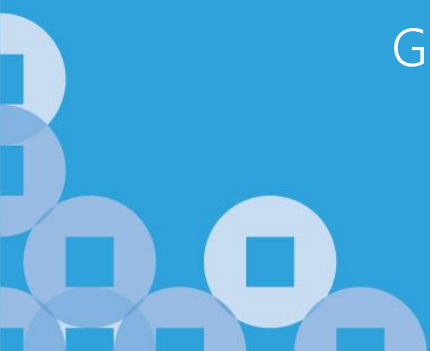


IRAS e-Tax Guide

GST: Guide on Reimbursement and Disbursement of Expenses (Sixth Edition)



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1 Aim

1.1 This e-Tax Guide is relevant to all GST-registered businesses that incur expenses and subsequently recover the expenses from another party such as their employees, customers, related corporations or suppliers. It provides clarification on the following:

- a) The GST principles for differentiating between a reimbursement and disbursement;
- b) The GST treatment for reimbursement of expenses; and
- c) The concession on claiming of input tax on disallowed expenses where such expenses are recovered from another business.

It also illustrates the application of these principles on some common business examples.

2 At a glance

2.1 The GST treatment for the recovery of expenses depends on whether the expenses are incurred by you as a principal or an agent (i.e. incurred on behalf of another party). The manner of invoicing alone (e.g. showing such expenses as a separate item on the invoice) is insufficient to determine the GST treatment of these items.

2.2 For the purpose of GST, the term “reimbursement” refers to the recovery of an expense that you incur as a principal from another party. On the other hand, the recovery of a payment made on behalf of another party by you as an agent is termed as a “disbursement”. A disbursement does not constitute a supply and hence, is not subject to GST. A reimbursement, on the other hand, may be subject to GST if it is consideration for a supply of goods or services.

2.3 The flowchart in Annex 1 gives an overview of the GST treatment for the recovery of expenses.

3 Differentiating reimbursement and disbursement

3.1 For any recovery of expenses, you will first have to establish whether the recovery is a reimbursement or disbursement. To determine this, you should look at whether you have acted as a principal or agent in purchasing the goods or services and incurring the expenses in the first place.

	If you incur the expenses as a principal	If you pay the expenses as an agent
The recovery of expenses is	a reimbursement	a disbursement
GST treatment	The recovery of the expenses from another party may amount to a supply and may be subject to GST or exempt from GST, as the case may be.	The recovery of expenses does not constitute a supply and hence will not be subject to GST.
Input tax claim	You are entitled to claim input tax incurred on goods or services procured by you if the subsequent recovery of such expenses constitutes a taxable supply.	You are not entitled to any input tax claim since the goods or services are not supplied to you but to your principal.

3.2 Generally, you are acting as a principal in procuring the goods or services if you contract with the supplier in your own name or capacity.

3.3 In the event that the contractual relationship is not clear, the following set of indicators can be used as a guide to establish if you are acting as a principal or agent in procuring the goods or services. You should apply all the indicators objectively, where applicable, to your transaction. You do not need to satisfy all the indicators, however, based on the indicators applicable to your transaction, you should determine on balance whether they point towards you acting as a principal or agent.

Indicators	You are a principal if	You are an agent if
Contractual liability and assumption of responsibilities and risks	You have contracted for the supply of goods or services in your own name or capacity.	You have arranged for the supply of goods or services on behalf of another party and you are not a party to the contract.
Legal obligations to make payment/ payment arrangement	You have the legal obligation to make payment for the goods or services. For example, the third party supplier's tax invoice is issued in your name.	You do not have the legal obligation to pay for the goods or services but is authorised by another party to make payment to the third party supplier on his behalf. For example, the third party supplier's tax invoice is issued in the other party's name.

Alteration to the nature and value of supplies	You can alter the nature or value of the supplies and make decision on the value of expense to recover.	Unless authorised to do so by the other party, you cannot alter the nature or value of supplies made between the other party and the third party supplier.
Identities of parties and transaction involved	You are the only party known to the third party supplier; and	The third party supplier knows the identity of the other party; and
	The other party does not know the cost incurred by you on the purchase of goods or services from the third party supplier.	The other party knows the exact cost incurred by you on the purchase of goods or services from the third party supplier.
Ownership of goods (If the recovery relates to goods)	You own the goods.	You do not own the goods as the goods are for the other party.

4 Examples differentiating between reimbursement and disbursement

- 4.1 The following business examples illustrate the application of the principles in section 3 above in deciding whether a recovery of expenses is a reimbursement (may or may not be subject to GST) or disbursement (not subject to GST). In cases where treatment of the recovery is not clear, you will need to examine the facts of the case, contractual obligations of all parties involved in the arrangement and relevant GST principles to determine the GST treatment.

Examples of disbursement

Example 1 – Recovery of costs of door gifts by events company

Company A engages an event organiser B to help organise its annual Dinner and Dance. On the day of the event, door gifts are given away to the participants to thank them for their support.

A ordered the gifts from Company C and instructed C to deliver them to B due to logistical reasons. C invoiced A and requires cash on delivery. Upon receipt of the goods, B makes the payment for the gifts and subsequently recovers the amount from A.

- 4.2 In Example 1, A contracts with C for the gifts and hence, is the principal in purchasing the gifts. B merely receives and pays for the gifts on behalf of A. Therefore, B's recovery of the costs of the gifts from A is a disbursement and not subject to GST.

Example 2 – Recovery of company’s incorporation expenses

Corporate services firm D is engaged to handle the legal work pertaining to the incorporation of Company E. Other than its service fees, D also recovers from E a company registration fee and company name approval fee paid to Accounting & Corporate Regulatory Authority (“ACRA”) on behalf of E.

- 4.3 In Example 2, the fees charged by ACRA for company registration and company name approval are compulsorily levied on E. D is merely acting as an agent in the payment of those fees. Therefore, D’s recovery of such expenses is a disbursement and not subject to GST.

Example 3 – Recovery of fees for updating corporate particulars

Corporate services firm F is engaged by Company G to handle the firm’s obligation to file annual returns, change company name, registered address and office operating hours with ACRA.

- 4.4 In Example 3, G is the one required under the law to file annual returns and inform ACRA of any changes to its corporate particulars. The fees are legally imposed by ACRA on G and it is G’s obligation to pay. F is merely acting as an agent in the payment of those fees and hence, F’s recovery of such fees is a disbursement and not subject to GST.

Example 4 – Recovery of import GST paid on behalf of importers by freight forwarding or logistics companies

Import GST is levied on goods imported into Singapore. In the course of clearance, freight forwarder H who is engaged by importer I to pick up its goods from Customs paid the import GST.

- 4.5 In Example 4, the goods are owned and imported by I. The import permit is also issued in I’s name. As it is I’s obligation to pay tax on its imports, H is merely acting as an agent in making the payment on I’s behalf. Hence, H’s recovery from I for the tax paid is a disbursement and not subject to GST.

Example 5 – Recovery of property tax on sale of property

Company J owns several properties in Singapore. J sold one of the properties to buyer K. On top of the property sale price, J also recovers from K a pro-rated portion of the property tax it had already paid in advance for the entire year.

- 4.6 In Example 5, having purchased the property from J, K is the one liable to pay the property tax to the authority as property tax is levied on the owner of the property. Hence, the recovery of the pro-rated portion of property tax paid by J for the period is a disbursement and not subject to GST.

Example 6 – Recovery of parking fine

An employee of Company L is fined for illegal parking of the company's truck and the fine is issued to L. Firm M, being the secretariat of L, makes payment for the fine and recovers it from L.

- 4.7 In Example 6, L is the one liable to pay the fine to the authority as illegal parking is an offence imposed on the owner of the vehicle. Hence, the recovery of the fine paid by M is a disbursement and not subject to GST.

Examples of reimbursement

Example 7 – Recovery of transport expenses

In the course of performing their audit work, auditors from N Associates & Co. incur transport fares. These expenses will be included in N's billing to their clients.

- 4.8 In Example 7, the auditors from N acquire the transport services as a principal in their own capacity and are legally obliged to pay the transport service providers. They receive and use the transport services directly in the course of performing their work. Hence, the recovery of these expenses by N from their clients is a reimbursement.

Example 8 – Recovery of property tax on lease of property

Company O leases two properties to earn rental income. The tenancy agreements include a clause that allows O recovery of property tax from its tenants.

- 4.9 In Example 8, the obligation to pay the property tax to the authority remains with O as the property owner and hence, the recovery of the property tax from the tenant is a reimbursement. In this case, the property tax recovered forms part and parcel of the rental consideration. Hence, the property tax recovered in relation to the lease of a commercial property is subject to GST whereas property tax recovered in relation to the lease of a residential property is exempt from GST.
- 4.10 More examples of reimbursement are provided in the following paragraphs.

5 Overview of GST treatment for reimbursement

- 5.1 For a reimbursement to be taxable, there must be an underlying supply of goods or services. The word “supply” in its ordinary sense means “to furnish or to serve”¹. Therefore, a supply exists when there is another party to whom the goods or services are furnished or served and when there is an agreement to supply between that other party and the supplier, or consent given by the other party for the goods or services, in return for a consideration².
- 5.2 Where you recover expenses incurred on goods or services which are supplied to you to enable you to make a supply to your customer, the reimbursement of the expenses is considered to be part of the consideration payable by your customer for the services or goods supplied by you.
- 5.3 Similarly, when you are reimbursed by another party for procuring goods or services for him, the reimbursement will constitute a supply for GST purposes. This is notwithstanding that the reimbursement may be at cost. Section 6 of this guide provides guidelines and clarifies the GST treatment for reimbursements which constitute a supply.
- 5.4 However, there may also be situations where you seek payment from another party for certain costs you have incurred as a principal but you are not providing any goods or services to that party in return for the payment. Examples of such scenarios would include recovery of payment as compensation or recovery of regulatory penalties. A payment is considered a compensation if for example, it results from a unilateral breach by the party who is required to pay the compensation. If there is a written contract, you should examine the contract to determine whether a payment is compensatory in nature. For a payment to be considered as compensation, the receiver of the compensation must not provide any goods or services in return to the paying party.

Examples of recovery not amounting to a supply for GST purposes

Example 9 – Recovery of fine for illegal parking

Car rental Company P was fined by the traffic police for illegal parking of a car hired to its customer. As the offence was committed during the period which the customer hired the car, P will recover the fine from him.

- 5.5 In Example 9, the fine for illegal parking is levied on P as the owner of the vehicle and P is legally liable to pay the fine. When P subsequently recovers the fine from its customer, P is regarded as seeking compensation. Since the

¹ Derived from UK case law *Carlton Lodge Club v C & E Comrs* [1974] STC 507, cited with approval in *Eastbourne Town Radio Cars Association v C & E Comrs* [1998] STC 669.

² See Charles Lim Aeng Cheng, Leung Yew Kwong and Chia-Tern Huey Min's *Goods and Services Tax - The Law and Practice* (First edition, 2002), LexisNexis, p 60 and 61.

recovery is compensatory in nature and no goods or services are supplied by P to the customer in return for it, the recovery of the fine is not a supply for GST purposes. P does not have to account for GST on the recovery.

Example 10 – Recovery of debt collection fees

Company Q defaulted on the payment for the goods supplied by Company R. R engaged the services of a debt collector, to help recover the debt owed by Q. Q eventually settled the debt owed to R. Additionally, R also recovered the debt collection fees charged by the debt collector from Q.

