

IRAS e-Tax Guide

GST : Zero-Rating Of Tools Or Machine Used In Manufacturing Of Goods For Export To Overseas Customer (3rd Edition)



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Zero-rating of Tools or Machine Used In Manufacturing of Goods For Export To Overseas Customers

1 Overview

- 1.1 In his 2006 Budget Speech, PM and Minister for Finance announced that the supply of tools used in the manufacturing of goods for export by any taxable person to an overseas customer may be zero-rated. The rationale for allowing zero-rating for such supplies is to improve the cost competitiveness of local manufacturers and recognize that tools are business inputs of overseas clients. Therefore, with effect from 1 July 2007, the GST Act was amended to allow for zero-rating of qualifying supply of prescribed tools by any taxable person to an overseas client.
- 1.2 With effect from 1 January 2009, the GST Act has been amended to extend the zero-rating treatment to include qualifying supply of prescribed machine.
- 1.3 This guide sets out:
- (a) The change of GST treatment in zero-rating the supply of tools or machine, and related services, used in connection with the manufacturing of goods for export, to overseas persons when certain conditions are met; and
 - (b) The GST treatment for tools or machine belonging to overseas customers and imported for use in Singapore.

2 GST Treatment for Supply of Tools or Machine and Related Services Before 1 April 2006

- 2.1 The tools of a manufacturer used in manufacturing processes are like any other overheads (depreciation, rent, etc.) that are spread over the volume of production and recovered by the manufacturer from the price of finished goods. The manufacturer should charge GST on the supply of finished goods except for goods that are exported, in which case he may zero-rate the supply. The manufacturer may claim the GST incurred on the cost of the tools if he satisfies the conditions for input tax claims.
- 2.2 Some manufacturers may have a different business model where the tools or machine used in the manufacturing processes are supplied separately from the finished goods. For example, foundries in the semiconductor industry may contract with customers to supply the mask and the wafers separately so as to protect the intellectual property of the customer. Contract manufacturers may also contract to supply the tool or machine and the finished goods separately where the customer requires a high degree of customization of the tool or machine. Tools that are supplied separately by manufacturers include mould, die or mask reticles needed in the manufacturing process.
- 2.3 In situations where the manufacturer supplies to the customers tools or machine that he uses subsequently to manufacture finished goods in Singapore, he is making a local supply of the tool or machine and should

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charge GST accordingly. As for his finished goods, he should charge GST if the goods are delivered locally or may zero-rate if the goods are exported out of Singapore.

- 2.4 In the course of designing the tool or machine for the customer, some manufacturers may have to develop several prototypes before the final tool or machine meets the specifications of the customer. The rejected prototypes may be disposed of locally for that overseas customer. As the rejected prototypes are disposed of in Singapore, the development of the prototypes is a local supply and GST is chargeable.
- 2.5 Some manufacturers may also provide services to modify the tool or machine according to the customer's specifications or repair the tool or machine as a result of wear and tear. As these services are rendered on tools or machine that are located in Singapore, the manufacturer is making a local supply of services. Hence, GST is chargeable.
- 2.6 For local customers that are registered for GST in Singapore, they may claim the GST incurred on the purchase of the tool or machine and related services if they satisfy the normal input tax conditions. For overseas customers, as they are unlikely to be GST-registered, they could not recover the GST incurred on the purchase of the tool or machine and related services. Overseas customers therefore would bear a GST cost.
- 2.7 Local manufacturers have represented that the irrecoverable GST charged to overseas customers has put them at a less competitive position. In view of this, the Minister has decided to give GST relief to local manufacturers who are supplying tools or machine and related services to overseas persons if certain conditions are met so as to alleviate the GST cost borne by the overseas persons.

3 Zero-rating of Tools or Machine and Related Services to Overseas Persons On or After 1 April 2006

3.1 The supply of a prescribed tool¹ or machine (see paragraph 3.2) used in the manufacture of goods in Singapore, including the development of prototypes of the tool or machine, as well as any services rendered directly in connection with the tool or machine (such as modification and repair of the tool or machine), by any taxable person to an overseas customer² may be zero-rated, if ALL of the following conditions are met:

- (a) The overseas customer has contracted the taxable person to make or purchase the tool or machine;

¹ "Tool" includes any mould, jig, pattern, template, die, punch or similar tool

² The overseas customer must not be GST-registered in Singapore. Otherwise, the supplier should charge GST on the supply made to the GST-registered customer, who would be entitled to claim the input tax incurred provided the normal input tax conditions are satisfied.

