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IRAS e-Tax Guide

GST Guide on Attribution of Input Tax (Fifth Edition)



GST Guide on Attribution of Input Tax

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1 Aim

Scope of this e-Tax Guide

- 1.1 This e-Tax Guide explains how a partially exempt business should attribute its input tax and also clarifies when input tax may be considered to be “directly attributable” to a supply.

Who should read this e-Tax Guide?

- 1.2 You should read this e-Tax Guide if you are GST-registered and make both taxable and exempt supplies¹.

2 At a glance

- 2.1 Input tax is claimable if it is directly attributable to the making of taxable supplies. If you make both taxable and exempt supplies, you would not be allowed to claim input tax attributable to the exempt supplies made unless the De Minimis Rule is satisfied.

- 2.2 A partially exempt business which does not satisfy the De Minimis Rule will have to claim input tax as follows:

- (a) Input tax directly attributable to the making of taxable supplies will be claimable;
- (b) Input tax directly attributable to exempt supplies is not claimable unless the exempt supplies fall within the list in Regulation 33 and that conditions in Regulation 35 can be satisfied; and
- (c) Residual input tax to be apportioned by an apportionment formula².

You are encouraged to use the [Partial Exemption Input Tax Recovery Calculator](#) to determine the amount of input tax claimable. You are not required to submit the calculator to us but you need to maintain it as part of your records.

3 Glossary

- 3.1 This glossary provides a general understanding of certain GST terms used in relation to the attribution of input tax from 1 Apr 2008. For more information

¹ Sale or lease of residential properties, provision of financial services and the sale of investment precious metals.

² For more details on the apportionment rules for partially exempt businesses, please refer to the e-Tax guide “GST: Partial Exemption and Input Tax Recovery”.

on input tax recovery prior to 1 Apr 2008, please refer to the e-Tax Guide “GST: Partial Exemption and Input Tax Recovery”.

De Minimis rule

- 3.2 A partially exempt person may claim all the input tax incurred including input tax incurred in the making of exempt supplies if the total value of all exempt supplies made is less than or equal to:
- (a) An average of \$40,000 a month; and
 - (b) 5% of total value of all taxable³ and exempt supplies made in that period.

Regulation 33 exempt supplies

- 3.3 If regulation 35 test is satisfied, input tax incurred in the making of the following exempt supplies [as prescribed in regulation 33 of the GST (General) Regulations] is treated as directly attributable to the making of taxable supplies and is therefore claimable:
- (a) The deposit of money;
 - (b) The exchange of currency;
 - (c) The first issue⁴ of a debt security;
 - (d) The first issue⁵ of an equity security;
 - (e) The provision of any loan, advance or credit to an employee;
 - (f) The assignment of trade receivables;
 - (g) The issue of units under any unit trust or business trust;
 - (h) Prescribed hedging activities;
 - (i) Interest received from bonds;
 - (j) Provision of trade credit;
 - (k) Issue or transfer of ownership of Islamic debt securities; and
 - (l) Provision of financing under an Islamic debt securities arrangement.

Regulation 34 business

- 3.4 The provision allowing claiming of input tax incurred in the making of regulation 33 exempt supplies is not applicable to partially exempt persons carrying on the business of, or any business similar to, any of the following [as prescribed in regulation 34 of the GST (General) Regulations]:
- (a) A full bank, wholesale bank or offshore bank required to be licensed under the Banking Act;
 - (b) A merchant bank required to be approved as a financial institution under section 28 under the Monetary Authority of Singapore Act;

³ The value of relevant supplies received from your supplier that are subject to customer accounting, imported services that are subject to reverse charge and supplies of digital services made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should not be taken into account as taxable supplies for the purpose of the De Minimis Rule.

⁴ First issue includes any subsequent issue of new debt securities by the person who makes the first issue of the debt security.

⁵ First issue includes shares issued through an initial public offering (IPO) and any subsequent issue of shares by the person who makes the first issue.

- (c) A life insurance company, general reinsurance company or life reinsurance company required to be registered under the Insurance Act;
- (d) A reinsurance broker;
- (e) A finance company required to be licensed under the Finance Companies Act;
- (f) A moneylender required to be licensed under the Moneylenders Act;
- (g) A money-changer or remitter required to be licensed under the Money-changing and Remittance Business Act;
- (h) A currency trader;
- (i) A pawnbroker required to be licensed under the Pawnbrokers Act;
- (j) A debt factor;
- (k) A credit card, charge card or other payment card company; and
- (l) A unit trust excluding any real estate investment trust (or its special purpose vehicles) or business trust (or its special purpose vehicles).

Regulation 35 test

- 3.5 Regulation 35 of the GST (General) Regulations prescribes that a partially exempt person making non-regulation 33 exempt supplies will only be able to claim the input tax incurred in the making of regulation 33 exempt supplies if the value of the non-regulation 33 exempt supplies made is less than or equal to 5% of the total value of all taxable⁶ and exempt supplies made in that period.

⁶ The value of relevant supplies received from your supplier that are subject to customer accounting, imported services that are subject to reverse charge and supplies of digital services made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should not be taken into account as taxable supplies for the purpose of the Regulation 35 Test.

4 Background

4.1 Input tax is defined as:

(a) tax on supplies of goods or services made to you, as a GST registered person; or

(b) tax paid or payable by you on the importation of goods into Singapore

where the goods or services are used or to be used by you for the purpose of your business.

4.2 Generally, you can claim input tax incurred to make taxable supplies. Input tax incurred to make exempt supplies is not claimable unless:

(a) the De Minimis Rule is satisfied; or

(b) the type of exempt supplies that you make fall within the description of Regulation 33 of the GST (General) Regulations, and you satisfy Regulation 35⁷.

