

# **GOODS AND SERVICES TAX**

## **CLARIFICATIONS ON THE GST TREATMENT OF HIRE PURCHASE AND OTHER FINANCING INSTRUMENTS**



INLAND REVENUE  
AUTHORITY  
OF SINGAPORE

# CLARIFICATIONS ON THE GST TREATMENT OF HIRE PURCHASE AND OTHER FINANCING INSTRUMENTS

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## TABLE OF CONTENTS

1	Introduction .....	1
2	GST treatment in relation to hire purchase agreements.....	1
3	Conditions for treating financing instruments as “hire purchase agreements”.....	1
4	Application of the Gross Margin Scheme .....	2

# CLARIFICATIONS ON THE GST TREATMENT OF HIRE PURCHASE AND OTHER FINANCING INSTRUMENTS

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## 1 Introduction

- 1.1 The purpose of this guide is to set out the conditions for any financing or leasing instrument to be treated as “hire purchase agreement” for GST purposes.
- 1.2 The guide also outlines the application of the gross margin scheme when GST-registered traders supply goods under “hire purchase agreement”.

## 2 GST treatment in relation to hire purchase agreements

- 2.1 When a financier enters into a hire purchase agreement with a hirer, it will result in the financier making two supplies to the hirer for GST purposes. They comprise a taxable supply of goods and exempt supply of financial service.
- 2.2 Under the agreement, the financier remains the legal owner of the goods until the hirer exercises the option to purchase the goods or pays the last instalment. However the commercial substance of the agreement is such that the parties never intend the goods to be returned to the financier. For GST purposes, the transfer of possession of the goods to the hirer will give rise to a taxable supply of goods even though legal ownership is not transferred yet. This treatment is provided for under paragraph 1(2)(b) of the Second Schedule to the GST Act, where the transfer of possession of goods under an agreement which expressly contemplates that title will pass at some time in the future, is regarded as a supply of goods.
- 2.3 The other supply made by the financier is the provision of the facility of instalment credit finance<sup>1</sup> which is an exempt supply of financial service if a separate charge is made and disclosed to the hirer in respect of it. This separate charge is exempted from GST.
- 2.4 In the event that the hirer defaults on payment and the financier repossesses the goods, should the financier subsequently sell the goods for the satisfaction of debt, the sale is deemed to be a supply made by the hirer. Thus if the hirer is a taxable person, the financier (whether or not he is a taxable person) is required to charge GST on the sale and pay to the Comptroller of GST within 21 days of the sale<sup>2</sup>, among other things.

## 3 Conditions for treating financing instruments as “hire purchase agreements”

- 3.1 While the GST treatment outlined in the preceding paragraphs would apply to most hire purchase agreements, it is not that clear whether they would similarly apply to other financing instruments such as finance leases. This is because different businesses provide varying terms and conditions for their

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<sup>1</sup> This is provided under paragraph 1(h) of the Fourth Schedule to the GST Act.

<sup>2</sup> This is provided for in regulation 58 of the GST (General) Regulations.

## CLARIFICATIONS ON THE GST TREATMENT OF HIRE PURCHASE AND OTHER FINANCING INSTRUMENTS

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financing instruments, giving rise to ambiguity in the substance or true nature of these instruments.

3.2 To assist GST-registered traders to determine if a particular financing or leasing instrument is to be treated as “hire purchase agreement” for GST purposes, a set of conditions has been laid down. These conditions are:

- (a) The lease provides an option or right for the lessee to purchase the leased goods prior to or at the end of the lease period; and
- (b) The leased goods are not recognised as the lessor’s assets in his accounting record.

3.3 When a financing instrument satisfies both conditions, all provisions in the GST legislation that make reference to “hire purchase agreement”<sup>3</sup> and paragraph 1(2)(b) of the Second Schedule to the GST Act will similarly apply to this instrument.

3.4 However, the mere naming of any financing agreement as “hire purchase agreement” would not render it to be treated as one for GST purposes unless both of the conditions in paragraph 8 are satisfied. Likewise, an agreement termed differently (e.g., “finance lease agreement”) would be treated as “hire purchase agreement” if it satisfies the above conditions. It is the substance of the instrument, and not its term that will determine its GST treatment.

### 4 Application of the Gross Margin Scheme<sup>4</sup>

4.1 The GST legislation allows GST-registered traders to charge GST on the excess of the sale price over the purchase price of the goods they sell<sup>5</sup>, under a special scheme known as the second-hand goods scheme or the gross margin scheme. This scheme applies only to supply of goods<sup>6</sup> and not of services. The use of the scheme is subject to the prior approval of and any conditions imposed by the Comptroller of GST. It cannot be used for any supply of goods where GST has been charged on the previous supply of these goods<sup>7</sup>.

4.2 The gross margin scheme is normally applied to the sales of second-hand or used goods<sup>8</sup>. However, the GST legislation also allows it to be used for both new and used goods if they are supplied under a hire purchase

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<sup>3</sup> Reference is made to “hire purchase agreement” in paragraph 1(h) of Fourth Schedule to the GST Act, regulation 58 and 80 of the GST (General) Regulations.

<sup>4</sup> This clarification arises from the ERC Sub-Committee on Taxation, CPF, Wages and Land’s recommendation to allow the gross margin scheme to apply to financiers offering financing via financial instruments other than hire-purchase agreements.

<sup>5</sup> This is provided under Section 23 of the GST Act.

<sup>6</sup> The mere “letting of hire” is treated as a supply of services for GST purposes.

<sup>7</sup> Except where the previous supply was also made under the gross margin scheme.

<sup>8</sup> This is provided under regulation 80(1) of the GST (General) Regulation.

## CLARIFICATIONS ON THE GST TREATMENT OF HIRE PURCHASE AND OTHER FINANCING INSTRUMENTS

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agreement<sup>9</sup>. The extension of the gross margin scheme to new goods supplied under hire purchase agreements has been applied only to pure financiers (such as banks, finance companies or leasing companies). These are businesses whose intention is to provide solely financing and they do not add a mark-up to the price of the goods being supplied under hire purchase agreements. In other words, these are not businesses that purchase goods for resale purposes.

- 4.3 If a financing instrument, such as a finance lease or conditional sale agreement, satisfies the conditions at paragraph 3.2 to be treated as “hire purchase agreement”, the extension of the gross margin scheme to the supply of new goods will also apply to this instrument. This is provided the pure financier has obtained prior approval from the Comptroller to use this scheme for new goods supplied by him under hire purchase agreements.

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<sup>9</sup> This is provided under regulation 80(2) of the GST (General) Regulation.