance with current legislation. Hopefully this guide will do just that.

Cheers,

Ben Thompson



**CEO & Co-Founder
of Employment Hero**

Let's go back to basics. What is payroll and how does it work in Singapore?

Payroll refers to the people who work at a company and the amount of money they are entitled to be paid for the work they have completed. In Singapore, salary payments, deductions and variable wages are governed by [The Employment Act](#). Monthly tax obligations are not withheld by the employer, but there are important levies, deductions and contributions to be aware of.

Whether you employ one person, or one hundred people, the same rule applies to all businesses when it comes to payroll – **be compliant or face strict penalties**. However, when you're a small or medium-sized business, you most likely don't have the luxury of having in-house or external professionals helping you manage your payroll function. Let's uncover the essential information for payroll, and the tools that can help you streamline this complex process.

What is The Employment Act?

The Employment Act is Singapore's primary piece of payroll legislation, and governs most of the country's laws relating to paying employees. All employees working under a [contract of service](#) are covered by the Act, and it applies to;

- Local and foreign employees
- People employed on a full-time, part-time, temporary or contract basis
- People who are paid hourly, daily, monthly or piece rate (they are employed based on volume of work or tasks completed)

It does not cover people employed as seafarers, domestic workers, statutory board employees or civil servants.



Salary and Payments

Apart from a few exceptional circumstances, under the Employment Act, an employer must pay their staff members a [salary](#) at least once a month. This payment must be made within 7 days after the end of the salary period.

In alignment with the Act, the term salary refers to any remuneration, including allowances, paid for work completed under a contract of service.

Items that are **not** included in a salary include;

- The value of accommodations, utilities or other amenities,
- Pension or provident fund contribution paid by the employer,
- Travelling allowances,
- Payments for expenses incurred during work,
- Gratuity payable on discharge or retirement, and;
- Retrenchment benefits.

In Singapore, salaries can be paid [monthly or daily](#).

→ **Daily wages** are calculated using either the gross rate (for paid public holidays, paid leave, salary in lieu and salary deductions) or the basic rate (for work on rest days or public holidays).

→ **Monthly wages** are calculated as the month's portion of the employee's annual salary.

Learn more about what makes up daily and monthly wages, and how they are calculated, [here](#). Learn more about overtime pay and hours of work [here](#).

When it comes to the [payment of a salary](#), it must be paid on a working day during working hours, at the workplace or another place that both the employer and employee have agreed upon.

Payment can be made by an employer directly into an employee's bank account or via cheque. The payment is not considered complete until the cheque has been cleared.

Does payroll tax apply?

Unlike some other countries, employers do not withhold payroll tax for employees in Singapore. The employee is responsible for their own annual income tax declaration, which is paid directly to the local tax authority, the Inland Revenue Department (IRD).

What are common salary deductions?

There are some very specific rules outlined in the Employment Act around what [deductions](#) employers can make from an employee's salary.

An employer may be required to deduct an employee's salary by court order, or other valid authority. This also may occur if the employer is declared an agent for the recovery of income tax, property tax or goods and services tax (GST) payable by the employee.

An employer must receive approval from the Commissioner for Labour before making salary deductions. It's also important to be aware that these deductions should never exceed 25% of an employee's salary for the month. Allowable reasons for salary deductions include;

- Absence from work
- Damage or loss of money or goods
- Supplying accommodation, amenities or services
- Recovering advances, loans, overpaid salary or unearned employee benefits
- CPF contributions
- Payments to a registered co-operative society

Conditions and rules apply to each of these deduction categories, [find more information here](#). For employees who aren't covered by the Employment Act, the employer must advise the [Ministry of Manpower](#) before they make any deductions.

Public holidays and payroll

Employees on a full-time salary receive paid public holidays, which is factored into their total salary package.

Employees who are paid part-time salaries are entitled to paid public holidays, which are pro-rated based on their hours worked. To calculate these pro-rated earnings, [visit this web page](#). On this page you can also find information about the process of encashing public holiday pay; adding it to an hourly gross rate of pay.

What is the Central Provident Fund (CPF)?

The Central Provident Fund, commonly known as CPF, is a government-run social security fund that supports retirement, healthcare and housing. It is funded by contributions from employers and employees.

What are CPF contributions?

Payments to CPF are known as [CPF contributions](#). It is mandatory to pay CPF contributions for an employee if they are earning over SGD\$50 a month in wages. Contributions are paid by both the employee and employer. If an employee earns over SGD\$50 but less than SGD\$500, only the employer pays the CPF contribution.

It is the role of the employer to pay both the employer and the employee's contributions to the CPF. The contribution rate depends on whether your employee is a Singaporean Citizen or Singaporean Permanent Resident, their age and their total monthly wages. You do not have to pay CPF contributions for foreign workers (instead you pay the Foreign Worker Levy, detailed below).

The current rates (as a percentage of salary) by age can be found on the [CPF website here](#).

The CPF's website also has a resource hub with specific guidance for employees getting started with contributions. Learn more about your [obligations](#) and find helpful [tools and services](#).

Other Employer Contributions

Now that we've covered CPF contributions, what other contributions do you need to be aware of?