4.3 If you are a partially exempt business and De Minimis Rule is not satisfied, you are required to segregate your input tax into three categories and determine the amount claimable in the following manner:

(a) Input tax directly attributable to taxable supplies – claimable in full

(b) Input tax directly attributable to exempt supplies – not claimable, unless the nature of exempt supplies falls within the list in Regulation 33 and conditions in Regulation 35 are satisfied.

(c) Input tax directly attributable to both taxable and exempt supplies or for the overall running of your business as a whole ('residual input tax') is to be apportioned.

4.4 From 1 Jan 2020, if you are a GST-registered person who procures services from overseas suppliers, you may be subject to reverse charge if you are not entitled to full input tax credit or if you belong to a GST group that is not entitled to full input tax credit. Any services procured from overseas that are directly attributable to your taxable supplies fall outside the scope of reverse charge. This exclusion however does not apply if you are prescribed a fixed input tax recovery rate or on a special input tax recovery formula that is applied to all your input tax. For more details on the scope of reverse charge, please refer to the e-Tax guide "GST: Taxing imported services by way of reverse charge".

⁷ It is assumed that you are not carrying on a business listed in Regulation 34 of the GST (General) Regulations.

- 4.5 For more details on the apportionment of residual input tax⁸ for partially exempt businesses, please refer to the e-Tax guide “GST: Partial Exemption and Input Tax Recovery”.

5 What is Directly Attributable

- 5.1 As provided in paragraph 4.3, you are required to determine if the input tax incurred is “**directly attributable**” to either a taxable or exempt supply or is treated as residual for input tax claiming purposes.
- 5.2 To determine whether the input tax incurred on a purchase of a good or service is “directly attributable” to a supply, you should examine:
- (a) if the purchase forms a **cost component** of a supply; or
 - (b) if the purchase is being **used as an input** or will be used to make a supply.
- (a) Whether the purchase forms a cost component of the supply
- 5.3 Generally, a purchase would form a cost component of the supply if it is reflected as a cost of the supply in the accounting records. When you purchase raw materials to produce final goods for sale, the purchase costs of those raw materials are reflected in accounting records as cost of goods sold and set off against the sales income derived from these goods. Hence, the purchase of raw materials would form a cost component of the supply of final goods.
- 5.4 It is possible for costs incurred to form the cost components of more than one supply or all of the business’ supplies. General overhead costs (e.g. office rental, utilities or stationery) are directly attributable to all of a business’s supplies as they are cost components of the business as a whole. GST incurred on such costs is known as residual input tax (see paragraph 6.1). If you make both exempt and taxable supplies, general overhead costs incurred will form the cost components of both your exempt and taxable supplies even though you may recover the general overhead costs incurred as part of your taxable supplies.
- 5.5 However, if an expense is not reflected as a cost component against sales income in the accounting records, you should examine if the purchase is used as an input to make the supply to decide if the purchase is directly attributable to the supply.

⁸ If you are a non-profit organisation and receive grants to enable you to provide free goods or services or provide goods or services at subsidised prices, please refer to the e- Tax guide, “GST: Guide For Charities and Non-profit Organisations”.

(b) Whether the purchase is used as an input to make the supply

- 5.6 To be treated as an input to make a supply, the purchase has to be used to make the supply and not merely have a link to the supply. In addition, the purchase:
- (i) cannot be attributed to past supplies made and;
 - (ii) can be attributed to a taxable supply only if there is no intervening exempt supply.

These concepts are illustrated by the following examples:

5.7 Example 1: To purchase a commercial property, you engaged the service of a conveyancing lawyer and incurred GST on the conveyancing fee. Subsequently, you lease the acquired property in return for rental income. In this case, the conveyance service is used for the purchase of the property which is essential for the making of taxable supply arising from the lease. Hence, the input tax incurred on conveyance fee is directly attributable to the taxable supply arising from the lease⁹, even though it may not be reflected as a cost component of the lease.

5.8 Example 2: You paid GST on your purchase of a piece of commercial land. The zoning of the land was later changed to 'Residential' and you decide to sell the land. As the land is zoned 'Residential', you make an exempt supply from the sale of land. Your customer then contracts with you to construct a workers' dormitory on that piece of land. In this case, you are making two separate supplies, one from the sale of land, and the other from the provision of construction services. The purchase of land is an input to your sale of land, not an input to the provision of construction services.

(i) *Cannot be attributed to past supplies made*

5.9 The purchase should generally occur before the supply is made in order to be used for the making of that supply. A purchase that occurs after the supply is made generally cannot be directly attributable to the earlier supply made.

5.10 Example 3: Your company was listed on the Singapore Stock Exchange in an initial public offering (IPO) two years ago and you incur GST on listing fees annually to maintain your listing on the Exchange. The input tax incurred on the annual listing fees cannot be directly attributed to the earlier issuance of shares that had taken place in the IPO.

(ii) *No intervening exempt supply*

5.11 Input tax incurred on the purchase of a good or service is directly attributable to a taxable supply only if there is no intervening exempt supply. If a purchase

⁹ If the property is used as your office premises instead, the input tax incurred on the conveyancing fee would be treated as residual in nature.

is used or will be used to make an exempt supply prior to a taxable supply, the input tax incurred on the purchase is directly attributable to the exempt supply instead. It is irrelevant that the exempt supply was ultimately made for the purpose of making a taxable supply.

- 5.12 **Example 4:** If you incur input tax on professional services for your IPO, the input tax incurred is directly attributable to the exempt supply of the issue of shares even though the proceeds from the IPO are ultimately used for your business of making taxable supplies.
- 5.13 **Example 5:** You incur brokerage expenses to sell shares in a subsidiary company to raise capital for your business of making taxable supplies. As the brokerage expenses incurred are used for the making of exempt supplies arising from the sale of shares, GST paid on the brokerage expenses is directly attributable to the sale of shares. This is so although the proceeds from the sale of shares were ultimately used for the business.
- 5.14 **Example 6:** You incur input tax to issue bonds and the proceeds from the bond issue are ultimately used to provide loans to your overseas related company. You make zero-rated supplies arising from the provision of loans to your overseas related company. The input tax incurred to issue bonds is directly attributable to the exempt supply of the issue of bonds and not the supply of provision of loan to an overseas person.