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- (b) The tool or machine is used by –
 - (i) the taxable person; or
 - (ii) an approved person other than the taxable person (see paragraph 4),to manufacture goods for the overseas customer (hereafter referred to as “manufactured goods”);
 - (c) The tool or machine must not be used, consumed or made available in Singapore to any person other than the taxable person, the approved person as defined in paragraph 4, or the overseas customer;
 - (d) The supply of the tool or machine, or prototypes thereof, and the supply of the manufactured goods are separate supplies made by the taxable person to the overseas customer³;
 - (e) The taxable person must hold relevant export documents to show that the manufactured goods are substantially⁴ exported out of Singapore⁵;
 - (f) The tool or machine must be either –
 - (i) exported out of Singapore; or
 - (ii) destroyed,when it is no longer needed for the manufacture of the goods for the overseas customer; and
 - (g) Where the tool or machine, or prototypes thereof, are subsequently disposed of in Singapore according to the overseas customer’s instructions or due to spoilage, the taxable person must maintain relevant documentation in relation to the disposal (see paragraph 6.2).
- 3.2 For the purpose of paragraph 3.1, a prescribed tool or machine means any machine, mould, jig, pattern, template, die, punch or similar tool which is –
- (a) integral to the manufacture of the goods; and
 - (b) highly customized or specialized in nature for the sole purpose of the manufacture of particular goods for the overseas customer.
- 3.3 For the purpose of paragraph 3.1(e), if the taxable person delivers the manufactured goods locally in Singapore to another person due to an arrangement approved under the Approved Contract Manufacturers and Traders (ACMT) Scheme⁶, the condition in paragraph 3.1(e) can be taken to be satisfied, provided all requirements of the ACMT Scheme have been met

³ This would usually mean that the supply of the tool or machine (or prototypes thereof) and the supply of the manufactured goods are separately charged to the overseas customer.

⁴ More than 50% of the manufactured goods must be exported.

⁵ Where goods have not been manufactured or exported at the time of supply of tool or machine, the supplier must have documentation (e.g. contract with overseas customer) to prove that the tool or machine will be used to manufacture goods for export.

⁶ For more information on the ACMT Scheme, please refer to the IRAS e-Tax Guide at <http://www.iras.gov.sg/ESVPortal/resources/1999gst1.pdf>.

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in respect of the local delivery of goods. Supporting documents required under the ACMT Scheme must also be maintained.

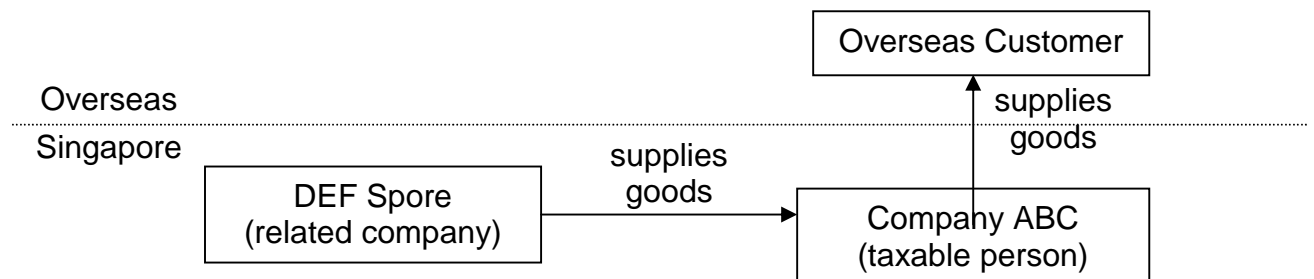
- 3.4 This change is applicable to all qualifying supplies of tools or machine and related services which take place on or after 1 April 2006.
- 3.5 A new section 21A and a new regulation 106 are enacted in the GST legislation to provide for the new zero-rating relief. These new legislation take effect from 1 July 2007 for prescribed tools and 1 January 2009 for prescribed machines.
- 3.6 Prior to the effective date of the new legislations, the zero-rating relief is granted by way of GST remission and taxable persons seeking the zero-rating concession should write in⁷ to the Comptroller of GST (“CGST”) for prior approval before zero-rating the following supplies:
- (a) Qualifying supplies of tools and related services that are made during 1 April 2006 to 30 June 2007; and
 - (b) Qualifying supplies of prescribed machinery and related services that are made during 1 April 2006 to 31 December 2008.
- 3.7 With the new legislation, taxable persons should self-assess whether they are able to satisfy the provisions in order to zero-rate their supplies and would no longer need to seek prior approval from CGST for the following supplies:
- (a) Qualifying supplies of prescribed **tools and its related services** made on or after **1 July 2007**; and
 - (b) Qualifying supplies of prescribed **machine and its related services** made on or after **1 January 2009**.
- 3.8 The new treatment is applicable only to taxable persons who can satisfy the conditions stipulated in this guide.

⁷ In the letter, the taxable person should provide details of his business transactions (including a description of the type of tool or machine and manufactured goods) and explain how his supplies could satisfy the conditions stated in paragraphs 3.1 and 3.2.

