

IRAS e-Tax Guide

GST: Construction Industry
(Fourth Edition)



INLAND REVENUE
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OF SINGAPORE

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GST And The Construction Industry

1 INTRODUCTION

This guide explains the application of GST for the various types of services provided by the construction industry. It also highlights issues peculiar to the industry.

2 DO I HAVE TO REGISTER FOR GST?

- 2.1 Only a GST-registered person can charge GST on his supplies i.e. the goods and services that he provides.

You are required to register for GST if you have made or intend to make annual taxable supplies (i.e., supplies other than those exempt from GST) exceeding S\$1million. If you have annual taxable supplies of less than S\$1million, you may volunteer to register with the Comptroller of GST.

- 2.2 If you are a sole-proprietor who is not GST-registered, you will need to aggregate the annual taxable supplies of all your businesses under your name to determine if it exceeds or is expected to exceed S\$1million, such that you are required to register for GST. GST registration for sole-proprietorship businesses will be in the name of the sole-proprietor. If you have a few partnerships with the same composition of partners, you will need to aggregate the annual taxable supplies under this composition of partners to determine if you are required to be registered.

Example 1

Mr Lim Choo Beng, is a sole-proprietor. He owns 3 businesses under his name. ABC deals with the sub-contracting of flooring work, DEF deals with the sale of furniture, and GHI provides painting services. The annual supply of each business is less than S\$1million, but the total annual supplies for all the 3 businesses is S\$1.5million. Therefore, Mr Lim is required to register for GST and the GST registration will be in the name of Mr Lim Choo Beng.

3 WHAT ARE THE OBLIGATIONS WHEN YOU ARE GST-REGISTERED?

- 3.1 GST is a self-assessed tax. As a GST-registered person, you are required to file your GST returns quarterly or monthly, depending on your GST accounting cycle. You are required to file the returns (GST F5/F8) and pay the tax by the due date, which is one month after the end of the accounting period covered in the return. You are also required to ensure that the returns submitted are correct. There are separate penalties for late submission of returns, late payment of tax and submission of incorrect returns.

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- 3.2 If your GST return is not submitted by the due date, an estimated assessment will be raised. You will receive a Notice of Assessment to inform you of the estimated tax raised and you need to pay the tax assessed immediately. Late payment penalties will be imposed for late payment of the tax assessed. You are still required to submit your GST return and the estimated tax will be revised. Penalties will continue to be imposed if you fail to submit the return.
- 3.3 Other than the imposition of penalties, the following actions will be taken against you if you fail to comply with the above:
- (i) Appointment of an agent (e.g. bank, customer, lawyer, etc) to recover any outstanding tax;
 - (ii) Issuance of a direction to prevent an individually registered person/partner of a partnership from leaving Singapore;
 - (iii) Institution of any other legal proceedings to recover the tax due from you, e.g. summons.

4 CHARGING AND ACCOUNTING GST BY SOLE-PROPRIETORS AND PARTNERSHIPS

- 4.1 It is common for GST-registered sole-proprietors to make the error of charging and collecting GST for only one of their businesses, even though they have multiple businesses under their name.

If you are a GST-registered sole-proprietor, you have to charge and account GST on the taxable supplies of all your businesses registered in your name. Similarly, if you have a few partnerships with the same composition of partners, you will need to charge and account GST on all the taxable supplies made by this composition of partners.

5 WHAT ARE THE GST TREATMENTS FOR THE VARIOUS TYPES OF SUPPLY?

5.1 CONSTRUCTION SERVICES

The construction industry involves the erection of buildings and other structures and civil engineering work. Examples of services provided by the industry include site preparation, foundation work, scaffolding, brick laying, roofing, renovation and repair. All construction services done in Singapore are subject to GST, regardless of whether the services are in relation to residential or non-residential properties. GST has to be accounted on all payments received for these services (e.g., progress payments and release of retention sum (which is usually 5-10% of each certified progress payment)).

Example 2

Lian Huat Pte Ltd (“Liat Huat”), a property developer, acquired a piece of land to be developed into a flatted factory. He engaged Lim Heng Pte Ltd (“Lim Heng”), a main contractor, to be fully in charge of the project. To fulfill his obligation, Lim Heng in turn engaged Yong Chuan Pte Ltd (“Yong Chuan”) for the site preparation work, and Success Pte Ltd (“Success”) for the foundation work.

Yong Chuan and Success bill Lim Heng progressively for their work done. As both Yong Chuan and Success are GST-registered, they will need to charge GST on the agreed sum to be paid by Lim Heng for the work provided.