6 Residual Input Tax

6.1 Input tax is residual in nature if:

- (a) It is directly attributable to both taxable and exempt supplies

For example, marketing and advertising costs incurred for the sale or lease of a mixed development are directly attributable to both taxable and exempt supplies and hence, treated as residual in nature.

General overheads, office rental and utilities are examples of costs directly attributable to all the supplies of the business. If you make both taxable and exempt supplies, such expenses are treated as directly attributable to both taxable and exempt supplies and hence, residual in nature.

The residual nature of the input tax will not change even if you recover the related costs as part of your taxable supplies.

- (b) It is incurred for your overall running of your business

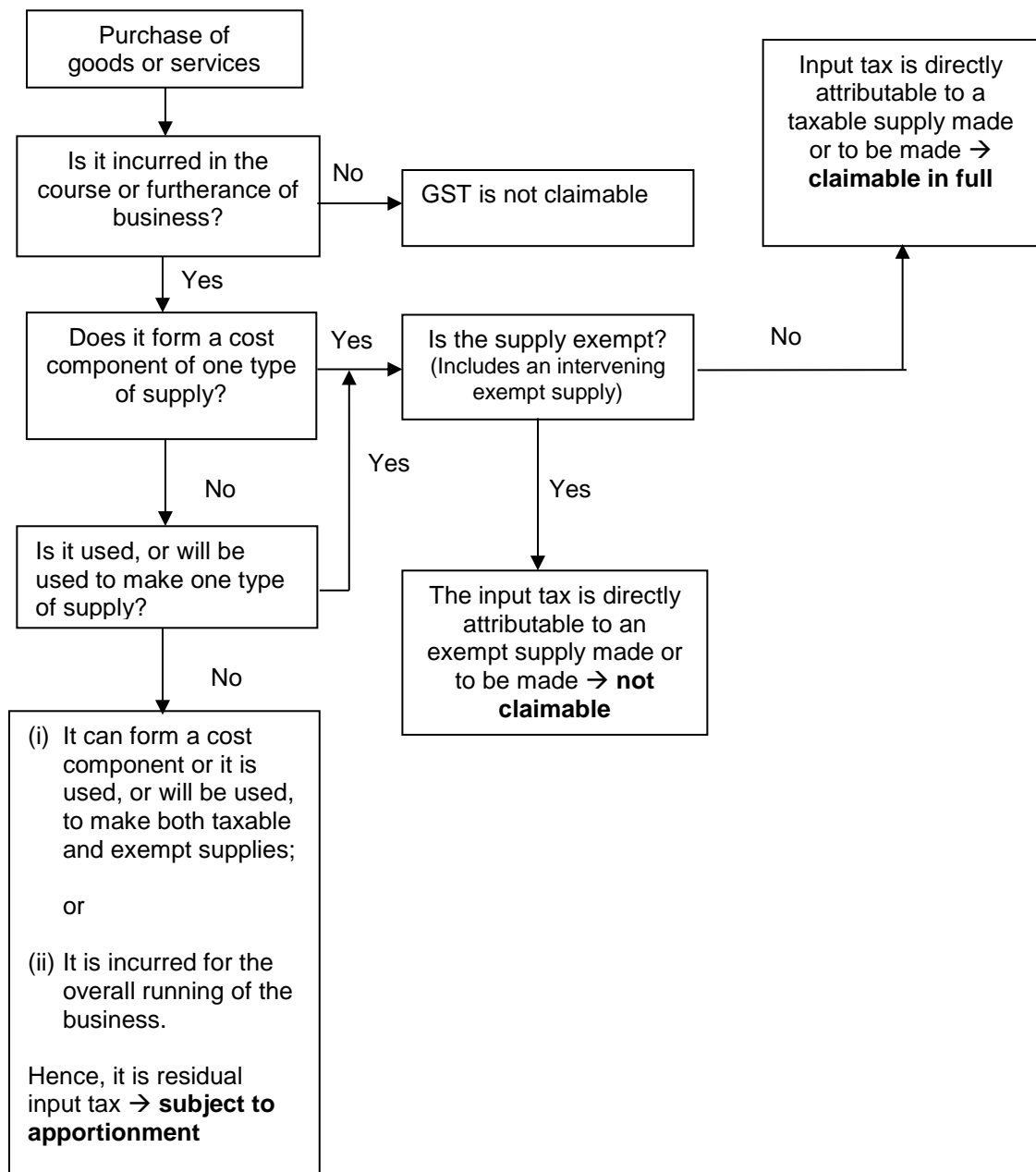
Expenses incurred for the payment of dividends to your shareholders are not directly attributable to any supply since they are not used to make supplies. However, as paying dividends to shareholders is to return capital to the

investors who had contributed funds for you to carry out your business activities, such expenses can be regarded as incurred for the overall running of your business and therefore residual in nature.

