CHAPTER 1
FEATURES AND CHECKLISTS

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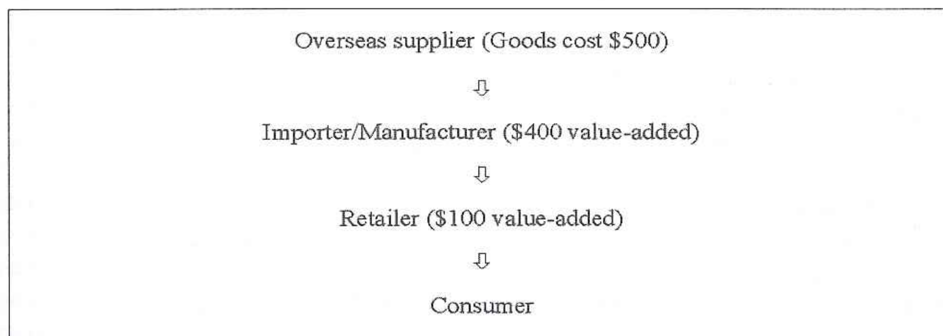
¶10 How GST is collected

Goods and services tax (GST) is a tax on the final consumer.

The GST credit system operates in all transactions leading to the supply to a final consumer, and, provided no member of the chain is exempt, partly exempt, or unregistered, no GST liability should "stick" in any business within the chain.

The GST credit mechanism and net tax remitted to the Inland Revenue Authority of Singapore (IRAS)

Goods that are standard-rated for Singapore GST purposes flow through a supply chain as follows:



The following illustrations show the GST credit mechanism at work in the supply chain and its impact on the net tax remitted to the IRAS under three common scenarios.

Scenario 1: Supply to local consumer — standard-rated

In this scenario, all Singapore suppliers in the chain are GST-registered and the goods are sold to a final consumer in Singapore. Notice that GST does not "stick" in any business within the chain but instead is borne by the consumer.

	Sale price to customer (ex-GST) ($)	*Purchase price* ($)	*GST collected on sale/ import @ 7%* ($)	*Input tax credit* ($)	*Net tax remitted to IRAS* ($)
Overseas supplier to importer/manufacturer	500	—	35*	—	35
Manufacturer to retailer	900	500	63	35	28
Retailer to consumer	1,000	900	70	63	7
Total tax (borne by the consumer)					70

* Collected by Singapore Customs at the time of importation. Although not illustrated above, the GST regulations also provide for GST relief for importers approved under the Major Exporter Scheme (MES) or other GST schemes.

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Scenario 2: Supply to overseas consumer — zero-rated

In this scenario, all Singapore suppliers in the chain are GST-registered. As the goods are eventually exported, the net tax remitted to the IRAS is nil.

	Sale price to customer (ex-GST) ($)	*Purchase price* ($)	*GST collected on sale/ import @ 7%* ($)	*Input tax credit* ($)	*Net tax remitted to IRAS* ($)
Overseas supplier to importer/manufacturer	500	—	35*	—	35
Manufacturer to retailer/ distributor	900	500	63	35	28
Retailer/distributor to overseas consumer	1,000	900	0**	63	(63)
Total tax					Nil

* Collected by Singapore Customs at the time of import. Although not illustrated above, the GST regulations also provide for GST relief for importers approved under the MES or other GST schemes.

** The supply is zero-rated.

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Scenario 3: Non GST-registered person in the supply chain

In this scenario, the manufacturer in the chain is not GST-registered and GST is not absorbed by the manufacturer. In comparison with the first scenario where all suppliers in the chain are GST-registered, note that because GST is "stuck" to the unregistered supplier, there is a cascading tax effect on subsequent parties in the chain. The consumer therefore bears a higher GST cost.

	Sale price to customer (ex-GST) ($)	*Purchase price* ($)	*GST collected on sale/ import @ 7%* ($)	*Input tax credit* ($)	*Net tax remitted to IRAS* ($)
Overseas supplier to importer/ manufacturer (which is a non-GST registered business)	500	—	35*	—	35
Manufacturer to retailer (GST not absorbed)	935	535	—	—	—
Retailer to consumer	1,035	935	72.45	—	72.45
Total tax (borne by the consumer)					107.45

* Collected by Singapore Customs at the time of import. Although not illustrated above, the GST regulations also provide for GST relief for importers approved under the MES or other GST schemes.

¶20 Items outside the scope of GST

Generally, transactions will be outside the scope of GST where:

- there has been, or the law deems that there has been, no supply. For example, there is no chargeable supply:
  - where services are supplied for no consideration (see ¶3-130)
  - where supplies take place within a bonded warehouse regime (see ¶21-190)
  - on intra group supplies (see ¶21-120)
  - on supplies of small gifts or industrial or commercial samples (see ¶3-192)
  - in certain cases where a business is sold as a going concern (see ¶21-160)
- the supply is made outside Singapore (see ¶3-270). Singapore GST is charged only on supplies made in Singapore. It is perfectly possible for a business which is established in Singapore to make a supply which, although taxed in Singapore for other purposes, is regarded as made outside Singapore for GST purposes and so does not attract Singapore GST. However, certain businesses involved in overseas transactions can voluntarily register for GST in order to claim input tax credits on their out-of-scope transactions
- the supply is made by a non-taxable person, ie a person who is not required to be registered for GST (for the compulsory registration thresholds, see ¶140)
- the supply is not made in the course or furtherance of any business, ie private transactions ("business" is discussed at ¶3-240). For example, wages and salaries are outside the scope of GST because an employee providing labour services to an employer is not conducting a business
- the supply is of "non-competitive" goods or services provided by the government, eg Certificates of Entitlement (see ¶21-100), and
- the supply was made prior to 1 April 1994 when GST took effect.

While the reverse charge provision in the *Goods and Services Tax Act* (see ¶15-100) is suspended, the importation of services will also be outside the scope of GST.

The following alphabetical lists contain some of the more common items which are not supplies and so are outside the scope of GST or are supplies the consideration for which is reduced by the law:

Alphabetical list: supplies made (payments received) outside the scope of GST

- Accommodation or catering provided by an employer to an employee within para 10 of the Third Schedule to the *Goods and Services Tax Act*.
- Bonded warehouses, now known as Zero GST (ZG) warehouses, where goods in the warehouses are disposed of before payment of duty (s 37 of the *Goods and Services Tax Act*).
- Brokerage charges on foreign shares (an IRAS concession effective from 1 July 1996, see ¶23-250).
- Cars sold second-hand under the discounted sale price scheme (para 14 of the Third Schedule to the *Goods and Services Tax Act*), and under the margin scheme.
- Ceasing to be a taxable person where the value of the deemed supply does not exceed $10,000 (para 7 of the Second Schedule to the *Goods and Services Tax Act*).
- Compensation payments, eg breaches of warranty, delays in completion of contracts and payments made under court or out-of-court settlements.

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- Commercial samples (see ¶3-192).
- Deposits paid and received are outside the scope of GST while they are still legally reclaimable, eg for security purposes. Forfeited and non-returnable deposits or cancellation charges are outside the scope of GST if there is no supply (if there is a supply of something, eg a right to acquire an item, then GST may be accountable). See *Nigel Mansell Sports Co Ltd* (1991) BVC 718; *Bass plc* (1991) BVC 665.
- Dilapidation, redecoration and repair charges at the end of a lease to the tenant by the landlord (there being no supply).
- Disbursements recharged if legally the responsibility of the invoicee and the supply is to that person (see ¶3-155).
- Dividends received (being a mere flow of funds) (interest is exempt from GST).
- Donations received — genuine donations of money to charities do not involve a taxable supply of goods or services, and are outside the scope of GST. But any payment which is in return for a supply of goods or services (including the granting, assignment or surrender of any right) is consideration for a supply and will not be accepted as a genuine donation, except membership subscriptions to a charitable organisation which secure no entitlement to any personal facility or advantage other than the right to participate in the charity's management and to receive formal reports of its activities.
- Drawings by a sole proprietor (being mere flows of funds).
- An employee's services supplied to an employer pursuant to a contract of employment.
- Gifts received (if the donor receives nothing in return) — see "Donations received".
- Gifts if the cost to the donor is not more than $200 and is of a type falling within para 5(2)(a) of the Second Schedule to the *Goods and Services Tax Act*.
- Going concern — see "Transfer of assets pursuant to a transfer of a business (or part thereof) as a going concern".
- Goods supplied under a warehouse regime (s 37(2) of the *Goods and Services Tax Act*).
- Grants (see "Donations received"). Grants are generally regarded as not being consideration for a supply but merely a form of deficit funding gratuitously made available. There are occasions when sufficient benefits or rights accrue to the person making the grant to indicate that the donee is, in fact, doing something for a consideration.
- Industrial samples if they come within the description given at para 5(2)(b) of the Second Schedule to the *Goods and Services Tax Act*.
- Loss, theft or destruction of goods.
- Lotteries — see "Prize money".
- Motor cars, second-hand.
- Non-taxable government supplies (see ¶21-100).
- Prize money outside the scope of GST where it is a gift to the winner, who makes no supply to the payer.
- Raffles — see "Prize money".

- Samples (industrial or commercial: para 5(2)(b) of the Second Schedule to the *Goods and Services Tax Act*).
- Settlement of disputes — payments made under out-of-court settlements of disputes, after proceedings have been commenced by service of originating process (or appointment of an arbitrator), are in essence compensatory and do not relate directly to supplies of goods or services; hence, they are outside the scope of GST. This applies even if the settlement is expressed in terms that the payment is consideration for the plaintiff's agreement to abandon his/her rights to bring legal proceedings. But payments will remain taxable if, and to the extent that, they are consideration for specific taxable supplies by the plaintiff, eg where the dispute concerns payment for an earlier supply, or where the plaintiff grants future rights to exploit copyright material under the settlement.
- Subscriptions, if no benefit obtained as described in s 3(3) of the *Goods and Services Tax Act*, as the body concerned is not treated as carrying on a business.
- Supplies of goods or services made outside Singapore.
- Temporarily imported goods within the Goods and Services Tax (Imports Relief) Order.
- Transactions with discounts for prompt payment not via instalments (para 5(1) of the Third Schedule to the *Goods and Services Tax Act*) where the consideration is reduced by the value of the discount.
- Transfers of assets pursuant to a transfer of a business (or part thereof) as a "going concern" (see ¶21-160).
- Transfers of a share in a partnership (including a share of the firm's goodwill but excluding shares in a limited liability partnership) between one or more existing partners or to one or more incoming partners.
- Transfers of goods and services between branches of the same legal entity, including separately registered divisions of a company.
- Transfers of goods and services between the members of a GST group (s 30 of the *Goods and Services Tax Act*).
- Unrealised foreign exchange differences (see ¶7-140).
- Warehouse regime — see "Goods supplied under a warehouse regime".
- Zero-GST warehouse — see "Bonded warehouse".

Alphabetical list: supplies received (payments made) outside the scope of GST

- Damages — see "settlement of disputes". Liquidated damages are not supplies, nor are payments for breaches of warranty or contract delays.
- Dividends paid (being a mere flow of funds).
- Fines.
- Proprietor's drawings of money from the business (but private use of business assets, whether by the proprietor or by someone else, is a supply. The transfer of goods by a business to its proprietor is also a supply).

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- Salaries, wages and pensions (including income tax and contributions to the Central Provident Fund (CPF)). However, a benefit-in-kind is liable to GST if there is a supply in the course or furtherance of a business, eg use of a company yacht by staff for private purposes. But note that a "business" includes services supplied where a person becomes a holder of an office in the course or furtherance of a profession, etc, carried on by him/her and GST is chargeable accordingly.
- Stamp duties.

Law: s 3(3), 30, 37, 37(2), para 5(2) of the Second Schedule, para 5(1), 7, 10, 14 of the Third Schedule to the *Goods and Services Tax Act*; Goods and Services Tax (Imports Relief) Order

Case reference: *Bass plc* (1991) BVC 665; *Nigel Mansell Sports Co. Ltd* (1991) BVC 718

¶30 Is GST output tax chargeable?

GST will only be chargeable (and thus accountable to the IRAS) where all of the following criteria are met:

- there is a supply (of either goods or services) for a consideration
- the supply is made in Singapore
- the supply is made on or after 1 April 1994
- the supplier is registered, or liable to be registered, for GST
- the supply is made in the course or furtherance of any business carried on by the supplier
- the supply is not an exempt supply
- the supply is not one which is outside the scope of GST.

¶40 Is GST input tax recoverable?

Input tax is recoverable if:

- the claimant is a "taxable person" at the time of the supply on which the input tax was charged. The definition of "taxable person" is covered at ¶200
- the input tax relates to goods (including imported goods) and services used, or to be used, for the purpose of any business carried on, or to be carried on, by the taxable person

  Non-business use. An apportionment of the input tax is required if there is non-business use
- the input tax relates to certain supplies received:
  - prior to GST registration or incorporation
  - after deregistration, but relating to the trader's taxable supplies when the trader was registered
- where the claimant is partly exempt, the input tax will only be reclaimable in part
- the input tax was charged on a supply (or importation) which was made to the taxable person. If the supply was made to anyone else, eg a customer, partner or director, the taxable person would not be allowed input tax credit as the supply was not made to him/her
- a valid GST invoice is held
- the supply was correctly chargeable to GST. If GST was incorrectly charged, eg by a non-taxable person or on a supply which was exempt or outside the scope of GST, then the GST is not reclaimable.

Input tax is specifically *non-deductible* on:

- goods supplied under a second-hand goods scheme
- maintenance of a non-Q-plate motor car (including running costs such as petrol)
- the following employee fringe benefits:
  - club subscription fees
  - medical and accident insurance premiums not covered under the provisions of the *Work Injury Compensation Act* (Cap 354) or under any collective agreement within the meaning of the *Industrial Relations Act* (Cap 136)
  - medical expenses, and
  - family benefits
- any transaction involving betting, gaming, sweepstakes, lotteries, fruit machines or games of chance.

