

IRAS e-Tax Guide

GST: Manufacturing Sector



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This Guide is designed to create a better understanding of the Goods and Services Tax and its implications on the manufacturing industry.

1 AN OVERVIEW

1.1 What is GST?

GST stands for Goods and Services Tax. It is a tax on:-

- (a) The supply of goods and services made in Singapore by a taxable person in the course or furtherance of any business carried on by him; and
- (b) The importation of goods into Singapore

GST is not levied on exempt supplies. These are supplies specifically exempted by the legislation under the Fourth Schedule to the GST Act. Exempt supplies generally refer to the sale and lease of residential properties and financial services.

1.2 Is registration for GST compulsory for all local manufacturing companies?

All manufacturers who make taxable supplies of goods or services in Singapore with an annual turnover exceeding or likely to exceed S\$1 million are liable to register. A person who is required to be GST-registered or is GST-registered is known as a taxable person.

1.3 What items should be included when I compute my annual turnover?

For GST registration purposes, the annual turnover will include the value of all taxable supplies (standard-rated and zero-rated) made in the course of business, but excluding the value of exempt supplies and sale proceeds of capital assets. Exempt supplies made to overseas customers which qualify for zero-rating under section 21(3) of the GST Act should also be excluded from the value of the annual turnover.

When computing the value of your taxable supplies, you should take into account your local supplies of goods and services (standard-rated), export sales (zero-rated) and international services (zero-rated).

1.4 How does a GST-registered manufacturer distinguish the GST collected from his customer for his supply of goods from the GST paid to his supplier on his business purchases?

The GST collected from the customer is called Output Tax and that paid by the manufacturer on his business purchases is called Input Tax. Output tax is payable to the Comptroller while input tax is claimable as credit from the Comptroller.

At the end of each accounting period, the manufacturer will pay the net GST payable to the Comptroller if his output tax is greater than his input tax. On the other hand, if his output tax is less than his input tax, the Comptroller will refund the difference to him.

1.5 Is GST levied on all transactions in the manufacturing industry? This will depend on whether the manufacturer is a taxable person.

This will depend on whether the manufacturer is a taxable person.

If the manufacturer is a taxable person, he is liable to collect GST on all taxable supplies he makes to his customers. Similarly, he will have to pay GST on his business purchases if his supplier is a taxable person. However, he can claim from the Comptroller the input tax he has incurred on his purchases if they are used for the purpose of making taxable supplies.

If the manufacturer is a non-taxable person, he cannot collect GST. He also cannot claim any GST from the Comptroller on his business purchases. The GST paid on the purchases is a cost to the manufacturer. The market forces of supply and demand of the manufacturer's goods would determine whether he could pass the cost to his customers by charging a higher price for his goods or absorb it as part of his business expenses.

2 PURCHASES

2.1 I am a GST-registered manufacturer. When I buy from a supplier making only exempt supplies, can I include the GST paid to the supplier in my claim for input tax credit?

The supplier cannot collect GST as he makes only exempt supplies. There is no input tax credit for you to claim because you do not pay any GST at all.

2.2 I have purchased some raw materials from a GST-registered supplier. If I return part of the goods to the supplier, can I claim that portion of the GST which I have paid?

If your supplier gives you a refund for the returned goods, you can claim the GST paid on the returned goods directly from the supplier. In this case, the supplier should issue a credit note to you showing the amount of GST credited. Upon receiving the credit note, you should reduce your input tax credits by deducting the credited GST amount against the input tax claimed in the accounting period where you received the credit note.

2.3 Can GST paid on capital items like machinery be included as input tax? If the GST can be claimed, when can it be made?

If you are GST-registered, GST paid on business purchases, including capital assets like machinery and equipment, is allowable as input tax credits if the purchases are used for making taxable supplies.

The input tax claim can be made in the accounting period in which the capital asset is purchased. You must, however, have the original tax invoice from the supplier to support your claim for input tax credits.

2.4 What is the GST implication if I lease my machinery from a leasing company?

If the leasing company is a GST-registered person, it should charge GST on the operating lease as it is making a taxable supply. GST will be charged on the value of each lease payment.

Time of supply rules prior to 1 Jan 2011

GST is accountable by the leasing company to the Comptroller at the earlier of the following 2 events:

- (a) when you make a payment to the leasing company; or
- (b) when a tax invoice is issued to you by the leasing company.

However, if the lease is a finance lease, GST is accountable by the leasing company to the Comptroller at the earliest of the following 3 events:

- (a) when you make a payment to the leasing company; or
- (b) when a tax invoice is issued to you by the leasing company; or
- (c) when the machinery is delivered or made available to you.