7 Summary

7.1 The rules on attribution of input tax in paragraphs 5 and 6 are summarised in Figure 1.

Figure 1 - Overview on Input Tax Attribution

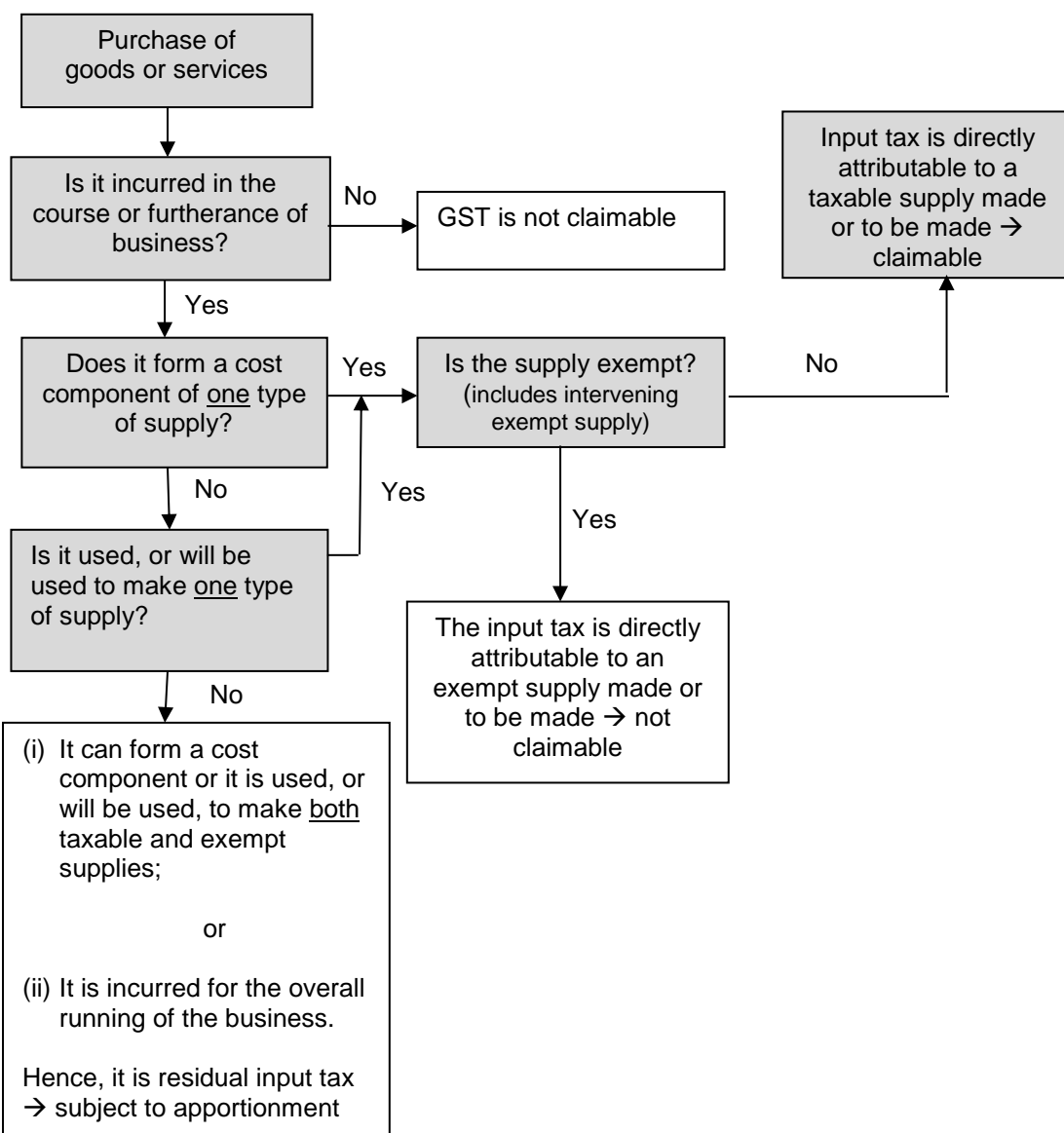


8 Application

(Follow the grey shaded boxes to arrive at the decision for each example)

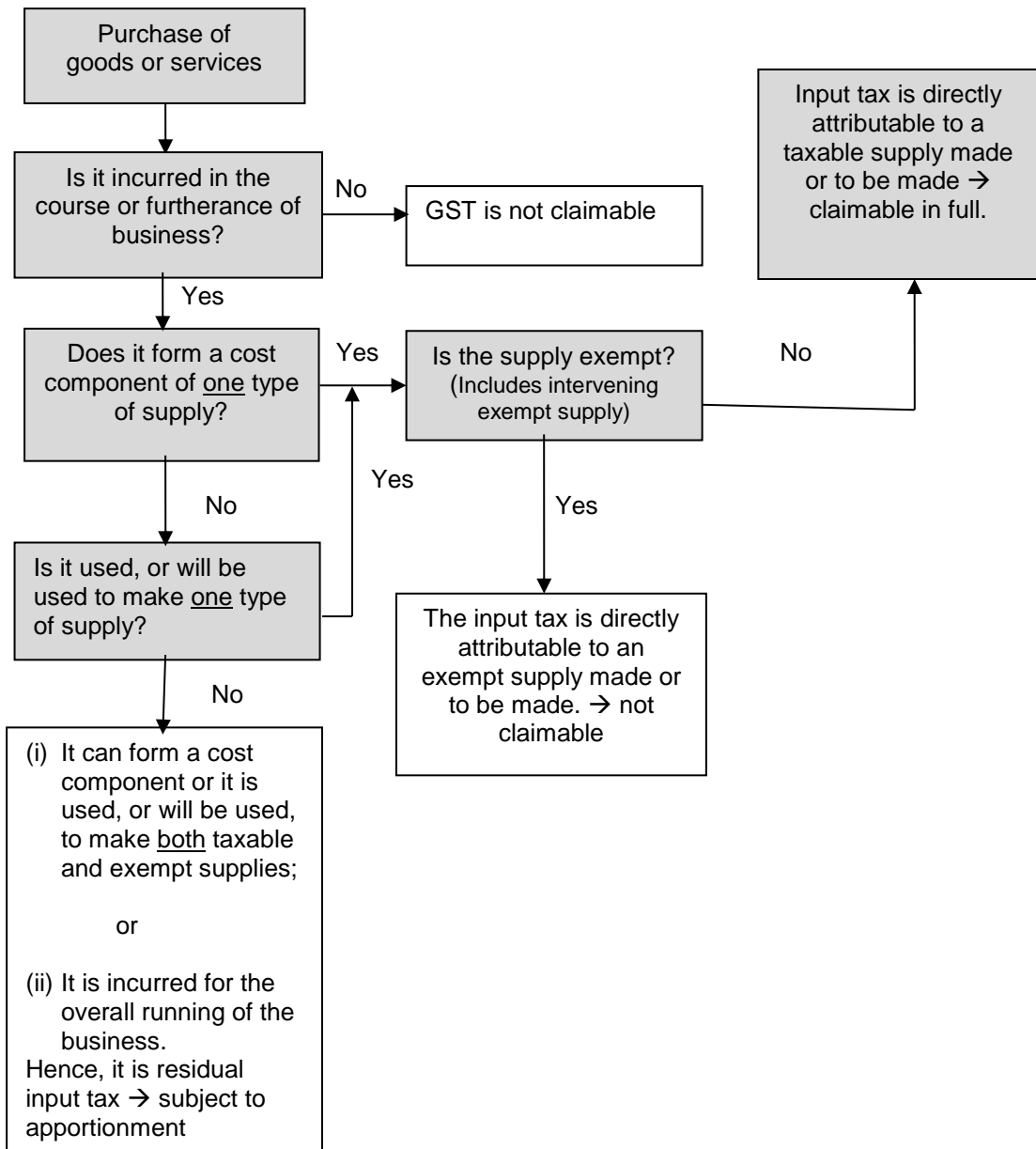
- 8.1 ABC Pte. Ltd. (“ABC”) is an SGX-listed investment holding company that provides management services to its subsidiaries in Singapore. ABC holds properties in Singapore directly and earns rental income. ABC also holds properties indirectly through shareholdings in the companies that own the properties and earns dividend income. ABC is a partially exempt business because it also makes exempt supplies from loans to its subsidiaries, lease of residential units, issuance of shares and bonds.

