

QUESTIONS AND ANSWERS ON VOLUNTARY MEDISAVE CONTRIBUTIONS BY COMPANIES TO SELF-EMPLOYED PERSONS

General

1. What conditions must be fulfilled for the voluntary Medisave contributions made by Companies to Self-Employed Persons (SEPs) to enjoy tax benefits?

Only qualifying voluntary Medisave contributions can enjoy tax benefits. To qualify, the contribution must meet the following conditions:

- (a) it is made to the Medisave Account of a SEP (Please refer to question 2 for definition);
- (b) it is made in cash by a Company; and
- (c) the Company and the SEP have entered into a qualifying contract which is in force on the date that contribution is made (Please refer to question 3).

2. How do you define a Self-Employed Person (SEP)?

A SEP is defined as any Singapore citizen or Singapore Permanent Resident who derives income from Singapore or from outside Singapore through any trade, business, profession or vocation excluding employment under a contract of service.

In other words, if you are making money by buying and selling goods, providing professional or personal services, you are a SEP.

Examples of SEPs include a sole-proprietor or a partner of a partnership business.

3. What is a qualifying contract between the Company and the Self-Employed Person (SEP)?

It is a contract between the Company and the SEP that provides for:

- (i) the rental or loan of an asset¹ by the Company to the SEP, for the SEP to carry on his trade, profession, business or vocation; or
- (ii) the provision of services by the SEP to the Company, where the SEP and Company are in the same trade, profession, business or vocation.

¹ Includes intangible assets e.g. intellectual property but does not include money.

4. How much can a Company contribute to the Self-Employed Person's Medisave Account in any calendar year?

A Company can make voluntary contributions to the Medisave Account of Self-Employed Persons up to the prevailing CPF Annual Limit, but there is a limit on the amount that can qualify for tax deduction. Please refer to question 5 on the tax deduction limit.

For more details on the voluntary contribution limit capped at the prevailing CPF Annual Limit, please visit CPF website at http://mycpf.cpf.gov.sg/CPF/News/News-Release/NR_23Nov2002.htm.

5. Is there a limit on the amount of qualifying voluntary Medisave contributions that are eligible for tax deduction?

Yes. The amount of qualifying voluntary Medisave contributions in any calendar year that are eligible for tax deduction cannot exceed \$1,500 per Self-Employed Person (SEP). If there is more than one company making contributions to an SEP's Medisave, the tax deduction limit of \$1,500 applies to the sum of the contributions made.

In addition, the qualifying voluntary Medisave contributions have to be within the CPF Annual Limit of the recipient and Medisave Contribution Ceiling prevailing at the time when the contribution is made.

Below is a worked example for the computation of tax benefits due to the Company and the SEP:

Tax benefits given for qualifying voluntary Medisave contributions by Companies A & B to Self-Employed Person

Status as at 1 Aug 2011	
Medisave Contribution Ceiling (MCC)	\$39,500 (assumed)
CPF Annual Limit (CPF AL) for 2011	\$27,158 (assumed)
Amount of tax-exempted MA contributions individual received during the calendar year to-date	\$0 <i>(within \$1,500 limit)</i>
MA balance	\$20,000 <i>(\$19,500 short of MCC)</i>
Sum of total mandatory and voluntary contributions made during the calendar year to-date	\$24,158 <i>(\$3,000 short of CPF AL)</i>
VC-MA contributions made by Company A on 1 Aug 2011	
Amount of VC-MA contributions by Company	\$750 <i>(within MCC and CPF AL)</i>
Remaining allowable tax-exempted MA contributions	\$750 <i>(= \$1,500 - \$750)</i>
Total MA balance	\$20,750