- 5.6 In Example 10, engaging the debt collector to recover the debt outstanding is an “enforcement action” taken by R; R did not supply any goods or services to Q in return for recovering the debt collection fees payment. Accordingly, the recovery of the debt collection fees is compensatory in nature and is not a supply for GST purposes and R does not need to charge GST on the recovery.

Example 11 – Recovery of damage charges

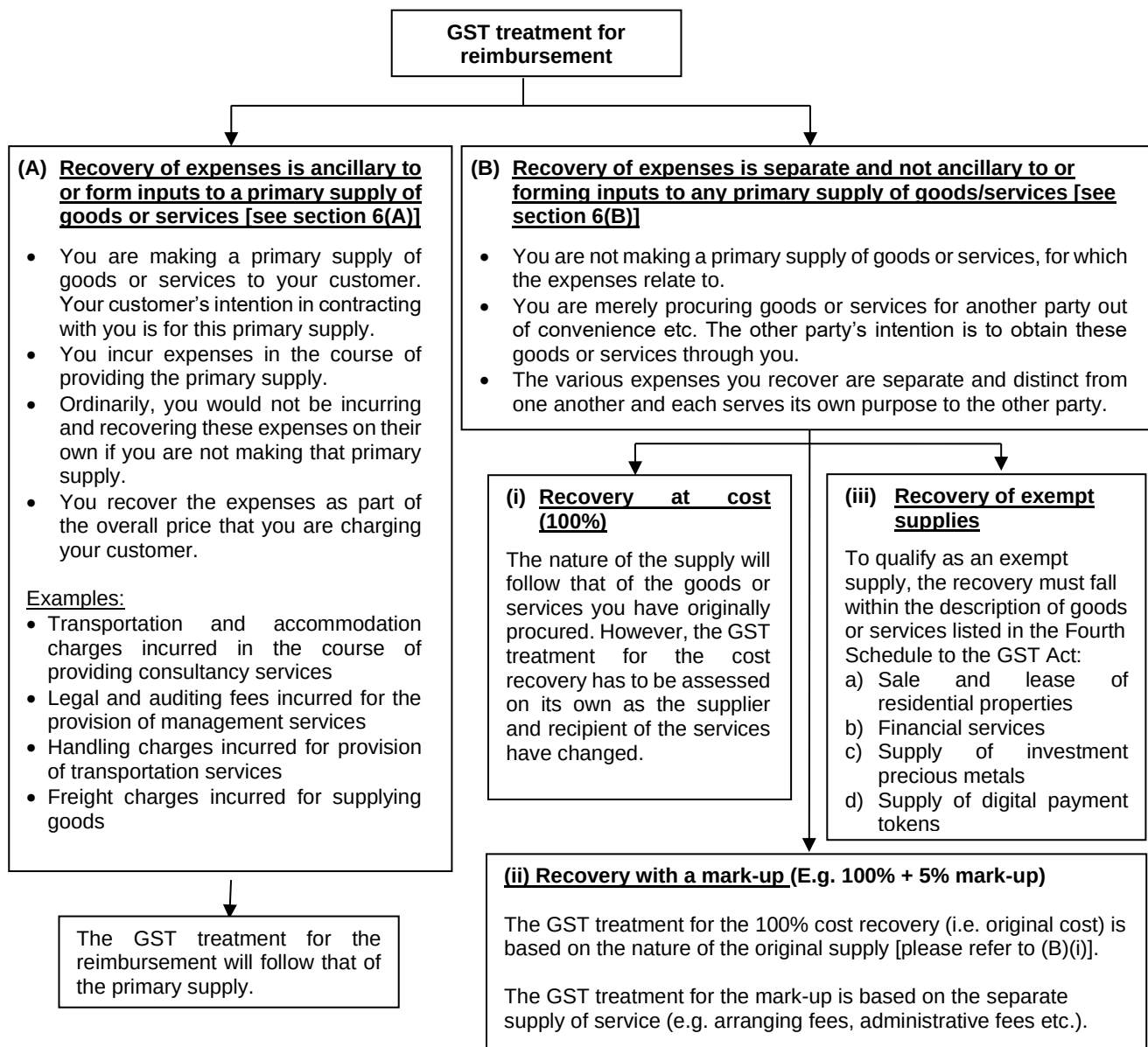
Company S rents an office space from the landlord and sublets half the space to Company T. Under the contract, S is allowed to sublet the office space to a third party but will be held liable for any damage to office furniture or equipment. On one occasion, T’s employee accidentally damages one of the office projectors and S has to pay the landlord for the damage. S subsequently recovers the amount from T.

- 5.7 In Example 11, S has to pay the landlord the damage charges as S is the party held legally liable for any damage to office equipment pursuant to the contract. When S subsequently recovers the damage charges from T, it is considered as compensatory in nature and is not a supply for GST purposes since S does not supply any goods or services to T in return for the damage charges recovered. S does not need to charge GST on the recovery.

6 Recovery of expenses amounting to a supply

- 6.1 When you seek reimbursement for the expenses incurred by you from another party who will receive goods or services, the reimbursement will be treated as a supply for GST purposes. You should determine, based on your contractual agreement with them, which of the following categories your reimbursement falls under:
- a) Recovery of expense is ancillary to or form inputs to a primary supply of goods or services; or
 - b) Recovery of expense is separate and not ancillary to or forming inputs to any primary supply of goods or services.

6.2 The GST treatment for reimbursement amounting to a supply is summarised as follows:



(A) Recovery of expenses is ancillary to or form inputs to a primary supply

6.3 You are contracted to supply goods or services (hereafter referred to as “the primary supply”) to your customer at an agreed consideration. You may then incur expenses in your own capacity in the course of providing the primary supply. Ordinarily, you would not have incurred and recovered such expenses if you are not making the primary supply. You would also have agreed with your customer on the recovery of such expenses and such recoveries form part of the overall price you are charging for the primary supply.

- 6.4 In such instances, the recovery of the expenses is ancillary to or form inputs to your primary supply of goods or services to your customer. The value of your supply to your customer will be the sum of the consideration received for the primary supply and the costs recovered. The GST treatment for the recovery of the expenses will generally follow that of the primary supply.
- 6.5 There may be scenarios where the primary supply qualifies for zero-rating under section 21(3) of the GST Act but the recovery of the expense ancillary to the supply has to be standard-rated as the GST law specifically excludes the expense from zero-rating. For example, when you recover entertainment and/or accommodation expenses incurred by the employees of your overseas customer in Singapore as part of your primary supply of services to your overseas customer, while the primary supply may qualify for zero-rating under section 21(3)(j) or 21(3)(k)³, the recovery of the expenses has to be standard-rated as such expenses are specifically excluded from zero-rating under the provisions.
- 6.6 The manner of invoicing (e.g. expense is separately invoiced) or the invoicing format (e.g. expense is separately itemised in the same invoice) does not affect the GST treatment of the reimbursement.

Examples of recovery of expenses which is ancillary to or form inputs to a primary supply

Example 12 – Recovery of overseas counsel fees

A lawyer from U Associates provides legal advice to a local client on an Indonesian company acquisition case. U seeks counsel with an Indonesian law firm V who provided the necessary information concerning Indonesian law and business regulations. U includes V's counsel fees in its billing to the client.

- 6.7 In Example 12, U contracts with V directly and works with the latter to obtain the required information in order to perform its legal services to the client. In other words, U is the principal in acquiring the services from V.
- 6.8 The subsequent recovery of overseas counsel fees by U from its local client is a reimbursement. The counsel fee recovered forms inputs to U's legal services to the local client and is subject to GST. This is so, even if no GST is charged by V to U as V is an overseas company and is not GST-registered.

³ Before 1 Jan 2020, a supply of services must “directly benefit” a person belonging outside Singapore before zero-rating can apply under section 21(3)(j) and (k). From 1 Jan 2020, with the introduction of reverse charge on imported services, you can also zero-rate your services supplied to an overseas person where the services directly benefit GST-registered persons belonging in Singapore. Services that directly benefit non-GST registered local persons continue to be standard-rated. The local beneficiary who is GST-registered will be required to apply reverse charge on imported services procured from the overseas person if he is not entitled to full input tax credit or he belongs to a GST group that is not entitled to full input tax credit.

Example 13 – Recovery of medical certification fees

Medical certification of victim W is required for a litigation. Lawyer X arranges for W to be examined by a doctor, and requests the clinic to issue a medical certification for this purpose. The doctor will invoice X for the medical check-up fee. X will recover this fee along with his legal fees from W.

- 6.9 In Example 13, the recovery of the medical fee is a reimbursement as the medical service is contracted for by X. The recovery is ancillary to X's legal services since X receives and uses the medical report in the course of performing his services to W. Accordingly, the GST treatment for the recovery follows that of the legal service provided by X to W.

Example 14 – Recovery of plan fees

Civil and structural engineer Y is engaged by a local developer to provide engineering design and consultancy works on the construction of a building in Singapore. As part of his work, Y is required to make submissions to the various government agencies to obtain relevant planning approvals. The applications require payment of plan fees to statutory boards such as the Building Control Authority and the Urban Redevelopment Authority.

- 6.10 In Example 14, Y is contracted to design the plan for the construction of the building and the submissions and payment of the plan fees are part of his scope of work. As Y acquired the supplies from the authorities as a principal, his subsequent recovery of plan fees is a reimbursement⁴. Following the GST treatment of Y's primary supply of design and consultancy services, which is directly in connection with land in Singapore, the reimbursement is subject to GST at the prevailing rate.

Example 15 – Recovery of handling costs incurred for the provision of transportation services.

Z is engaged by a local wholesaler to provide international transportation services to import goods from overseas into Singapore. The service agreement also provides that Z may recover costs incurred in relation to the transportation services, e.g. handling costs. Z thus recovers from the wholesaler the handling costs incurred in importing the goods into Singapore.

- 6.11 In Example 15, Z's recovery of the handling costs from the wholesaler is a reimbursement since Z has incurred the expenses as a principal. As the expenses are incurred in the course of making the primary supply of international transportation services, the GST treatment for the reimbursement will follow that of the primary supply - both the reimbursement

⁴ The recovery of plan fees by Y from the local developer is regarded as a reimbursement if Y is legally liable to pay the plan fees to the authorities. However, if the developer is legally liable to pay for the plan fees, then Y's recovery of such fees would be regarded as a disbursement.

and the primary supply will be zero-rated under section 21(3)(a) of the GST Act.

Example 16 – Recovery of freight, handling and insurance charges incurred for the sale of goods

B enters into a sale agreement which includes the delivery of goods to a customer. The sale agreement provides that B may recover the costs it incurs for making the delivery. B thus recovers from the customer, the international freight, handling and insurance costs incurred in importing the goods into Singapore for the sale.

- 6.12 In Example 16, B's recovery of the expenses from his customer is a reimbursement since B has incurred the freight, handling and insurance charges as a principal. Ordinarily, B does not provide freight services. In this case B has provided the service to facilitate its sale of goods to the customer. That is, the freight service is ancillary to its supply of goods to the customer. Hence, the GST treatment for the reimbursement will follow that of the sale of goods. If the goods are sold locally, the recovery of the expenses together with the supply of goods, is subject to GST at the prevailing rate. This is even though some of the expenses, such as the international freight, could have been zero-rated if supplied on its own by the freight forwarder directly.

