

Update to Central Provident Fund ("CPF") treatment of employee benefits given via cash reimbursements - Effective 1 January 2020



Why this matters

Flexible benefit schemes are commonly used by employers to allow employees to claim reimbursement for a variety of staff benefits. However, operating such schemes may create additional complexity in respect of Central Provident Fund contributions.

Background

In general, CPF contributions are payable on wages which are paid to employees as reward for services rendered. Section 2(1) of the CPF Act defines wages as remuneration in money, including any bonus, due or granted to a person in respect of this employment. Wages include payments for employee's expenses which are not necessarily incurred on behalf of the employer (i.e. reimbursement of personal expenses). In contrast, cash reimbursements to employees for expenses incurred necessarily on behalf of the employer (i.e.

business expenses) are not regarded as wages for CPF purposes, provided that the reimbursement does not exceed actual expenditure.

Update

The CPF Board recently provided an update to the treatment of cash reimbursements made under employee/flexible benefits schemes which will take effect from 1 January 2020. Consequently, reimbursements for dental treatment for an employee's spouse and child will no longer attract CPF contributions while reimbursements to an employee for holiday related expenses will attract CPF, regardless of whether such reimbursement is attributable to the employee or his/her immediate family member.

Effective 1 January 2020, the CPF treatment of employee benefits via cash reimbursement is summarised below.

| Cash Reimbursements | Subject to CPF? | | |
|-----------------------------------|------------------|-------------------|------------------|
| | Employee | Employee's spouse | Employee's child |
| Medical treatment ^{2, 3} | No | No | No |
| Dental treatment ^{2, 3} | No | No ¹ | No ¹ |
| Holiday benefits | Yes ¹ | Yes | Yes |
| Other benefits ⁴ | Yes | Yes | Yes |

¹ Applicable with effect from 1 January 2020

² Expenses incurred locally or overseas (including medical tests such as blood tests, x-ray, etc.) must be deemed necessary by the registered doctors, dentists, Traditional Chinese Medicine ("TCM") practitioners.

³ Expenses incurred on health screenings or medical examinations that are not part of the medical treatment by the registered doctors, dentists, TCM practitioners (i.e. employees go for the health screening or medical examination on their own accord), will attract CPF contributions.

⁴ CPF contributions are payable on reimbursement of personal expenses (e.g. medical insurance, gym memberships, vision care, child care, elderly care fees, etc.)

Our Comments

This update is a welcome change as it provides greater clarity on the overall CPF treatment of select cash reimbursements under flexible benefit schemes and provides further consistency on the CPF treatment for reimbursement of personal expenses. This will ease the administrative burden on employers when undertaking CPF reporting.

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