Foreign Worker Levy

The [Foreign Worker Levy](#), also known as the FWL or simply as 'Levy', is defined by the government as *"a pricing mechanism to regulate the number of foreigners in Singapore."*

A business must pay the monthly levy for every worker on a Work Permit or Temporary Work Permit. The amount you pay generally depends on the worker's qualifications and how many workers on a Work Permit or S Pass that you have hired. Rates also vary from sector to sector.

You can find additional information and instruction for employers around the FWL on the [CPF website here](#).

Skill Development Levy

The [Skill Development Levy](#), or SDL, is another compulsory contribution – but this one applies to all of your staff, regardless of whether they are a Singaporean Citizen, Singaporean Permanent Resident or foreign worker.

The funds contributed are delivered into the Skills Development Fund which, according to CPF, *"is used to support workforce upgrading programmes and to provide training grants to you when you send your employees for training under the National Continuing Education Training system."*

The levy to be paid for each employee is set at 0.25% of the monthly total wages, with [minimum and maximum](#) amounts applicable. The employer calculates the cumulative SDL for all employees, before rounding down the total amount to the nearest dollar.

You can find additional information and instruction for employers around the SDL on the [CPF website here](#).

Self Help Groups contributions

Self Help Group funds (SHGs) support low income groups and the less privileged in different communities in Singapore. The contribution amount would be deducted from an employee's wages, and paid to the CPF Board by the employer, on behalf of the employee.

Which SHG an employee's contribution is paid into depends on their race and religion. Rates depend on an employee's salary.

You can find additional information and instruction for employers around the SHG contributions on the [CPF website here](#).

SHARE donations

Unlike the other contributions mentioned here, SHARE donations are not mandatory contributions. SHARE donations are deducted from the employee's wages, and collected by the CPF board on behalf of the Community Chest.

Community Chest finances a variety of programs including those designed for at-risk youth, mental health sufferers, adults with disabilities and more.

You can find additional support and instructions for employers around SHARE donations on the CPF website here.



Quinn's Hero Tip

With so many contributions on the table, an easy calculating tool is an absolute must. Employment Hero Payroll can automate this complex task, learn more on page 18.

Yearly Reporting

In relation to each Basis Period (1 January – 31 December), employers must lodge their employee's income with the Inland Revenue Authority of Singapore (IRAS) and issue IR8A forms to their employees by 1 March each year.

IR8A Forms

IR8A forms inform the IRAS of your employees' total income over the previous year. This mandatory form must be completed for all of your employees, regardless of their employment type or role (including company directors and board members). It applies to non-resident employees, pensioners and employees who have left your organisation but were in receipt of income. You can learn more about the IR8A forms, and others, on the [IRAS website](#).

Other reports you are required to complete include;

- **Additional IR8A forms such as appendix 8A, appendix 8B and IR8S forms:** If an employee has received benefits in kind, made any gains/profits from employee share plans, or if there were voluntary employer CPF contributions made.
- **Benefits in Kind report:** Gives an indication of which employees should have an Appendix 8A form produced at the end of the basis period.
- **Employee Share Plans report:** Gives an indication of which employees should have an Appendix 8B form produced at the end of the basis period.
- **Excess CPF contributions report:** Gives an indication of which employees should have an IR8S form produced at the end of the basis period.



Payslips and Pay Records

Providing [itemised payslips](#) is another mandatory requirement of payroll in Singapore.

Every employee covered by the Employment Act must receive one each time they are paid. If you are unable to issue the payslip together with the payment, your employee must receive it within three working days of receiving their salary. The format of the payslip can be a soft (online) or hard (paper) copy, and handwritten payslips are also acceptable.

Below are the following requirements for inclusion in an employee payslip, as specified on the [Ministry of Manpower's 'Itemised Payslips' web page](#). The government has also supplied a [blank payslip form](#) that employers can use as a reference.

- Payslip Details**
- ☐ Full name of employer
 - ☐ Full name of employee
 - ☐ Date of payment (or dates, if the pay slips consolidates multiple payments)
- Basic salary**
- For hourly, daily or piece-rated workers, you must indicate:
- ☐ Basic rate of pay, e.g. \$X per hour
 - ☐ Total number of hours or days worked or pieces produced
 - ☐ Start and end date of salary period
- Allowances paid for salary period, such as:
- ☐ All fixed allowances, e.g. transport
 - ☐ All ad-hoc allowances, e.g. one-off uniform allowance

- Any other additional payment for the salary period, such as:
- ☐ Bonuses
 - ☐ Rest day pay
 - ☐ Public holiday pay
- Deductions made for each salary period, such as:
- ☐ All fixed deductions (e.g. employee's CPF contribution)
 - ☐ All ad-hoc deductions (e.g. deductions for no-pay leave, absence from work)
 - ☐ Overtime hours worked
 - ☐ Overtime pay
 - ☐ Start and end date of overtime payment period (if different from item 5 start and end date of salary period)
 - ☐ Net salary paid in total

What payroll records do I need to keep?

Employers must keep a record of all payslips that have been supplied to staff.