Example 17 – Recovery of costs incurred in the provision of consultancy services

Consultancy Company C contracts with an overseas Company D to provide consultancy services to the latter. C engages the help of two staff from its overseas subsidiary, for their industry expertise. C paid for the air fares, hotel accommodation, transport, wages and entertainment expenses of the staff during their stay in Singapore. C then recovers these expenses from D in addition to a consultancy fee.

- 6.13 In Example 17, C's recovery of the staff expenses from D is a reimbursement since C engaged the services of its overseas subsidiary and incurred the staff expenses as a principal. These expenses are inputs for C to provide consultancy services to D and thus form part of the overall consideration for the service. For this reason, the reimbursement of staff expenses should follow that of C's primary supply of consultancy services to D. The services can be zero-rated under section 21(3)(j) or (k)³ of the GST Act since the consultancy services is contracted with and directly benefitting D, an overseas company, wholly in its business capacity, who is not in Singapore at the time the services are performed.

Example of recovery of expenses which is ancillary to a primary supply but subject to specific exclusion in the GST law

Example 18 – Recovery of costs incurred in the provision of training services

Company E provides training services to employees of an overseas Company F and the employees are sent to Singapore to attend the training. E helps F to book hotel accommodations for the employees when they are in Singapore. The hotel bills E and E in turn recovers the hotel charges from F.

- 6.14 In Example 18, the primary supply of training services can be zero-rated under section 21(3)(k)³ since the training services is contracted with F, an overseas company, wholly in its business capacity and the services benefits its employees, being persons belonging outside Singapore, wholly in their business capacity. E's recovery of accommodation expenses from F is a reimbursement since E has incurred the hotel charges as a principal. Although the hotel accommodation is ancillary to E's supply of training service to F, accommodation expenses incurred in Singapore are specifically excluded⁵ from the zero-rating relief provided under section 21(3)(k). As such, the recovery of hotel charges from F is subject to GST at the prevailing rate.

(B) Recovery of expenses is separate and not ancillary to or forming inputs to any primary supply

- 6.15 There may also be situations where you are not making a primary supply of goods or services but you merely help to procure goods or services for another party's use out of convenience, cost savings etc. In such situations, the various expenses you recover are separate and distinct from one another and each serves its own purpose to the other party, i.e. they are not provided to make, better enhance or facilitate a primary supply (if any).
- 6.16 In such instances, the Comptroller is prepared to treat the reimbursement as a separate recovery of expenses and the GST treatment will depend on whether you are recovering the expenses at cost or with a mark-up.

(i) Separate recovery of expenses at cost

- 6.17 If you are recovering each expense **at cost**, the nature of your supply to the third party will follow that of the goods or services you originally procured. For example, if you procure freight services for a related corporation, the nature of your subsequent recovery of the expense at cost from the latter will still be regarded as freight services.

⁵ Paragraph 6 of Second Schedule of the GST (International Services) Order specifically excludes "**any part** of a supply comprising services relating to accommodation and entertainment" from prescribed services which qualify for zero-rating under section 21(3)(k).

- 6.18 Though the nature of supply remains unchanged in such reimbursement situations, you still need to assess the GST treatment for the supply on its own as the GST treatment may not always mirror that of the original supply. The GST treatment for the reimbursement may differ from the GST treatment for the original supply due to the change in supplier or recipient. In particular, please refer to paragraphs 6.33 to 6.43 for the GST treatment of recovery of costs relating to an exempt supply.

Examples of separate recovery of expenses at cost

Example 19 – Recovery of courier expenses at cost from related corporations

For cost savings purpose, G Holdings Ltd has an informal arrangement with its worldwide related corporations to procure international courier services for the entire group as and when required. Other than this, there is no other supply made by G to its related corporations. The courier company will provide the services directly to the corporations and bill G. G would then recover the courier expenses at cost from the respective corporations based on their usage.

- 6.19 In Example 19, as G contracts with the courier company for the courier services as a principal, its subsequent recovery of the expense from its related corporations is a reimbursement. The reimbursement is a separate recovery of expenses since it does not relate to any primary supply G makes to its related corporations. As the recovery is at cost, the nature of the supply remains as international courier services. Accordingly, G's recovery of the courier charges can be zero-rated under section 21(3)(a).

Example 20 – Recovery of market research expenses at cost from related corporations

H Holdings Ltd is the headquarters for the Asia Pacific region based in Singapore. H has an arrangement with its Asia Pacific related corporations to procure market research services for the entire group. Other than this, there is no other supply made by H to its related corporations. H contracts with a Singapore company I for the market research services and subsequently recovers the expenses at cost from the respective corporations in equal proportion. I charges H GST at 7% for the market services since H belongs in Singapore.

- 6.20 In Example 20, as H contracts with I as a principal, its subsequent recovery of the expenses from its related corporations is a reimbursement. The reimbursement is a separate recovery of expenses since it does not relate to any primary supply H makes to its related corporations. H is treated as supplying the same market research services procured from I to its related corporations as the recovery is at cost. However, when H recovers the market research expenses from its related corporations, the recovery qualifies for zero-rating under section 21(3)(j)³ since H's related corporations belong outside Singapore.

Example 21 – Recovery of expenses incurred in Singapore by related corporation

An overseas company J organised a training in Singapore for 2 months and used its related corporation K's facilities in Singapore to conduct the training. K subsequently recovered at cost from J for the portion of the utilities, office rental and telecommunication services consumed by J during its training.

- 6.21 In Example 21, K has contracted for the rental of the office space, utilities and telecommunication services as a principal. K's subsequent recovery of the expenses from J is therefore a reimbursement. As K is merely recovering from J the cost of J's consumption of goods (utilities and office rental) and telecommunication services without providing anything else (i.e., there is no primary supply), K is treated as supplying the same goods and services as what it has procured to J.
- 6.22 K needs to examine the goods and services individually to determine the GST treatment of each of the expenses recovered. If the supply of telecommunication services relates to both local and international calls made by J, K is required to standard-rate the portion attributable to the local calls when it recovers the expense from J. The portion that relates to international transmission is an international service that can be zero-rated under section 21(3)(q) of the GST Act. The supply of office space and utilities are treated as goods in Singapore, hence, K has to standard-rate the recovery of these expenses.

Secondment of staff

- 6.23 Secondment of staff refers to a situation when a staff contractually employed by one company is supplied to another company to perform certain work specifically assigned to them.
- 6.24 The secondment of staff is considered to be a supply of services for GST purposes. Therefore, the company seconding the staff ("Seconding Company") has to charge GST on the value of the supply if it is GST-registered; if it is not, it will need to assess its liability to register for GST. The value of the supply is the amount actually charged by the Seconding Company to the company receiving the seconded staff ("Recipient Company"). Where the Seconding Company does not charge the Recipient Company, the consideration for the supply is the amount of remuneration (money or otherwise) that the Seconding Company is obliged to pay the seconded staff but instead is paid by the Recipient Company.
- 6.25 In practice, it is not uncommon for a corporate group to have staff secondment arrangements to meet the operational needs of the companies in the group. The Recipient Company generally regards itself to have hired the seconded staff rather than buying the services of the staff from the

Seconding Company. For such cases, the Comptroller of GST is prepared, as an administrative concession, to treat the secondment as not constituting a supply made by the Seconding Company and to waive the need for the Seconding Company to charge and account for GST on the recovery of staff costs if **all** of the following conditions are met:

- (i) No secondment fees, mark-up, handling charges or administrative fees are levied by the Seconding Company;
- (ii) Both the Seconding Company and Recipient Company are related within the meaning of section 6 of the Companies Act⁶;
- (iii) The staff is seconded to one company only at any one time⁷;
- (iv) The Recipient Company exercises exclusive control over the allocation and performance of the duties of the staff during the period of secondment⁸; and
- (v) The Seconding Company does not claim any input tax directly relating to the secondment of staff⁹.

6.26 On the other hand, if any of the above conditions are not satisfied, GST has to be charged on the full value of staff cost recoverable by the Seconding Company (e.g. salaries, CPF contribution, medical benefits and other related staff expenses) and any handling charges or administrative fees imposed by the Seconding Company.

⁶ Under section 6 of the Company Act, "Where a corporation —

(a) is the holding company of another corporation;

(b) is a subsidiary of another corporation; or

(c) is a subsidiary of the holding company of another corporation,

that first-mentioned corporation and that other corporation shall for the purposes of this Act be deemed to be related to each other".

⁷ The above administrative concession is not intended for a case where the staff is assigned to perform services for several companies and the staff cost is allocated to the various companies receiving the services. In such cases, the staff cannot be described as being on secondment.

⁸ In a secondment, the staff continues to be legally employed by the Seconding Company but reports to the Recipient Company. In some situations, the Recipient Company reimburses the Seconding Company the salaries and other related expenses of the staff. In other situations, the Recipient Company may pay the staff his salaries and related expenses directly. In substance, the Recipient Company becomes a substitute employer for the staff. Hence, the Recipient Company must have exclusive control over the allocation and performance of the duties of the staff during the period of secondment.

⁹ Since the secondment of staff is treated as not a supply under the administrative concession, input tax that directly relates to the secondment of staff should not be claimed. Examples of input tax that should not be claimed would include tax incurred on fringe benefits for the seconded staff such as accommodation and course fees.

Example 22 – Recovery of seconded staff cost

Company L seconded its staff to its subsidiary company N. L did not charge N any secondment fees; it merely recovered the seconded staff's salary and related fringe benefits (e.g. accommodation costs) at cost from N. L did not claim any input tax incurred on the accommodation provided to the staff.

- 6.27 In Example 22, L and N are related corporations and L did not claim any input tax directly relating to the secondment of staff (i.e. accommodation fee). If N also has exclusive control over the allocation and performance of the duties of the seconded staff during the period of secondment, L's recovery of seconded staff cost from N can qualify for the administrative concession and GST need not be charged on the recovery. The recovery will be treated as not a supply for GST purposes.

(ii) Separate recovery of expenses with a mark-up

- 6.28 If you impose a mark-up¹⁰ for any additional service that you provide to the party whom you are recovering the expenses from, you are to segregate the mark-up from the recovery of the expenses and apply the appropriate GST treatment to each component.
- 6.29 For example, you recover from your customer, expenses incurred with a 5% mark-up:
- (a) Cost recovery of the expenses (100%) – GST treatment based on paragraphs 6.17 to 6.22; and
 - (b) Mark-up (5%) – GST treatment based on the separate supply of administrative, arranging or facilitation service.

Examples of separate recovery of expenses with a mark-up

Example 23 – Recovery of freight charges from a local company

Company O used Company P's account with its freight forwarder to import some goods. The freight forwarder billed P for the international freight service, which P in turn recovered from O with an additional \$50 arranging fee.

- 6.30 In Example 23, the freight service is regarded as being contractually supplied to P as a principal since the standing account with the freight forwarder is P's. Hence, P's subsequent recovery of the expense from O is a reimbursement. In this case, P is regarded as making 2 separate supplies to O – international freight service (i.e. the 100% cost recovery) and arranging service (i.e. \$50 mark-up). The international freight service is zero-rated under section 21(3)(a) of the GST Act. Similarly, the arranging service for the

¹⁰ The mark-up may be reflected as an administrative fee, arranging fee, facilitating fee etc. in the billing.

international freight can also be zero-rated under section 21(3)(c) of the GST Act.

