

IRAS e-Tax Guide

GST: Zero-rating of Container Services and the Sale & Lease of Containers (Second Edition)



INLAND REVENUE
AUTHORITY
OF SINGAPORE

Published by
Inland Revenue Authority of Singapore

Published on 26 Mar 2007

First Edition: 26 Mar 2007
Second Edition: 1 Jan 2009 (extensive revision to take
into account the legislative amendment)

© Inland Revenue Authority of Singapore

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording without the written permission of the copyright holder, application for which should be addressed to the publisher. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

TABLE OF CONTENTS

1	Overview	4
2	New Legislation.....	4
3	Qualifying Containers.....	5
4	Container Services.....	5
5	Operational Details	9
6	Contact Information	10
	Appendix 1 : Scenarios on Container Repair and Maintenance Services.....	11
	Appendix 2 : Scenario pertaining to Rebilling of Expenses.....	12

Zero-rating of Container Services and the Sale & Lease of Containers

1 Overview

- 1.1 In Budget 2007, the Second Minister for Finance announced changes to the GST treatment on certain container services and the sale and lease of containers. The new tax treatment recognizes that the use of sea and air containers are an essential part of the international transportation of goods. It also alleviates the compliance burden faced by the suppliers and service providers in tracking the destination of the containers and where the customers belong.
- 1.2 Prior to 1 Apr 2007, the supply of container services and lease of containers can only be zero-rated if the customer is an overseas person and that the containers are to be shipped overseas¹. Other services related to containers that can be zero-rated are handling or storage services that are supplied within any free trade zone or the designated area of a port, terminal or airport as prescribed in the Third Schedule of the Goods and Services Tax (International Services) Order². Thus, if the service provider is dealing directly with the local agent instead of the foreign container lessee or owner, the services cannot be zero-rated. Similarly, the sale of containers can only be zero-rated if the suppliers are certain, at the time of supply, that the containers will be shipped overseas³. In situations where the supplier transacts with the local agent acting on behalf of his overseas customers, it would not be practical and cost effective for the supplier to track the location of the containers.
- 1.3 From 1 Apr 2007 till 31 Dec 2008, the output tax on repair, maintenance and management services performed on sea and air containers used for international transportation of goods and the sale and lease of sea and air containers used for international transportation of goods was relieved by way of Ministerial remission under section 89(2) of the GST Act.
- 1.4 With effect from 1 Jan 2009, the GST Act has been amended to allow the zero-rating of container services and the sale and lease of containers. With the amendments, zero-rating relief on such supplies made on or after 1 Jan 2009 will no longer be covered by remission, hence it will not be necessary to seek prior approval from the Comptroller.
- 1.5 This e-Tax guide explains the qualifying criteria and the operational details in relation to such zero-rating relief concerning containers.

2 New Legislation

- 2.1 To give legislative effect to the zero-rating relief, the following amendments to the GST Act and GST (International Service) Order have been made:
 - a) Section 21(3)(v) of the GST Act – Sale and lease of containers

¹ This is provided under Section 21(3)(g) of the GST Act.

² This is provided under Section 21(3)(l) of the GST Act.

³ This is provided under Section 21(6) of the GST Act.

Zero-rating of Container Services and the Sale & Lease of Containers

- b) Section 21(3)(w) of the GST Act - Container services
- c) Paragraph 9 of GST (International Service) Order 2008
- d) Eighth Schedule of GST (International Service) Order 2008

3 Qualifying Containers

3.1 To apply the zero-rating relief on the supply of sea and air containers and container services, these containers must satisfy two criteria:

- a) they are used or to be used for international transportation of goods; and
- b) they adhere to the definitions prescribed by the Comptroller.

3.2 Sea and air containers that are used or to be used for purposes other than international carriage of goods would be treated as non-qualifying containers. Examples include containers used or to be used for local transportation, storage, dormitory and office.

3.3 The definitions for containers are:-

- a) sea containers shall conform to the standards defined by the International Organisation for Standardization, the Institution of International Container Lessors or any other equivalent organisation⁴
- b) air containers shall conform to the standards for Aircraft Unit Load Devices defined by the International Air Transport Association or any other equivalent organisation

4 Container Services

4.1 Whether a GST-registered supplier is considered as supplying the qualifying container services would depend on whether he has contractually agreed to provide such services to the customer. Existence of contractual agreement (written or verbal) is a question of fact and the Comptroller would consider that the supplier has supplied the qualifying services only if the following two factors are present:

- a) The supplier contracted with the customer to provide the qualifying container services in its own name or capacity; and
- b) The customer is liable to pay the supplier, i.e. in the event of default payment; the supplier has a legal recourse on the debt.