Example 1 – Legal fees incurred by ABC to draft a Sales & Purchase Agreement to purchase a non-residential property.



The input tax incurred on the legal fees is directly attributable to ABC’s taxable supply of leasing of the non-residential property and therefore claimable in full.

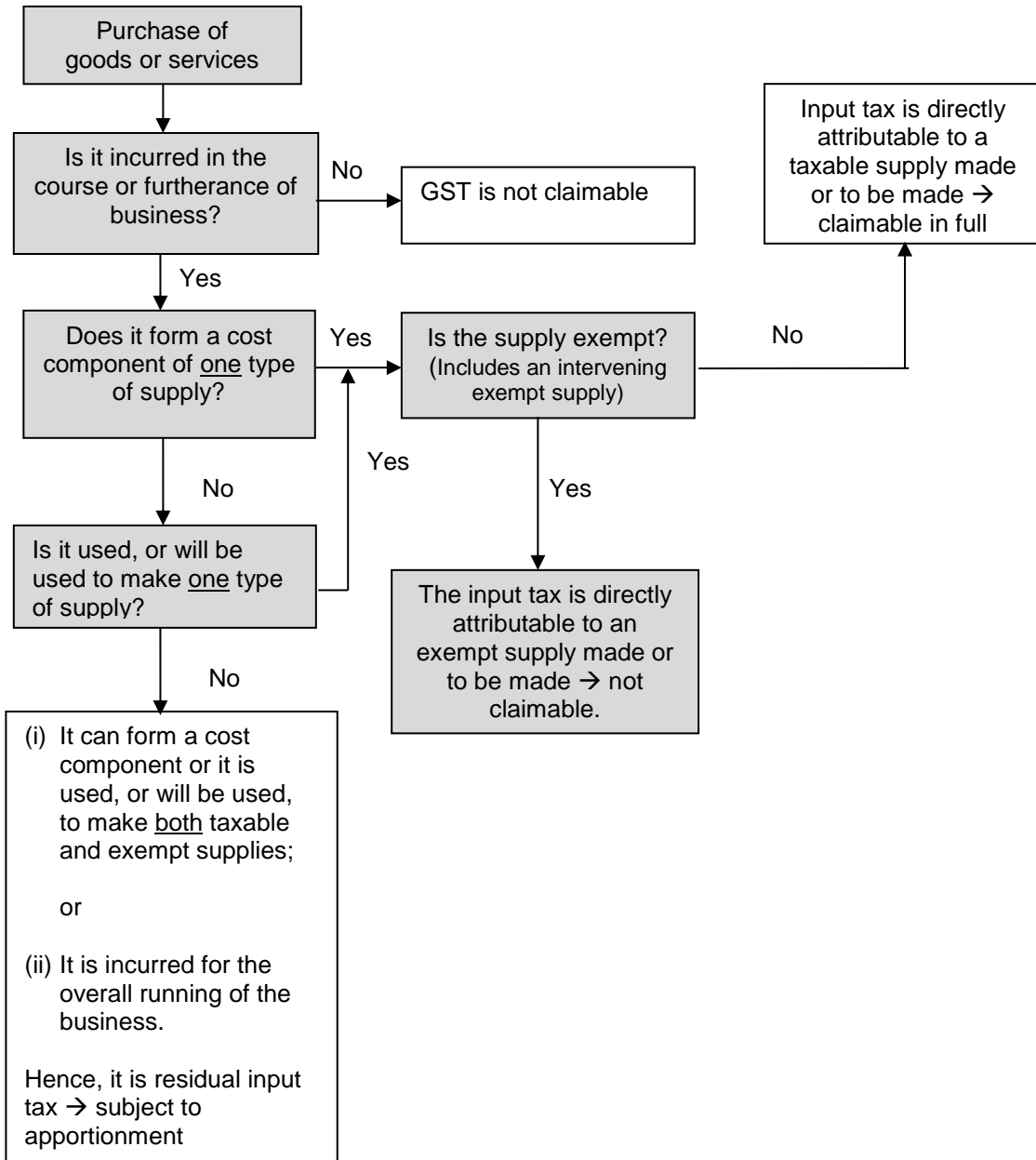
Example 2 – Professional fees incurred by ABC on mortgage loans obtained to purchase a non-residential property for leasing.