Lim Heng also bills Liat Huat progressively for the work done for the whole project. Upon certification by Liat Huat’s architect, Lim Heng will bill Liat Huat for the agreed amount of work done. GST is chargeable on this amount if Lim Heng is GST-registered.

5.2 REIMBURSEMENTS

It is common in the construction industry to incur expenses that you on-charge to your customer. Such on-charging of expenses are reimbursements and GST is chargeable on the recovery of these expenses if you are GST-registered. This is so even if you were to on-charge on a cost-to-cost basis or if the expenses were incurred without GST.

The recovery of expenses will not be subject to GST only if it satisfies all the following conditions, upon which it will be treated as a disbursement:

- (i) Your customer is responsible for paying the third party;
- (ii) Your customer knows that the goods or services would be provided by a third party;
- (iii) Your customer authorised you to make the payment on his behalf; that is, you acted as an agent of the customer when paying the third party;
- (iv) Your customer received and used the goods or services provided by the third party;
- (v) The payment is separately itemised when you invoice your customer;
- (vi) You recover only the exact amount you paid to the third party; and
- (vii) The goods or services paid for are clearly additional to the supplies which you make to the customer.

These considerations also apply in the case of a rebilling to a related company or a joint venture.

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An example of an itemized invoice can be found in Annex 1.

Example 3A

ABC Pte Ltd requested XYZ Pte Ltd to buy certain raw materials on its behalf. XYZ Pte Ltd bought these goods from a non GST-registered trader at \$1,000 and was issued an invoice in its name. Assuming XYZ Pte Ltd is GST registered, XYZ Pte Ltd needs to issue a tax invoice and charge ABC Pte Ltd (\$1,000 + GST), even though these goods were purchased without GST. XYZ Pte Ltd is making a separate supply of goods to ABC Pte Ltd in this instance.

Example 3B

ABC Pte Ltd requested XYZ Pte Ltd to apply for a building permit on its behalf with the Building and Construction Authority. The building permit is registered under ABC Pte Ltd. Although XYZ Pte Ltd is GST registered, it is not required to issue a tax invoice and charge GST on the recovery of expenses for the application of a building permit as it is merely authorized to make payment on behalf of ABC Pte Ltd.

5.3 COUNTER SUPPLIES OR “BACK-CHARGES”

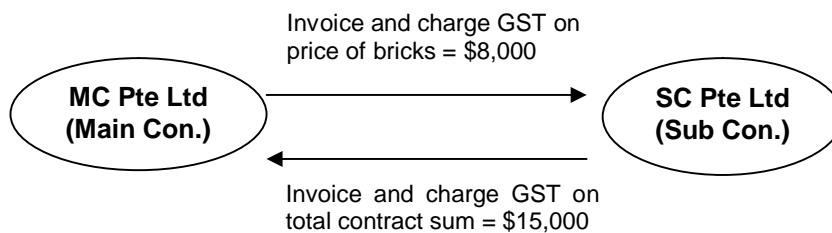
There are arrangements (either verbally or contractually) where the sub-contractors are required to supply both the raw materials and their services. An example is when a sub-contractor is contracted to provide flooring works, which include providing both the tiles and the tile-laying services. Suppose the developer eventually specifies that he wants a particular brand of tiles to be used. The main contractor then purchases and imports these tiles and passes it to the sub-contractor for the flooring work.

There are two separate supplies in this instance; the supply of the tiles from the main contractor to the sub-contractor and the second supply made by the sub-contractor to the main contractor for the contracted amount (which includes both the tiles and tile-laying services). Both the main contractor and sub-contractor should issue a tax invoice for the gross value of the supply made to each other and account the GST accordingly. It is incorrect to charge and account output tax only on the amount being payment made by the main contractor, net off the value of the tiles.

However, if the sub-contractor is only specifically contracted to provide the tile-laying services and not the tiles, then there is only one supply from the sub-contractor to the main contractor for the provision of this service.

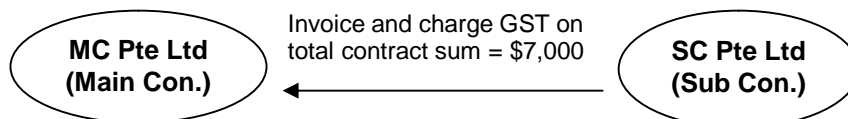
Example 4

Main contractor, MC Pte Ltd, awarded a tender to sub-contractor, SC Pte Ltd to provide brickworks for a building project for a total contract sum of \$15,000. This included supplying the bricks and constructing the brickwalls. MC Pte Ltd subsequently decided to supply the bricks to SC Pte Ltd for this project. The total value of the bricks is \$8,000. The correct GST treatment for the supplies is as follows:



It is incorrect for SC Pte Ltd to simply bill MC Pte Ltd GST on the difference based on the amount payable by MC Pte Ltd, i.e. (\$15,000 - \$8,000).