Law: *Work Injury Compensation Act* (Cap 354); *Industrial Relations Act* (Cap 136)

¶50 Supply

(1) Supplies

Supply "includes all forms of supply, but not anything done otherwise than for a consideration". "Anything which is not a supply of goods but which is done for a consideration... is a supply of services."

A supply can be made by:

- a partnership to its individual partners, or
- a club to its members.

(2) Supplies where there is no consideration

A supply can take place even if there is no consideration. For example, the following are supplies:

- if business assets are transferred and are then no longer part of the business' assets. There is no supply, however, if the transfer is either:
  - a gift of goods which cost the donor no more than $200,
  - a gift of any industrial or commercial sample in a form not ordinarily available for sale to the public, or
  - a gift of goods costing more than $200 but input tax was not claimed.
- if business goods are put to any private use or non-business use.

Note: Check if there is consideration which is non-monetary, in which case the open market value rule may apply.

(3) Deemed supplies

There are rules for certain deemed supplies, eg cessation of business.

(4) Exceptions to the aforementioned rules

The following are *not* supplies:

- the transfer of all or part of a business as a going concern, subject to certain conditions
- other items which are "outside the scope of GST" (see ¶20).

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(5) Supplies of goods

The following are supplies of goods:

- the transfer of the whole property (ie whole ownership) in goods
- the transfer of the possession of goods if the ownership is to pass at a future date, eg a hire purchase agreement (or a finance lease in accounting terms)
- the production of goods by applying to another person's goods a treatment or process
- the supply of any form of power (including electricity), gas, water, light, heat, refrigeration, air-conditioning or ventilation
- the granting, assignment or surrender of any interest in or right over land or licence to occupy land
- the transfer or disposal of goods forming part of the assets of a business so as to no longer form part of those assets.

(6) Supplies of services

The following are supplies of services:

- the transfer of any undivided share (ie part ownership) of goods
- the transfer of possession of goods, eg a lease, such as an operating lease in accounting terms
- the use for private purposes of goods held or used for business purposes
- anything which is not a supply of goods but is done for a consideration, including the granting or surrender of any right.

¶60 Place of supply

Place of supply of goods

If the supply of goods does not involve their removal from or to Singapore, then they are treated as supplied:

- in Singapore if the goods are in Singapore, or
- outside Singapore if the goods are outside Singapore. If the supply of goods involves their removal:
  - from Singapore, then the supply is in Singapore
  - to Singapore, then the supply is outside Singapore.

GST is also due on importations of goods as if it were a customs duty even if the importer is not a taxable person. Relief from GST on the importation of goods may be available under s 24 (see ¶13-150).

Place of supply of services

Generally, services are treated as supplied in the country in which the supplier belongs (defined at ¶3-285).

As there are currently no services being prescribed under the reverse charge mechanism (see ¶15-100), imports of services are currently not subject to GST.

Law: s 24 of the *Goods and Services Tax Act*

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¶70 Time of supply

General time of supply rule for the supply of goods and services

A supply of goods and services is treated as taking place at the earlier of:

- the date when an invoice is issued in respect of a supply, or
- the date when payment in respect of a supply is received.

An important point to note is that the issuance of any invoice (not just a tax invoice) will trigger the time of supply, although a tax invoice is still required to be issued for standard-rated supplies made.

The time of supply for most transactions will be triggered by one of the two events mentioned in the aforesaid.

Circumstances under which the basic tax point is still required to be tracked

However, there are some situations where businesses are still required to track the basic tax point, ie:

- when determining taxability of supplies straddling the GST registration date
- when determining the time of supply for supplies spanning deregistration
- in relation to the sale of immovable properties
- in respect of supplies made by a s 33(2) agent
- in relation to business assets put to private use or transferred or disposed for no consideration, and
- in respect of supplies between connected persons.

Special time of supply rules for specific transactions

The IRAS has also determined prescribed special time of supply rules for specific transactions and circumstances.

See ¶3-300 for more information regarding the simplification of time of supply rules.

Law: s 33(2) of the *Goods and Services Tax Act*

¶80 Value of supply

The value of a supply on which GST is charged is the consideration (usually the price) payable by the customer, less the GST chargeable. If the supply is not for a consideration not consisting or not wholly consisting of money, the value of the supply is taken to be its open market value.

¶90 Supply "in the course or furtherance of any business"

"Business includes any trade, profession or vocation" and other activities which are treated as businesses (eg clubs, associations, societies, etc). Some general principles have emerged from overseas case law which may be persuasive in Singapore:

- a business may be carried on even if a profit is not being sought
- if the activities are carried on with a reasonable degree of continuity and substance, then this tends to indicate that there is a business
- if the activities are predominantly concerned with making taxable supplies to consumers for a consideration, then this tends to indicate that there is a business.

Note: There is usually no distinction between capital and revenue items for GST.

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¶100 Rate of tax

All supplies made by a GST-registered person in the course of business are taxable at the rate of 7% from 1 July 2007 unless:

- zero-rated, eg exported goods
- exempt, or
- outside the scope of GST.

This Guide's index and commentary cannot refer to everything which is standard-rated because by default, everything is standard-rated. The legislation merely deals with its expectations. The real question is not: "Is a widget standard-rated?", but rather: "Does the legislation provide for a widget to be zero-rated or exempt from GST or outside the scope of GST?"

¶110 Tax fraction

The tax fraction (7/107) is used to determine the GST component in a tax-inclusive figure.

> **Example:**
> An item has a GST inclusive price of $100. The GST component is:
> $100 × 7/107 = $6.54

Law: reg 2 of the Goods and Services Tax (General) Regulations

¶120 Zero-rated supplies

The following supplies are zero-rated:

- exported goods
- international services of any of the descriptions in s 21(3) of the *Goods and Services Tax Act*, and
- supplies in relation to contracts signed on or before 7 April 1993, subject to transitional rules that expired on 1 April 1999.

Note: A registered person making zero-rated supplies charges GST at 0% but is entitled to full input tax credit, subject to the normal input tax recovery rules.

Law: s 21(3) of the *Goods and Services Tax Act*

¶130 Exempt supplies

The following supplies are exempt:

- the sale and rental of residential property
- the provision of financial services, including transactions involving:
  - operation of current, deposit or savings accounts
  - exchange, or grant of an option for the exchange, of currency other than a note or coin as a collector's item, investment article or item of numismatic interest
  - supply of credit or charge cards
  - issue, payment, collection or transfer of ownership of payment notes, cheques or letters of credit

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- – debt securities
- – equity securities
- – provision of loans, advances or credits
- – provision of instalment credit finance
- – life insurance contracts
- – futures contracts
- – forward trading in commodities
- – unit trust
- – re-insurance contracts
- the supply of investment-grade precious metals.

Note: GST is not chargeable on exempt supplies, but the supplier cannot reclaim the GST on business inputs.

Law: Pt I of the Fourth Schedule to the *Goods and Services Tax Act*

¶140 Registration limits

Compulsory registration: Past turnover limit

A person who makes taxable supplies in Singapore is required to register for GST if, at the end of any calendar quarter, the total value of all taxable supplies made by that person in Singapore in that quarter and the three preceding quarters exceeds $1m.

However, if the person is able to prove to the Comptroller of GST's satisfaction that the total value of all taxable supplies to be made by that person in Singapore in the next four quarters will not exceed $1m, then that person is not required to register for GST.

Compulsory registration: Future prospects limit

A person who makes taxable supplies in Singapore is required to register for GST if, at any time, there are reasonable grounds for believing that the total value of that person's taxable supplies in Singapore in the period of 12 months then beginning will exceed $1m.

Voluntary registration

If the taxable supplies of a business do not exceed the prescribed turnover limits, registration is optional.

Note:

- Both zero-rated and standard-rated supplies are included in the limits except for exempt supplies that are also zero-rated under s 21(3) of the GST Act, where voluntary registration is the only option.
- All of a person's taxable supplies are considered, because it is "persons" and not "businesses" who can or must register.
- Quarter means calendar quarter to the end of March, June, September or December.
- The value of capital supplies is excluded from the supplies for the purpose of applying the registration limits.
- Any supplies made at a previous time when the person was registered are disregarded if all necessary information was given to the Comptroller when the earlier registration was cancelled.
- If a person took over a business as a "going concern", that person is deemed to have made the vendor's supplies for the purposes of registration.

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- Past turnover limit: The Comptroller must be notified within 30 days from the end of the quarter for which the turnover limit was exceeded.
- Future prospects limit: The Comptroller must be notified within 30 days from the beginning of the 12-month period in which there are reasonable grounds to believe that the turnover limit will be exceeded.

¶150 Tax invoice preparation checklist

GST invoices generally

A registered taxable person making a taxable supply to a taxable person is required to provide the customer with a tax invoice that includes the following:

- the words "tax invoice" in a prominent place
- an identifying number
- the date of issue of the invoice
- the name, address and registration number of the supplier
- the name (or trading name) and address of the customer
- the type of supply, eg credit sale, hire purchase, loan
- a description of the goods and services supplied
- for each description, the quantity of goods or the extent of services and the amount payable (excluding tax)
- any cash discount offered
- the total amount payable excluding tax, the rate of GST and the total tax chargeable, shown separately
- the total amount payable, including tax, and
- the breakdown of exempt, zero-rated or other supplies, stating separately the gross amount payable in respect of each, if applicable.

See also ¶29-110 to ¶29-130 for more information regarding the issuance of a tax invoice.

Note: The total amount payable excluding tax, the total GST payable, and total amount payable including GST, must all be expressed on the tax invoice in Singapore currency.

Simplified tax invoices

If the value of the supply, including GST, is $1,000 or less, a simplified tax invoice can be issued setting out only the following:

- the name, address and registration number of the supplier
- an identifying number, eg invoice number (effective from 1 May 2008)
- the date of issue of the invoice
- a description sufficient to identify the goods or services supplied
- the gross total amount payable, and
- the words "Price payable includes GST" or "Amount payable includes GST".

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See also ¶29-140 for more information regarding the issuance of a simplified tax invoice.

Note: Input tax cannot normally be reclaimed if a valid tax invoice with the requisite particulars is not available.

Law: reg 61 of the Goods and Services Tax (General) Regulations

¶160 GST return preparation checklist

The following checklist may be helpful in ensuring that the information on the GST return is complete.

- Is there any difference between supplies for accounting purposes compared to supplies for GST purposes? If so, have you accounted for this properly?
- Have you recorded GST on all intercompany items that are not sales transactions (ie management charges, etc)?
- Does output tax = 7% of standard-rated supplies? If not, ensure reconciliation is carried out.
- Does input tax = 7% of standard-rated taxable purchases?
- If input tax is not equal to 7% of taxable purchases, is there proper documentation explaining the variance (eg journal adjustments, zero-rated purchases, imports under GST suspension schemes, etc)?
- Have there been any unusual items during the period which may require investigation, eg:
  - stock loss
  - overage/shortage of cash receipts
  - bad debts written off
  - discounts
  - rebates
  - business gifts/samples
  - gift vouchers.
- Has input tax claimed been adjusted for the extent of exempt supplies and out-of-scope supplies?
- Ensure that non-deductible input tax, eg on fringe benefits, etc, has been treated correctly.
- Ensure that all necessary documentation is approximately maintained (eg to support input tax claim and/or zero-rating export of goods, etc).

¶170 Due dates for payment of GST

Returns

GST collected by a registered person as shown on a GST return (Form F5) must be paid to the IRAS at the same time when the return is submitted, unless the person is in a net credit position.

Alternatively, if you are on the General Interbank Recurring Order (GIRO) plan, GST deductions will be made on the 15th day of the month after the submission due date. Returns are normally due three-monthly, and must be lodged not later than the last day of the month following the end of the quarter to which the return relates.

Imports

GST payable on imports of goods is payable at the time of importation.

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¶171 Due dates for GST forms

Type of form	*Due date for filing*	*Due date for payment of tax*	*References*
Form GST F1 — Application for GST Registration — Company and Others	At the end of the month following the month in which the notification liability date falls	Not applicable	
Form GST F1 — Application for GST Registration — Partnership (P'ship), Limited Partnership (LP) And Joint Venture (JV)	At the end of the month following the month in which the notification liability date falls	Not applicable	
Form GST F1 — Application for GST Registration — Sole-proprietor	At the end of the month following the month in which the notification liability date falls	Not applicable	
Form GST F2 — Application for Exemption from GST Registration	When a trader whose taxable supplies are wholly or substantially (ie more than 90%) zero-rated wishes to be exempted from GST registration	Not applicable	
Form GST F3 — Notification of Liability to be GST-Registered: Details of All Partnerships and Partners	At the end of the month following the month in which the notification liability date falls	Not applicable	
GST F5 — GST Return	Within 1 month from the end of the prescribed accounting period (the standard accounting period is 3 months, but accounting periods of 1 month and 6 months are available subject to the Comptroller's approval)	Within 1 month from the end of the prescribed accounting period; or on the 15th of the month following the due date of the return if under GIRO	¶31-100
GST F7 — Disclosure of errors on GST return	Within 5 years from the accounting period in which the error occurred. In practice, the period when the errors are detected	Within 1 month from the end of the prescribed accounting period; or on the 15th of the month following the due date of the return if under GIRO	¶31-150