Example 24 – Recovery of expenses incurred in Singapore by overseas related corporation's staff

Overseas company Q's staff would be in Singapore for a business trip. For convenience, Q requested its local related corporation R to make the necessary arrangements. R contracted for and paid for various expenses for Q's staff (including air tickets, accommodation, local transportation, food and entertainment). R subsequently recovered the individual expenses from Q with a 5% mark-up.

- 6.31 In Example 24, R's subsequent recovery of the various expenses from Q is a reimbursement since R contracted for them as a principal. In this case, R is treated as making a cost recovery for the various expenses and supplying a separate arranging service (i.e. the 5% mark-up) to Q.
- 6.32 For the cost recovery, R needs to examine the individual goods and services supplied to determine the respective GST treatment. The supply of air tickets is an international service that is zero-rated under section 21(3)(a) of the GST Act. The accommodation is a supply of goods in Singapore and is thus subject to GST at the prevailing rate. The local transportation, food and entertainment are also subject to GST at the prevailing rate as the goods and services were consumed in Singapore by Q's staff and would not qualify for zero-rating. R's arranging service can be zero-rated under section 21(3)(j)³, since the arranging service directly benefits Q who belongs in a country outside Singapore and the arranging service itself is not supplied directly in connection with any land or goods in Singapore.

(iii) Separate recovery of expenses which are originally exempt supplies

- 6.33 The recovery of expenses which are originally exempt supplies may not be exempt. For the recovery to qualify as an exempt supply, the recovery of the expenses must fall within the description of goods or services listed in Part 1 of the Fourth Schedule to the GST Act. The four categories of exempt supplies are the sale and lease of residential properties, financial services, the supply of investment precious metals and the supply of digital payment tokens with effect from 1 Jan 2020.

Sale and lease of residential properties

- 6.34 The sale and lease of residential properties, specifically "the grant, assignment or surrender of any interest in or right over or any licence to occupy" such properties are exempt from GST under paragraph 2 of Part 1 of the Fourth Schedule. Hence, a separate recovery of costs in relation to supplies of residential properties would be exempt from GST if it qualifies under this provision, even in the absence of a formal sales contract or lease agreement.

Examples of separate recovery of rental costs of residential properties

Example 25 – Recovery of staff accommodation costs from a related corporation

Local Company S leases 10 unfurnished apartments in Singapore from a landlord to accommodate its own staff and the expatriate staff of its related corporation T. The landlord invoices S for rental of all the apartments on a monthly basis. S in turn recovers at cost from T the rental for the 6 apartments occupied by T's staff.

- 6.35 In Example 25, S contracts with the landlord directly as a principal for the rental of the 10 apartments and in turn, grants T a right for T's staff to occupy 6 apartments. Hence, S's recovery of costs from T in relation to the 6 apartments can be exempt from GST.

Example 26 – Recovery of rental cost from employee

Landlord charges Company U the following on a monthly basis:

Bare rent	= \$3,000
Rental of furniture and fittings	= <u>\$3,000</u>
Total rental	= <u>\$6,000</u>

Annual value in the valuation list	= \$24,000
Value of exempt supply per month	= $1/12 \times \$24,000$
	= \$2,000

As U only subsidises its employee's rental up to a cap of \$5,000, U thus recovers the balance amount of \$1,000 from its employee every month.

- 6.36 In Example 26, U contracts with the landlord directly as a principal for the rental of furnished residential apartment and in turn, grants its employees the right to use the apartment. U subsidises the rental which comprises both the rental of furniture and fittings and the apartment. When U recovers \$1,000, part of the recovery is attributable to the rental of the furniture and fittings (taxable) and part of it to the rental of apartment (exempt). U should use the following formula to arrive at the taxable portion of the subsidised rental:

$$\begin{aligned}
 &\text{Open Market Rental (i.e. total rental)} - 1/12 \text{ OF AV} \\
 &= \$6,000 - \$2,000 \\
 &= \$4,000 \text{ -- [A]}
 \end{aligned}$$

[A] - represents the taxable value of the furniture and fittings in a situation of open market rental (i.e. rental is not subsidised)

$$[A]/\text{Open Market Rental} = \$4,000/\$6,000 = 2/3$$

- 6.37 Hence, when U recovers \$1,000 from its employee every month, 2/3 of \$1,000 should be taxable; with the remaining portion to be treated as an

exempt supply. U is thus required to charge and account for GST on \$666.67 ($\frac{2}{3} \times \$1,000$).

Provision of financial services

6.38 Most exempt financial services must be provided by the actual service provider in order to qualify for GST exemption. That being the case, when the originally exempt consideration charged by the actual service provider (e.g. the bank, life insurer, etc.) is subsequently recovered by its customer from the customer's related company, the recovery would become taxable.

6.39 Some examples are the recovery of:

- Fee charged for the issuance of a letter of credit
- Life insurance premium
- Fees charged by a person carrying on the credit card operation

Examples of separate recovery of exempt financial services

Example 27 – Recovery of fee incurred on issuance of letter of credit

Local Company V used Company W's letter of credit facility with the bank due to the latter's better credit standing. The bank issued the letter of credit ("LC") and invoiced W for the fee on issuance of the LC. W recovered the fee from V at cost.

6.40 In Example 27, the fee charged by the bank to W for issuance of the LC is exempt under paragraph 1(d) of Part 1 of the Fourth Schedule to the GST Act. However, when W recovers the LC fee at cost from V, paragraph 1(d) cannot apply since W is not the one issuing the LC. Thus, W's recovery of the LC fee from V is subject to GST at the prevailing rate.

Example 28 – Recovery of life insurance premium

Company X, a holding company, purchased a group life insurance policy from an insurance company for its own and its local subsidiaries' employees. X invoiced its subsidiaries for the portion of the insurance premium attributable to the employees under the subsidiaries headcount.

6.41 In Example 28, the insurance services are contractually supplied to X as a principal as X is the policyholder. Hence, X's recovery of the premiums from the respective subsidiaries is a reimbursement.

6.42 The premium charged by the insurance company to X is exempt under paragraph 1(l) of Part 1 of the Fourth Schedule. However, when X recovers the premiums from its local subsidiaries, paragraph 1(l) cannot apply since X is not making a "provision of life insurance contract". X's recovery of the premium from the local subsidiaries is thus subject to GST at the prevailing rate.

7 Concession on claiming input tax on disallowed expenses which are subsequently recovered

(A) Claiming input tax on regulation 26 expenses incurred for related corporations

7.1 Input tax incurred on expenses which fall within the description of regulation 26 of the GST (General) Regulations¹¹ are not allowable. Further, regulation 25(3) provides that input tax on:

- (i) family benefits;
- (ii) medical and accident insurance premium; and
- (iii) medical expenses;

incurred for the directors and officer of the company, persons engaged in the management of the company, and the directors, officers or employees of a **related corporation** as defined in section 4 of the Companies Act¹² are also disallowable.

7.2 The above means that you cannot claim the input tax on the expenses incurred for your own employees and the employees of your related corporation. Even when you recover the expenses from your employees or related corporation and the recovery is subject to GST, strictly, you are not allowed to claim the GST incurred on those expenses¹³. In addition, your related corporation cannot claim the GST on-charged by you as they will similarly be blocked by regulation 26.

7.3 However, as a concession, the Comptroller will allow you to claim in full the input tax on the expenses incurred for your related corporation's employees if:

- (a) *you recover the expenses in full from your related corporation;***

¹¹ Regulation 26 of GST (General) Regulations provides that input tax on the following expenses are disallowed:

- (a) club subscription fee;
- (b) medical and accident insurance;
- (c) medical expenses;
- (d) family benefits; and
- (e) any transaction involving betting, sweepstakes, lotteries, fruit machines or games of chance.

¹² Section 4 of the Companies Act makes reference to section 6 of the same Act for the meaning of "related corporation". Section 6 deems corporations which are a holding company of another, subsidiary of another and subsidiaries of the same holding company to be "related corporations" for the purpose of the Companies Act. See footnote 3.

¹³ If you are recovering from the employees the expenses relating to family benefits, you will be allowed to claim the GST incurred on such expenses (in proportion to the amount of expenses being recovered).

However, if you recover only a portion of the expenses incurred, you can only claim input tax to the extent of the portion recovered from your related corporation.

For example, if you recover only 50% of the expenses incurred, you can only claim 50% of the input tax incurred.

(b) *the recovery is not ancillary to any primary supply made by you to your related corporation; and*

If the recovery is ancillary to a primary supply, the concession is not available to you. Please see paragraph 7.7 for further information.

(c) *your related corporation is registered for GST.*

7.4 To enjoy the concession, you must hence:

- (a) maintain the relevant documents to support that the expenses were incurred by you as a principal (e.g. tax invoices issued by the supplier are addressed to you);
- (b) be able to segregate the GST incurred on the expenses relating to the employees of your related corporation from those relating to your own employees even if the expenses are billed in a single invoice to you by the supplier. For example, the insurance company issued a single tax invoice to you for group medical insurance bought by you for your employees and employees of your related corporation;
- (c) where you are only recovering a portion of the expense from your related corporation, ensure that you will only claim GST to the extent covered by the on-charging; and
- (d) inform your related corporation that you will be the party to claim the GST incurred on the expense and your related corporation will not claim the GST charged by you when you recover the expense from it. In billing your related corporation, you should denote on your invoice to it that the GST chargeable is not claimable as input tax.

7.5 Even if you do not avail yourself to the concession, you must still account for GST when you recover the expenses from your related corporation. However, your related corporation will not be allowed to claim input tax credit for the GST charged by you.

7.6 Businesses should only avail themselves to the concession if they are able to comply with the requirements in 7.4 (a) to (d). In addition, if in the course of our audit, a business applying the concession is found to have claimed more input tax than it should or if its related corporation is found to have claimed the GST charged by it, the business will not be allowed to continue enjoying the concession. Penalties will also be imposed on the input tax over-claimed.

Disallowed expenses recovered that is ancillary to a primary supply

- 7.7 If the recovery of the expenses is ancillary to a primary supply of services or goods which you are providing to the related corporation, the concession will no longer apply to you. For example, if you are supplying management services to your related corporation and the recovery of the expenses is ancillary to the supply of the management services, you will not be allowed to claim the input tax on the expenses. You will be required to account for GST on the consideration (including the recovery of the expenses) that you receive from your related corporation for the management services. Your related corporation will be allowed to claim input tax for the GST charged by you (subject to meeting all the conditions for claiming input tax) as what it receives is the management services and not supplies of a nature blocked under regulation 26.

Examples of claiming of input tax on regulation 26 expenses

Example 29 – Recovery of medical and accident insurance premium

Y Holdings Pte Ltd arranges to purchase medical and accident insurance for its own employees as well as all the employees of its local GST-registered subsidiary, Z. Y invoices Z for the portion of the insurance premium attributable to the employees under Z's headcount with GST charged.

Scenario A: Y does not provide any other services to Z. It merely helps to purchase the medical and accident insurance and will recover the expense at cost from Z.

Scenario B: The above service is provided as part of Y's management services to Z. The cost is recovered when Y charges a lump sum management fee to Z.

- 7.8 In Example 29, Y is disallowed from claiming the input tax incurred on the medical and accident insurance purchased for both Y's own employees and the employees of Z. This is because it is provided under regulation 25(3) of the GST (General) Regulations that employees of a related corporation as defined in section 4 of the Companies Act are deemed to be persons employed by the company. Consequently, input tax incurred for both Y's employees and Z's employees are disallowed under regulation 26 of the GST (General) Regulations.