Obtaining a mortgage loan does not give rise to ABC making an exempt supply. There was no exempt supply interrupting ABC’s use of the professional fees to make its taxable supply of leasing the non-residential property. Hence, the input tax incurred on the professional fees is directly attributable to ABC’s taxable supply and claimable in full.

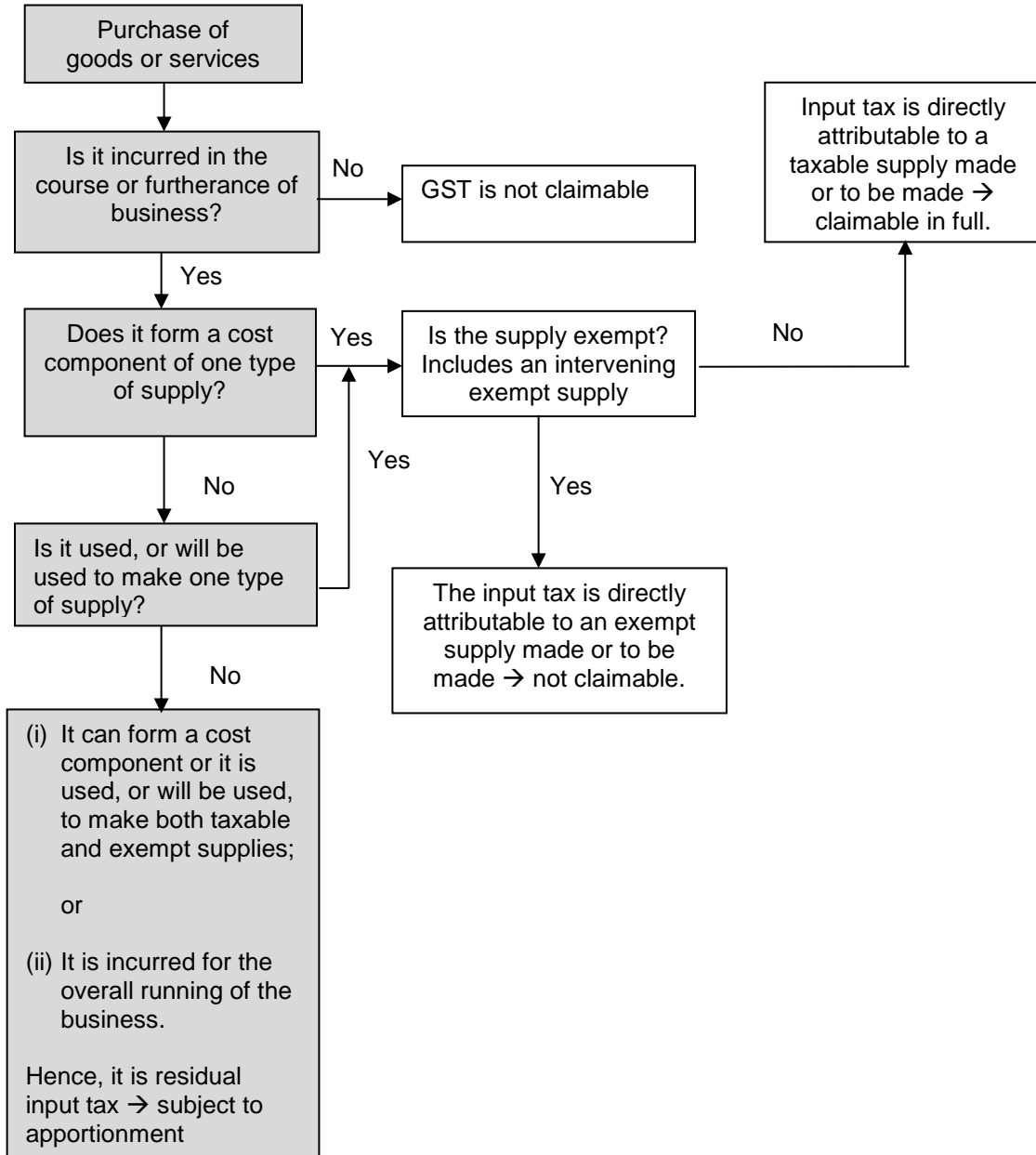
If ABC had obtained a general purpose loan to be used for its working capital as well as purchase of its assets, GST incurred on professional fees will be treated as residual input tax, which is subject to apportionment.

Example 3 – Legal fees incurred by ABC to draft an agreement to provide a loan to its local subsidiary, XYZ Pte Ltd.