Time of supply rules with effect from 1 Jan 2011

With effect from 1 Jan 2011, in line with the changes to the time of supply rules, the leasing company has to account GST based on the **earlier** of the following:

- (a) When an invoice is issued
- (b) When payment is received

Consequently, the issuance of an invoice (rather than a tax invoice) will trigger the time of supply and GST will be charged and accounted on the value of each lease payment.

If the lease is a finance lease, the leasing company must account full GST based on the **earlier** of the following:

- (a) When an invoice is issued
- (b) When payment is received

The leasing company therefore has to account output tax on the full value of supply when it issues its first invoice or receives the first payment from its customer.

Prior to 1 Jan 2011, the issuance of a tax invoice – and not any other type of invoice – is an event that will trigger the time of supply. With effect from 1 Jan 2011, the issuance of any type of invoice will be an event that triggers the time of supply. This includes a tax invoice as well as any document that serves as a bill for payment for supplies made by a GST-registered supplier. An example of such document would be a debit note.

In general, documents such as sales order, pro-forma invoice, statement of accounts and letter/statement of claims are not considered as invoices for GST time of supply purposes. This is because these documents are often not billing for payments and would therefore not be treated as invoices based on normal commercial practices.

For more details, please refer to the e-Tax Guide on GST: Time of Supply Rules

2.5 Should GST be charged on raw materials used in the manufacture of goods for export? These raw materials are partly purchased locally and partly imported from overseas.

GST is chargeable on raw materials purchased locally from GST-registered suppliers or at the time of importation if they are imported. You can claim the GST paid on the raw materials as input tax credits if they are used in the making of your taxable supplies and you have the required tax invoice or import permit to support your claim.

However, if you qualify for the Major Exporter Scheme (Please refer to Paragraph 3.5), you would not have to pay GST at the point of importation on your imports.

2.6 We receive 90 days credit for our purchases. Can we make an input tax claim even though we have not paid our supplier?

Yes, you can make an input tax claim in the accounting period in which the tax liability arises i.e. based on the time of supply rules.

Time of supply rules prior to 1 Jan 2011

In general, the time of supply is treated as taking place at the earliest of the following 3 events:

- (a) when the goods are delivered or made available to you;
- (b) when a tax invoice is issued to you; or
- (c) when a payment is made by you.

However, you must have the original tax invoice to support your input tax claim.

Time of supply rules with effect from 1 Jan 2011

With effect from 1 Jan 2011, the GST rule for time of supply will be changed to be in line with commercial practices. For most transactions, the time of supply will be treated as taking place at the earlier of the following 2 events –

- (a) When an invoice is issued to you; or
- (b) When payment is made by you

Prior to 1 Jan 2011, the issuance of a tax invoice – and not any other type of invoice – is an event that will trigger the time of supply. With effect from 1 Jan 2011, the issuance of any type of invoice will be an event that triggers the time of supply. This includes a tax invoice as well as any document that serves as a bill for payment for supplies made by a GST-registered supplier. An example of such document would be a debit note.

In general, documents such as sales order, pro-forma invoice, statement of accounts and letter/statement of claims are not considered as invoices for

GST time of supply purposes. This is because these documents are often not billing for payments and would therefore not be treated as invoices based on normal commercial practices.

For more details, please refer to the e-Tax Guide on GST: Time of Supply Rules.

However, for you to make any input tax claims you must still have the original tax invoice from your supplier.

2.7 How do we apportion GST paid on raw materials which are used to manufacture products for local and overseas markets?

It is not necessary to apportion the GST paid on your raw materials according to the local and overseas markets. In general, a GST-registered manufacturer can claim GST paid on his business purchases if they are used for the purpose of making taxable supplies and the manufacturer keeps the relevant tax invoices. If the manufactured products are exported from Singapore, GST is at 0% i.e. zero-rated supplies. However, if the manufactured products are sold locally, you will have to charge GST at the prevailing rate on your local supply of goods.

3 IMPORTS

3.1 Is GST payable on imported raw materials used for manufacturing even though I am not a GST-registered trader? If GST is payable, when is it collected?

All imports are subjected to GST at the point of importation. Singapore Customs will collect GST on the import value of the goods at the point of importation. Imports permits are declared through the TradeNet System.

If the imported goods are kept in the Free Trade Zone (e.g. designated area at Changi Airport and the seaports of Pasir Panjang, Keppel, Jurong and Sembawang), GST is temporarily suspended until the goods are removed from the Free Trade Zone.