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Type of form	*Due date for filing*	*Due date for payment of tax*	*References*
GST F8 — Final GST return	Not later than 1 calendar month after ceasing to be registered	Within 1 month of the effective date of the cancellation of the registration	¶31-130
Form GST F9 — Application for Cancellation of GST Registration	Within 30 days from the day when taxable supplies cease	Within 30 days from the day when taxable supplies cease	
Form GST F10 — Application for Major Exporter Scheme	When a trader whose turnover comprises of a certain percentage of exports wishes to be granted relief from the burden of having to suffer a GST payment at the time of importation	Not applicable	¶13-260
Form GST F11 — Application for Divisional Registration	When a trader carrying on more than 1 business or a business in several divisions wishes to register each division separately	Within 1 month from the end of the prescribed accounting period; or on the 15th of the month following the due date of the return if under GIRO	¶21-140
Form GST F12 — Application for Inclusion/ Removal of Division to/from Existing Divisional Registration/Deregistration of Divisional Registration	When a trader whose divisions are registered separately wishes to deregister from divisional registration	Within 1 month from the end of the prescribed accounting period; or on the 15th of the month following the due date of the return if under GIRO	
Form GST F14A — Application for Approved Contract Manufacturer and Trader (ACMT) Scheme as an Approved Contract Manufacturer (ACMT CM)	When a contract manufacturer wishes to have its supply of contract manufacturing services to an overseas customer disregarded for GST purposes	Not applicable	¶13-300
Form GST F14B — Application for Approved Contract Manufacturer and Trader (ACMT) Scheme as an Approved Logistics Company (ACMT LOG)	When a logistics company receives treated/processed goods from an ACMT CM for onward delivery and wishes to have its supply to an overseas customer disregarded for GST purposes	Not applicable	¶13-300

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Type of form	*Due date for filing*	*Due date for payment of tax*	*References*
Form GST F15 — Approved Third Party Logistics (3PL) Company Scheme	When a trader wishes to import goods belonging to it or its overseas principal without payment of GST	Not applicable	¶21-240
Form GST F16 — Application for Approved Marine Fuel Trader (MFT) Scheme	When a trader making sales of approved marine fuel oil to approved businesses holding a valid bunkering licence for subsequent export wishes to be relieved from GST	Not applicable	¶21-250
Form GST F17 — Application for Exemption from Hand-Carried Exports Scheme	When a trader who exports its goods by hand-carrying them out of Singapore via Changi International Airport wishes to be exempted from the requirements of the Hand-Carried Exports Scheme	Not applicable	¶11-121
Form GST F18 — Application for Remission Under S89 of the GST Act for Refund of Import GST Paid on Behalf of an Importer	When a GST-registered freight forwarder/logistics agent is unable to recover the import GST paid on behalf of importers	Not applicable	
Form GST F19 — Application for GST Advance Ruling	Not later than 1 month (for express advance ruling, not later than 10 working days) before the filing deadline of the relevant GST return	Not applicable	
Form GST F21 — Application for Approved Import GST Suspension Scheme (AISS)	When a trader in the aerospace industry wishes to import aircraft components or systems into Singapore with GST suspended	Not applicable	¶11-230
Form GST F22 — Application for Import GST Deferment Scheme (IGDS)	When a trader wishes to defer import GST payments until the filing deadline of the monthly GST return	Within 1 month from the end of the prescribed accounting period; or on the 15th of the month following the due date of the return if under GIRO	¶13-105

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CHAPTER 6
PARTIAL EXEMPTION

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De minimis rule .... ¶9-120
Regulation 33 exempt supplies .... ¶9-130
The standard method .... ¶9-140
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Exempt supplies deemed to be taxable supplies .... ¶9-160
"Tainted" businesses .... ¶9-170
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Summary

- In general, where a person makes both taxable and exempt supplies, the input tax attributable to the taxable supplies will be recoverable, but the input tax attributable to the exempt supplies will not be recoverable.
- Where input tax, eg on general business overheads, is not specifically attributable to either taxable supplies or exempt supplies, it is assigned to the residual "pot" as relating to both types of supplies. The deductible proportion of the pot is generally the amount apportioned using the ratio of taxable supplies to total supplies for the prescribed accounting period.
- Where the value of exempt supplies is less than the *de minimis* threshold, input tax on exempt supplies will be fully recoverable. The *de minimis* threshold is where total exempt supplies do not exceed both the average of $40,000 per month and 5% of the total value of all taxable and exempt supplies made in a prescribed accounting period or longer period.

¶9-100 Introduction

As discussed in the previous chapters, a person must account for GST on the taxable supplies made by him/her, and the person can recover the input tax suffered on supplies made to him/her. A person who only makes exempt supplies cannot register for GST, and so cannot recover input tax suffered.

Where a person makes both taxable and exempt supplies, it follows that the person would be entitled to obtain an input tax credit for GST incurred on purchases relating to the taxable supplies made by him/her. However, the person would not be entitled to recover input tax which relates to exempt supplies made by him/her. If the so-called "partially exempt person" was allowed to recover the input tax in full, that person would be placed in a competitive advantage over a fully exempt business which is unable to recover any input GST.

Legislation governing partially exemption persons

This basic principle, that the recoverable input tax is related to the making of taxable supplies, and correspondingly, that if only some of the supplies are taxable, only a proportion of the input tax is recoverable, is established by s 20(1) of the *Goods and Services Tax Act*. Section 20(4) goes on to empower the Minister to make regulations setting out detailed rules to give effect to this concept of apportionment. These rules are set out in the Goods and Services Tax (General) Regulations.

Part V of the Goods and Services Tax (General) Regulations addresses the rules by which a partially exempt trader must apportion his/her input tax on a period to period basis (see ¶9-140), as well as for the longer period adjustments (see ¶9-180), and outlines the reliefs available to ensure that taxable persons with only minimal exempt outputs and/or are not in the primary business of making exempt supplies can be treated as fully taxable and can recover all input tax credits (see ¶9-120).

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Since its enactment, the law has been amended to allow traders to claim more input tax incurred in relation to exempt supplies. Changes to the partial exemption rules are as follows:

- the threshold in the *de minimis* rule has been increased to $40,000
- the list of exempt supplies on which input tax is attributed to taxable supplies in reg 33 of the Goods and Services Tax (General) Regulations (henceforth referred to as "reg 33 exempt supplies") has been expanded
- the list of businesses in reg 34 of the Goods and Services Tax (General) Regulations which are precluded from applying reg 33 has been reduced, and
- the test for non-reg 33 exempt supplies in reg 35 has been simplified by removing the $20,000 threshold.

The changes should mean that more businesses can claim input tax and avoid the complications of input tax apportionment (see ¶9-140).

Law: s 20 of the *Goods and Services Tax Act*; reg 33, 34, 35, Pt V of the Goods and Services Tax (General) Regulations

IRAS Practice: IRAS e-Tax Guide — GST: Partially Exempt Trader and Input Tax Recovery

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¶9-110 Application of *de minimis* rule and where exempt supplies are deemed taxable

A partially exempt taxable person who in any prescribed accounting period or longer period receives any exempt income should check the following points:

- Whether the person's business is a "tainted" one (see ¶9-170).
- If the person's business is a "tainted" one, exempt input tax can only be ignored if the exempt supplies do not exceed the *de minimis* threshold (see ¶9-120). Otherwise, the person must use an appropriate method (see ¶9-140 and ¶9-150) to apportion his/her input tax.
- If the person's business is not a "tainted" business, and all the exempt income relates to one of the categories for which exempt deemed taxable (EDT) treatment under reg 33 is available, that person can reclaim all of his/her input tax in that period. In other words, there is no need to use an apportionment method and the person is treated as fully taxable.
- If the person's business is not "tainted", but some of his/her exempt income falls outside the reg 33 categories, the person must check whether such income exceeds the *de minimis* limit (see ¶9-120). If such income is within the *de minimis* threshold, the person can ignore all the exempt input tax. If, however, such exempt income exceeds the *de minimis* threshold, the person must use a method to apportion all his/her exempt input tax (including any input tax attributable to income within the reg 33 exempt supplies). In other words, the relief under reg 33 is lost if a person makes any other type of exempt supply that exceeds 5% of the total value of all taxable and exempt supplies made in that period (reg 35).

Example 1: Non-"tainted" business receiving exempt income

A manufacturing company, B Pte Ltd, leases a residential block of apartments to tenants as part of its business. It incurs various expenditure on the building on which GST is levied. B Pte Ltd also receives profits from exchanging foreign currency.

As it is not a "tainted" company, B Pte Ltd must identify its exempt income. Although the profits from its currency dealing fall within the reg 33 exempt supplies, its lease income does not. Therefore B Pte Ltd can only ignore the input tax incurred in relation to both the currency dealing and the lease income if the amount of the lease income does not exceed the *de minimis* limit. If the lease income exceeds the *de minimis* limit, B Pte Ltd will have to use the standard method of apportionment under reg 29 (or another method as approved under reg 30) for all its exempt input tax.

Example 2: "Tainted" business receiving exempt income

A finance company, Dornoch Pte Ltd, receives exempt interest income from bank deposits and also makes a rights issue of new shares. As it is a "tainted" business, it must resort to the *de minimis* rule. If the exempt income relating to the rights issue and the bank interest are within the *de minimis* limit, the exempt input tax can be treated as attributable to taxable supplies and can be reclaimed. If the income exceeds the *de minimis* threshold, Dornoch must use an apportionment method.

The exempt supplies listed in the Fourth Schedule to the *Goods and Services Tax Act* (see ¶7-110) are so wide ranging that it is inevitable that businesses which would normally be fully taxable will at some stage become partially exempt.

Supplies that may give rise to apportionment problems

The types of supplies which are made by businesses that may give rise to apportionment problems are:

- issue, allotment or transfer of equities
- receipt of interest
- sale and lease of residential accommodation, including the rental portion of serviced apartments
- sale and lease of zoned residential land
- supply of IPMs by an approved consolidator or refiner under the ACRS (see ¶9-200).

Because of the possible high value of such supplies, it is essential that those businesses likely to be affected have a grasp of the rules governing partial exemption. A detailed application of these rules will require businesses to conduct a full examination of all their transactions to determine whether their accounting systems can properly track those inputs which give rise to exempt transactions.

Regulation 34 "tainted" businesses

The concession under reg 33 is not available to the following "tainted" businesses (referred to as "reg 34 businesses"):

- banks, including merchant banks and other financial institutions
- insurance companies and reinsurance brokers
- finance companies
- licensed moneylenders, moneychangers or remitters
- licensed pawnbrokers
- debt factors

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- credit card, charge card or other payment card companies
- unit trusts excluding real estate investment trusts (REITs), REIT special purpose vehicles (SPVs), business trusts or business trust SPVs.

The table below summarises the changes in the list of reg 34 businesses that cannot apply reg 33:

	For prescribed accounting periods or longer periods beginning before 1 April 2008	*For prescribed accounting periods or longer periods beginning on or after 1 April 2008 (unless otherwise specified)*
(a)	Insurance companies and insurance agents	Life insurance company, general or life reinsurance company and reinsurance broker
(b)	Security dealers, representatives and/or investment advisers	Removed
(c)	Commodity and futures broker, trading advisers	Removed
(d)	Licensed moneylenders, moneychangers or remitters	Removal of "money broker". The other businesses remain
(e)	Investment trusts or unit trusts	A unit trust excluding REITs, REIT SPVs, business trust or business trust SPV (from 1 May 2008)

Law: s 20(2), Pt I of the Fourth Schedule to the *Goods and Services Tax Act*; reg 28, 29, 30, 33, 34, 35 of the Goods and Services Tax (General) Regulations

¶9-120 *De minimis* rule

Where in any prescribed accounting period or longer period (see ¶9-180), the total value of all exempt supplies made by a taxable person does not exceed both:

- the average of $40,000 per month, and
- an amount equal to 5% of the total value of all taxable and exempt supplies made in that period,

then all input tax (excluding those relating to the making of exempt supplies) in that period shall be treated as attributable to taxable supplies. This is known as the *de minimis* threshold.

Example: *De minimis* threshold

Trader ABC Pte Ltd	*Qtr end 31.3.14*	*Qtr end 30.6.14*	*Qtr end 30.9.14*
	$	$	$
Total taxable supplies	334,000	200,000	1,138,000
Total exempt supplies	16,000	11,000	62,000
Total supplies	350,000	211,000	1,200,000
5% of total supplies =	17,500	10,550	60,000

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> In the first quarter, ABC Pte Ltd did not exceed either trigger and fell below the *de minimis* threshold, and is therefore entitled to full input tax credit during that period.
>
> In the second quarter to 30 June 2014, although total exempt supplies did not exceed the $40,000 per month threshold, it exceeded the 5% trigger. ABC Pte Ltd has failed the *de minimis* test and therefore is required to apportion its input tax for the quarter ended 30 June 2014.
>
> In the quarter to 30 September 2014, total exempt supplies exceeded both triggers (ie they exceeded $40,000 per month and 5% of total supplies) and therefore ABC Pte Ltd has failed the *de minimis* test. ABC Pte Ltd is therefore partially exempt and is required to apportion its input tax between taxable and exempt supplies for the quarter ending 30 September 2014.

Law: reg 28 of the Goods and Services Tax (General) Regulations

¶9-130 Regulation 33 exempt supplies

The Government recognises that most businesses will at some point make exempt supplies (eg receipt of bank interest). Accordingly, it has set out in the Goods and Services Tax (General) Regulations situations where input tax which would have been attributed to the exempt supplies is deemed to be attributed to taxable supplies. Broadly, reg 33 allows input tax relating to certain exempt supplies to be considered necessary and integral to the making of taxable supplies and therefore recoverable.

Input tax which is attributable to supplies of any of the following descriptions shall be treated as attributable to taxable supplies (provided that the requirements under reg 34, 35 and 46 are satisfied):

- the deposit of money
- the exchange of currency, other than the supply of a note or coin as a collector's item, investment article or item of numismatic interest
- the first issue, allotment or transfer of ownership of a debt security
- the first issue, allotment or transfer of ownership of an equity security
- the provision by a taxable person of any loan, advance or credit to its employee

The Government recognises that traders are increasingly engaging in financial activities that are necessary and integral to the making of taxable supplies. Hence, input tax incurred in the making of the following exempt supplies is also treated as input tax attributable to the making of taxable supplies:

- the assignment of trade receivables
- the issue of units under any unit trust or business trust
- prescribed hedging activities:
  - the hedging of interest rate risk or currency risk arising from the supplies in reg 33(a), (b), (c), (d) or (g) of the Goods and Services Tax (General) Regulations
  - the hedging of interest rate risk or currency risk arising from loans obtained for the making of taxable supplies or supplies made outside Singapore that would have been taxable supplies if made in Singapore

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  - the hedging of utility price risk (eg gas or power), freight price risk or commodity price risk on goods used in the making of taxable supplies or supplies made outside Singapore that would have been taxable supplies if made in Singapore
- the purchase of bonds
- the provision of trade credit
- the issue or transfer of ownership of Islamic debt securities under an Islamic debt securities management
- the provision of financing under an Islamic debt securities arrangement for which the provider of the financing derives an effective return.

