

TIME OF SUPPLY FOR CHEQUE PAYMENT

INTRODUCTION

- 1 For GST purposes, a supply is treated as having taken place upon the earliest occurrence of any of the following events:
 - (a) in the case of goods, when the goods are removed from the supplier or are made available to the customer, and in the case of services, when the services are performed by the supplier; or
 - (b) the supplier issues a tax invoice for the supply; or
 - (c) the supplier receives payment for the supply.
- 2 Generally, the determination of the time of supply rarely poses any problem. However, where the time of supply is determined based on event (c), IRAS noted that there are different practices among suppliers when the payment is received by way of a cheque. In such cases, some suppliers have regarded the receipt of a cheque to be the receipt of payment and hence the time of supply, while others have treated the payment as received only when the cheque is presented to a bank.
- 3 This Practice Note is intended to:
 - (a) clarify when payment is received for GST purposes where such payment is made by way of a cheque; and
 - (b) set out the transitional relief that the Comptroller of GST will grant to traders who had received cheque payments before 1 April 1994.

ADMINISTRATIVE PRACTICE

- 4 Based on case law, the receipt of a cheque by a supplier does not amount to the receipt of payment by him. This is because the cheque is only a revocable authority to a bank to pay. Accordingly, no payment has been received by the supplier until the cheque is presented to the bank, honored by the payer and the proceeds of the cheque are credited to the supplier's bank account. However, it is difficult in practice for the supplier to ascertain when the sum, as stipulated on the cheque, is credited to his bank account since he does not know when the bank has cleared the cheque. Furthermore, most banks only reflect the cheque presentation date instead of the cheque clearance date in their bank statement.
- 5 The Comptroller of GST recognises the practical difficulties faced by a trader in determining the time of supply when cheque payment is received by him since he is unable to ascertain exactly when the cheque is cleared by his bank. It has therefore been decided that, as an administrative concession, the date on which the cheque is presented to the bank (ie. the bank-in date) can be taken as the time the payment is

received by the supplier. If the cheque is dishonored, the date on which the new cheque is presented to the bank will be treated as the date on which the payment is received by the supplier.

Transitional relief for suppliers who have not accounted for output tax on supplies on the basis that cheque payment is received prior to 1 April 1994

- 6 Under the GST transitional provisions, if the event mentioned at paragraph 1(a) or 1(c) takes place before 1 April 1994, no GST will be chargeable on the supply. For example, where audit services are provided throughout the calendar year but the full payment for the services is made before 1 April 1994, no GST will be chargeable even if part of the services is performed after 1 April 1994. However, if partial payment is made before 1 April 1994 for services to be performed after 1 April 1994, GST is chargeable on the balance of the payment made after 1 April 1994.
- 7 With the administrative practice and interpretation at paragraph 5 in place, some suppliers may be affected if they have not accounted for output tax in relation to supplies where cheque payments were received before 1 April 1994 but banked in on or after 1 April 1994. These suppliers had not accounted for output tax then because they were not aware that the cheque presentation date would be treated as the date of receipt of payment for GST purposes instead of the cheque receipt date. In order not to unduly penalise these suppliers, the Comptroller of GST is prepared, as an administrative concession, to regard cheques received before 1 April 1994 as payment received before 1 April 1994 if these cheques were banked in on or before 5 April 1994.
- 8 The administrative concession at paragraph 7 above will not be extended to cheque payment received on or after 1 April 1994 for all supplies made on or after 1 April 1994. In such cases, the date on which the cheque is presented for payment to the bank (i.e. the bank-in date) will be used to determine when payment is received by the supplier.