However, if the contract specifies that SC Pte Ltd is to provide the bricklaying services only, then there is only one supply from SC Pte Ltd to MC Pte Ltd. Assuming the contract sum for the bricklaying services is \$7,000, the correct GST treatment is as follows:



5.4 TENDER AND CONTRACT DEPOSIT

Where a deposit is required to be paid to obtain copies of the contract documents (e.g., plans, specifications, schedule of quantities), GST is chargeable as the transaction is a sale of the documents.

Also, if a deposit is intended to be used to offset against the future payments (partly or fully) once the supply has been made, GST should be charged on such a deposit.

However, if the deposit is a security to ensure that the tenderer proceeds with the contract or to ensure that the successful tenderer carries out the obligations detailed in the contract, no GST is chargeable.

Example 5

Developer, D Pte Ltd, calls for main contractors to tender for a building project. Interested tenderers can purchase the tender documents containing details of the project (e.g., plans, specifications, schedule of quantities) for a fee of \$25. This fee is non-refundable and is subject to GST as it is a sale of tender documents if D Pte Ltd is GST registered.

D Pte Ltd then awards the building contract to main contractor, MC Pte Ltd. This project is a large-scale project and MC Pte Ltd does not have the funds to purchase the raw materials and labour to get the project started. MC Pte Ltd then asks D Pte Ltd to give him an advance payment (akin to a deposit) which will be used to offset against the future progress payments. GST should be charged on this advance payment.

Also, MC Pte Ltd is required to submit a security deposit in the form of a banker's guarantee of 5% of the contract sum for non-performance. This deposit will be refunded upon the completion of the contract. This security deposit is not subject to GST as there is no supply made.

5.5 CONSTRUCTION SERVICES PROVIDED OVERSEAS

If you provide construction services which are supplied in connection with land or improvements situated outside Singapore, you need not charge and account GST on these supplies. These are international services which can be zero-rated under the GST Act.

Example 6

MC Construction Pte Ltd secured a contract to develop a hotel in Beijing for a Singapore developer. As the construction services would be performed in Beijing, and not in Singapore, MC Construction Pte Ltd need not charge GST for its supply of construction services. This is so even though the developer is a Singapore company.

5.6 DAMAGES AND OUT OF COURT SETTLEMENTS

Damages and out-of-court settlements which are paid for the breach of warranty or delays in completion of contracts, and are compensatory in nature, are not treated as taxable supplies. GST need not be charged for such recovery.

However, GST is chargeable for settlements that are payments for taxable supplies made.

Example 7

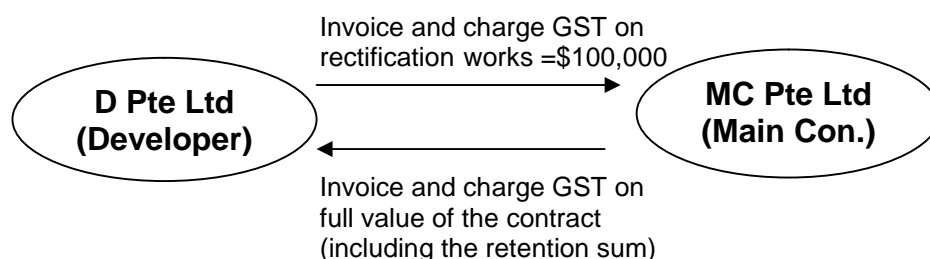
Main contractor, MC Pte Ltd, did not complete the building project by the stipulated completion date stated in its contract with its developer. It is required to pay liquidated damages to the developer at a rate of \$3,000 per calendar day (including Sundays and public holidays) for every day where the completion of the project is delayed. Such liquidated damages are not subject to GST as it is compensatory in nature.