¶9-140 The standard method

Part V of the Goods and Services Tax (General) Regulations provides for the apportionment of input tax for partial exemption purposes.

The standard method, prescribed in reg 29, requires businesses to attribute input tax specifically to particular supplies. The business must identify and attribute its input tax to taxable and exempt outputs according to whether the relevant goods or services are used or to be used exclusively in making taxable or exempt supplies.

Input tax attributable to taxable supplies

Any input tax which can be exclusively attributed to taxable supplies can be deducted in full (reg 29(2)(b)).

Input tax which may be attributed to taxable supplies

Any input tax incurred by a taxable business in any prescribed accounting period on importations by it, or on supplies to it, which are used or to be used by it in whole or in part in making:

- supplies outside Singapore which would be taxable supplies if made in Singapore
- supplies outside Singapore concerning the exchange, or grant of an option for the exchange, of currency (other than as collector's items) and the provision of any loan, advance or credit, and
- supplies under a warehousing regime,

may be attributed to taxable supplies (and therefore deducted in full) provided that these supplies' uses can be separately identified (reg 31).

Imports or supplies used exclusively for making exempt or out-of-scope supplies

Any input tax on importations or supplies which are exclusively used or to be used in making exempt supplies or supplies which are "outside the scope of GST" cannot be recovered (reg 29(2)(c)).

Residual "pot"

The remaining input tax, ie tax which cannot be exclusively attributed either to taxable or exempt supplies, eg input tax relating to general overhead items like telephone charges, stationery, audit fees, is apportioned using the ratio of taxable supplies to total supplies made in the prescribed accounting period (reg 29(2)(d)(i)). This residual input tax is known colloquially as the residual "pot", and this method of apportionment is known as "the attribution of the pot".

Example: Attribution of the pot

ABC Pte Ltd became partially exempt in its quarter to 31 October 2014.

	$
Total taxable supplies	1,138,000
Total exempt supplies	62,000
Total supplies	1,200,000
[5% of total supplies	60,000]

In the above period, ABC incurred total input tax of $3,000 on all imports and purchases of goods and services.

	Deductible	*Non-deductible*
	$	$
(a) Input tax attributable to taxable supplies is $2,300	2,300	
(b) Input tax attributable to exempt supplies is $300		300
(c) The remaining non-attributable input tax — residual "pot" — is $400		

The deductible proportion of the pot is:

$$\frac{1{,}138{,}000 \text{ (total taxable supplies)}}{1{,}200{,}000 \text{ (total supplies)}}$$

= 95% (rounded off from 94.83% — Note) of $400		
= $380	380	20
	2,680	320

ABC Pte Ltd therefore recovers $2,680 as an input tax credit on its GST return and incurs a $320 loss due to the partially exempt income received in the period.

Note: The percentage of total taxable supplies is 94.83%. This is rounded off to 95% (in favour of the taxable person) because reg 29(4) requires it to be rounded off to the nearest whole percentage number.

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To further clarify, input tax is residual in nature if it satisfies two conditions

Condition 1: It is directly attributable to both taxable and exempt supplies

If the business makes both taxable and exempt supplies, expenses such as the general overheads, office rental and utilities are some examples of costs directly attributable to both taxable and exempt supplies made by the business.

In addition, the product in relation to the costs incurred should also be considered, eg marketing and advertising costs incurred for the sale or lease of a mixed development (ie containing both residential and non-residential property elements).

Condition 2: It is incurred for the overall running of your business

Some expenses incurred by the business may not be directly attributable to the making of any supplies. However, if such expenses can be treated as a necessity in order for you to run the business, then such expenses may also be treated as residual in nature, eg dividend payment to shareholders.

The aforementioned method of attribution of input tax varies in cases of development of land and construction of buildings. In such circumstances, input tax is to be attributed using the formula specified in reg 29(2)(d)(ii) (see below).

Annual adjustment

The deduction of input tax under the standard method in each prescribed accounting period is provisional and is subject to adjustment at the end of the annual adjustment period (see ¶9-180).

Development and construction — mixed developments

There is a special provision for apportionment of input tax incurred on goods or services used in the development of land and construction of a building which is used, or intended to be used, to make both taxable and exempt supplies. The IRAS has recognised that the large number of mixed residential/commercial property developments in Singapore will require a special treatment for partial exemption purposes. Accordingly, a formula has been devised for mixed use developments:

$$\frac{\text{Gross floor area (non-residential)} \times \text{Development charges (DC) rate (non-residential)}}{[\text{Gross floor area (non-residential)} \times \text{DC rate (non-residential)}] + [\text{GFA residual input tax (residential)} \times \text{DC rate (residential)}]} \times \text{Residual input tax}$$

In a mixed development of residential and non-residential properties, input tax on purchases that relate directly to the construction of non-residential portions is claimable. Likewise, input tax on purchases that relate directly to the construction of residential properties is not claimable. Costs common to the development of both residential and non-residential properties, eg architect design fees, marketing costs and site office costs, are to be apportioned using the DC formula. This formula, outlined in reg 29(2)(d)(ii), is of special interest to persons developing mixed use land and buildings. The values are contained in various other enactments, such as the *Planning Act*, and should be referred to where appropriate.

Progressive billings received after the Temporary Occupation Permit has been granted

After the Temporary Occupation Permit (TOP) has been granted, the DC formula will still be used to apportion the residual input tax arising from construction costs for the remaining progressive billings received from suppliers such as contractors.

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Administrative overheads and marketing costs incurred after issuance of the Temporary Occupation Permit

As for administrative overheads and marketing costs incurred after the issuance of the TOP, the apportionment of the residual input tax will have to be based on the "ratio formula" as shown below:

$$\text{Residual input tax} \times \frac{\text{Value of taxable supplies}}{\text{Value of total supplies}}$$

The ratio formula has to be applied from the accounting period in which TOP is obtained.

Longer period adjustment

As the application of the ratio formula will lead to fluctuations in the recovery rates, a longer period adjustment on the total amount of residual input tax recovered is required to be done at the end of each partial exemption year (see ¶9-180).

Rounding off

The ratio calculated for the purpose of the "pot" attribution under reg 29(2)(d)(i) and (ii) should be expressed as a percentage, which, if not a whole number, should be rounded off to the nearest whole number (reg 29(4)).

Supplies excluded from the standard method calculation

When using the standard method of calculating the deductible portion of the residual "pot", sums receivable by the business in respect of any exempt supplies under para 1 of the Fourth Schedule to the *Goods and Services Tax Act* made *incidentally* by the business must be excluded (reg 29(3)). These supplies refer mainly to the receipt of income from financial transactions, eg receipt of income from sale of shares and bank interest.

This provision reduces the exempt income in the denominator of the standard method calculation, and is therefore of benefit to those businesses which are essentially making taxable supplies, but which occasionally receive exempt income which is incidental to their core business activity. It follows, however, that businesses in the financial sector cannot avail themselves of this treatment.

Law: para 1 of Pt I of the Fourth Schedule to the *Goods and Services Tax Act*; reg 29, 31, Pt V of the Goods and Services Tax (General) Regulations; *Planning Act* (Cap 232)

IRAS Practice: IRAS e-Tax Guide — GST Guide for Property Developer

¶9-150 Use of other methods

Under reg 30, the Comptroller may approve or direct the use of methods other than the standard method referred to in reg 29(2) (see ¶9-140).

A taxable person wishing to adopt another method will need to seek the approval of the IRAS before use. Once approval is granted, the taxable person can continue to use the method until the Comptroller terminates its use, with effect from a specified date.

Methods of attributing residual input tax

Each taxable business will need to consider the use of an appropriate method, based on the mix of their business activities and the range of expenditure on which input GST is incurred.

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Subject to the Comptroller's approval, the following criteria might be used as a basis for apportionment of the residual "pot" input tax:

- "staff counts" — attribution of the "pot" in accordance with the number of staff working on taxable or exempt activities. This might be advantageous if the "pot" input tax contains shared office equipment, eg a computer
- "transaction counts" — attribution of the "pot" in accordance with the relative number of taxable and exempt transactions, as opposed to the value of such transactions
- "cost centre accounting" — attribution of the "pot" in accordance with the internally allocated expenses for management account purposes
- "floor area" — attribution of the "pot" according to floor area occupied for taxable or exempt activities
- "mixture" — attribution of the "pot" by using one of the preceding methods for one area of business, and another method for other areas.

Taxpayers should negotiate with the IRAS at an early stage for permission to use another method.

Certain industries, such as the financial sector, have negotiated an industry-wide method, and the opportunity exists for other sectors of the business community to do the same. In deciding whether to approve the method, the IRAS should look for a fair and reasonable apportionment of input tax to taxable and exempt supplies.

Law: reg 29(2), 30 of the Goods and Services Tax (General) Regulations

¶9-160 Exempt supplies deemed to be taxable supplies

Input tax, or a proportion of input tax, which is attributable to exempt supplies in accordance with either the standard method or another approved method, is known as "exempt input tax" (reg 25(1) of the Goods and Services Tax (General) Regulations).

Exempt input tax which is attributable to supplies of any of the following descriptions shall be treated as attributable to taxable supplies:

- The deposit of money. This means that businesses which are in the habit of depositing their surplus funds on overnight call or longer term deposits do not become partially exempt merely because of that activity.
- The exchange of currency (whether effected by the exchange of currency, bank notes or coins, by crediting or debiting accounts, or otherwise) other than the supply of a note or coin as a collector's item, investment article or item of numismatic interest. It should be noted that reg 33(b) of the Goods and Services Tax (General) Regulations does not include the grant of an option for the exchange of currency which is an exempt supply (para 1(b) of the Fourth Schedule to the *Goods and Services Tax Act*).
- The issue, allotment or transfer of ownership of a debt security by the person who makes the first issue of such security.
- The issue, allotment or transfer of ownership of an equity security by the person who makes the first issue of such security, eg a rights issue.
- The provision by a taxable person of any loan, advance or credit to his/her employee.
- The assignment of trade receivables.
- The issue of units under any unit trust or business trust.

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- Prescribed hedging activities. These include the hedging of interest rate risk or currency risk arising from loans obtained for the making of taxable supplies, and hedging of utility price risk (eg gas or power), freight price risk or commodity price risk arising from taxable supplies made outside Singapore that would have been taxable supplies if made in Singapore.
- The purchase of bonds.
- The provision of trade credit.

The rationale for such EDT treatment is to avoid the need for complex calculations by businesses that frequently make these kinds of exempt supplies as an adjunct to their main taxable business. In effect, these exempt supplies are deemed to be taxable supplies for partial exemption purposes.

Circumstances under which the exempt deemed taxable treatment is available

EDT treatment is only available where:

- the taxable person is not excluded from this treatment as a result of carrying on a "tainted" business (see ¶9-170)
- the taxable person's exempt input tax in respect of other supplies does not exceed the *de minimis* threshold (reg 35 of the Goods and Services Tax (General) Regulations; see ¶9-110 and ¶9-120).

Law: para 1(b) of Pt I of the Fourth Schedule to the *Goods and Services Tax Act*; reg 25(1), 33, 35 of the Goods and Services Tax (General) Regulations

¶9-170 "Tainted" businesses

In drafting the legislation on partial exemption, the Government has sought to prevent the need for essentially taxable businesses to have to go through complex calculations merely because they happen to receive exempt income which incurs little or no input tax. The Government has also sought to prevent essentially exempt businesses receiving similar income from gaining an undue relief from tax by reclaiming tax on substantial expenses relating to the exempt supplies.

In order to meet both of these objectives, there is a provision in reg 34 of the Goods and Services Tax (General) Regulations to the effect that the EDT treatment is not available to a person carrying on a business which is essentially concerned with making the kind of supply whose input tax can qualify for EDT treatment. Such businesses are known colloquially as "tainted" businesses, and they are as follows:

- a bank required to be licensed under the *Banking Act* (Cap 19)
- a merchant bank or other financial institution required to be approved under s 28 of the *Monetary Authority of Singapore Act* (Cap 186)
- a company or society required to be registered under the *Insurance Act* (Cap 142) for the carrying on of a life insurance business, a general or life reinsurance business, or the business of a reinsurance broker
- a finance company required to be licensed under the *Finance Companies Act* (Cap 108)
- a moneylender required to be licensed under the *Moneylenders Act* (Cap 188), a moneychanger or remitter required to be licensed under the *Money-changing and Remittance Businesses Act* (Cap 187), a currency trader
- a pawnbroker required to be licensed under the *Pawnbrokers Act* (Cap 222)
- a debt factor

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- a credit card, charge card or other payment card company
- a unit trust excluding all REITs, REIT SPVs, business trusts or business trust SPVs, regardless of whether they are predominantly making taxable supplies. An REIT or business trust is treated as predominantly making taxable supplies if the proportion of taxable supplies to total supplies made by it in that prescribed accounting period or longer period is at least 51%.

Banks and financial institutions that are members of the Association of Banks in Singapore enjoy pre-agreed recovery rates for input tax which are negotiated and agreed in conjunction with the IRAS.

Law: reg 34 of the Goods and Services Tax (General) Regulations; *Banking Act* (Cap 19); s 28 of the *Monetary Authority of Singapore Act* (Cap 186); *Insurance Act* (Cap 142); *Finance Companies Act* (Cap 108); *Moneylenders Act* (Cap 188); *Money-changing and Remittance Businesses Act* (Cap 187); *Pawnbrokers Act* (Cap 222)

¶9-180 Adjustment of attribution

A taxable person's business may suffer from fluctuating trading patterns. Because of this, it is necessary for a partially-exempt person to adjust his/her input tax deduction so as to obtain a fair and reasonable attribution over a period called a "tax year". The input tax claimed in respect of each accounting period is provisional and subject to adjustment.