Scenario A

- 7.9 While input tax incurred on the insurance for Z's employees is blocked under the GST law, as a concession, Y is allowed to claim the input tax incurred on the premium for Z's employees when it recovers the insurance premium from Z.
- 7.10 Y's subsequent recovery of the insurance premiums from Z is to be standard-rated whether or not Y claimed input tax under the concession. On the other

hand, Z is disallowed from claiming the input tax for the GST charged by Y since the insurance is for its own employees.

Scenario B

- 7.11 Y would not be able to enjoy the above concession. It is not allowed to claim the input tax on all the medical and insurance premiums including those relating to Z's employees. On the other hand, since Z is receiving management services from Y, it can claim the input tax incurred subject to the input tax claiming rules.

Example 30 – Recovery of medical insurance premium co-funded

Co A contracts with an insurance company for medical insurance coverage for its employees. A co-funds 50% of the medical insurance premium for its employees and recovers the remaining 50% from its employees.

- 7.12 In Example 30, A needs to charge GST on the 50% medical insurance premium recovered from its employees. It is however disallowed from claiming any input tax incurred on the medical insurance premium, including the 50% portion recovered from its employees. This is because input tax incurred on medical insurance premium for employees is disallowed under regulation 26 of the GST (General) Regulations.

(B) Claiming input tax on regulation 27 expenses

- 7.13 Under regulation 27 of the GST (General) Regulations¹⁴, input tax incurred on the costs and running expenses relating to a motor car used by a business (except where the car is excluded from the definition of a 'motor car' in regulation 25(1) of the GST (General) Regulations) are not allowable. Hence, under the law before 1 Jan 2023, you cannot claim input tax on expenses you incurred in relation to a motor car, whether or not you are using the motor car¹⁵.

¹⁴ Regulation 27 of the GST (General) Regulations disallows input tax incurred by a taxable person on:

- a) the supply or importation of a motor car; or
- b) the supply or importation of goods or supply of services, used by him directly in connection with a motor car.

However, input tax incurred for specific scenarios is excluded from the scope of regulation 27. The input tax incurred in such specific scenarios will be claimable, subject to the conditions for claiming input tax.

¹⁵ From 1 Apr 2022 onwards, you can claim input tax incurred on the purchase of services to transport passengers from point A to point B (pay-per-trip) in a chauffeured private hire car (e.g. airport transfer services, etc), provided the other conditions for claiming input tax are met. This includes ensuring that your purchases are supported by valid tax invoices or simplified tax invoices with GST charged to you. For e.g., for limousine services, you will need to keep an invoice from the GST-registered business showing that GST has been charged on the services.

Before 1 Jan 2023

7.14 Before 1 Jan 2023, as a concession, the Comptroller allowed you to claim in full the input tax incurred on the motor car expenses if:

(a) *you recovered the expenses in full from another party; and*

If you recovered only a portion of the motor car expenses incurred, you can only claim input tax to the extent of the portion recovered.

For example, if you recovered only 50% of the motor car expenses incurred, you can only claim 50% of the input tax incurred.

(b) *the recovery was not ancillary to any primary supply made by you to the other party; and*

If the recovery was ancillary to a primary supply, the concession is not available to you.

(c) *the other party was registered for GST.*

7.15 To enjoy the concession, you must hence:

- (a) maintain the relevant documents to support that the motor car expenses were incurred by you as a principal (e.g. tax invoices issued by the supplier are addressed to you);
- (b) be able to segregate the GST incurred on the expenses relating to the other party from those relating to you even if the expenses were billed in a single invoice to you by the supplier. For example, a car rental company issued a single tax invoice to you for rental fees relating to three motor cars rented by you for use by your related corporation and you;
- (c) where you only recovered a portion of the motor car expense from another party, ensure that you only claimed GST to the extent covered by the on-charging; and
- (d) when you recovered the expense from the other party, denote on your invoice that the GST charged was not claimable as input tax. For related corporations, you should also inform your related corporations that you would be the party to claim the GST incurred on the expense and your related corporations would not claim the GST charged by you when you recovered the expense from them.

7.16 Even if you do not avail yourself to the concession, you must still account for GST when you recover the expenses from the other party. The other party will not be allowed to claim input tax credit for the GST charged by you as the GST is still considered as input tax incurred on motor car expenses (i.e. blocked under regulation 27).

- 7.17 Businesses should only avail themselves to the concession if they are able to comply with the requirements in paragraphs 7.15 (a) to (d). In addition, if in the course of our audit, a business applying the concession is found to have claimed more input tax than it should, the business will not be allowed to continue enjoying the concession. Penalties will also be imposed on the input tax over-claimed.
- 7.18 The above administrative concession has been removed for motor car expenses incurred on or after 1 Jan 2023.

Revised GST treatment with effect from 1 Jan 2023

- 7.19 From 1 Jan 2023, you will be allowed to claim input tax on the cost and running expenses incurred on a motor car where it is used by a third party, provided the conditions for claiming input tax are met (e.g. input tax incurred on parking fees charged to you when your customers park their motor cars while visiting your business premises). A third party refers to a person other than:
- (i) you or your employees; or
 - (ii) a person (or its employees) who is connected to you within the meaning of paragraph 3 of the Third Schedule to the GST Act (“a connected person”).
- 7.20 Where a motor car is used by you or your employees, input tax incurred on the motor car expenses remains disallowed under regulation 27. Use of the motor car includes both physical use (e.g. motor car driven by your company staff or chauffeur to transport your company directors or business associates) and economic use (i.e. use of the car to generate income or make supplies e.g. a consultancy firm uses its motor car to transport its preferred clients for a fee).
- 7.21 Where you incur expenses on a motor car used by a connected person (e.g. a related company such as your subsidiary), you are allowed input tax claims incurred on the cost and running expenses of the motor car, only if you satisfy both of the following conditions (in addition to the conditions for claiming input tax):
- (a) ***You recover the motor car expense in full from the connected person.***

Where you recover only a portion of the motor car expense incurred, you can only claim input tax to the extent of the portion recovered.
 - (b) ***The recovery is not ancillary to any primary supply made by you to the connected person.***

If the recovery is ancillary to a primary supply¹⁶, you cannot claim the input tax on the motor car expense incurred.

Examples of claiming of input tax on expenses relating to a motor car

Example 31 – Recovery of car rental fees

Company B and Company C are related corporations. As B has a standing arrangement with a car rental company, it hires a motor car from the car rental company for C's use in Singapore. The car rental company charges B for the car rental fees and B recovers the fees from C at cost. B does not provide any other services to C.

- 7.22 In Example 31, B is allowed to claim input tax incurred on the car rental as the motor car is used by its related company, C, and B recovers the car rental fees from C as its standard-rated supply. The supply of the car rental services from B to C is also not part of another supply made by B to C. On the other hand, C will be disallowed under regulation 27 from claiming the input tax incurred on the car rental billed by B.

Example 32 – Recovery of parking expenses

Company D incurs parking expenses of \$763 (GST-inclusive) and subsequently recovers 50% of the parking expenses, i.e. \$381.50 from a local GST-registered related corporation E as the parking lot is also used by E.

- 7.23 In Example 32, D is allowed to claim input tax only on the portion of parking expenses recovered from E. The supply of the parking services from D to E is not part of another supply made by D to E. When D recovers 50% of the expenses from E, it is required to account for output tax of \$31.50 (9/109 of \$381.50). E will be disallowed from claiming the input tax incurred on the parking expenses billed by D under regulation 27.

Example 32A – Recovery of car rental fees from a related company

Company DD provides management services to its related companies including Company EE. DD charges monthly management fees to EE based on costs plus 5% mark-up. As DD has a standing arrangement with a car rental company, it hires a motor car from the car rental company for EE's use in Singapore. The car rental company charges DD for the car rental fees and DD recovers the rental fees from EE as part of the monthly management fees charged to EE.

- 7.24 In Example 32A, DD cannot claim input tax incurred on the car rental as the motor car is used by its related company, EE, and DD cannot satisfy the conditions stated under paragraph 7.21 as the recovery of car rental fees is ancillary to the supply of management services provided by DD to EE. EE

¹⁶ Refer to paragraph 6.2 for information on when the recovery is ancillary to a primary supply.

will be allowed input tax claims on its monthly managements fees if it is able to satisfy the normal input tax claiming conditions.

8 Billing for recovery of expenses

- 8.1 The earlier sections have explained and illustrated through various examples the GST treatment for the recovery of expenses. This section shows through illustrations what businesses should observe when billing to recover expenses from other parties.

Example 33 – Disbursement Case

Company F provides maintenance service to Company G for \$1,000 and charges GST of \$90. The invoice is addressed to G but c/o G's consultant, Company H. H pays the bill and invoices G to recover the amount. In the same invoice, H also includes its fee of \$1,500 for the consultancy services it provides to G.

- 8.2 In Example 33, H should charge and account GST of \$135 (9% GST x \$1,500) for the consultancy services rendered to G. The value of supply of \$1,500 and GST of \$135 must be shown clearly on the tax invoice. As for the recovery of payment made to F on G's behalf, H can reflect the total figure, i.e. \$1,090 on the same invoice. H should not show the breakdown of \$1,000 and GST \$90 since the recovery is a disbursement. H should attach F's tax invoice to G to enable G to claim the input tax incurred. H may present the charges for its supplies of services and recovery of expenses on its tax invoices in the following manner:

Company H's Tax Invoice to Company GGG	
Consultancy services	\$1,500
GST @ 9%	<u>\$ 135</u>
Subtotal	\$1,635
Recovery of payment made to Company F (See attached invoice)	<u>\$1,090</u>
Total	<u>\$2,725</u>

Example 34 – Reimbursement of expenses as part of a primary supply

In the course of providing consultancy services to Company I, Company J engages Company K to provide interpretation services. K invoices J \$1,000 and GST of \$90 for its services. J in turn invoices I \$1,500 and GST of \$135 for its consultancy services and \$1,090 (inclusive of GST) for the costs incurred on interpretation services.

- 8.3 In Example 34, J contracts with K for the interpretation services as a principal as part of its supply of consultancy services to I. Hence, J can claim the input tax of \$90 charged by K but should also charge and account for GST when it recovers the costs from I. J may present the charges for its supplies of services on its tax invoice to I in the following manner:

Company J P/L's Tax invoice To Company III	
Consultancy services	\$1,500
Interpretation services	<u>\$1,000</u>
Subtotal	\$2,500
GST @ 9%	\$ 225
(\$135 + \$90)	
Total	<u>\$2,725</u>

- 8.4 In the event that J recovers the interpretation service fee from I at a mark-up of, say 10%, GST would be chargeable on \$1,100 (i.e. \$1,000 + 10%). The total GST to be accounted would be \$234 (\$135 + \$99).

Example 35 – Reimbursement of expenses which are directly supplied by the third party supplier and the break-down of cost and mark-up is provided

Company L provides a one-off arranging service to its overseas head office, Company M, to arrange for hotel accommodation for M's director during his visit to Singapore. The hotel bills L for the hotel accommodation, food and beverages, internet charges and IDD call charges. L subsequently recovers the expenses incurred from M plus a 10% mark-up.