3.2 How is GST charged on imports?

At the point of importation, GST is charged on the landed CIF value plus all duties payable and other incidental charges as shown below:

CIF ¹	\$20,000
Actual Customs Duty	\$ 4,000
Value of imports	\$24,000

$$\text{GST payable} = \$24,000 \times 7\% = \$1,680$$

3.3 What happens if my overseas suppliers compute the value of my imports in foreign currencies?

For GST purposes, the value of imports must be converted into Singapore dollars using the exchange rates published by the Singapore Customs.

3.4 Can I recover the GST paid for my imports?

GST paid on importation of goods where the goods are intended to be used for making taxable supplies would be allowed as input tax credit if you are a GST registered person and have the supporting import permit indicating you to be the importer of the goods.

¹ Where the goods were supplied prior to being removed from customs control, import GST is to be calculated based on the value of the last supply (also usually known as the last selling price) and all other costs, charges and expenses incidental to the sale and delivery of the goods up to the port and place of importation.

3.5 Are imported trade samples liable for GST?

Bona fide trade samples will not be subjected to GST at the point of importation. To qualify for the GST relief, you should apply for a Customs Relief Certificate before the sample is imported into Singapore. The trade samples are not to be sold, consumed, put to normal use or in any way put for hire or reward while in Singapore.

3.6 Is GST payable on imports used to manufacture goods for exports?

If you are a major exporter who import goods for re-exporting or import raw materials for processing in Singapore before exporting the finished products to overseas countries, you would not be required to pay GST on the imports at the point of importation through the **Major Exporter Scheme (MES)**.

The conditions that you need to satisfy to qualify for this scheme are-

- (a) The exporter must be a registered GST trader;
- (b) The exporter must import goods in the course of a business carried on by him;
- (c) The value of exports must be at least 51% of sales; alternatively, you can furnish a Banker's Guarantee to cover the amount of GST payable if the value of exports is below 51%;
- (d) The exporter must have a good accounting system;
- (e) The exporter must also have good income tax, GST & property tax compliance records; and
- (f) The exporter must have a good compliance record with regards to payment of Customs and Excise Duties.

More details on MES can be found in 'Major Exporter Scheme' guide.

3.7 I import raw-materials which will be used for manufacturing goods in Singapore. The semi-finished goods are then sent to my overseas sub-contractor in Malaysia for further processing. The finished goods will be imported into Singapore again before I sell them to my local or overseas customers. What are the tax implications?

GST is chargeable when you import the raw materials into Singapore. When you send the semi-finished goods to Malaysia for further processing, the movement of these goods are treated to be your exports and should be reported as your zero-rated supplies. When the finished goods are subsequently brought into Singapore, GST is chargeable on the import value of the finished goods because they are treated as fresh imports.

The GST you paid on the importation of raw materials and finished goods can be claimed as your input tax credits in the accounting period where the goods are imported into Singapore. You are required to keep the relevant

import permits showing you to be the importer for input tax claiming.

When the goods are sold locally, you will have to charge GST on the local supply of goods. If the goods are exported to overseas countries from Singapore, GST is at 0% as the supply of goods is a zero-rated supply.

4 SALES

4.1 Is it necessary to issue tax invoices on all sales?

A GST-registered person is required to issue a tax invoice when he makes a taxable supply to another GST-registered person. The tax invoice should be issued within 30 days from the time of supply.

If the customer is not a taxable person, you are only required to issue a serially-printed receipt to the customer if you have not issued a tax invoice to him.

The details to be shown on the tax invoice and receipt can be found in the guide, "How Do I Keep Records And Accounts?".

4.2 If I give a trade discount to my customers, should I charge GST on the original price or the discounted price?

GST should be computed on the discounted price provided that it is an arm's length transaction, i.e. the buyer is not related to the seller. Where it is not an arm's length transaction, GST will be computed on the open market value of the goods. The open market value is the price payable by a buyer who has no relationship in any way with the seller.

4.3 If my sales are transacted in a foreign currency, how should I calculate the GST payable?

If your sales are transacted in a foreign currency, all values for GST purposes must be converted into Singapore dollars at the selling rate of exchange prevailing in Singapore at the time of supply. The Comptroller's written approval is required if you wish to use your in-house exchange rates.

The total amount payable (excluding GST), GST payable and the total amount payable (including GST) shown on the tax invoice must be expressed in Singapore dollars.

4.4 Is GST applicable to goods sold under a hire-purchase agreement? If GST is applicable, when should I account for GST?