Meaning of "tax year"

The "tax year" in relation to a taxable person means:

- the first period of 12 calendar months commencing on the first day of April, May or June, according to the prescribed accounting periods allocated to him/her, next following the effective date of registration, or
- any subsequent period of 12 calendar months commencing on the day following the end of his/her first or any subsequent tax year.

The Comptroller can vary the tax year, as necessary.

Input tax attributable to exempt supplies incurred during the first tax year or any other tax year

Where a taxable person incurs input tax on making exempt supplies during the first or any other tax year, the person will have applied a longer period which corresponds with that tax year, unless he/she did not incur input tax on making exempt supplies during the immediately preceding tax year or registration period.

Input tax attributable to exempt supplies incurred during a preceding tax year or registration period

Where a taxable person incurs input tax on making exempt supplies during a preceding tax year or registration period, the longer period begins on the first day of the prescribed accounting period when the exempt input tax was incurred and ends on the last day of the tax year. However, if exempt input tax is only incurred in the last period of the tax year, no longer period is applied to that year (reg 25(5)).

Meaning of "registration period"

"Registration period" means the period commencing on the effective day of registration and ending on the day before the commencement of the trader's first tax year.

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> **Example:**
>
> ABC Pte Ltd registers for GST on 1 October 2013 with quarterly accounting periods ending on 30 November, 28 February, 31 May and 31 August.
>
> Its first "tax year" will commence on the first day of June 2014. Its registration period will run from 1 October 2013 to 31 May 2014.
>
> If the company incurs exempt input tax for the first time on 10 December 2013, its longer period commences on 10 December 2013 and ends on 31 May 2014 (reg 25(6)).
>
> However, if the company incurs exempt input tax for the first time on 1 April 2014, no longer period will be applied for its registration period from 1 October 2013 to 31 May 2014 because it only incurs exempt input tax in the final quarter of this period (reg 25(5)).

Cessation of taxable status

Where a taxable person ceases to be taxable during a longer period applicable to him/her, that longer period ends on the day that he/she ceases to be taxable (reg 25(8)).

Annual adjustment

In undertaking the annual adjustment, a partially exempt person works out the amount of input tax he/she may deduct for the whole year in the same year as he/she does for each accounting period. The partially exempt person then compares this figure with the total of the figures for the four accounting periods during the year and adjusts his/her liability accordingly. If he/she has deducted more input tax during the year than the figure shown on the annual adjustment calculation, the difference must be repaid to the IRAS. Conversely if the partially exempt person has deducted less input tax, he/she is entitled to an additional credit. These adjusted amounts should be reported on the next GST return after the tax year.

If the calculation shows that the taxable person has not exceeded the *de minimis* threshold for the year as a whole, he/she is entitled to claim full input tax recovery for the whole year (reg 36).

When to compute the annual adjustment

Registered persons whose accounting year coincides with 31 March, eg 31 March 2016, will complete GST returns for the periods ended 30 June 2016, 30 September 2016, 31 December 2016 and 31 March 2017. Such businesses should ensure that the annual adjustment is calculated after completion of the four quarters, and any adjustment is recorded on the return after the longer period ends, eg 30 June 2017 (reg 36(2)(b)).

Law: reg 25(5)–(8), 36 of the Goods and Services Tax (General) Regulations

¶9-190 Change of use

A partially exempt taxable person may attribute input tax to taxable supplies and discover that the supplies were, in fact, exempt. For example, an insurance company may buy a computer for use wholly in its general insurance business (which is a taxable activity), but subsequently use the machine wholly for its life insurance business (exempt). In these circumstances, the original input tax on the purchase may well have been attributed exclusively to the taxable supplies and recovered in full.

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Change in asset use before intended taxable supply was made

Where a taxable person has been credited with input tax which has been attributed to an intended taxable supply, and during a period of six years from the first day of the prescribed accounting period in which the attribution was determined, the taxable person uses the supply for making an exempt supply before the intended taxable supply was made, the taxable person must, in his/her next return, account for such proportion of the input tax credited as is attributable to the exempt supply (reg 37(1) and (2)).

Change in proportion of taxable supplies to exempt supplies

It should be noted that a reduction in the proportion of taxable supplies to exempt supplies made by a partially exempt person may also require an adjustment of input tax credited (reg 37(1)(iii)).

Change of land use

Regulation 37(2) will not apply to a change of land use rezoned as "Residential" or "Rural Centre and Settlement" in the Master plan under the *Planning Act* (Cap 232) (reg 37(4)).

Assets acquired pursuant to a transfer of business as a going concern

Input tax is deemed to be claimed by the transferee on the date of transfer for assets acquired under a transfer of business as a going concern (s 34A(1); see also ¶21-160). If during a period of six years after the transfer, the transferee changes the asset use, or intention for asset use, or a reduction in the proportion of taxable supplies to exempt supplies occurs, the transferee may be required to account for an amount of input tax deemed to have been deducted in the transferee's GST return (reg 38(1)(i)–(iii)).

The value of supply for the purposes of calculating the deemed input tax amount shall be in accordance with s 17 without the addition of tax (s 34A(2)).

Adjustment in favour of taxpayer

The converse applies where input tax is attributed to an intended exempt supply and, before any exempt supply is made, a taxable supply takes place. In those circumstances input tax which has not been claimed can be claimed in the next GST return (reg 39).

Law: s 17, 34A of the *Goods and Services Tax Act*; reg 37(1), 37(2), 37(4), 38(1), 39 of the Goods and Services Tax (General) Regulations; Master Plan under the *Planning Act* (Cap 232)

¶9-200 Special input tax recovery for an Approved Consolidator or Approved Refiner under the Approved Refiner and Consolidator Scheme

Special input tax recovery for an approved consolidator (AC)

To relieve the costs associated with the refining of IPMs, an AC who consolidates materials containing gold, silver or platinum (eg scrap materials) for supply to specified refiners for refining into IPMs will be allowed to claim input tax under the Approved Refiner and Consolidator Scheme (ARCS) special input tax recovery scheme despite the subsequent supply being an exempt supply.

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The scope of input tax recovery depends on whether the AC is a bank or non-bank.

AC is a non-bank

Where the AC is a non-bank,

- full input tax claims are allowed on expenses incurred for the purchase of goods for conversion into IPMs and the making of its first sale of newly-refined IPMs
- full input tax claims are allowed on direct expenses incurred for the making of taxable supplies (eg zero-rated supply of IPMs or supply of non-IPMs)
- input tax claims incurred on overall business costs/expenses for the making of both taxable and exempt supplies, also known as "residual input tax" (eg rental, utilities etc), are allowed to the extent that they are attributable to the making of taxable supplies and the first sale of newly-refined IPMs based on the apportionment formula as follows:

$$\left\{ \text{Residual input tax} + \text{Input tax incurred for the making of reg 33 exempt supplies} \right\} \times \frac{\text{Value of taxable supplies + value of first sale of newly refined IPM}}{\text{Value of total supplies}}$$

AC is a bank

Where the AC is a bank,

- full input tax claims are allowed on the purchase and import of precious metals, regardless of purity. However, accompanying services such as. insurance charges, storage fees, refining fees, etc, are not allowed in full
- input tax claims on other expenses (except for disallowed expenses under reg 26 or 27) incurred in the course or furtherance of its business will be subject to the fixed input tax recovery rate.

Special input tax recovery for an approved refiner (AR)

On the basis that its principal business is precious metals refining, an AR is able to, under the ARCS special input tax recovery scheme, claim all input tax incurred in the course or furtherance of business, except for expenses specifically disallowed under reg 26 and 27 (see ¶5-170), and provided that all input tax recovery conditions are met (see ¶5-140).

The IRAS e-Tax Guide — GST: Approved Refiner and Consolidator Scheme (ARCS) provide full details of the ARCS scheme.

Law: s 33(2), 33A, 37A of the *Goods and Services Tax Act*; reg 26, 27, 42A, 46A of the Goods and Services Tax (General) Regulations

IRAS Practice: IRAS e-Tax Guide — GST: Approved Refiner and Consolidator Scheme (ARCS)

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CHAPTER 7
ZERO-RATED SUPPLIES

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Summary

- Where goods and services are zero-rated, no GST is charged and the supplier receives a credit or refund for GST on business inputs.
- Exports of goods will be zero-rated.
- Certain international services will be zero-rated.
- Certain long-term contracts will be zero-rated.

¶11-100 Meaning and effect of zero-rating

The general rule for determining liability to GST in respect of a supply is that the standard rate of GST applies unless the supply is explicitly included in some category which qualifies for relief. An important relief is that offered by zero-rating.

If a supply falls into a zero-rated category, then it is treated as a taxable supply, but the GST rate is 0%. Thus, the supplier does not have to account for any GST on the supply. However, because a zero-rated transaction is still treated as a taxable supply, the supplier can recover input tax on purchases incurred by the business. This is, of course, subject to the supplier being registered for GST (either because the supplier's turnover exceeds the registration threshold of $1m, or the supplier applies and is accepted to be registered voluntarily if the supplier's turnover is below the threshold).

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Therefore, a trader who makes zero-rated supplies is in a highly favourable GST position — the trader does not charge GST on zero-rated supplies made and can obtain a refund for any GST paid on inputs. This contrasts with a person who makes exempt supplies. That person does not charge GST but is unable to claim back GST on inputs (see ¶7-100).

The 0% rate applies to supplies of:

- exported goods (see ¶11-120 and ¶11-250)
- exports of certain categories of "international services" (see ¶11-140)
- certain long-term contracts.

The zero-rating of exported goods and international services results from a basic principle: that GST should not increase the price of overseas supplies. The GST scope is therefore effectively confined within Singapore, and, as a general rule, its effect is felt only on goods and services consumed in Singapore.

Law: s 21 of the *Goods and Services Tax Act*

¶11-110 Basic provisions

Section 21 of the *Goods and Services Tax Act* outlines the zero-rating reliefs. This section sets out the consequences of zero-rating applying to a supply, and specifies zero-rating in respect of exports of goods and certain international services.

Zero-rating overrides exemption rule

Zero-rating overrides exemption because of the inclusion of the words "whether or not tax would be chargeable on the supply apart from this section" in s 21(2). Therefore, if a supply could fall both within the zero-rating provisions of s 21, and the exemptions provided in the Fourth Schedule,

zero-rating would take precedence. This provision will benefit many partially exempt businesses in Singapore that make, for example, supplies of financial services which qualify as international services, which will therefore be zero-rated, and not exempt.

Law: s 21, 21(2), Fourth Schedule to the *Goods and Services Tax Act*

¶11-120 Export of goods

Generally, a supply of goods is zero-rated if the goods are exported or to be exported (s 21(1) of the *Goods and Services Tax Act*; reg 105 of the Goods and Services Tax (General) Regulations). However, the form of words used in granting the zero-rating is such that it is not sufficient merely to export the goods in order to qualify for zero-rating.

Section 21(6) states that zero-rating only applies to a supply of goods if the Comptroller is "satisfied" that the supplier has:

- exported them, or
- shipped them for use as stores on a voyage or flight to or from a destination outside Singapore, or as merchandise for sale by retail to persons carried on such a voyage or flight in a ship or aircraft.

> **Example:**
>
> For example, spare parts supplied as stores to a foreign-going ship will be zero-rated, provided the supply is evidenced by a signed acknowledgment of receipt by the master of the vessel.

Conditions and documentation requirements for zero-rating of exports

Zero-rating in the said business scenarios is subject to satisfying the relevant conditions with the proper documents maintained as listed in the IRAS e-Tax Guide — A Guide on Exports. With regard to (ii) and (iii), the relevant conditions and documentation requirements as listed in the IRAS e-Tax Guide — A Guide on Exports must be satisfied in order to zero-rate the supplies to local customers.

Examples of common export arrangements

In the IRAS e-Tax Guide — A Guide on Exports, the IRAS outlines various "export" arrangements which are common in Singapore as well as the export documents that must be retained before zero-rating is applicable. The e-Tax Guide highlights which transactions can be zero-rated and which are subject to GST.

> **Example 1:**
>
> A Singapore supplier delivers goods to an overseas customer's local freight forwarder in Singapore, and raises an invoice to the overseas customer. This can be treated as a zero-rated export by the supplier even though such documents as the bill of lading, airway bill, etc, are not in the supplier's name. However, it is necessary to evidence this transaction by keeping normal export documentation, as well as written instructions from the overseas customer asking the supplier to deliver the goods to its freight forwarder or local agent, together with an endorsed delivery note to the freight forwarder.

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> **Example 2:**
>
> Local Company A sells raw materials to Company B in Malaysia but delivers the goods to Company C in Singapore for processing into completely different goods such that the original goods lose their identity, and the new goods are then exported to Company B. Does the supply from A to B qualify for zero-rating? The answer is no, because the original goods sold are not those subsequently exported. Another important point to consider is that the goods have lost their identity and cannot be separately identified in their original form in the finished product exported. Moreover, the exported goods have increased in value. The original sale from A to B must be standard-rated.

It is important to ensure that zero-rating on the export of goods is applied only where the scenario fits one of the scenarios described in the IRAS e-Tax Guide — A Guide on Exports, and the export documents relating to that particular scenario are retained. Where the export scenario does not fully fit the description indicated in the e-Tax Guide, pre-approval should be sought from the IRAS.

Law: s 21(1), 21(6) of the *Goods and Services Tax Act*; reg 105 of the Goods and Services Tax (General) Regulations

IRAS Practice: IRAS e-Tax Guide — A Guide on Exports

¶11-121 Hand-carried exports

Goods hand-carried out of Singapore via Changi International Airport are not zero-rated under s 21(6) of the *Goods and Services Tax Act* but are governed under s 21(7) of the *Goods and Services Tax Act* and reg 105A of the Goods and Services Tax (General) Regulations. This is known as the Hand-Carried Exports Scheme.