4.2 Qualifying container services include repair and maintenance services, management services and other services as described below.

⁴ Examples: Institute for International Container Lessors ("IICL") and International Maritime Organisation ("IMO")

Zero-rating of Container Services and the Sale & Lease of Containers

Repairs and Maintenance Services

4.3 Repairs and maintenance services performed on qualifying containers can be zero-rated in the following situations:-

- a) Such services are performed on the air or sea container;
- b) Part or component of the air or sea container is removed for repair and reinstalled thereafter;
- c) Part or component of the air or sea container is removed for repair, and returned as a spare; or
- d) Part or component of the air or sea container is removed and replaced by an identical part or component.

4.4 Where a GST-registered supplier contracts to provide repair or maintenance services on the qualifying containers including spare parts or materials which are essential for such services, the whole supply can be zero-rated as container services.

4.5 The types of repair or maintenance services performed on qualifying containers may include:

(a) Repairs and overhauls including maintenance and refurbishment

Examples:

- Minor, major, emergency or structural repairs, including the supply of labour and materials
- Machinery repairs such as repairs on reefer containers' cooling units, including the supply of labour and materials
- Blasting, painting, repainting, remounting and other touch-up jobs to prevent wear and tear and corrosion as well as extend life span of containers
- Replace structure frame or perform additional works on the structure frame or exterior of barrel

(b) Testing of parts and components

Examples:

- Services that ensure containers are fit to carry the intended cargoes which include reading, monitoring, and adjusting of temperatures, air vents, humidity and defrost setting of the reefer containers

(c) Washing, cleaning, fumigating and servicing

Examples:

- Removing stains and disposing of waste materials
- Chemical and normal washing

(d) Inspection and surveying

Examples:

- Pre-trip inspection
Assessment done on the machinery unit of the reefer container to ensure it is in working condition.
- Gate-in survey
Assessment done on the structure of the container after it has been returned to the depot to ensure that it is in working condition.
- Cleanliness survey
Verify that the tank containers are clean, without dirt, odour and water.
- Condition survey
Check for defects and damages on both the interior and exterior of the tank containers.
- On-hire survey
Inspection performed on containers before the lessee accepts the lease containers.
- Off-hire survey
Inspection performed on containers when the lessee returns the containers at the end of the lease. It includes verifying the estimate of repairs (EOR) raised by the depots.
- In-service survey
Inspection performed on the containers after returning from a voyage. It includes verifying the EOR raised by the depots.
- Pre-cool services
Preset temperature level of containers prior to storage or transportation to maintain cargo temperature during transportation.
- Testing of air or water leakage
- Pre- and post-repairs inspections

4.6 Common business scenarios on container repair and maintenance services are illustrated in [Appendix 1](#).

Zero-rating of Container Services and the Sale & Lease of Containers

Management Services

- 4.7 Management services⁵ rendered on qualifying containers can be zero-rated if they are provided to the owner, agent or lessee of the container.
- 4.8 A supplier is generally regarded as supplying management services if it earns a fee through taking charge of all matters relating to import and export of the qualifying containers and taking on the associated risks.
- 4.9 Examples of management services may include:
- (a) Administrative support and handling of containers associated with releasing and receiving of containers to and from customers.
 - (b) Monitoring and supervising the movements of containers
 - (c) Arranging for imports and exports of containers
 - (d) Handling imports and export documents on containers
 - (e) Securing freight
 - (f) Arranging for repair and maintenance of containers
 - (g) Ensuring containers are qualified for international travel and carrying intended cargoes

Other Services

- 4.10 Transportation, storage and handling services that are provided as part and parcel of repair, maintenance and management services can similarly be zero-rated provided:
- a) They are provided in the same contract of the repair, maintenance and management services; and
 - b) They are not standalone services provided to the same customer.
- 4.11 Examples of such services that qualify for zero-rating:
- (a) Depot handling charge⁶ for repair and maintenance of containers
 - (b) Transportation of empty containers between ports and depots for repairs and maintenance
 - (c) Transportation of containers between ports and depots for temporary storage and handling due to transshipment arrangements
 - (d) Storage and handling of damaged containers that are due for repairs
 - (e) Storage and handling of containers until they are ready to be exported

⁵ These are provided in Section 21(3)(w) and paragraph two of Eighth Schedule to the GST (International Service) Order 2008.

⁶ Depot Handling Charge is a fee levied by depot operators whenever a container enters/leaves the depot. It is a consideration for the supply of surveying service performed on container before it can be admitted or discharged into/from the depot area.