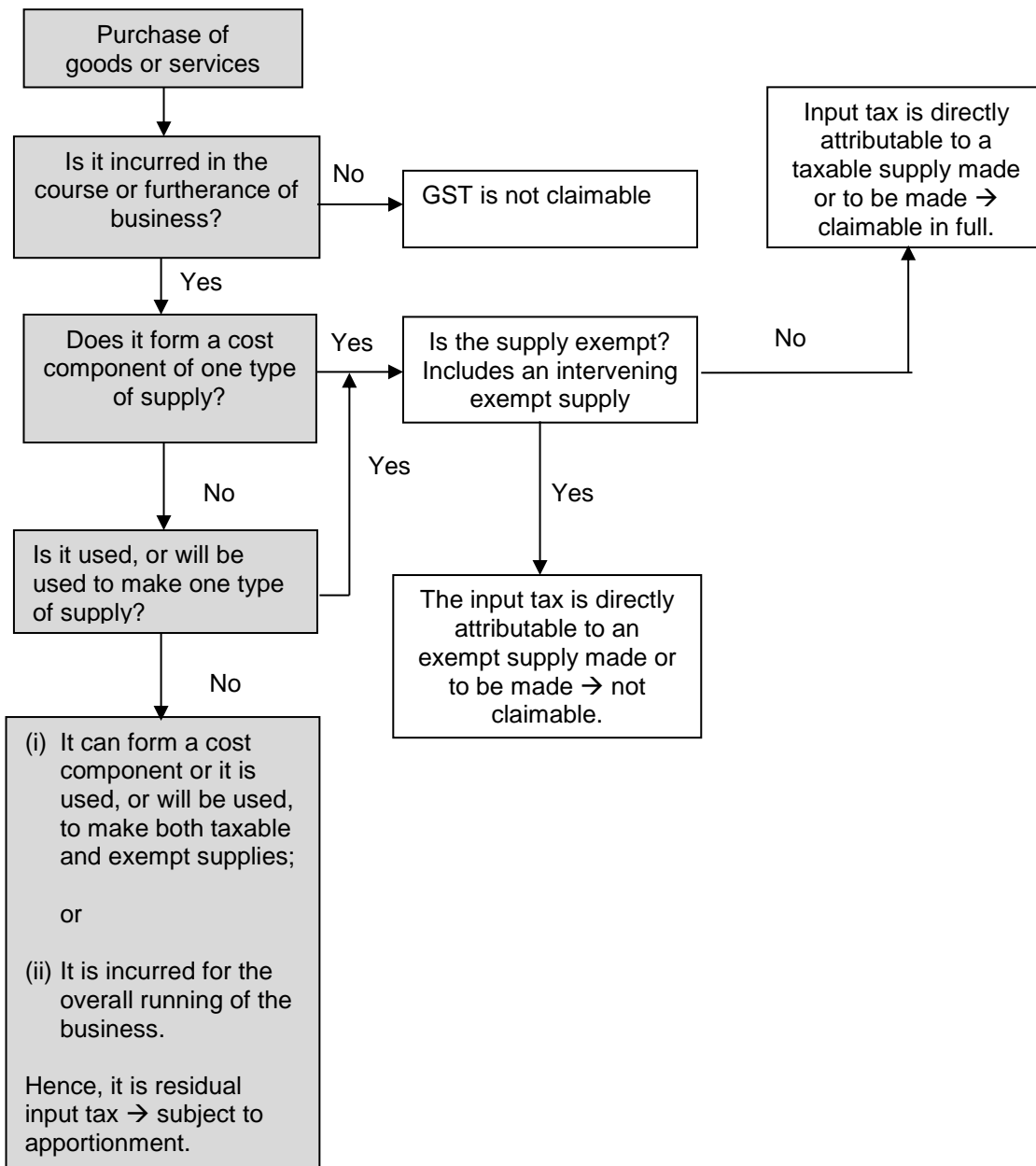
The input tax incurred on the legal fees is directly attributable to ABC's exempt supply of providing a loan and is not claimable.

Example 4 – Advertising fees incurred by ABC to advertise the lease of units in a mixed development.



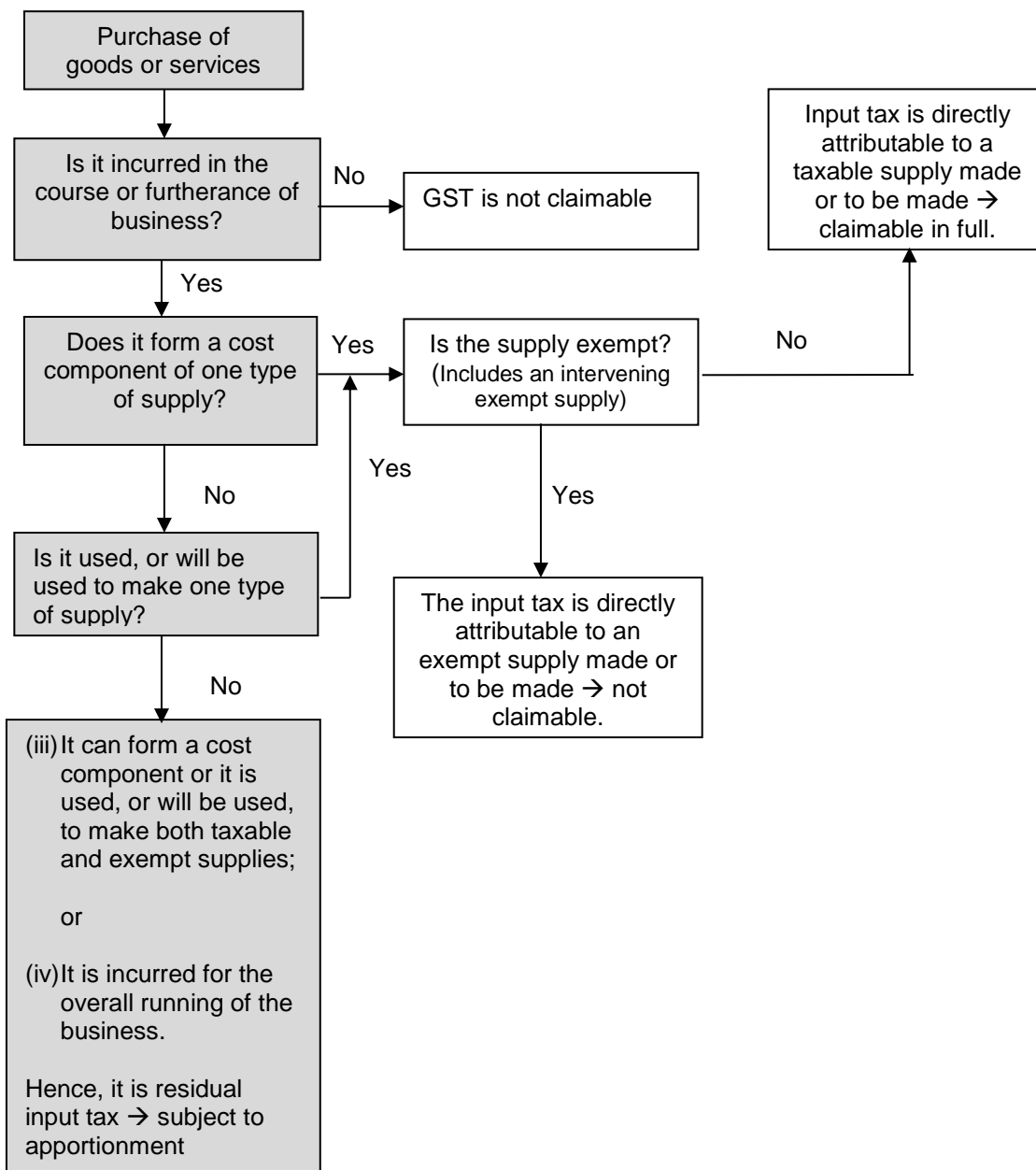
The input tax incurred on the advertising fees is used to make ABC's taxable and exempt supplies from the leasing of residential and non-residential units in the mixed development. Hence, it is directly attributable to both taxable and exempt supplies and constitutes residual input tax which is subject to apportionment.

