
Singapore: Tightening of CPF compliance and enforcement of contributions

June 20, 2017

In brief

In 2016, a record high of S\$635.1 million was collected by the Central Provident Fund (CPF) Board from employers. This is an increase of S\$119 million as compared to 2015 (see [news release](#) from the CPF.) Over the years, the CPF Board has continuously strengthened its audit process to ensure timely and accurate payment of CPF contributions. This includes an automated system to detect late payments as well as conducting proactive audits on employers to ensure that the proper CPF contributions are made for their employees.

The enforcement efforts are targeted on high-risk industries and firms; investigations also occur based on complaints lodged by employees, ex-employees, and so forth. Given the current environment, employers should consider a fresh review of their CPF processes to avoid noncompliance penalties.

In detail

Common errors

The most common error by employers regarding CPF compliance is incorrect classification of employees' incentives payments as Ordinary Wage (OW) instead of Additional Wage (AW). The highest amount of CPF recovered from an employer in 2016 was due to this error, which resulted in an underpayment of the CPF contribution since the company mistakenly applied the monthly OW ceiling cap when computing the CPF contributions instead of the annual AW ceiling. This is in line with our present observation on the lack of

understanding on how CPF contributions should be made and thus resulting in incorrect classification of wages for CPF contribution purposes.

It is important for the employer to distinguish between OW and AW:

- OW are wages due or granted wholly and exclusively in respect of an employee's employment in that month; **and** wages must be payable before the due date for payment of CPF contributions for that month.
- AW are wages which are not granted wholly and exclusively for the month; or

wages made at intervals of more than a month.

There is no clear categorisation of OW versus AW. Whether a payment is an OW or AW will depend on the nature and whether it is due and payable to the employee before the due date for payment of CPF contributions for that month.

For example, an overtime payment could be treated as an OW if payable promptly before the due date for payment of CPF contributions for that month (i.e., usually the 14th of the following month) but correspondingly, be regarded as an AW if payable after the grace period that CPF contributions are due. From a CPF

perspective, employers should not underestimate the financial consequences that may result from the incorrect classification of wage for this purpose.

Other common errors:

- Benefits that attract CPF - for example gym reimbursement, certain benefits that form part of the flexible benefit scheme
- Foreigners who secure Singapore Permanent Resident status are subject to CPF

- Calculating the threshold of CPF incorrectly, for example for those employees who have reached the age of 55 and above.

The takeaway

The CPF Board, being the trustee for the contributors to the Fund, takes a serious view on employers who do not comply with CPF obligations especially since this is the primary source of retirement savings for contributing employees and many employees rely on their CPF savings for their retirement, healthcare, and housing needs. A significant portion of

the penalties collected are attributable to unpaid contributions which are credited back to the respective employees account upon settlement by employers.

We encourage employers to review their current positions regarding CPF and examine their level of compliance. We find in most instances, the gaps occur because employers lack a full understanding of the legislation and interpretation. A self-audit will open doors for voluntary declaration with the CPF Board and minimize penalty exposure and reputational damage.

Let's talk

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