Zero-rating of Container Services and the Sale & Lease of Containers

Non-Qualifying Container Services

- 4.12 Where a GST-registered supplier supplies spare parts or materials for repairs and maintenance without providing the repair or maintenance service, such supplies do not qualify to be zero-rated under the provisions for container services. These supplies can only be zero-rated if the materials are exported and the export is supported by the necessary export documents. Otherwise, GST is chargeable at the prevailing rate on these supplies.
- 4.13 In addition, standalone services such as transportation, handling and storage that are not supplied as part of the repair, maintenance or management services do not qualify for zero-rating (GST is chargeable at the prevailing rate) as container services unless they satisfy other provisions for zero-rating of international services. For example, a GST-registered depot operator, who does not provide repair or maintenance services on containers, provides transportation service for containers between ports and depots and between depots. This service cannot be zero-rated.
- 4.14 Other non-qualifying services in relation to containers include:
- (a) Depot audit on repair facility
 - (b) Cargo or transportation survey on loading, unloading and transporting of cargoes
 - (c) Arrangement for mobile crane services
 - (d) Cargo loading and unloading
 - (e) Demurrage and detention charges on delay in return of containers
 - (f) Yard overtime charges on consignee for collecting or returning the containers after regular working hours
- 4.15 Similarly, rebilling of expenses incurred (e.g. depot handling charges, repair charges, etc) in the course of providing services other than repair, maintenance and management of containers cannot be zero-rated under these provisions. This is because the supplier is not contracted to provide container repair, maintenance or management services. Appendix 2 illustrates the scenario pertaining to rebilling of expenses.

5 Operational Details

Qualifying Transactions Occurring between 1 Apr 2007 and 31 Dec 2008

- 5.1 GST-registered suppliers seeking zero-rating on the following categories of supplies that were made prior to 1 Jan 2009 should write to the Comptroller of GST for remission.
- (a) Repair, maintenance and management services performed on sea and air containers used for international transportation of goods; and

Zero-rating of Container Services and the Sale & Lease of Containers

- (b) The sale and lease of sea and air containers used for international transportation of goods
- 5.2 The letter should include a detailed description of services rendered and the various business models with clear illustrations on how their supplies satisfy the qualifying criteria.
- 5.3 The GST-registered supplier is required to keep all commercial documents / evidence to substantiate the request. When required, such documents should be produced to support the remission. In the event that any of the facts / documents presented is found to be inaccurate or dissatisfactory, the remission would be revoked with effect from the date on which approval was given. The GST-registered supplier will be required to repay the tax and penalties (where applicable) that otherwise would have to be paid.

Qualifying Transactions Occurring on or after 1 Jan 2009

- 5.4 GST-registered suppliers can zero-rate the sale or lease of any qualifying air container or sea container, which is used or to be used for the international transportation of goods. Similarly, any supply of repair, maintenance or management services on air container or sea container, subject to the qualifying criteria being met, can be zero-rated.
- 5.5 They need not seek prior approval from the Comptroller to zero-rate their services.
- 5.6 GST-registered suppliers are required to keep all commercial documents / evidence to substantiate the zero-rating. When required, such documents shall be produced to support the GST treatment. In the event that the zero-rating provision is found to be applied incorrectly, the GST-registered supplier will be required to pay the tax that would otherwise have to be paid, as well as penalties (where applicable).

6 Contact Information

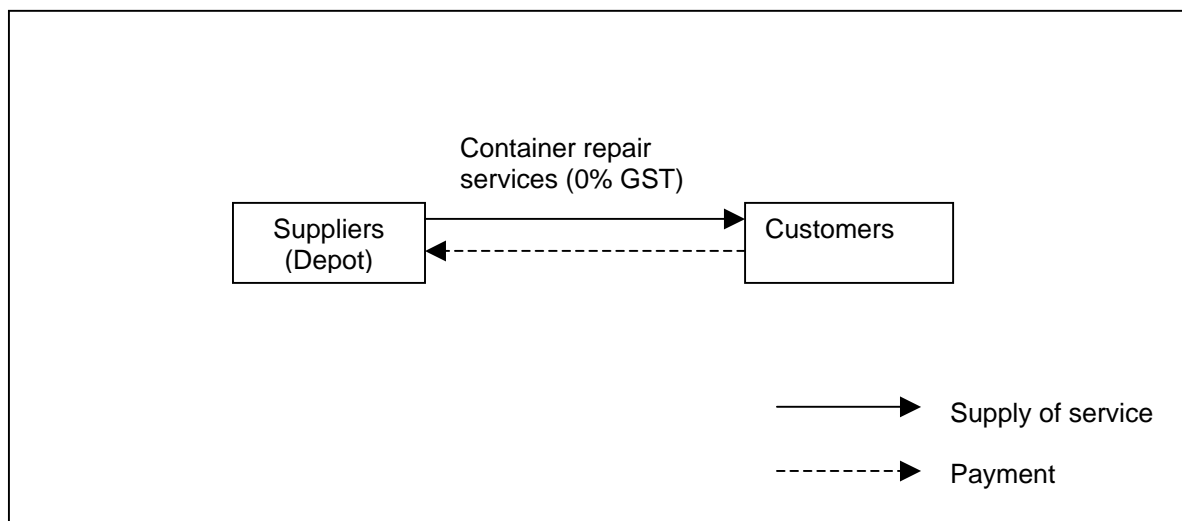
For any clarifications of this e-Tax guide, you may contact us at 1800 – 356 8633 or email us at gst@iras.gov.sg.

