

## FinancialQuotient

# What is withholding tax?

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### WHAT DOES IT MEAN?

The term “withholding tax” is often mistaken to be a type of tax to be collected by the government. It is in

fact a mechanism to collect income tax from non-tax residents.

Only certain payments attract withholding tax in Singapore. The common ones include interest and related payments in connection with a loan, royalties, know-how, techni-

cal services in connection with the application of knowledge, management services, rental of equipment and director’s remuneration.

It is applicable only if the payer is a Singapore resident or permanent establishment making payments of

a specific nature to a non-resident of Singapore.

The payer is obliged to act as an agent to collect tax by withholding a prescribed percentage of the gross amount and settling it with the tax authorities by the 15th of the second month following the date of payment. The applicable rates are 10 per cent, 15 per cent, 17 per cent or 22 per cent, depending on the nature of the payment.

### WHY IS IT IMPORTANT?

The payer has an obligation to withhold the right amount of taxes on

certain payments to non-residents. While the withholding tax burden rests on the recipient of the income, failure to withhold tax will expose the payer to late payment interest which can be as high as 20 per cent of the withholding tax payable.

In addition to late payment penalties, the payer may not be allowed to claim a tax deduction for the expense if the withholding tax remains unpaid, and the amount of withholding tax may also be recoverable from the payer instead.

Many companies either fail to withhold tax or withhold tax at the

wrong rates. As the stakes can be quite high when errors are made, companies should ascertain the applicability of withholding tax whenever they make payments to non-residents.

### IF YOU WANT TO USE THE TERM, JUST SAY:

Withholding tax is a mechanism aimed at collecting tax on certain payments from non-residents.

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