A hire-purchase is an agreement where goods are hired for periodic payments. The payments consist of the cash price of the goods and the

credit charge. Since credit charge is a supply of financial service, it is exempted from GST provided that the credit charge is separately disclosed to your customer. Therefore, GST is payable on the cash price of the goods only.

Time of supply rules prior to 1 Jan 2011

For goods sold under hire-purchase, GST will be charged at the earliest of the following 3 events:

- (a) When the goods are removed or made available to the customer;
- (b) When a tax invoice is issued by you; or
- (c) When a payment is received by you.

Thus, if the goods are removed or made available to the customer before the issue of tax invoice or payment of the instalments, you should account for GST on the full cash price upfront.

Time of supply rules with effect from 1 Jan 2011

With effect from 1 Jan 2011, for goods sold under hire-purchase, full output tax will be accounted for based on the **earlier** of the following:

- (a) When an invoice is issued
- (b) When payment is received

Based on the revised rules, you have to account for output tax on the full value of supply when you issue your first invoice or receive the first payment from your customer.

Prior to 1 Jan 2011, the issuance of a tax invoice – and not any other type of invoice – is an event that will trigger the time of supply. With effect from 1 Jan 2011, the issuance of any type of invoice will be an event that triggers the time of supply. This includes a tax invoice as well as any document that serves as a bill for payment for supplies made by a GST-registered supplier. An example of such document would be a debit note.

In general, documents such as sales order, pro-forma invoice, statement of accounts and letter/statement of claims are not considered as invoices for GST time of supply purposes. This is because these documents are often not billing for payments and would therefore not be treated as invoices based on normal commercial practices.

For more details, please refer to the e-Tax Guide on GST: Time of Supply Rules

4.5 When I provide after-sales services to customers on goods sold under warranty terms, do I have to charge GST?

When goods are sold under warranty terms, the assumption is that the price, which is inclusive of GST, usually include the charge for the after-sales services and repairs during the warranty period. Any replacement of spare-parts free of charge during the warranty period will not attract GST.

4.6 If I provide after-sales services on goods sold to my overseas customer, do I have to pay GST on the importation of these goods when they are temporarily imported into Singapore for repairs?

When these goods are temporarily imported into Singapore for repairs before their re-exportation, you can apply for Import Relief with the Singapore Customs where GST can be temporarily suspended at the point of importation provided the following conditions are satisfied:

- (a) the goods must be re-exported within 3 months from the date of importation;
- (b) the importation and re-exportation of the goods are registered by the Customs officer at the point of import and re-export;
- (c) the goods are identified to the satisfaction of Customs officer; and
- (d) security is furnished to cover the tax on the goods imported.

4.7 If I sell fixed assets belonging to my business, for example, an used computer, do I have to charge GST?

Even though the fixed assets are not your trading stock, they are part of the goods owned by the business. When you sell these fixed assets, you will have to charge GST because you are making a taxable supply.

4.8 If my customer buys 100 units of a product at a price of \$2,000 and I offer him 5 units free, is GST payable on the 5 units given free?

If the transaction is an arm's length transaction, GST will be based on \$2,000. The transaction is treated as if 105 units are sold for the price of \$2,000.

5 EXPORTS

5.1 Is GST chargeable on goods for exports?

Since GST is a tax on consumption in Singapore, it is not applicable on supplies of goods and services exported from Singapore. All supplies of goods and services exported from Singapore are subjected to GST at 0% i.e. zero-rated supplies. This means that the exporter does not collect GST on his exports but he is able to claim input tax credits for the GST that he has paid on his inputs. However, the exporter must keep supporting documents as evidence of exports. The supporting documents include:

- (i) Original purchase orders received from overseas customers;
- (ii) Copies of invoices issued;
- (iii) Original GST outward permits, bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents;
- (iv) Proof of payments received from customers; and
- (v) Any other relevant documents supporting the exports.

5.2 I received an order for goods from my local customer B. However, I was instructed by B to deliver the goods to an overseas person C because B has contracted to sell the goods to C. Do I have to charge GST to B on my supply of goods?

You do not need to charge GST even though you are selling to a local customer. This is because you are exporting goods from Singapore. Thus, you can zero-rate the supply of goods. However, you must keep the following documents to prove that the goods are exported:

- (i) Purchase orders from B;
- (ii) Written instructions from B requesting you to export the goods to C;
- (iii) Copy of your invoice issued to B;
- (iv) Original GST outward permits, bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents;
- (v) Proof of payments received from customers; and
- (vi) Any other relevant documents supporting the exports.