For current employees, records must be kept for the previous two years. For employees who have left the business, records must be kept for the prior two years of employment, and continue to be kept until one year after they have departed.



Quinn's Hero Tip

Drop that pen! Handwritten payslips leave you more at-risk to human error, and cost you valuable time in filing. Employment Hero's automated payslips generate details from within your payroll system, helping you pay your staff correctly - every time. Read more on page 18.



When can non-compliance occur?

The payroll system in Singapore is incredibly complex. With different calculations, employment types, levies and legal jargon to be conscious of, it's no surprise that businesses can get it wrong from time to time.

Regardless of why non-compliance occurs, penalties are severe. Those who do not comply with the Employment Act, consciously or not, can face fines or even imprisonment in extreme cases. Here are some common reasons why non-compliance occurs in small businesses.

A gap in payroll knowledge

Many small businesses aren't qualified payroll professionals, however they choose to process payroll themselves without help or advice from professionals. Knowing the ins-and-outs of paying your employees is a complex task, and this is where we see employers accidentally doing the wrong thing.

At the end of the day, no one starts a business to become an employer. For many, it's something that naturally happens, so how are you supposed to know the complexities of payroll tax and compliance when you bring your first employee on board? How do you know which levies apply to which team member and accurately calculate deductions with no prior experience?

Using payroll software with built-in compliant rules can help support you through this learning process, in addition to streamlining your payroll operations for the long term. It's also a good idea to seek expert advice from an employment law expert when you are setting up your business for employment.

Inadequate record keeping

Still using old school pieces of paper to log your employees' payroll documentation? As it's so easy for paper to be misplaced or incorrectly filed, this could leave you open to liability if you were to be audited.

In today's digital age, record keeping is easy. With so many software options available to help manage payroll, payslips, timesheets and your employees' time and attendance, there's no excuse for not having the correct records of your employees.

As we mentioned in the last section, keeping a record of payslips is essential. Employers are also required to keep employee records. Make it simple for yourself and your team by introducing a digital solution.

Incorrect set up of your payroll system

Setting up your payroll system correctly from day one is the most crucial part of your payroll process. If you get this wrong from the very beginning without realising, this can spell disaster years down the track when the error comes to fruition.

And it's not just calculating the correct pay rate for your employees. There's a myriad of other areas that are crucial to get right – CPF contributions, levy payments, leave entitlements, allowances and a range of other elements.

Imagine if you've been paying a team of 50 employees \$2 under their correct CPF contributions for the last five years? Think about how much you'd be required to pay back, and the additional penalties that may apply.

When it comes to setting your payroll system, we can't stress how important it is to seek professional advice and invest in payroll software that can help you streamline your processes.

What is payroll software?

We've mentioned payroll software several times throughout this guide, but what exactly is it? How can it help you stay compliant and what functions does it have to streamline your payroll operations?

Fully integrated with the IRAS, pay your people faster than ever with automated payroll from Employment Hero. Instantly calculate contributions, generate accurate data and take care of workforce planning – all in one central place. Here are just a few of the helpful features on the platform.

Automated payroll

In a few simple clicks, you can process, finalise and publish your payroll using the power of automation. Employment Hero Payroll can quickly make accurate calculations, including deductions and CPF contributions. Information appears for the administrator during the pay run, clearly displaying the calculations and giving you full transparency over the process.

Time and attendance

Keeping track of your employees' hours is important when you're running your business; especially if your team members are not on a full-time salary.

Payroll software can help with everything from dynamic rostering to cover peak business times, shift bidding, clocking in and out remotely using the app and much more. Easily approve timesheets and accurately process all time worked.

Record keeping and reports

When you use payroll software, digital records are instantly created for each employee's payslip. Never lose a payslip again, and quickly access documents in our easy-to-use system. This can help you cut down hours of admin, as you quickly locate essential documents.

When you use Employment Hero payroll, you can also lodge income data electronically and generate accurate reports every time with our powerful tools.

Staying up-to-date

Understanding and complying with the Employment Act can be one of the biggest challenges facing small to medium businesses, but that's where software can help.

Many payroll systems have calculations of pay rates and deductions built-in, so that you never have to manually generate this. Many providers also keep up to date with changes to legislation and automatically update when they're introduced.



Quinn's Hero Tip

Employment Hero can give you the compliance confidence you need. We're employment law and payroll experts who are obsessed with keeping up to date with the latest legislation, and we're trusted by over 750 users in Singapore.



Employment Hero is on a mission to make employment easier and more valuable.

Employment Hero Payroll automates your manual tasks, is Employment Act compliant and helps you manage your payroll and workforce planning in one easy-to-access place. With Employment Hero Payroll you'll have access to:

Our features include:

Dynamic rostering

Rostering templates

Automated reporting tools

Shift bidding

Budgeting rules

Work Engine rules

Clock in and out

Real time reporting

Automated reporting tools

Automated pay runs

End of year reports

And so much more...

If you want to find out more about how Employment Hero can help streamline your payroll process, [get in touch](#) with one of our small business specialists today.



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The smarter
way to manage
people, payroll
and productivity.
For SMEs with
big ambitions.