This scheme is compulsory for all GST-registered persons who export their goods by hand-carrying them out of Singapore via Changi International Airport and who wish to zero-rate the supplies of such goods. It does not apply to exports hand-carried out of Singapore via other ports and airports in Singapore as well as goods purchased by departing passengers from shops located after the immigration check-in area of Changi International Airport.

Conditions for zero-rating of hand-carried exports

Under the scheme, the hand-carried goods must be supported by a valid export permit (also known as Out Permit and Cargo Clearance Permit) taken up by the GST-registered person. This is regardless of the value and quantity of the goods. The person bringing the goods out of Singapore must present the export permit together with the goods and the supporting invoices/tax invoices to the designated Singapore Customs counters at the airport for inspection of the goods and endorsement of the export permit, and depart from Singapore within 12 hours after getting the endorsement by Singapore Customs on the export permit.

Documentary requirement for zero-rating of hand-carried exports

The GST-registered person must obtain the original export permit endorsed by Singapore Customs within 60 days of the date of supply of the goods and maintain this document in order to support zero-rating.

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Absence of endorsed export permit

If the GST-registered person has charged and collected GST from the customer for the sale but has not received the endorsed export permit at the time of filing the GST return for the prescribed accounting period in which the sale takes place, the GST-registered person must account for output tax on the sale in the GST return. The output tax previously accounted for in the person's GST return can only be claimed back if and when the GST-registered person receives the endorsed export permit and refunds the tax to the overseas customer.

Mandatory nature of Hand-Carried Exports Scheme

As compliance with this scheme is mandatory, GST-registered persons would need to apply for exemption from the scheme if they meet the qualifying conditions as listed in the IRAS e-Tax Guide — GST: Guide on Hand-Carried Exports Scheme.

Documents and records to be maintained

To qualify for zero-rating of hand-carried goods, the following documents should be maintained for at least five years:

- a list of the invoices/tax invoices and export permits issued under the scheme
- copies of the invoices/tax invoices issued for the goods sold
- original copies of the export permits endorsed by Singapore Customs
- evidence of payment made to the customer for the refund of GST that was previously charged and collected from the customer at the time of the sale (in the case where the local supplier has standard-rated the supply at the time of sale and subsequently made a refund of GST to the customer, after the export permit that contains the original endorsement of Singapore Customs is received).

Gold and jewellery hand-carried out of Singapore via Changi International Airport

With effect from 1 April 2009, where gold is hand-carried out of Singapore via Changi International Airport by the jeweller or an overseas customer of the jeweller, the jeweller can zero-rate the supply of the hand-carried goods if the required documents as mentioned in the IRAS e-Tax Guide — GST: Guide on Hand-Carried Exports Scheme are maintained.

Law: s 21(6), 21(7) of the *Goods and Services Tax Act*; reg 105A of the Goods and Services Tax (General) Regulations

IRAS Practice: IRAS e-Tax Guide — GST: Guide on Hand-Carried Exports Scheme; IRAS e-Tax Guide — GST: GST and the Gold Jewellery Industry; IRAS e-Tax Guide — A Guide on Exports

¶11-130 Evidence of export

The Comptroller may only be prepared to be satisfied that the goods have been exported if the supplier retains and can produce evidence of the export in a form specified by the Comptroller (as stated in the IRAS e-Tax Guide — A Guide on Exports).

60-day rule

As an administrative concession, taxpayers are allowed up to 60 days after the date of supply to obtain all export documents. It is crucial that the export documents bear the claimant's name and are adequately maintained by the claimant to be produced upon request by the IRAS. The aforesaid is especially true where the goods are exported by freight forwarders, shipping agents or other third party logistic service providers.

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Extension of the 60-day rule

The Comptroller recognises that there are situations where businesses may not be able to comply with the 60-day rule and is prepared to extend the 60-day period under certain business scenarios as follows:

(i) goods delivered for kitting/packing/assembling/dismantling before the final products are exported

(ii) construction and supply of oil field and gas field equipment to both overseas and local customers

(iii) manufacture of customised equipment and machinery, or

(iv) procurement of specific goods for overseas customers.

Subsidiary export certificate and note of shipment

Subsidiary certificates can be issued by freight forwarders for exports and imports relating to goods consolidated for shipment.

The subsidiary export certificate and note of shipment can be issued by either a freight forwarder or handling agent when the primary export evidence, ie airway bill or bill of lading, is not in the name of the individual exporters or suppliers of goods. The subsidiary export certificate and note of shipment may be required as evidence for export under certain export scenarios (see IRAS e-Tax Guide — A Guide on Exports). It is important to ensure that the subsidiary export certificate and note of shipment received from the freight forwarder contain all the relevant information prescribed by the IRAS.

Subsidiary export certificate

The subsidiary export certificate must retain the following details:

(a) the words "Subsidiary Export Certificate"

(b) serial number of certificate

(c) export permit number and date of departure

(d) exporter's/supplier's name and address

(e) airway bill or bill of lading number/vehicle number (for export via land)

(f) description and quantity of goods

(g) mode of export, eg air/sea/land, and

(h) name and signature of authorised person (not necessary if certificate is computer generated).

Where the freight forwarder/handling agent issuing the subsidiary export certificate is different from the freight forwarder/handling agent who is acting on behalf of the local supplier, the certificate must contain the following additional information:

- the name,
- address, and
- GST registration number (if applicable) of the freight forwarder/handling agent acting for the local supplier.

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Subsidiary export certificate register

The issuer of a subsidiary export certificate would be required to retain a register which includes the following details:

(a) subsidiary export certificate number

(b) outward permit number and permit date

(c) number of subsidiary export certificates issued as per consolidated shipment

(d) customer's name and address

(e) description of goods, and

(f) value of goods.

Note of shipment

The note of shipment must retain the following details:

(a) freight forwarder's/handling agent's name, address and GST registration number (if applicable), with the signature and designation of the person who issued it

(b) details of the goods received from the exporter. A copy of the tax invoice/invoice or delivery note can be attached instead of repeating these details. The note of shipment must make clear reference to the attached documents

(c) the words "For Export Only"

(d) details of shipment as follows:

  (i) name of exporter/supplier

  (ii) flight number/vessel number/vehicle number (for export via land)

  (iii) airway bill/bill of lading number.

The IRAS, in its e-Tax Guide — A Guide on Exports, has specified the various types of documentary evidence that will be required to be produced by taxable persons in order to substantiate a zero-rating relief on the export of goods.

Any business registered for GST will therefore need to ensure that the evidential requirements are carefully adhered to. Zero-rating a supply which is not supported by evidence may lead the IRAS to conclude that the goods have not left Singapore but have been sold domestically. An assessment for under-declared tax, with the consequential risk of penalties, may be the inevitable result.

IRAS Practice: IRAS e-Tax Guide — A Guide on Exports

¶11-131 Export procedures

Exporters are required to take up appropriate export permits when exporting goods from Singapore. The type of permit to take up will depend on the type of goods (eg controlled or non-controlled) being exported and the nature of the export (eg whether the goods are exported under schemes like the Temporary Export Scheme, etc).

Controlled goods

Generally, controlled goods mean any goods for which a permit, licence or any form of approval is required by a Competent Authority under any written laws in Singapore. The export permit is required to be taken up before the goods are exported.

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Advance Export Declaration

With effect from 1 April 2013, for the purpose of credible and effective risk assessment to supply chain security, Singapore Customs require all declarations to be submitted before goods (including non-controlled and non-dutiable goods) are exported by sea and air. This is in accordance with the World Customs Organization SAFE Framework of Standards to Secure and Facilitate Global Trade.

OUT Permit

An outward (OUT) permit has to be obtained through Singapore Customs' TradeNet® to cover the following export of goods:

- removal of dutiable goods from a licensed warehouse for export
- removal of non-dutiable goods from a zero GST (ZG) warehouse, and goods under the Major Exporter Scheme (MES) for export
- removal of goods for re-export which have been earlier imported temporarily under the Temporary Import Scheme, and
- temporary export of goods abroad which are intended to be re-imported.

The following table details the types of OUT permit to be taken up depending on the type of goods exported:

Type of goods	*Mode of transport*	*Type of permit*	*Requirements*
Strategic goods under Tier 1 of the Strategic Trade Scheme	Sea, air, road or rail		Permit must be obtained 5 days before the goods are exported out of Singapore
Non-controlled/ non-dutiable goods	Sea or air	OUT Permit	Permit must be obtained before the goods are exported out of Singapore
	Road or rail		Permit must be obtained before the goods are exported out of Singapore
Controlled/dutiable goods	Sea, air, road or rail		Permit must be obtained before the goods are exported out of Singapore
Controlled/non-controlled goods previously imported under the Temporary Import Scheme	Sea, air, road or rail	OUT Permit (Temporary Consignment)	Permit must be obtained before the goods are exported out of Singapore
Controlled/non-controlled goods that are exported under Temporary Export Scheme		OUT Permit (Re-imported Goods)	

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The exporter can issue the actual invoice/commercial invoice for export purposes but is required to declare the export value based on the FOB (Free On Board) value of the goods in the export permit application.

Where the goods relate to strategic goods, a Tier 1 permit is required for the export of goods controlled under the Strategic Goods Control List (available from the Singapore Customs website).

Please see ¶11-130 for documents that must be maintained to substantiate zero-rating on the export of goods.

Law: s 34, 41 of the *Customs Act*

¶11-133 Tools or machines used in manufacturing goods for export

The supply of prescribed tools or machinery used in the manufacturing of goods for export by any taxable person may be zero-rated.

Regulation 106 states that a prescribed tool or machine refers to any mould, jig, pattern, template, die, punch or similar tool which:

- is integral to the manufacture of the goods, and
- is highly customised or specialised in nature for the sole purpose of the manufacture of the goods.

A manufacturer may zero-rate the following local supplies made to an overseas customer who is not registered for GST in Singapore:

- supply of a "prescribed tool or machine" retained to manufacture goods in Singapore, including the development of prototypes of the tool or machine, and
- supply of services rendered directly in connection with the prescribed tool or machine located in Singapore, such as modification and repair of the tool or machine.

Zero-rating conditions for the supply of tool or machines

The above zero-rating will apply if all the following conditions are satisfied:

(i) the local manufacturer has been contracted by the overseas customer to make or purchase the tool or machine

(ii) the tool or machine is used by the local manufacturer or its related company to manufacture goods for the overseas customer

(iii) the tool or machine must not be used, consumed or made available in Singapore to any person other than the local manufacturer, its related company or the overseas customer

(iv) the supply of the tool or machine, or prototypes, is separate from the local manufacturer's supply of the manufactured goods to the overseas customer

(v) more than 50% of the manufactured goods are exported out of Singapore, and the local manufacturer must hold relevant export documents to show this

Alternatively, if the local manufacturer is an approved contact manufacturer under the Approved Contract Manufacturer and Trader Scheme (ACMT CM) and the local manufacturer delivers the manufactured goods locally to another ACMT person, condition (v) is considered to be satisfied. This is provided that all requirements of the ACMT scheme are met in respect of the local delivery of the manufactured goods and the local manufacturer maintains the documents required under the ACMT scheme.

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(vi) the tool or machine must be either:

- exported out of Singapore, or
- disposed of or destroyed,

when it is no longer needed for the manufacture of goods for the overseas customer, and

(vii) where the tool or machine, or its prototypes, is/are subsequently disposed of or destroyed in Singapore based on the overseas customer's instructions or due to spoilage, the local manufacturer must maintain relevant documentation in relation to the disposal or destruction.

Supply and export of tool or machine belonging to overseas customer

Import of tool or machine belonging to overseas customer

Where the local manufacturer imports the tool or machine on behalf of the overseas customer under s 33A of the *Goods and Services Tax Act* into Singapore, if the local manufacturer has an import GST scheme status (eg MES or ACMT), then the local manufacturer may import the tool or machine with GST suspended. If no special scheme is used to import the tool or machine, GST incurred may be recovered on behalf of the overseas customer by claiming the input tax in the GST return that corresponds to the date of import.

Disposal or destruction of tool or machine belonging to overseas customer

Where the tool or machine is disposed of or destroyed locally or returned to the overseas customer by the local manufacturer at the end of the production cycle for a consideration, then it must be treated as a standard-rated supply based on the consideration received. However, if no consideration is received, there is no need to account for GST on the tool or machine. Nevertheless, the necessary documentation should be maintained to support the GST treatment of the tool or machine.

Law: s 21A, 33A of the *Goods and Services Tax Act*; reg 106 of the Goods and Services Tax (General) Regulations

IRAS Practice: IRAS e-Tax Guide — Zero-rating of Tools or Machine used in Manufacturing of Goods for Export to Overseas Customers

¶11-135 Bunkering

A supplier can zero-rate the supply of bunker fuel delivered in Singapore if the supplier delivers, or arranges for its supplier to deliver, the fuel directly on board a vessel bound for a destination outside Singapore.

It is important that the fuel is directly delivered on board the vessel and not through the customer. This is to ensure the supplier retains custody over the fuel and control over subsequent delivery arrangements, in order to ensure the certainty of the fuel delivery on board the vessel in question.

The IRAS requires the following documents to be maintained:

- purchase order
- written instructions from the customer to deliver the bunker fuel to the vessel (this may be included in the purchase order)
- sales invoice

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GST reporting requirements for an Approved Refiner or Approved Consolidator

The AR or AC is still required to report as a standard-rated supply, the output tax waived when making a supply to an approved AR or AC, as well as to report as a taxable purchase, the import of goods with GST suspended at point of importation.

For more information on the ARCS, please refer to the IRAS e-Tax Guide — GST: Approved Refiner and Consolidator Scheme (ARCS).