	(= \$20,000 + \$750)
VC-MA contributions made by self-employed person on 5 Aug 2011	
Amount of VC-MA contributions by self-employed person	\$1,000 (within MCC and CPF AL)
Total MA balance	\$21,750 (= \$20,750 + \$1,000)
VC-MA contributions made by Company B on 10 Aug 2011	
Amount of VC-MA contributions by Company	\$750 (within MCC and CPF AL)
As at 31 Dec 2011 (assuming no other voluntary contributions made)	
Sum of total mandatory and voluntary contributions received	\$28,158 (= \$24,158 + \$750 + \$1,000 + \$750 + additional \$1,500 MC)
Excess above CPF AL	\$1,000 (= \$28,158 - \$27,158 CPF AL)
Refund to self (without CPF interest or tax deduction)	\$1,000
Net amount of tax-exempted MA contributions received	\$1,500 (= \$750 + \$750)
Net amount of tax-deductible Company A's VC-MA contributions	\$750
Net amount of tax-deductible Company B's VC-MA contributions	\$750

6. Would a Self-Employed Person (SEP) be taxed on the qualifying voluntary Medisave contributions by his Company or Companies?

The SEP would not be taxed on amounts of such contributions that are within the limits mentioned in Question 5 above. However, any amount of such contributions in excess of the limits as mentioned in Question 5 will not qualify for tax exemption and may be taxable depending on the specific terms and conditions of the qualifying contract.

7. What happens if the total voluntary Medisave Contributions received by a Self-Employed Person (SEP) exceeds the CPF Annual Limit in a calendar year? How would the excess be refunded?

Where both the SEP and his Company have made voluntary Medisave contributions to the SEP's account in the same calendar year, any excess above the CPF Annual Limit up to the amount contributed by the SEP will be refunded to the SEP first, without interest or tax deduction. If there are remaining contributions still in excess of the CPF Annual Limit, the excess will be refunded to the Company.

8. As a Self-Employed Person, does my Company's voluntary contribution to my Medisave account affect how much I can contribute to my own account?

Yes. The voluntary contributions made by your Company will be considered as part of the total contributions made to your CPF accounts, which are subject to the prevailing CPF Annual Limit.

9. Do contributions made by Companies offset the Medisave liabilities of Self-Employed Person (SEP)?

Yes. The contributions made by Companies will be used to offset the Medisave liabilities of the SEP.

10. How will I know if my Company has contributed to my Medisave Account?

The contributions made by your Company will be reflected in your CPF 15-month Contribution History and Statement of Account. You may check your CPF statements by logging on to the CPF website using your SingPass.

11. As a Company, how do I make contributions to the Medisave Account of a Self Employed Person with whom I have a qualifying contract?

To qualify for tax deductions, the Company needs to submit a written declaration to CPF Board, before starting to make the contributions, indicating that they have met the qualifying conditions. More details on the procedures will be released later. For the qualifying conditions, please refer to question 1.

12. What are the requirements in filing tax returns if the Company wants to claim tax deduction for its qualifying voluntary Medisave contributions?

In filing the tax return on income, the company may claim in its tax computation the tax deduction on the amount of its qualifying voluntary Medisave contributions which does not exceed the limits. For details on the limits, please refer to question 5.

13. How can a Self-Employed Person (SEP) avail himself to the tax exemption on the qualifying voluntary Medisave contributions made by his Company?

If the amount of qualifying voluntary Medisave contributions the SEP has received in the preceding calendar year did not exceed the limits, he need not declare the amount received when he files his income tax return. IRAS will obtain such amounts from CPF Board directly. For details on the limits, please refer to question 5.

Concurrent Self-Employed and Employee

14. If I am concurrently a Self-Employed Person (SEP) and an employee, what is the maximum tax-exempt voluntary Medisave contributions I can enjoy?

The maximum tax-exempt voluntary Medisave contributions a CPF member can enjoy is \$1,500 per calendar year. This applies to all voluntary Medisave contributions you receive from your employer under the Additional Medisave Contribution Scheme (AMCS), and from the Company you work with as a SEP.

15. How would tax deduction be apportioned between Employer and Company of a member who is concurrently an Employee and a Self-Employed Person (SEP)?

The tax deduction of up to \$1,500 will be apportioned to the Employer and Company for contributions qualifying for tax deductions made to the member's Medisave account in the order in which their contributions were made.

Others

16. Why is the tax deduction given only to Companies and not other business entities?

As this is a new tax benefit, we will start with Companies which make qualifying voluntary Medisave contributions to the Self-Employed Persons (SEPs) who work with them. We will consider extending this tax benefit to other business entities who work with SEPs in future.