Example 8A

Under the contract, MC Pte Ltd is required to carry out rectification works during the defect liability period. During this period, the developer, D Pte Ltd noted some defects in the building. MC Pte Ltd, however, did not want to rectify this defect. D Pte Ltd had to hire another contractor to rectify the poor workmanship done by MC Pte Ltd. It incurred an additional \$100,000 for the rectification works. He can recover the \$100,000 from MC Pte Ltd in 2 ways:

a) *Deduct the \$100,000 from the retention sum.*

Such supplies will be treated as two separate supplies. One supply is from MC Pte Ltd to D Pte Ltd for completing the entire job (though not entirely to D Pte Ltd's satisfaction) on the full value of the contract (including the retention sum). Another supply is from D Pte Ltd to MC Pte Ltd for the full value of the \$100,000 of rectification works because D Pte Ltd is making good the defects that should have been done by MC Pte Ltd.



b) *Claim payment from MC Pte Ltd.*

D Pte Ltd may go to court to seek payment from MC Pte Ltd for the rectification cost, or this may be agreed by an out-of-court settlement. Such payment is subject to GST as they are in relation to taxable supplies made from D Pte Ltd to MC Pte Ltd for making good the defects which should have been done by MC Pte Ltd. MC Pte Ltd should still charge D Pte Ltd GST on the full value of its supply, and D Pte Ltd should charge MC Pte Ltd GST for the rectification works, similar to (a).

Example 8B

It was decided that it is not cost effective to rectify the poor workmanship done by MC Pte Ltd and therefore no rectification work is going to be carried out. Nevertheless, D Pte Ltd goes to court to claim compensation from MC Pte Ltd for the poor work done. Such compensation is not subject to GST as there is no supply made. MC Pte Ltd will still have to bill D Pte Ltd for the full value of the contract including the retention sum.

6 WHEN SHOULD I ACCOUNT FOR GST?

6.1 If you are GST-registered, the time of supply determines when you should charge and account GST on a supply made by you. You should then report the value of your supply and its corresponding GST amount in your GST returns based on your prescribed accounting periods.

6.2 Time of supply rules for construction services

If you are a contractor and you supply goods and services in the performance of construction services (including construction, alteration, demolition, repair or maintenance of a building or any engineering work), it is common for your contract to provide for billings to your customer in progress payments monthly or at regular intervals. In such instances, you can account for GST at the earlier of:

- (i) The date payment is received; or
- (ii) The date of issuance of your tax invoice prior to 1 Jan 2011 or invoice w.e.f 1 Jan 2011 (see paragraph 6.5 below).

This means that you have to include the GST on that amount of progress payment when you receive payment or when you invoice your customer

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whichever is earlier. This is only applicable to the work of main contractors and sub-contractors who are providing construction services which span over a period of time and payment is determined or received periodically.

If you provide supplies of goods and/or services which do not span over a period and are billed in one invoice, or it does not involve the actual performance of construction services (e.g., supplies of raw materials and site surveying services), the time of supply is as follows:

Prior to 1 Jan 2011	With effect from 1 Jan 2011
<p>GST has to be accounted for at the earliest of:</p> <ul style="list-style-type: none"> (i) The date when the goods are delivered or made available to customers; (ii) The date when the services are performed; (ii) The date when payment is received; or (iii) The date of issuance of your tax invoice. <p>There is a 14-day rule, which provides that if the tax invoice is issued within 14 days of the date the goods are delivered or made available to customers, or the services are performed, and no payment is received, then the time of supply can be the date of issuance of the tax invoice.</p>	<p>GST has to be accounted for at the earlier of:</p> <ul style="list-style-type: none"> (i) The date when payment is received; or (ii) The date of issuance of your invoice <p>The 14-day rule is removed with effect from 1 Jan 2011.</p> <p>The changes are designed to help businesses to comply with their GST obligations easily as they are aligned to commercial practices. For more details, please refer to the e-Tax Guide on GST: Time of Supply Rules.</p>

6.3 Time of supply rules for services (other than construction services) which stretches over time

If the services you provide (other than construction services) stretches for a period of several months or even years, and the payment is determined or received periodically, you can account for GST at the earlier of:

- (i) The date payment is received; or
- (ii) The date of issuance of your tax invoice prior to 1 Jan 2011 or invoice w.e.f 1 Jan 2011 (see paragraph 6.5 below).

Examples of such services are project management and architectural services.

6.4 Time of supply rules for retention sum

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A retention sum is a specified amount withheld at each stage of progress payment, and will only be released when your customer is satisfied with the work performed. Usually, retention sums are released only after the construction project has been completed.

GST is to be accounted on retention sums whenever a payment is received or a tax invoice (prior to 1 Jan 2011) or an invoice (w.e.f. 1 Jan 2011) is issued for it, whichever is the earlier.

6.5 Change in the time of supply rule from “tax invoice” to “invoice”

Prior to 1 Jan 2011, the issue of a “tax invoice” and not any other type of invoice will trigger the accounting of GST. A “tax invoice” refers to one that contains the supplier’s GST registration number, the words “tax invoice” and all other particulars as stipulated under Regulation 11 of the GST (General) Regulations.

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.