- 8.5 In Example 35, L contracts as a principal with the hotel for the hotel accommodation and hence, the recovery is a reimbursement. Since there is no primary supply being provided by L to M, L can be regarded as making a separate recovery of expenses from M and supplying the same goods and services to M as originally procured from the hotel.
- 8.6 In this case, L's recovery of the expenses from M is subject to GST at the prevailing rate. The accommodation is a supply of goods in Singapore, the food and beverages and the internet charges directly benefit and are consumed by M's director who is in Singapore at the time of consumption, and thus must be standard-rated. The IDD calls and the 10% mark-up charged to M for the arranging services on the other hand may qualify for zero-rating under section 21(3)(q) and 21(3)(j) respectively. L may present its recovery of the various expenses on its tax invoice to M in the following manner:

Company L P/L's Tax invoice To Company M	
Hotel accommodation	\$1,000
Food and beverages	\$ 450
Internet usage charges	<u>\$ 50</u>
Subtotal	\$1,500
GST @ 9%	<u>\$ 135</u>
Total inclusive of 9% GST	<u>\$1,635</u>
<u>Subject to GST @ 0%</u>	
IDD calls	\$ 100
Arranging service (10% mark-up on \$1,600)	\$ 160
Total bill payable	<u><u>\$1,895</u></u>

9 Frequently asked questions

Strict pass-through costs

- 9.1 **Question 1:** A Singapore group service provider ("Singapore provider") contracted with a third-party firm to acquire information services for two of its related companies. Payment was made by the group service provider direct to the third-party firm. The Singapore provider subsequently entered into a written agreement with its two related companies that requires them to assume all contractual obligations and liabilities arising from the contract entered into between itself and the third party firm. The costs to be onward charged to its related companies qualify as strict pass-through costs¹⁷ and will be passed on without a mark-up. When the Singapore provider recovers the payment made from its related companies, is the recovery a reimbursement or disbursement for GST purposes?

Answer 1: Since the Singapore provider entered into the contract with the third-party firm in its capacity as a principal, for GST purposes, we will treat the cost recovery as a reimbursement. This is regardless of the fact that the Singapore provider is taken to be a paying agent for transfer pricing purposes and the transaction qualifies as strict pass-through costs.

- 9.2 **Question 2:** A Singapore group service provider ("Singapore provider") helped arrange and pay for the costs of engaging a third-party firm to provide various corporate secretarial services to its related companies. The Singapore provider is not a party to the contract and is merely making payments on behalf of its related companies. The Singapore provider subsequently passes on the related costs to its related companies without a mark-up. The costs qualify as strict pass-through costs. When the Singapore provider recovers the payment made from its related companies, is the recovery a reimbursement or disbursement for GST purposes?

Answer 2: In this scenario, as the Singapore provider is not a party to the contract with the third-party firm, it is merely acting as an agent in the payment of fees and hence, the cost recovery is treated as a disbursement, for GST purposes.

¹⁷ See IRAS' webpage: www.iras.gov.sg > Businesses > Companies > Working out Corporate Income Taxes > Specific topics > Transfer Pricing > Other Issues.

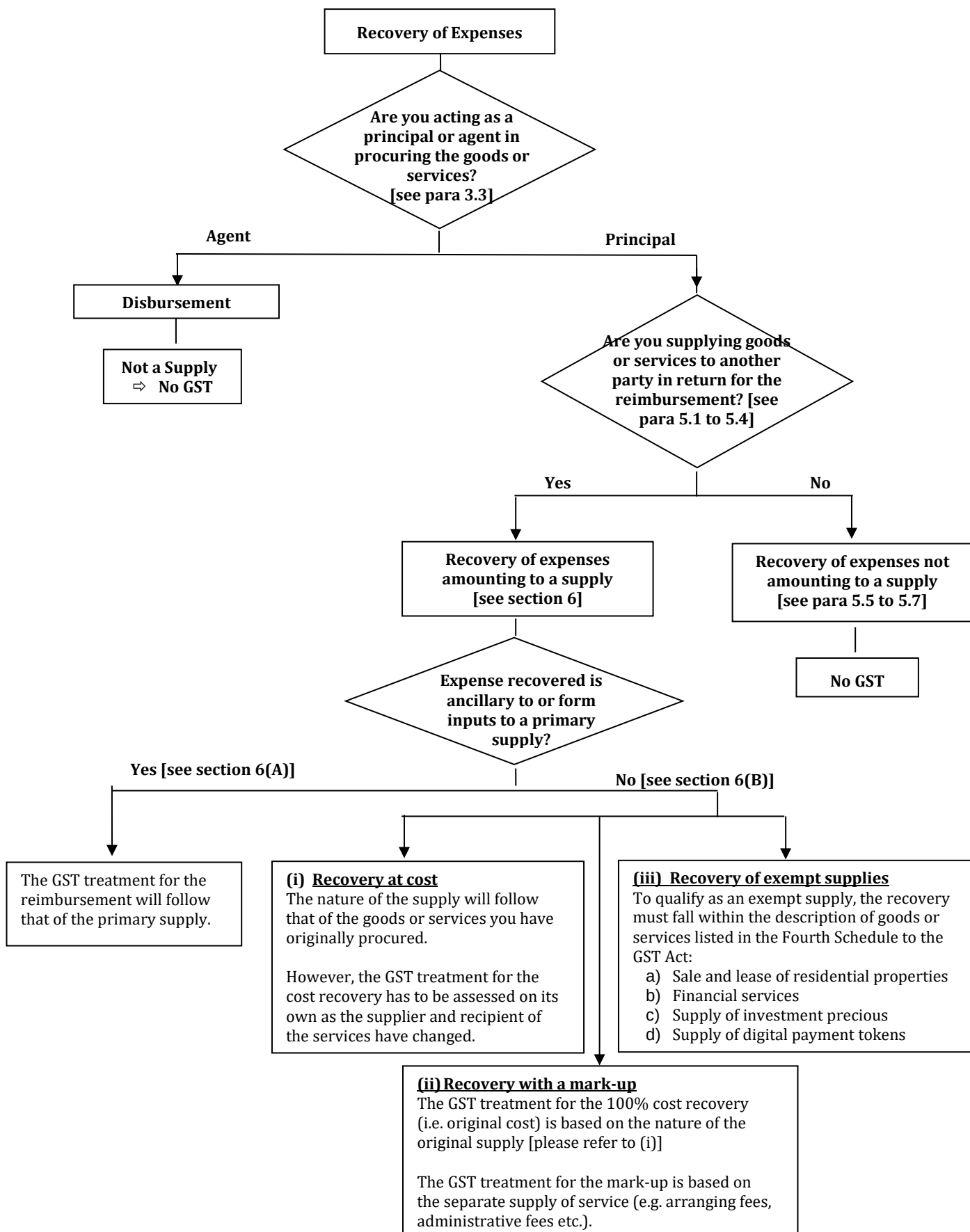
10 Contact Information

- 10.1 For enquiries on this e-Tax Guide, please contact the Goods and Services Tax Division at www.iras.gov.sg (select “Contact Us”).

11 Updates and Amendments

	Date of amendment	Amendments made
1	9 Feb 2018	- Inserted footnotes 3, 9 and 12, amended footnote 14 - Editorial amendments
2	18 Oct 2019	- Removed paragraph 2.4 and 2.5 on conditions for disbursement prior to 30 Jun 2013 - Inserted footnote 3 to explain changes to section 21(3)(j) and (k) from 1 Jan 2020
3	30 Dec 2019	Amended paragraphs 6.2, 6.33 and Annex 1 to include the exempt supply of digital payment tokens with effect from 1 Jan 2020
4	1 Jan 2023	- Amended/inserted paragraphs 7.13, 7.14, 7.18 to 7.24, footnotes 14 to 16 and Examples 31 to 32A in Annex 2 relating to the revised GST treatment on motor car expenses - Miscellaneous amendments made due to GST rate change from 7% to 8% with effect from 1 Jan 2023
5	1 Jan 2024	Miscellaneous amendments made due to GST rate change from 8% to 9% with effect from 1 Jan 2024

Annex 1 - Flowchart on GST treatment for recovery of expenses



Annex 2 – Summary of examples

Scenario	GST Treatment
<i>Examples of disbursement</i>	
Example 1 – Recovery of costs of door gifts by events company	Company A engages an event organiser B to help organise its annual Dinner and Dance. On the day of the event, door gifts are given away to the participants to thank them for their support. A ordered the gifts from Company C and instructed C to deliver them to B due to logistical reasons. C invoiced A and requires cash on delivery. Upon receipt of the goods, B makes the payment for the gifts and subsequently recovers the amount from A. A contracts with C for the gifts and hence, is the principal in purchasing the gifts. B merely receives and pays for the gifts on behalf of A. Therefore, B's recovery of the costs of the gifts from A is a disbursement and not subject to GST.
Example 2 – Recovery of company's incorporation expenses	Corporate services firm D is engaged to handle the legal work pertaining to the incorporation of Company E. Other than its service fees, D also recovers from E a company registration fee and a company name approval fee paid to ACRA on behalf of E. The fees charged by ACRA for company registration and company name approval are compulsorily levied on E. D is merely acting as an agent in the payment of those fees. Therefore, D's recovery of such expenses is a disbursement and not subject to GST.
Example 3 – Recovery of fees for updating corporate particulars	Corporate services firm F is engaged by Company G to handle the firm's obligation to file annual returns, change company name, registered address and office operating hours with ACRA. G is the one required under the law to file annual returns and inform ACRA of any changes to its corporate particulars. The fees are legally imposed by ACRA on G and it is G's obligation to pay. F is merely acting as an agent in the payment of those fees and hence, F's recovery of such fees is a disbursement and not subject to GST.
Example 4 – Recovery of import GST paid on behalf of importers by freight forwarding or logistics companies	Import GST is levied on goods imported into Singapore. In the course of clearance, freight forwarder H who is engaged by importer I to pick up its goods from Customs paid the import GST. The goods are owned and imported by I. The import permit is also issued in I's name. As it is I's obligation to pay tax on its imports, H is merely acting as an agent in making the payment on I's behalf. Hence, H's recovery from I for the tax paid is a disbursement and not subject to GST.
Example 5 – Recovery of property tax on sale of property	Company J owns several properties in Singapore. J sold one of the properties to buyer K. On top of the property sale price, J also recovers from K a pro-rated portion of the Having purchased the property from J, K is the one liable to pay the property tax to the authority as property tax is levied on the owner of the property. Hence, the recovery of the pro-rated portion of property tax paid by J for the

	property tax it had already paid in advance for the entire year.	period is a disbursement and not subject to GST.
Example 6 – Recovery of parking fine	An employee of Company L is fined for illegal parking of the company's truck and the fine is issued to L. Firm M, being the secretariat of L, makes payment for the fine and recovers it from L.	L is the one liable to pay the fine to the authority as illegal parking is an offence imposed on the owner of the vehicle. Hence, the recovery of the fine paid by M is a disbursement and not subject to GST.
<i>Examples of reimbursement</i>		
Example 7 – Recovery of transport expenses	In the course of performing their audit work, auditors from N Associates & Co. incur transport fares. These expenses will be included in N's billing to their clients.	The auditors from N acquire the transport services as a principal in their own capacity and are legally obliged to pay the transport service providers. They receive and use the transport services directly in the course of performing their work. Hence, the recovery of these expenses by N from their clients is a reimbursement.
Example 8 – Recovery of property tax on lease of property	Company O leases two properties to earn rental income. The tenancy agreements include a clause that allows O recovery of property tax from its tenants.	The obligation to pay the property tax to the authority remains with O as the property owner and hence, the recovery of the property tax from the tenant is a reimbursement. In this case, the property tax recovered forms part and parcel of the rental consideration. Hence, the property tax recovered in relation to the lease of a commercial property is subject to GST whereas property tax recovered in relation to the lease of a residential property is exempt from GST.
<i>Examples of recovery not amounting to a supply for GST purposes</i>		
Example 9 – Recovery of fine for illegal parking	Car rental Company P was fined by the traffic police for illegal parking of a car hired to its customer. As the offence was committed during the period which the customer hired the car, P will recover the fine from him.	The fine for illegal parking is levied on P as the owner of the vehicle and P is legally liable to pay the fine. When P subsequently recovers the fine from its customer, P is regarded as seeking compensation. Since the recovery is compensatory in nature and no goods or services are supplied by P to the customer in return for it, the recovery of the fine is not a supply for GST purposes. P does not have to account for GST on the recovery.
Example 10 – Recovery of debt collection fees	Company Q defaulted on the payment for the goods supplied by Company R. R engaged the services of a debt collector, to help	Engaging the debt collector to recover the debt outstanding is an "enforcement action" taken by R; R did not supply any goods or services to Q