Law: s 33(2), 33A, 37A, 37B of the *Goods and Services Tax Act*; reg 26, 27, 42A, 46A of the Goods and Services Tax (General) Regulations

IRAS Practice: IRAS e-Tax Guide — GST: Approved Refiner and Consolidator Scheme (ARCS)

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CHAPTER 9
IMPORTS OF SERVICES — "REVERSE CHARGE" SCHEME

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Tax point .... ¶15-120

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¶15-100 Imports of prescribed services ("reverse charge")

Applying the normal place of supply rules for services in the Goods and Services Tax Act, a reading of s 13(4) would mean that a service will be within the scope of Singapore GST only if the supplier belongs here. However, s 14 varies the normal place of supply rules for certain specified services from the place where the supplier is established to the location of the recipient. The services have not been prescribed yet.

Operation of the reverse charge system

The way s 14 operates is on a self-supply basis. The recipient of the supply calculates GST, where applicable, on the charge for the imported services, and accounts for this as output tax in the GST return for the period in question. At the same time, the recipient of the supply gets a corresponding input GST relief, subject always to any restriction under the partial exemption rules (see ¶9-100). This system is known as the "reverse charge".

During the Select Committee hearings on the then-proposed GST legislation, the Committee recommended that the reverse charge should not be imposed on either fully taxable or exempt businesses.

For a fully taxable business, the reverse charge scheme was an unnecessary accounting exercise. The recipient would charge itself output tax and then claim it as an input tax credit.

The reverse charge would only have an impact on businesses making exempt supplies, eg financial institutions. However, as most of the services received from abroad would have no local equivalent, applying the reverse charge would unnecessarily increase costs to Singapore businesses.

Note that since 1994, the operation of the reverse charge has not been activated, although s 14 allows the Minister to make subsidiary legislation to apply the reverse charge to specific services, if need be. Therefore all imports of services are presently outside the scope of GST.

Law: s 13(4), 14(1) of the *Goods and Services Tax Act*

¶15-110 Value of imported services

If and when the reverse charge scheme is activated, there may be a possible complication in working out the exact amount of tax due. One view is to seek tax at 7% on the amount actually paid, ie to calculate the tax on top. However, s 14(3)(b) deems the supply to be made for whatever consideration the prescribed services were in fact supplied. Section 17(2) in turn provides for the value (ie the sum on which GST is calculated) to be, in the case of a supply for a consideration in money, such an amount as with the addition of the tax chargeable is equal to the consideration. It may be arguable, therefore, that the GST is on a tax-inclusive rather than tax-exclusive basis.

Law: s 14(3)(b), 17(2) of the *Goods and Services Tax Act*

¶15-120 Tax point

Where prescribed services are treated as made by the recipient under s 14(1), the tax point arises when the supplies are paid for, or, if the consideration is not in money, on the last day of the prescribed accounting period in which the services are performed.

Payment will clearly take place if money actually passes. It may also take place if the item is put to an inter-company account in which there are offsetting entries. Simply accruing a charge will arguably not, however, trigger the application of s 14(1). However, care will always need to be taken where there is any possibility or reciprocal arrangements due to the reference to consideration otherwise than in money.

Law: s 14(1), 14(3)(a) of the *Goods and Services Tax Act*

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CHAPTER 10
MARGIN SCHEME

Introduction .... ¶17-100
Outline of the margin scheme .... ¶17-110
Application for relief .... ¶17-120
Records .... ¶17-130
Gross margin scheme .... ¶17-140
Second-hand motor vehicles .... ¶17-150

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Summary

- Under the margin scheme, GST is payable only on the difference between the purchase price and the sale price of the second-hand or used article.

¶17-100 Introduction

GST is intended ultimately to be collected at the retail stage of the supply chain. When a taxable supply is made to a final consumer, tax is accountable on the supply but cannot be recovered by the consumer. This works well for goods and services which are fully consumed by the consumer, but difficulties arise in the case of certain more durable goods which may pass back into the business system.

Under the ordinary scheme of GST, if goods which have borne tax are sold by the consumer back into the business sector, then supplied to another consumer, tax will arise on this new transfer into the non-business sector. As a result, the same article will be subjected to GST twice.

In order to provide some measure of relief from this double taxation, the Minister has the power to make orders to reduce the tax due on such transactions (s 23). In cases where the margin scheme (previously known as the "second-hand goods scheme") applies, tax will be chargeable on the excess of the consideration for which the goods are supplied over that for which they are acquired (see ¶17-140).

Law: s 23 of the *Goods and Services Tax Act*; reg 80, 81 of the Goods and Services Tax (General) Regulations

¶17-110 Outline of the margin scheme

The basic idea of the margin scheme is to restrict the amount of tax due on second-hand/used goods to the second-hand/used goods dealer's margin, rather than on the entire amount charged on reselling the goods.

The dealer must calculate the difference between the price at which it bought the goods and that at which it sells them, and account for tax at a fraction of 7/107 of the gross profit.

Example: GST on sale made under the margin scheme

A trader buys goods covered by a margin scheme for $10,000, and later resells them for $15,000. Tax is due at 7/107 × $5,000 ($15,000 – $10,000), giving a GST liability of $327.10.

Suppression of tax invoice under the margin scheme

Where goods are sold under the margin scheme, the dealer must not issue a tax invoice showing the amount of GST due. This prevents the dealer from having to reveal its margin to the customer. It also means that, if the customer is a taxable person, the customer will be unable to reclaim the tax charged as input tax.

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Voluntary nature of the margin scheme

However, the second-hand/used goods dealer is not obliged to sell the goods under the scheme and can, instead, sell them under the ordinary GST system, charging tax on the full price.

Law: s 23(2), 23(8) of the *Goods and Services Tax Act*

¶17-120 Application for relief

Prior approval from the Comptroller is required before the margin scheme can be applied.

Requirements under the margin scheme

The following conditions must be met:

- no GST has been charged on the supply to the dealer
- no tax invoice has been issued by the dealer
- the dealer has kept the necessary records and accounts (see ¶17-130).

Goods not eligible for margin scheme

A letting of goods on hire will *not* qualify for the relief.

Goods eligible for margin scheme

Subject to the Comptroller's approval, the scheme will be available to all used goods (eg second-hand sales of motor cars, motor cycles, aircraft, boats, antiques, etc), except land.

Law: s 23(6), 23(8) of the *Goods and Services Tax Act*; reg 80, 81 of the Goods and Services Tax (General) Regulations

¶17-130 Records

In order to apply the margin scheme, the trader must keep certain records. These have not yet been specified by the IRAS but are likely to include records similar to the requirements under the gross margin scheme as follows:

- a stock book identifying the goods concerned, and keeping track of the buying and selling details (eg price, margin and GST due)
- a purchase invoice issued by the trader (to be signed by the seller)
- a sales invoice issued by the trader (to be signed by the buyer).

If these records are not kept, the goods cannot be sold under the scheme and tax must be accounted for on the full selling price (but excluding the Certificate of Entitlement (COE) in the case of motor vehicles).

Law: s 23(8)(c) of the *Goods and Services Tax Act*

¶17-140 Gross margin scheme

Section 23(6) of the *Goods and Services Tax Act* provides that regulations made under this section may make different provisions for goods of different descriptions and for different circumstances under the margin scheme as the Comptroller of GST deems appropriate. The gross margin scheme (GMS) (previously referred to as "dealer's margin scheme"/"second-hand goods scheme") is currently the only scheme that the IRAS has under the margin scheme.

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Who GMS is available to

The GMS is applicable to traders who are in the business of selling second-hand or used goods (eg second-hand motor vehicles, electrical appliances, furniture, jewellery, etc). It is not available to traders making occasional *ad hoc* sales of used goods. This scheme was introduced so that GST is only levied on the difference between the purchase and selling prices of the goods instead of the full value of the goods supplied. This scheme is only available for used goods purchased free of GST and subsequent GST-registered buyers are not allowed to claim any input tax on the goods purchased.

However, the *Goods and Services Tax Act* also allows the scheme to be used for both new and used goods if they are supplied under a hire purchase agreement (¶23-160). This only applies to new goods supplied under hire purchase agreements provided by pure financiers such as banks, finance companies or leasing companies. These are businesses whose sole intention is to provide financing and they do not add a mark-up to the price of the goods being supplied under hire purchase agreements.

Procedure for application of GMS

The GMS is a voluntary scheme for which no approval from the IRAS is required. Traders who wish to apply the scheme are required to make a declaration that all the conditions below and obligations in the IRAS' form — Self-Review of Eligibility and Declaration on Use of Gross Margin Scheme (GMS) will be satisfied and to submit the original form to the IRAS. Thereafter, the trader can commence the application of the scheme.

Requirements under the GMS

In order to apply the GMS, the trader must:

- be in the business of supplying used goods (except the sale of interest in or right over land)
- sell used goods which have been purchased free of GST from:
  - a non-GST registered individual or supplier, or
  - a GST registered supplier who has used the GMS to supply the goods to the trader
- not have been issued a tax invoice or similar document showing GST being charged on the purchase
- not issue a tax invoice or similar document showing GST being charged on the sale of the used goods under the GMS
- not use the GMS for a supply of services (eg renting/leasing of used goods) to customers
- maintain all the records and accounts specified by the IRAS
- account for GST by applying the tax fraction on the excess of selling price over the purchase price for any used goods sold under the GMS.

For second-hand motor vehicles, the trader has to be selling used vehicles falling under the definition of second-hand motor vehicles in the IRAS e-Tax Guide — GST Guide For Motor Vehicle Traders.

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Documents to be maintained under GMS

One of the requirements before a trader is allowed to use the GMS is to assure the Comptroller that the following records and accounts will be maintained:

- a stock book identifying the goods concerned and keeping track of buying and selling details (eg price, margin and GST due)
- a purchase invoice issued by the trader (to be signed by the seller)
- a sales invoice issued by the trader (to be signed by the buyer).

The full details under each category can be found in the IRAS form — Self-Review of Eligibility and Declaration on Use of Gross Margin Scheme (GMS).

Accounting for GST under GMS

The GMS allows the trader to calculate GST only on the gross margin. Gross margin is derived as follows:

Gross margin = Selling price (inclusive of GST) − Purchase price

Note:

- If the selling price is greater than the purchase price, then GST is calculated based on the tax fraction as follows:

  GST = Gross Margin × 7/107

- If the selling price is lower than or equal to the purchase price, the gross margin is treated as nil and no GST has to be accounted for.

Auctioneers' commissions, cost of work done on the goods

The margin on which the charge to tax is based when goods are sold under the scheme is the full selling price (before deducting any auctioneers' commissions, etc) less the price which the dealer paid for the goods. If the dealer has carried out work on the goods, the cost of such work cannot be included in the cost of the goods to the dealer. However, any GST incurred on such costs will be recoverable as input tax.

Losses cannot be offset against gains

It should be noted that the scheme must be applied separately to each article sold under it. If some items are sold at a profit, and others at a loss, the losses cannot be set off against the profit. Tax is due on the full amount of the profits, with no reduction made on other items.

Example : Gross margin scheme

Spyglass Hill Pte Ltd is a car dealer registered for GST. It buys six second-hand cars from another registered car dealer and receives one invoice which is not a tax invoice.

	BUYS	*SELLS*
	$	$
Toyota	20,000	24,000
Mercedes	50,000	49,000

	BUYS $	*SELLS* $
Ford	10,000	11,000
Jaguar	45,000	45,000
Mitsubishi	20,000	15,000
Renault	18,000	24,000
	163,000	168,000

The sales are all made to a company without a tax invoice.

Spyglass paid $18,000 for the Renault. When it inspected it, it found that it needed repairs to put it in working order.

It purchased a new exhaust system costing $300 plus GST of $21, a new door for $200 + $14 GST and a new battery for $60 + $4.20 GST to put the car in shape to sell. It sold the car for $24,000.

The cars can fall within the gross margin scheme.

The margin for each car and the GST due is as follows:

	Cost Price $	*Selling Price* $	*Margin* $	*GST Output* $
Toyota	20,000	24,000	4,000 × 7/107 =	261.68
Mercedes	50,000	49,000	NIL	
Ford	10,000	11,000	1,000 × 7/107 =	65.42
Jaguar	45,000	45,000	NIL	
Mitsubishi	20,000	15,000	NIL	
Renault	18,000	24,000	6,000 × 7/107 =	392.52
				719.62

Spyglass is entitled to recover the GST on the parts purchased. It cannot, however, increase the cost price of the car it purchased by the value of the parts. The margin is still, therefore, $6,000 and the GST payable is $392.52.

Law: s 23(6) of the *Goods and Services Tax Act*

IRAS Practice: IRAS e-Tax Guide — GST: Guide for Motor Vehicle Traders

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¶17-150 Second-hand motor vehicles

In relation to the purchase and sale of second-hand motor vehicles, the IRAS provides for the use of either:

- the GMS (see ¶17-140); or
- the discounted sale price scheme.

Second-hand motor vehicle

A second-hand motor vehicle, for GST purposes, is one which has been registered in Singapore, driven on the road following a retail sale and appropriated (eg test drives, etc) by the dealer for his/her business. Note that the mileage travelled for the purpose of delivery, or the mere registration of the new motor vehicle, will not render it second-hand.

Discounted sale price scheme

Under the discount scheme, a discount factor of 50% is used in computing the value of a second-hand motor vehicle to which the GST is applied. This effectively reduces the GST payable by 50%. The discount factor operates to correct the distortion created by the COE and Additional Registration Fee (ARF) on the market price of a second-hand motor vehicle, as GST is not levied on these components of the price of a new motor vehicle (para 14 of the Third Schedule).