7 CAN I CLAIM INPUT TAX?

7.1 You can claim the GST incurred on your purchases that are used for the making of taxable supplies.

When you incur input tax in a particular accounting period, you can claim the input tax in your submission of the GST return at the end of that period if you hold a valid tax invoice for that purchase. Although these purchases must be for the making of taxable supplies, you need not wait for the supplies to be made before you can claim your input tax. In other words, there is no need for matching of purchases with the supplies made. However, when required, you are expected to produce evidence (such as contract, tender document, payment commitment) to demonstrate that there is an active plan to provide supplies, which if made, will be taxable.

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7.2 Input tax not attributable to taxable supplies

Sometimes, you may incur expenses that are not attributable to the making of taxable supplies. You are not allowed to claim input tax on such expenses.

Example 9

You would like to claim compensation from your sub-contractor for his poor workmanship which cannot be rectified. You hired a lawyer to represent you on this matter and your sub-contractor agreed to pay you out-of-court settlements of \$100,000. As the out-of-court settlements are not subject to GST (being compensatory in nature), the GST incurred on your lawyer fees is not claimable as it is not in relation to the making of taxable supplies.

8 **WHAT DOCUMENTS DO I NEED TO MAINTAIN?**

8.1 If you are GST-registered, you need to maintain documents as required under the GST Act. You are also required to make these documents available in the event of any audit or check by the Comptroller of GST. You can refer to the e-tax guide "How Do I Keep Records and Accounts?" for the list of documents to be maintained.

8.2 Tax invoices and letters of claims

If you provide construction services, it is common that you will issue letters of claim to your client stating the value of work completed at each stage. Your client will then get his architect to do a valuation and certify the actual value of work done. This certified amount is usually different from the amount stated in your letter of claim.

The letter of claim cannot be treated as a tax invoice, as it does not contain the final amount payable by your client. You should issue your tax invoice upon certification by the architect. A tax invoice must contain particulars such as your GST registration number, the words "Tax Invoice", the GST amount payable, etc. You must issue a tax invoice if your client is also a taxable person, as he needs the tax invoice to support his claims for input tax. Also, you need to maintain the "certificate of work done" by the architect together with your tax invoices to support the value invoiced to your client.

8.3 If you need to make adjustments to your tax invoice issued previously, you need to do so by issuing a credit note (to reduce the appropriate amount) or an additional tax invoice (to increase the amount payable) to reflect the adjustment.

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9 BAD DEBT RELIEF

9.1 If you are GST-registered, you can seek bad debt relief for the GST on the outstanding debt due from your customers if all the following conditions are satisfied:

- (i) You have supplied goods or services for a consideration in money and have accounted and paid the GST on the supply;
- (ii) You have written off the whole or any part of the consideration for the supply as a bad debt in your accounts;
- (iii) A period of twelve months beginning with the date of supply has elapsed or the debtor has become insolvent before the period of twelve months has elapsed; and
- (iv) You have taken reasonable steps to recover the debts.

9.2 If you satisfy the conditions above, you can claim bad debt relief in your GST Return for the outstanding debt due from your customer. You need not seek approval from the Comptroller to claim the bad debt relief. You should however ensure that you satisfy all the above conditions and complete the checklist “Bad Debt Relief: Checklist for Self-Review of Eligibility of Claim” available on our website at www.iras.gov.sg. You should retain a copy of the checklist for your own reference and for any checks and audits by the Comptroller.

10 GST RATE CHANGE

10.1 If your construction project spans over several years where different GST rates apply, you will need to observe the transitional rules relating to the rate changes.

You can obtain information on the transitional rules from our website at www.iras.gov.sg.

11 CONTACT INFORMATION

For enquiries on this e-Tax guide, please contact:

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Inland Revenue Authority of Singapore
55 Newton Road
Singapore 307987

Tel: 1800 356 8633
Fax: (+65) 6351 3553
Email: gst@iras.gov.sg

TAX INVOICE

XYZ Pte Ltd
(XYZ Pte Ltd 's address)
(XYZ Pte Ltd 's address)

GST Reg No: M2-123456-K

ABC Pte Ltd
(ABC Pte Ltd 's address)
(ABC Pte Ltd 's address)

Date: 01/01/2007
Invoice No.: 123456

Type of Supply: Cash / Credit

Description	Amount
<u>Being supply of materials bought on your behalf</u>	
Concreting sand	\$1,000.00
Total	\$1,000.00
Add GST @ 5%	\$50.00
Amount Due	\$1,050.00
<u>Disbursement not subject to GST</u>	
Application of building permit	\$20.00

Thank you. We look forward to being of service to you again.