	recover the debt owed by Q. Q eventually settled the debt owed to R. Additionally, R also recovered the debt collection fees charged by the debt collector from Q.	in return for recovering the debt collection fees payment. Accordingly, the recovery of the debt collection fees is compensatory in nature and is not a supply for GST purposes and R does not need to charge GST on the recovery.
Example 11 – Recovery of damage charges	Company S rents an office space from the landlord and sublets half the space to Company T. Under the contract, S is allowed to sublet the office space to a third party but will be held liable for any damage to office furniture or equipment. On one occasion, T's employee accidentally damages one of the office projectors and S has to pay the landlord for the damage. S subsequently recovers the amount from T.	S has to pay the landlord the damage charges as S is the party held legally liable for any damage to office equipment pursuant to the contract. When S subsequently recovers the damage charges from T, it is considered as compensatory in nature and is not a supply for GST purposes since S does not supply any goods or services to T in return for the damage charges recovered. S does not need to charge GST on the recovery.
<i>Examples of recovery of expenses which is ancillary to or form inputs to a primary supply</i>		
Example 12 – Recovery of overseas counsel fees	A lawyer from U Associates provides legal advice to a local client on an Indonesian company acquisition case. U seeks counsel with an Indonesian law firm V who provided the necessary information concerning Indonesian law and business regulations. U includes V's counsel fees in its billing to the client.	U contracts with V directly and works with the latter to obtain the required information in order to perform its legal services to the client. In other words, U is the principal in acquiring the services from V. The subsequent recovery of overseas counsel fees by U from its local client is a reimbursement. The counsel fee recovered forms inputs to U's legal services to the local client and is subject to GST. This is so, even if no GST is charged by V to U as V is an overseas company and is not GST-registered.
Example 13 – Recovery of medical certification fees	Medical certification of victim W is required for a litigation. Lawyer X arranges for W to be examined by a doctor, and requests the clinic to issue a medical certification for this purpose. The doctor will invoice X for the medical check-up fee. X will recover this fee along with his legal fees from W.	The recovery of the medical fee is a reimbursement as the medical service is contracted for by X. The recovery is ancillary to X's legal services since X receives and uses the medical report in the course of performing his services to W. Accordingly, the GST treatment for the recovery follows that of the legal service provided by X to W.
Example 14 – Recovery of plan fees	Civil and structural engineer Y is engaged by a local developer to provide engineering design and consultancy works on the construction of a building in Singapore. As part of his work, Y is required to make submissions to the	Y is contracted to design the plan for the construction of the building and the submissions and payment of the plan fees are part of his scope of work. As Y acquired the supplies from the authorities as a principal, his

	various government agencies to obtain relevant planning approvals. The applications require payment of plan fees to statutory boards such as the Building Control Authority and the Urban Redevelopment Authority.	subsequent recovery of plan fees is a reimbursement. Following the GST treatment of Y's primary supply of design and consultancy services, which is directly in connection with land in Singapore, the reimbursement is subject to GST at the prevailing rate.
Example 15 – Recovery of handling charges incurred for the provision of transportation services.	Z is engaged by a local wholesaler to provide international transportation services to import goods from overseas into Singapore. The service agreement also provides that Z may recover costs incurred in relation to the transportation services, e.g. handling costs. Z thus recovers from the wholesaler the handling costs incurred in importing the goods into Singapore.	Z's recovery of the handling costs from the wholesaler is a reimbursement since Z has incurred the expenses as a principal. As the expenses are incurred in the course of making the primary supply of international transportation services, the GST treatment for the reimbursement will follow that of the primary supply - both the reimbursement and the primary supply will be zero-rated under section 21(3)(a) of the GST Act.
Example 16 – Recovery of freight, handling and insurance charges incurred for the sale of goods	B enters into a sale agreement which includes the delivery of goods to a customer. The sale agreement provides that B may recover the costs it incurs for making the delivery. B thus recovers from the customer, the international freight, handling and insurance costs incurred in importing the goods into Singapore for the sale.	B's recovery of the expenses from his customer is a reimbursement since B has incurred the freight, handling and insurance charges as a principal. Ordinarily, B does not provide freight services. In this case B has provided the service to facilitate its sale of goods to the customer. That is, the freight service is ancillary to its supply of goods to the customer. Hence, the GST treatment for the reimbursement will follow that of the sale of goods. If the goods are sold locally, the recovery of the expenses together with the supply of goods, is subject to GST at the prevailing rate. This is even though some of the expenses, such as the international freight, could have been zero-rated if supplied on its own by the freight forwarder directly.
Example 17 – Recovery of costs incurred in the provision of consultancy services	Consultancy Company C contracts with an overseas Company D to provide consultancy services to the latter. C engages the help of two staff from its overseas subsidiary, for their industry expertise. C paid for the air fares, hotel accommodation, transport, wages and entertainment expenses of the staff during their stay in Singapore. C then recovers these expenses	C's recovery of the staff expenses from D is a reimbursement since C engaged the services of its overseas subsidiary and incurred the staff expenses as a principal. These expenses are inputs for C to provide consultancy services to D and thus form part of the overall consideration for the service. For this reason, the reimbursement of staff expenses should follow that of C's

	from D in addition to a consultancy fee.	primary supply of consultancy services to D. The services can be zero-rated under section 21(3)(j) or (k) of the GST Act since the consultancy services is contracted with and directly benefitting D, an overseas company, wholly in its business capacity, who is not in Singapore at the time the services are performed.
<i>Example of recovery of expenses which is ancillary to a primary supply but subject to specific exclusion in the GST law</i>		
Example 18 – Recovery of costs incurred in the provision of training services	Company E provides training services to employees of an overseas Company F and the employees are sent to Singapore to attend the training. E helps F to book hotel accommodations for the employees when they are in Singapore. The hotel bills E and E in turn recovers the hotel charges from F.	The primary supply of training services can be zero-rated under section 21(3)(k) since the training services is contracted with F, an overseas company, wholly in its business capacity and the services benefits its employees, being persons belonging outside Singapore, wholly in their business capacity. E's recovery of accommodation expenses from F is a reimbursement since E has incurred the hotel charges as a principal. Although the hotel accommodation is ancillary to E's supply of training service to F, accommodation expenses incurred in Singapore are specifically excluded from the zero-rating relief provided under section 21(3)(k). As such, the recovery of hotel charges from F is subject to GST at the prevailing rate.
<i>Examples of separate recovery of expenses at cost</i>		
Example 19 – Recovery of courier expenses at cost from related corporations	For cost savings purpose, G Holdings Ltd has an informal arrangement with its worldwide related corporations to procure international courier services for the entire group as and when required. Other than this, there is no other supply made by G to its related corporations. The courier company will provide the services directly to the corporations and bill G. G would then recover the courier expenses at cost from the respective corporations based on their usage.	As G contracts with the courier company for the courier services as a principal, its subsequent recovery of the expense from its related corporations is a reimbursement. The reimbursement is a separate recovery of expenses since it does not relate to any primary supply G makes to its related corporations. As the recovery is at cost, the nature of the supply remains as international courier services. Accordingly, G's recovery of the courier charges can be zero-rated under section 21(3)(a).
Example 20 – Recovery of market research	H Holdings Ltd is the headquarters for the Asia Pacific region based in Singapore. H has an arrangement with its Asia Pacific related	As H contracts with I as a principal, its subsequent recovery of the expenses from its related corporations is a reimbursement. The reimbursement is

expenses at cost from related corporations	corporations to procure market research services for the entire group. Other than this, there is no other supply made by H to its related corporations. H contracts with a Singapore company I for the market research services and subsequently recovers the expenses at cost from the respective corporations in equal proportion. I charges H GST at the prevailing rate for the market services since H belongs in Singapore.	a separate recovery of expenses since it does not relate to any primary supply H makes to its related corporations. H is treated as supplying the same market research services procured from I to its related corporations as the recovery is at cost. However, when H recovers the market research expenses from its related corporations, the recovery qualifies for zero-rating under section 21(3)(j) since H's related corporations belong outside Singapore.
Example 21 – Recovery of expenses incurred in Singapore by related corporation	An overseas company J organised a training in Singapore for 2 months and used its related corporation K's facilities in Singapore to conduct the training. K subsequently recovered at cost from J for the portion of the utilities, office rental and telecommunication services consumed by J during its training.	K has contracted for the rental of the office space, utilities and telecommunication services as a principal. K's subsequent recovery of the expenses from J is therefore a reimbursement. As K is merely recovering from J the cost of J's consumption of goods (utilities and office rental) and telecommunication services without providing anything else (i.e., there is no primary supply), K is treated as supplying the same goods and services as what it has procured to J. K needs to examine the goods and services individually to determine the GST treatment of each of the expenses recovered. If the supply of telecommunication services relates to both local and international calls made by J, K is required to standard-rate the portion attributable to the local calls when it recovers the expense from J. The portion that relates to international transmission is an international service that can be zero-rated under section 21(3)(q) of the GST Act. The supply of office space and utilities are treated as goods in Singapore, hence, K has to standard-rate the recovery of these expenses.
<i>Secondment of staff</i>		
Example 22 – Recovery of seconded staff cost	Company L seconded its staff to its subsidiary company N. L did not charge N any secondment fees; it merely recovered the seconded staff's salary and related fringe benefits (e.g. accommodation	L and N are related corporations and L did not claim any input tax directly relating to the secondment of staff (i.e. accommodation fee). If N also has exclusive control over the allocation and performance of the duties of the