Similarly, B can zero-rate his supply of goods to C if he holds the following documents:

- (i) Written instructions from C to B requesting the goods to be sent to an overseas country;;
- (ii) Copy of invoice issued to C; and:

- (iii) Copies of GST outward permits, bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents²;

5.3 I have made a mould for an overseas customer. The sale invoice was issued to him. Upon his instruction, I kept his mould in Singapore and used it to produce goods for him. The goods were subsequently exported to an overseas country. Can I zero-rate the sale of the mould?

No, you cannot zero-rate the sale of the mould. Although the sale was made to a foreign person, the mould was not exported since it had remained in Singapore. Thus, you will need to charge GST on the sale³.

5.4 I made a sale of goods to a foreign person C. Upon his instruction, I delivered the goods to a local freight forwarder B, who would consolidate them before exporting. Do I have to charge GST to C?

The sale of goods can be zero-rated if you hold documents to prove that the goods have been exported. These include the following:

- (i) purchase orders from C;
- (ii) written instructions you received from C to deliver the goods to B
- (iii) for export;
- (iv) delivery note to B;
- (v) copy of invoice issued to B;
- (vi) copies of GST outward permits, bills of lading/airway bills,
- (vii) packing lists/delivery notes, other shipping documents⁴ and insurance documents , and
- (viii) subsidiary export certificate issued by B.

The subsidiary export certificate should show the following details:

- (i) The words "Subsidiary export certificate";
- (ii) Serial number of the certificate;
- (iii) Handling agent's name, address and GST registration number;
- (iv) Exporter's name and address;
- (v) GST outward permit number and date;
- (vi) Airway bills or bills of lading number and a copy of the document;
- (vii) Description and quantity of the goods;
- (viii) Value of goods;
- (ix) Overseas customer's name and address;
- (x) Mode of export; and

² B would have to obtain copies of these documents from you since you are holding the original documents.

³ This is different from the scenario described in question 5.2 where you can zero-rate the sale even though the goods are sold to a local customer. Because the goods in question are exported from Singapore and thus qualify for zero-rating treatment.

⁴ These documents will normally bear B's name since he is the person exporting the goods.

- (xi) Name and signature of authorised person issuing the certificate.

Meanwhile, B is also required to maintain a register on the subsidiary export certificates issued:

- (i) GST outward permit number and permit date;
- (ii) Number of subsidiary export certificates issued as per consolidated shipment;
- (iii) Overseas customer's name and address;
- (iv) Serial number of the subsidiary export certificate number;
- (v) Description of goods exported; and
- (vi) Value of goods exported.

5.5 I sell part X to an overseas company C. Upon C's instructions, I deliver the goods to a local manufacturer B. B will use part X in the production of Product Y and eventually the finished product Y will be exported to C. Do I have to charge GST on my sale of goods to C when part X is delivered to a local manufacturer?

Although Part X was sold to an overseas company C, it was delivered to a local manufacturer and used in the production of the finished Product Y. Part X has therefore undergone a treatment and/or process which had changed its nature and/or form. The finished Product Y which had undergone value-added process are exported to C, instead of Part X. Therefore, it is incorrect to zero-rate the sale of Part X to C.

However, B can zero-rate its supply to C provided it maintains all the documents stated in Paragraph 5.4 above.

6 OTHERS

6.1 Do I have to charge GST when I give samples to my customers?

Industrial samples and commercial samples will not be subjected to GST if they are in a form which is not ordinarily available for sale to the public and are given to your actual or potential customers.

6.2 Should I claim input tax credit on my purchases of goods only in the same accounting period where I account for output tax on the sale of the goods to the Comptroller?

No. You can claim the input tax credit in the accounting period where you received the tax invoice from the supplier even though the purchased goods may only be sold in the next or subsequent accounting period. In other words, you are not required to match your input tax claim to the subsequent output tax.

6.3 What happens if I allow trade credit to my customer and he subsequently becomes insolvent?

You can claim GST relief on bad debts if you satisfy the following conditions:

- (i) You have already accounted for and paid to the Comptroller GST the tax on the supply;
- (ii) You have written off the debt in your accounts as a bad debt;
- (iii) One year has elapsed since the supply was made; and
- (iv) The Comptroller is satisfied that you have taken reasonable efforts to recover the debt.

For condition (iii), the one-year period requirement will not be necessary if the customer is adjudged bankrupt or in the case of a company, if it is ordered by the court to be wound up or to be placed under judicial management.

To ensure that you are eligible to claim this relief, please use the form 'Self-review of eligibility to claim bad debt relief'. You can download this form from IRAS website at www.iras.gov.sg

7 CONTACT INFORMATION

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