Zero-rating of Container Services and the Sale & Lease of Containers

Appendix 1 : Scenarios on Container Repair and Maintenance Services

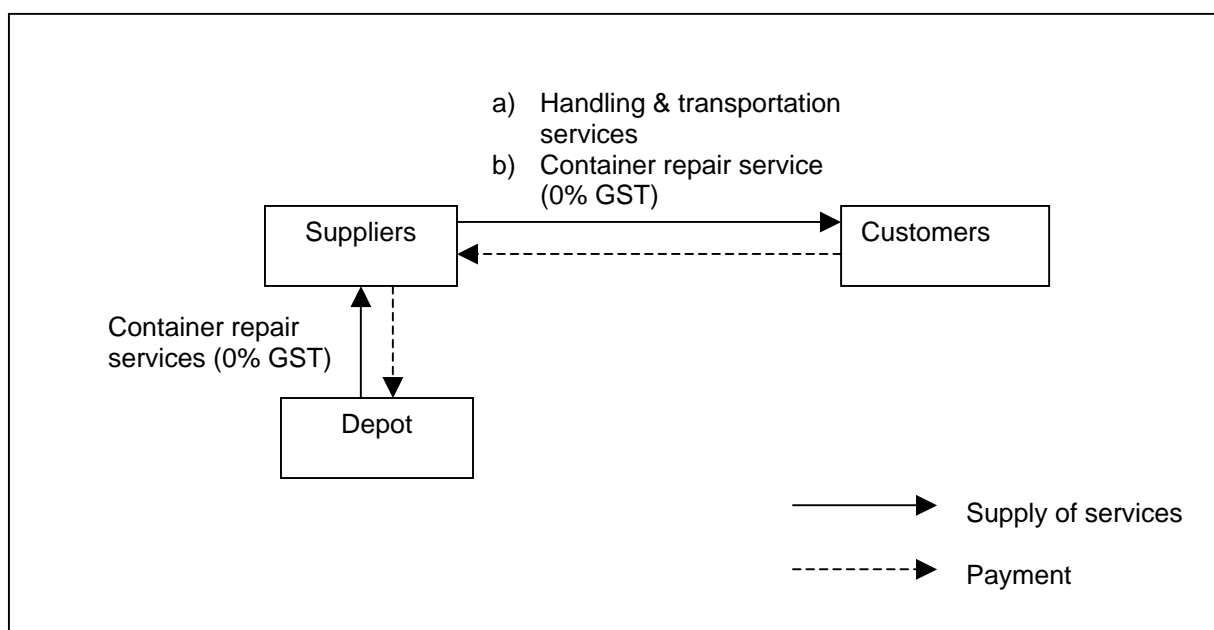
Scenario A

Supplier is contracted to provide container repair services to the customer (local or overseas) and the customer is liable to pay the supplier. Hence the supply can be zero-rated under the provisions for container services.



Scenario B

The supplier has contractual agreement with the customer to provide handling & transportation services on imported goods as well as container repair services. However the supplier sub-contracted the repair services to another depot operator. The supplier is still able to zero-rate the container repair services to the customer even though he does not perform the services himself.



Zero-rating of Container Services and the Sale & Lease of Containers

Appendix 2 : Scenario pertaining to Rebilling of Expenses

The supplier has contractual agreement with the customer to provide only handling & transportation services on imported goods and not any of the qualifying container services. However, the supplier incurs container repair costs in the course of providing handling services and would recover this from his customers. In the absence of any contractual supply to provide container services, any billing by the supplier to the customer on the repair costs (even though there is no mark-up added) would be consider as rebilling of expenses which has to be standard-rated.