	costs) at cost from N. L did not claim any input tax incurred on the accommodation provided to the staff.	seconded staff during the period of secondment, L's recovery of seconded staff cost from N can qualify for the administrative concession and GST need not be charged on the recovery. The recovery will be treated as not a supply for GST purposes.
<i>Examples of separate recovery of expenses with a mark-up</i>		
Example 23 – Recovery of freight charges from a local company	Company O used Company P's account with its freight forwarder to import some goods. The freight forwarder billed P for the international freight service, which P in turn recovered from O with an additional \$50 arranging fee.	The freight service is regarded as being contractually supplied to P as a principal since the standing account with the freight forwarder is P's. Hence, P's subsequent recovery of the expense from O is a reimbursement. In this case, P is regarded as making 2 separate supplies to O – international freight service (i.e. the 100% cost recovery) and arranging service (i.e. \$50 mark-up). The international freight service is zero-rated under section 21(3)(a) of the GST Act. Similarly the arranging service for the international freight can also be zero-rated under section 21(3)(c) of the GST Act.
Example 24 – Recovery of expenses incurred in Singapore by overseas related corporation's staff	Overseas company Q's staff would be in Singapore for a business trip. For convenience, Q requested its local related corporation R to make the necessary arrangements. R contracted for and paid for various expenses for Q's staff (including air tickets, accommodation, local transportation, food and entertainment). R subsequently recovered the individual expenses from Q with a 5% mark-up.	R's subsequent recovery of the various expenses from Q is a reimbursement since R contracted for them as a principal. In this case, R is treated as making a cost recovery for the various expenses and supplying a separate arranging service (i.e. the 5% mark-up) to Q. For the cost recovery, R needs to examine the individual goods and services supplied to determine the respective GST treatment. The supply of air tickets is an international service that is zero-rated under section 21(3)(a) of the GST Act. The accommodation is a supply of goods in Singapore and is thus subject to GST at the prevailing rate. The local transportation, food and entertainment are also subject to GST at the prevailing rate as the goods and services were consumed in Singapore by Q's staff and do not qualify for zero-rating. R's arranging service can be zero-rated under section 21(3)(j) of the GST Act, since the arranging service directly benefits Q who belongs in a country outside Singapore and the

		arranging service itself is not supplied directly in connection with any land or goods in Singapore.
<i>Examples of separate recovery of rental costs of residential properties</i>		
Example 25 – Recovery of staff accommodation costs from a related corporation	Local Company S leases 10 unfurnished apartments in Singapore from a landlord to accommodate its own staff and the expatriate staff of its related corporation T. The landlord invoices S for rental of all the apartments on a monthly basis. S in turn recovers at cost from T the rental for the 6 apartments occupied by T's staff.	S contracts with the landlord directly as a principal for the rental of the 10 apartments and in turn, grants T a right for T's staff to occupy 6 apartments. Hence, S's recovery of costs from T in relation to the 6 apartments can be exempt from GST.
Example 26 – Recovery of rental cost from employee	Landlord charges Company U the following on a monthly basis: Bare rent = \$3,000 Rental of furniture and fittings = \$3,000 Total rental = \$6,000 Annual value in the valuation list = \$24,000 Value of exempt supply per month = $1/12 \times \\$24,000$ = \$2,000 As U only subsidises its employee's rental up to a cap of \$5,000, U thus recovers the balance amount of \$1,000 from its employee every month	U contracts with the landlord directly as a principal for the rental of furnished residential apartment and in turn, grants its employees the right to use the apartment. U subsidises the rental which comprises both the rental of furniture and fittings and the apartment. When U recovers \$1,000, part of the recovery is attributable to the rental of the furniture and fittings (taxable) and part of it to the rental of apartment (exempt). U should use the following formula to arrive at the taxable portion of the subsidised rental: Open Market Rental (i.e. total rental) – $1/12$ OF AV = \$6,000 - \$2,000 = \$4,000 -- [A] [A] - represents the taxable value of the furniture and fittings in a situation of open market rental (i.e. rental is not subsidised) [A]/Open Market Rental = \$4,000/\$6,000 = $2/3$ Hence, when U recovers \$1,000 from its employee every month, $2/3$ of \$1,000 should be taxable; with the remaining portion to be treated as an exempt supply. U is thus required to charge and account for GST on \$666.67 ($2/3 \times \\$1,000$).
<i>Examples of separate recovery of exempt financial services</i>		

Example 27 – Recovery of fee incurred on issuance of letter of credit	Local Company V used Company W's letter of credit facility with the bank due to the latter's better credit standing. The bank issued the LC and invoiced W for the fee on issuance of the LC. W recovered the fee from V at cost.	The fee charged by the bank to W for issuance of the LC is exempt under paragraph 1(d) of Part 1 of the Fourth Schedule to the GST Act. However, when W recovers the LC fee at cost from V, paragraph 1(d) cannot apply since W is not the one issuing the LC. Thus, W's recovery of the LC fee from V is subject to GST at the prevailing rate.
Example 28 – Recovery of life insurance premium	Company X, a holding company, purchased a group life insurance policy from an insurance company for its own and its local subsidiaries' employees. X invoiced its subsidiaries for the portion of the insurance premium attributable to the employees under the subsidiaries headcount.	The insurance services are contractually supplied to X as a principal as X is the policyholder. Hence, X's recovery of the premiums from the respective subsidiaries is a reimbursement. The premium charged by the insurance company to X is exempt under paragraph 1(l) of Part 1 of the Fourth Schedule. However, when X recovers the premiums from its local subsidiaries, paragraph 1(l) cannot apply since X is not making a "provision of life insurance contract". X's recovery of the premium from the local subsidiaries is thus subject to GST at the prevailing rate.
<i>Examples of claiming of input tax on regulation 26 expenses</i>		
Example 29 – Recovery of medical and accident insurance premium	Y Holdings Pte Ltd arranges to purchase medical and accident insurance for its own employees as well as all the employees of its local GST-registered subsidiary, Z. Y invoices Z for the portion of the insurance premium attributable to the employees under Z's headcount with GST charged. Scenario A: Y does not provide any other services to Z. It merely helps to purchase the medical and accident insurance and will recover the expense at cost from Z. Scenario B: The above service is provided as part of Y's management services to Z. The cost is recovered when Y charges a lump sum management fee to Z.	Y is disallowed from claiming the input tax incurred on the medical and accident insurance purchased for both Y's own employees and the employees of Z. This is because it is provided under regulation 25(3) of the GST (General) Regulations that employees of a related corporation as defined in section 4 of the Companies Act are deemed to be persons employed by the company. Consequently, input tax incurred for both Y's employees and Z's employees are disallowed under regulation 26 of the GST (General) Regulations. <u>Scenario A</u> While input tax incurred on the insurance for Z's employees is blocked under the GST law, as a concession, Y is allowed to claim the input tax incurred on the premium for Z's

		employees when it recovers the insurance premium from Z. Y's subsequent recovery of the insurance premiums from Z is to be standard-rated whether or not Y claimed input tax under the concession. On the other hand, Z is disallowed from claiming the input tax for the GST charged by Y since the insurance is for its own employees. <u>Scenario B</u> Y would not be able to enjoy the above concession. It is not allowed to claim the input tax on all the medical and insurance premiums including those relating to Z's employees. On the other hand, since Z is receiving management services from Y, it can claim the input tax incurred subject to the input tax claiming rules.
Example 30 – Recovery of medical insurance premium co-funded	Co A contracts with an insurance company for medical insurance coverage for its employees. A co-funds 50% of the medical insurance premium for its employees and recovers the remaining 50% from its employees.	A needs to charge GST on the 50% medical insurance premium recovered from its employees. It is however disallowed from claiming any input tax incurred on the medical insurance premium, including the 50% portion recovered from its employees. This is because input tax incurred on medical insurance premium for employees is disallowed under regulation 26 of the GST (General) Regulations.
<i>Examples of claiming of input tax on expenses relating to a motor car</i>		
Example 31 – Recovery of car rental fees	Company B and Company C are related corporations. As B has a standing arrangement with a car rental company, it hires a motor car from the car rental company for C's use in Singapore. The car rental company charges B for the car rental fees and B recovers the fees from C at cost. B does not provide any other services to C.	B can claim input tax incurred on the car rental as the motor car is used by its related company, C, and B recovers the car rental fees from C as its standard-rated supply. The supply of the car rental services from B to C is also not part of another supply made by B to C. On the other hand, C will be disallowed under regulation 27 from claiming the input tax incurred on the car rental billed by B.
Example 32 – Recovery of parking expenses	Company D incurs parking expenses of \$763 (GST-inclusive) and subsequently recovers 50% of the parking expenses, i.e. \$381.50 from a local GST-registered related corporation E as the parking lot was also used by E.	D is allowed to claim input tax only on the portion of parking expenses recovered from E. The supply of the parking services from D to E is not part of another supply made by D to E. When D recovers 50% of the expenses from E, it is required to account for

		output tax of \$31.50 (9/109 of \$381.50). E will be disallowed from claiming the input tax incurred on the parking expenses billed by D under regulation 27.
Example 32A – Recovery of car rental fees from a related company	Company DD provides management services to its related companies including Company EE. DD charges monthly management fees to EE based on costs plus 5% mark-up. As DD has a standing arrangement with a car rental company, it hires a motor car from the car rental company for EE's use in Singapore. The car rental company charges DD for the car rental fees and DD recovers the rental fees from EE as part of the monthly management fees charged to EE.	In Example 32A, DD cannot claim input tax incurred on the car rental as the motor car is used by its related company, EE, and DD cannot satisfy the conditions stated under paragraph 7.21 as the recovery of car rental fees is ancillary to the supply of management services provided by DD to EE. EE will be allowed input tax claims on its monthly managements fees if it is able to satisfy the normal input tax claiming conditions.
<i>Billing for recovery of expenses</i>		
Example 33 – Disbursement Case	Company F provides maintenance service to Company G for \$1,000 and charges GST of \$90. The invoice is addressed to G - but c/o G's consultant, Company H. H pays the bill and invoices G to recover the amount. In the same invoice, H also includes its fee of \$1,500 for the consultancy services it provides to G.	H should charge and account GST of \$135 (9% GST x \$1,500) for the consultancy services rendered to G. The value of supply of \$1,500 and GST of \$135 must be shown clearly on the tax invoice. As for the recovery of payment made to F on GGG's behalf, H can reflect the total figure, i.e. \$1,090 on the same invoice. H should not show the breakdown of \$1,000 and GST \$90 since the recovery is a disbursement. H should attach F's tax invoice to G to enable G to claim the input tax incurred.
Example 34 – Reimbursement of expenses as part of a primary supply	In the course of providing consultancy services to Company I, Company J engages Company K to provide interpretation services. K invoices J \$1,000 and GST of \$90 for its services. J in turn invoices I \$1,500 and GST of \$135 for its consultancy services and \$1,090 (inclusive of GST) for the costs incurred on interpretation services.	J contracts with K for the interpretation services as a principal as part of its supply of consultancy services to I. Hence J can claim the input tax of \$90 charged by K but should also charge and account GST when it recovers the costs from I. In the event that J recovers the interpretation service fee from I at a mark-up of, say 10%, GST would be chargeable on \$1,100 (i.e. \$1,000 + 10%). The total GST to be accounted would be \$234 (\$135 + \$99).
Example 35 – Reimbursement of expenses	Company L provides a one-off arranging service to its overseas	L contracts as a principal with the hotel for the hotel accommodation and

which are directly supplied by the third party supplier and the break-down of cost and mark-up is provided	head office, Company M, to arrange for hotel accommodation for M's director during his visit to Singapore. The hotel bills L for the hotel accommodation, food and beverages, internet charges and IDD call charges. L subsequently recovers the expenses incurred from M plus a 10% mark-up.	hence, the recovery is a reimbursement. Since there is no primary supply being provided by L to M, L can be regarded as making a separate recovery of expenses from M and supplying the same goods and services to M as originally procured from the hotel. In this case, L's recovery of the expenses from M is subject to GST at the prevailing rate. The accommodation is a supply of goods in Singapore, the food and beverages and the internet charges directly benefit and are consumed by M's director who is in Singapore at the time of consumption, and thus must be standard-rated. The IDD calls and the 10% mark-up charged to M for the arranging services on the other hand may qualify for zero-rating under section 21(3)(q) and 21(3)(j) respectively.
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