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When discounted sale price scheme should be used

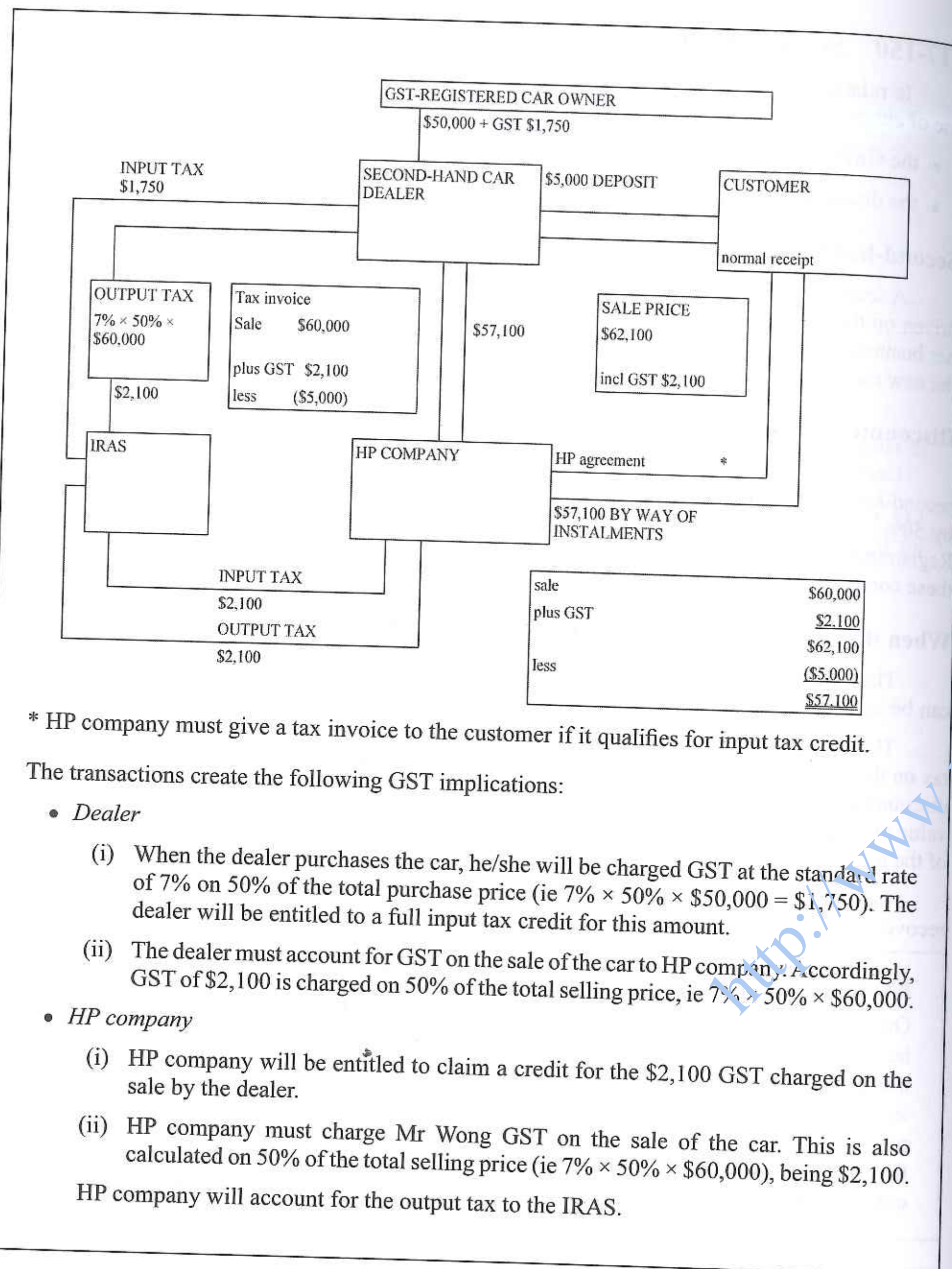
The discounted sale price scheme is not restricted to businesses in the motor vehicle trade and can be used where a business disposes of a motor vehicle in the ordinary course of its business.

The discounted sale price scheme should be used where the business has claimed the input tax on the purchase of the motor vehicle and therefore, is unable to apply the GMS. By applying the discounted sale price scheme, it would in some degree ease the business' cash flow by reducing the value of output tax payable (ie GST on 50% of the sale price instead of the full sale price) on the sale of the motor vehicle.

In addition, the scheme would be beneficial to the customer if it is registered for GST and can recover the GST charged (subject to input tax recovery rules) by the seller.

Example: Purchase and hire purchase (HP) sale

On 5 February 2014, a second-hand motor car dealer purchases a car from a GST-registered business. The dealer purchases the car for $50,000. On 6 February 2014, Mr Wong (an unregistered individual) indicates that he wishes to purchase the car. The dealer agrees to sell the car for $60,000. Mr Wong indicates that he will be required to obtain finance through a hire purchase (HP) company. On 8 February 2014, Mr Wong, having obtained the necessary finance, makes a deposit (first payment) to the dealer of $5,000. HP company pays the outstanding balance to the dealer, and therefore takes title (ownership) to the car.



* HP company must give a tax invoice to the customer if it qualifies for input tax credit.

The transactions create the following GST implications:

- *Dealer*
  - (i) When the dealer purchases the car, he/she will be charged GST at the standard rate of 7% on 50% of the total purchase price (ie 7% × 50% × $50,000 = $1,750). The dealer will be entitled to a full input tax credit for this amount.
  - (ii) The dealer must account for GST on the sale of the car to HP company. Accordingly, GST of $2,100 is charged on 50% of the total selling price, ie 7% × 50% × $60,000.
- *HP company*
  - (i) HP company will be entitled to claim a credit for the $2,100 GST charged on the sale by the dealer.
  - (ii) HP company must charge Mr Wong GST on the sale of the car. This is also calculated on 50% of the total selling price (ie 7% × 50% × $60,000), being $2,100.

  HP company will account for the output tax to the IRAS.

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- *Mr Wong*
  - (i) Mr Wong will be charged GST by HP company, and will be unable to recover this as he is not registered.
  - (ii) Title to the car will be transferred upon completion of the hire purchase period (ie at last repayment).

Law: s 23(6), para 14 of the Third Schedule to the *Goods and Services Tax Act*; reg 27 of the Goods and Services Tax (General) Regulations

IRAS Practice: IRAS e-Tax Guide — GST: Guide for Motor Vehicle Traders

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CHAPTER 11
BAD DEBT RELIEF

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Bad debt relief claim eligibility self-review form .... ¶19-180

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Summary

- A refund of output tax can be claimed where a bad debt has been written off.

¶19-100 Bad debt relief

A special relief, known as "bad debt relief", is available to a supplier who makes a taxable supply but does not receive payment from the customer, and so becomes liable to pay the GST him/herself. If the necessary conditions are met (see ¶19-110), the supplier can make a claim for a refund of that output tax.

Bad debt relief is governed by s 25 of the *Goods and Services Tax Act* and reg 82–90 of the Goods and Services Tax (General) Regulations.

Law: s 25 of the *Goods and Services Tax Act*; reg 82–90 of the Goods and Services Tax (General) Regulations

¶19-110 Conditions for claiming bad debt relief

A claim for a refund of output tax under the bad debt relief provisions can only be made when:

- the claimant has made a supply of goods or services. Thus, only the person who made the original supply can claim, and not, for example, a person to whom the debt has been assigned. However, the debt might be assignable back to the original supplier who then could claim. A similar problem could arise if the business of the supplier and all the business assets are transferred as a "going concern"
- the supply was for a consideration in money
- the claimant has accounted for and paid output tax on the supply
- the claimant has formally written off the debt. The whole or any part of the consideration for a supply is "written off" for GST purposes when an entry is made in relation to that supply in the "refunds for bad debts account" kept under reg 86 (see ¶19-130). The debt is written off in this way even if the one-year time limit has not yet passed. There is apparently no requirement for the write-off to appear in the person's profit and loss account for any period. The amount written off is reduced by any amount which the claimant owes to the purchaser (reg 90(3)). Similarly, the amount written off must be reduced by the value of any enforceable "security" which the claimant holds in relation to the purchaser (reg 90(4)). "Security" means any mortgage, charge or lien or other security
- at least one year has elapsed since the date of original supply or the debtor has become insolvent (ie the debtor has become an adjudged bankrupt, or a company under winding-up, judicial management or receivership)
- the Comptroller is satisfied that all reasonable efforts have been made to recover the debt, and
- the claimant holds the necessary evidence (see ¶19-120) and records (see ¶19-140).

However, no refund will be due unless:

- the value of the supply is equal to or less than its open market value (this is an anti-avoidance provision affecting over-valued supplies)

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- property in the goods has passed to the customer. Finance companies which arrange hire purchase transactions often use what is called a "Romalpa" clause, which is a clause giving the supplier a right to regain possession of the goods if the supplier does not receive full payment. The effect of reg 83(2)(b) is that a "Romalpa" retention of title clause in a contract for supply prevents the supplier from claiming a GST refund. In practice, this problem may not arise if the supplier formally gives up his/her rights under the Romalpa clause or if the goods have actually passed on with good title to a third party and then the supplier makes his/her claim
- a claim is made within five years for supplies made on/after 1 January 2007.

Law: reg 83–90 of the Goods and Services Tax (General) Regulations

¶19-120 Making a GST claim for bad debt relief

When the conditions described in ¶19-110 are met, the supplier can recover from the IRAS any GST originally accounted for on a supply that has become a bad debt, by including an equivalent amount in the input tax box of the GST F5 return.

To meet the necessary conditions, the claimant must maintain the following evidence:

- a copy of the claimant's tax invoice issued to the purchaser, if any
- if there was no obligation to provide a tax invoice (eg the supply was not to a taxable person), a document which shows the time, nature, purchaser and consideration (the amount of the potential refund will usually determine whether a person will make a claim and meet these extra record-keeping requirements)
- documents showing that the claimant has accounted for and paid the GST on the supply (including, for example, accounting records and copies of the GST returns)
- documents showing that the claimant has "written off" the consideration in the accounts as a bad debt, and
- documents showing that the claimant has made all reasonable efforts to recover the debt.

If payments are subsequently received in respect of the debt, the GST element must be repaid to the IRAS (see ¶19-160).

Law: reg 84, 85 of the Goods and Services Tax (General) Regulations

¶19-130 "Refunds for bad debts" account

The claimant must keep a record in a single account known as the "refunds for bad debts account" for each claim, which must contain the following information:

- information to identify the time of supply, nature of supply and purchaser, ie invoice/receipt date and number
- the GST chargeable
- the period in which the claimant accounted for and paid the GST
- any payment received to date
- the outstanding amount (including GST) owed to date
- the amount claimed as a refund
- the prescribed accounting period in which the claim was made.

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It is not necessary to write off the debt for commercial accounting purposes in order to obtain a GST bad debt relief. However, the trader must enter the debt in a "Refunds for bad debts account", which may be maintained outside the main accounting system (see ¶19-110).

Law: reg 86 of the Goods and Services Tax (General) Regulations

¶19-140 Preservation and production of documents for bad debt relief claims

Unless the Comptroller otherwise allows, the claimant must preserve the documents, invoices and records for at least three years from the date of the claim and five years from the last day of the prescribed accounting period.

Examples of how the above rule is applied can be found in the explanatory notes of the Bad Debt Relief: Checklist for Self-Review of Eligibility of Claim.

The claimant must also be ready to produce any such documents for inspection by IRAS GST officers, and to permit them to remove the documents for a reasonable period of time.

Law: reg 87(1), 87(2) of the Goods and Services Tax (General) Regulations

¶19-150 Computation of the GST refund for bad debt relief

The refund is computed by reference to the "outstanding amount" (reg 82(1)) which means:

- the amount of the consideration "written off" if the person had received no payment when the person made the claim, or
- the amount by which the "written off" consideration exceeds any payment (or the total of any payments) received.

Computation of GST element of outstanding amount

The refund is the GST element of the outstanding amount at the prevailing GST rate being 7/107 of the amount if the GST collected on the original transaction giving rise to the debt is at 7%.

Multiple supplies made to same bad debtor

The claimant may have made more than one supply to the same person and not received full payment. In this case, any payment must be attributed to the supplies on the first-in first-out (FIFO) basis (reg 88(2)). This applies even where one or more than the supplies was not taxable (reg 88(1)).

Attribution of payments to specific supplies

The FIFO rule does not apply to the extent:

- that the purchaser (not the claimant) allocated a payment to a particular supply at the time of payment, and
- if the consideration for that supply was paid in full (reg 88(2)).

Such an attribution might be on a remittance advice, or a covering letter sent to the claimant, or on the rear of a cheque. Attribution is important, eg where not all the supplies were standard-rated. If more than one of the claimant's supplies to a person has the same tax point, the payment is apportioned between those supplies (reg 88(3)).

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Example: attribution of payments

A company supplies goods and issues the following invoices:

10 July	$1,000	+	$70	GST	=	$1,070
20 August	$2,000	+	$140	GST	=	$2,140
30 September	$500	+	$35	GST	=	$535
	$3,500	+	$245			$3,745

Payment of $2,000 is received on 30 November.

The payment must be allocated to the earliest of the supplies made (ie to 10 July) and then if there is any residue, to the next earliest and so on.

So the whole of the 10 July debt will be treated as paid, leaving $930 to be carried over against the 20 August debt of $2,140. The bad debt will, therefore, be $2,140 − $930 = $1,210 for 20 August and $535 for September.

The GST claim will be for $1,210 × 7/107 = $79.16 plus $35 = $114.16. However, if the purchaser makes a payment which exactly corresponds to an actual invoiced debt, that invoice should be treated as paid in full even if earlier invoices are outstanding.

Law: reg 82, 88 of the Goods and Services Tax (General) Regulations

¶19-160 Refund clawback

Any bad debt refund must be repaid to the IRAS to the extent of the GST element of any payment subsequently received (reg 89(1)).

Reporting requirements for GST refund clawback

The claimant must include the GST element on the GST return for the period in which the claimant received the payment.

Repayment of GST refund

A claimant must also repay any refund if the claimant fails to comply with the requirements of reg 85–88 (relating to evidence required, the keeping of the "refunds for bad debts" account, preservation of documents and attribution of payments). The repayment must be stated on the GST F5 return in the appropriate box and for the period which the Comptroller designates. If the claimant no longer has to make returns, the claimant must make the repayment at such time and in such form and manner as the Comptroller may direct.

In view of this provision, the claimant should monitor all subsequent receipts in respect of any debts, in case any refunds become repayable.

Law: reg 85–89 of the Goods and Services Tax (General) Regulations

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