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4 Tools or Machine Used by a Related Company to Manufacture Goods for Overseas Persons

4.1 An approved person stated in paragraph 3.1(b)(ii) refers to a related company of the taxable person under the following business arrangement:



4.2 The taxable person (Company ABC) acts as a sales office for the goods manufactured by the related company, DEF Spore. The taxable person enters into a manufacturing agreement with the overseas customer to supply the tool or machine and manufactured goods to the overseas customer. The taxable person then sub-contracts the performance of the manufacturing services to DEF Spore. In this case, DEF Spore will supply the tool or machine and manufactured goods to the taxable person, who in turn onward supplies those tool or machine and manufactured goods to the overseas customer.

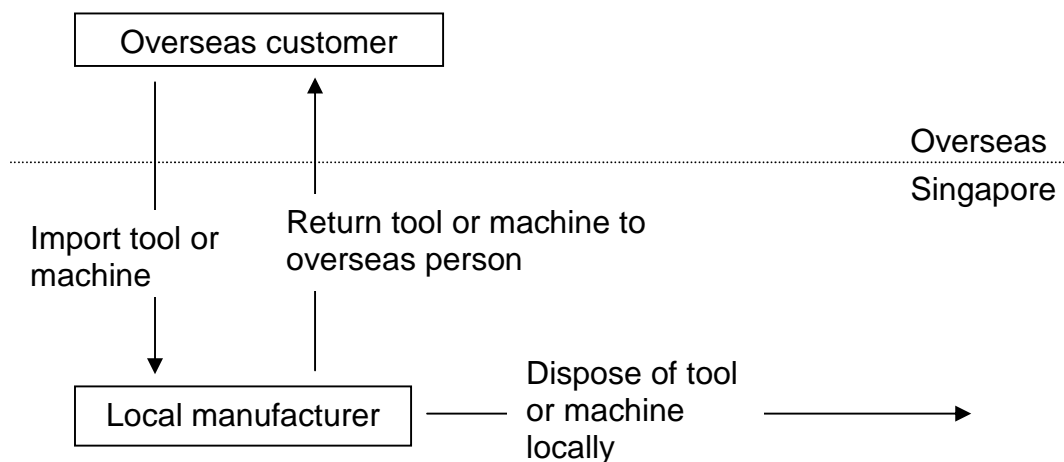
4.3 In the above arrangement, the supply of tool or machine made by the taxable person to the overseas customer can be zero-rated if the following conditions are also satisfied (in addition to the conditions stipulated under paragraphs 3.1 and 3.2):

- (a) The taxable person (i.e. Company ABC) and the local manufacturer (i.e. DEF Spore) are related companies within the meaning of section 6 of the Companies Act;
- (b) The taxable person acts as a sales office of the local manufacturer and handles the sales of the tool or machine and manufactured goods to the overseas customer; and
- (c) The taxable person and the local manufacturer have joint accountability of the tool or machine.

5 Tools or Machine Belonging to Overseas Customers

5.1 The diagram below depicts a situation where an overseas customer is importing his own tool or machine for use in Singapore. The tool or machine will be disposed of locally or returned to the overseas customer by the local manufacturer at the end of the production cycle.

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- 5.2 In this case, the local manufacturer may import the tool or machine on behalf of the overseas customer. If the local manufacturer is a Major Exporter Scheme (MES)⁸ trader, he may use his MES status to import the tool or machine. If the local manufacturer is a non-MES trader, he may recover the GST incurred on the importation of tool or machine under section 33A of the GST Act.
- 5.3 Once the tool or machine is imported into Singapore, the local manufacturer is responsible for the GST accounting of the tool or machine. If the tool or machine is returned to the overseas customer, the export will be treated as the local manufacturer's zero-rated supply and he is required to keep export documents. If the tool or machine is disposed of locally with no consideration, no GST needs to be accounted on the disposal by the local manufacturer. However, if there is consideration received for the disposal, the local manufacturer is required to account for GST on the consideration.

6 Record-Keeping

- 6.1 The manufacturer needs to keep the relevant export documents to support that the manufactured goods are exported out of Singapore. Please refer to the IRAS e-Tax Guide on "A Guide on Exports" for information on export documents.
- 6.2 Where the tool or machine or prototypes thereof are subsequently disposed of in Singapore according to customer's instruction or due to spoilage, the manufacturer must provide relevant evidence in relation to the disposal. Examples of evidence include written instructions from the customer, documentation of the scrap, photographs of the destroyed tool or machine, etc.

⁸ For more information on the Major Exporter Scheme, please refer to the IRAS e-Tax Guide at <http://www.iras.gov.sg/ESVPortal/resources/meshandbookfinal010707.pdf>.

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7 Repayment of Tax and Penalties

- 7.1 Where a taxable person has zero-rated his supply of a tool or machine and it is subsequently discovered that he has failed to comply with any of the conditions stipulated in paragraphs 3.1, 3.2 or 4.3, he must repay to the CGST the amount of tax that should have been charged on the value of the supply made. The taxable person is required to include such tax omission as output tax in the GST F5 return corresponding to the prescribed accounting period in which the non-compliance is discovered. A Disclosure of Errors on GST Return (GST F7) form is not required. In addition, the taxable person may be liable to penalties for the tax omission.