

Tax alert

Updated employer tax reporting requirements for retrenchment payments

The Inland Revenue Authority of Singapore (IRAS) has recently updated the reporting requirements for retrenchment payments, which will take effect from the Year of Assessment (YA) 2026 (calendar year 2025). Under the updated reporting requirements, employers can self-assess the taxability of retrenchment payment components and declare the taxable and non-taxable amounts in the employer's tax forms (i.e., Form IR8A or IR21).



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Background

Previously, if an employer is undertaking a retrenchment exercise, the employer is required to submit a prescribed lump sum payment template to the IRAS to seek an upfront confirmation on the taxability of the components of retrenchment payments.

Key developments

The IRAS has streamlined the process for reviewing retrenchment payments by removing the above requirement and employers can now self-assess the taxability of each component based on the guidance provided by the IRAS on their [website](#). However, the employer should provide documentation to the affected employees that lists the breakdown and taxability of each component made under a redundancy package. This self-assessment shall apply to retrenchment payments provided to both foreign and Singapore employees who have been involuntarily terminated during their Singapore employment. The applicable sections of Forms IR8A and IR21, which redundancy payments should be reported or disclosed have been updated as follows:

Annual tax reporting (IR8A) from YA 2026		
Employer type	What to declare	Form and section
Not in Auto-inclusion scheme	<ul style="list-style-type: none">Taxable amount under gratuity, notice pay or ex-gratia paymentNon-taxable amount under compensation for loss of office	Complete item d3 of Form IR8A
Under Auto-inclusion scheme	<ul style="list-style-type: none">Declare the taxable amount and the amount for compensation for loss of office respectively	Complete item d4(i) and item d4(ii) of the Form IR8E
Tax clearance reporting (IR21)		
All employers	<ul style="list-style-type: none">Taxable amount under gratuity or ex-gratia paymentNon-taxable amount under compensation for loss of office	Complete item 4c and item 4e of Form IR21

Impact on employers

Retrenchments payments made specifically for loss of office (employment) are generally non-taxable, where the components and the corresponding basis of computation do not relate to any compensation for past, present or future employment services or performance.

Whilst the IRAS no longer requires an upfront confirmation to be obtained on the taxability of the retrenchment payments, there remains a disclosure requirement of the non-taxable components in Forms IR8A and IR21. The IRAS retains the right to query on the detailed breakdown of the components of the retrenchment package. As redundancy payments could be of material quantum especially where the redundancy impacts senior employees, this could increase the risk of queries from the IRAS to satisfy themselves that such payments meet the conditions to be tax exempt. If the employer is unable to substantiate the basis for the reporting, the IRAS could reclassify the taxability of the item when raising the assessment.

With this update, it is opportune for employers to undertake the following recommended best practice:

- Any employees' communication or applicable clauses in retrenchment agreements, which detail the terms of retrenchment payments, should be reviewed and updated to ensure that the taxable and non-taxable components are segregated, and taxability stated clearly for the employee's knowledge and understanding.
- Internal redundancy policies should be updated similarly to clearly outline the taxability of each component. For components that are tax exempt, the basis of computation of the tax-exempt components should be documented. In addition, any circumstances or exceptions to deviate from the policy on how the redundancy payments should be computed or paid should also be identified and documented.
- If an employer deviates from existing policy on certain payments under the redundancy policy, and if clarity is needed to assess the taxability of the specific components of the redundancy payment, the employer should seek advice from their tax advisor for such situations.

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