Example 5 – General overheads, office rental and utilities incurred by ABC to operate its business.



General overheads, office rental and utilities would not be reflected as a cost component to a specific supply made by ABC. These expenses are directly attributable to all of ABC’s supplies as they are cost components of the business as a whole. Since ABC makes both both taxable and exempt supplies, the input tax incurred on the general overheads, office rental and utilities is residual in nature and subject to apportionment.

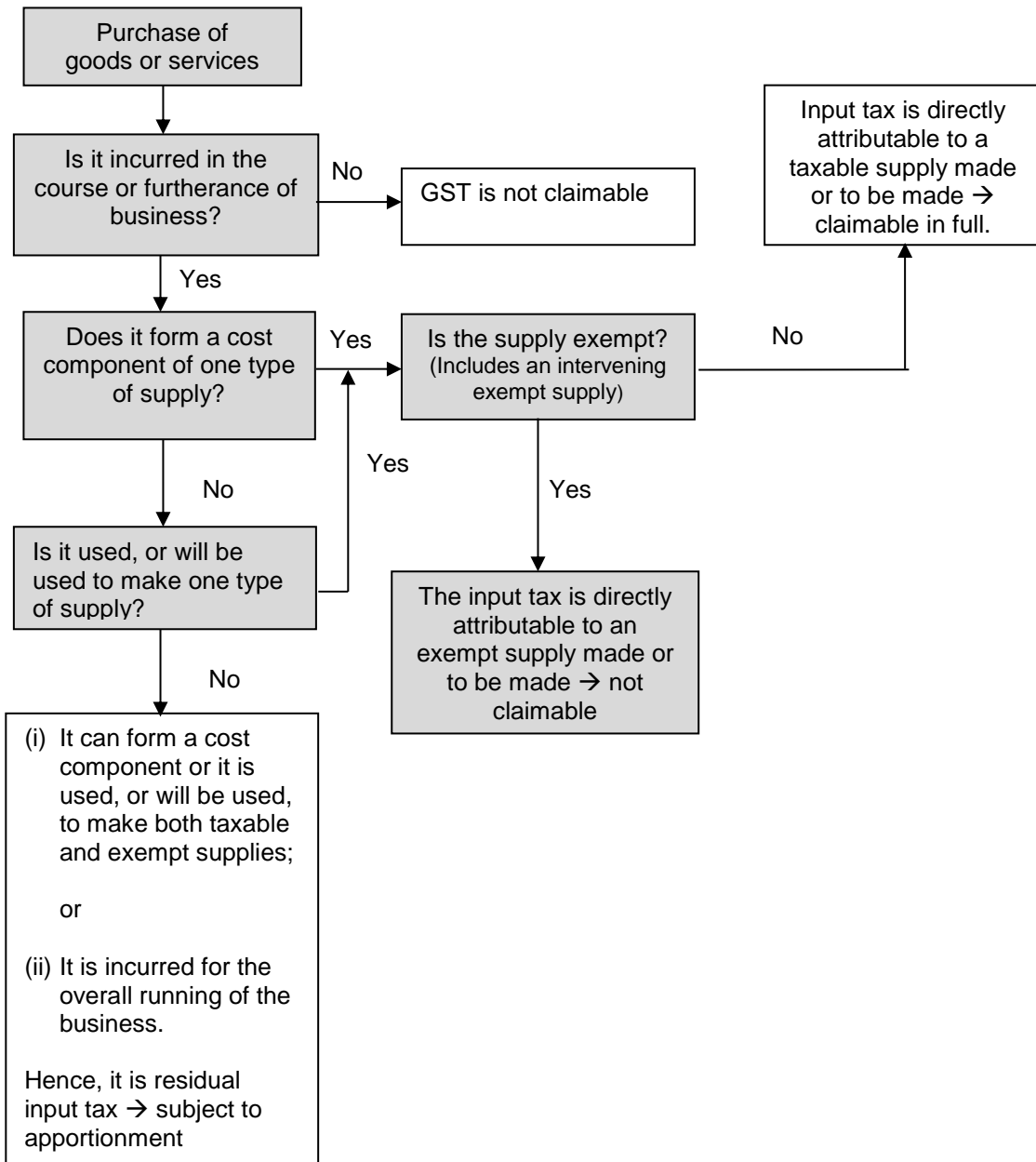
Example 6 – Compulsory annual listing fees for ABC to remain listed on the Singapore Exchange (“SGX”).



The annual listing fees differ from the initial listing fee that is imposed by the SGX. The initial listing fee is a one time fee charged to a company so that it can list on the SGX. Such input tax incurred on the initial listing fee is directly attributable to ABC’s regulation 33 exempt supplies arising from its first issuance of shares.

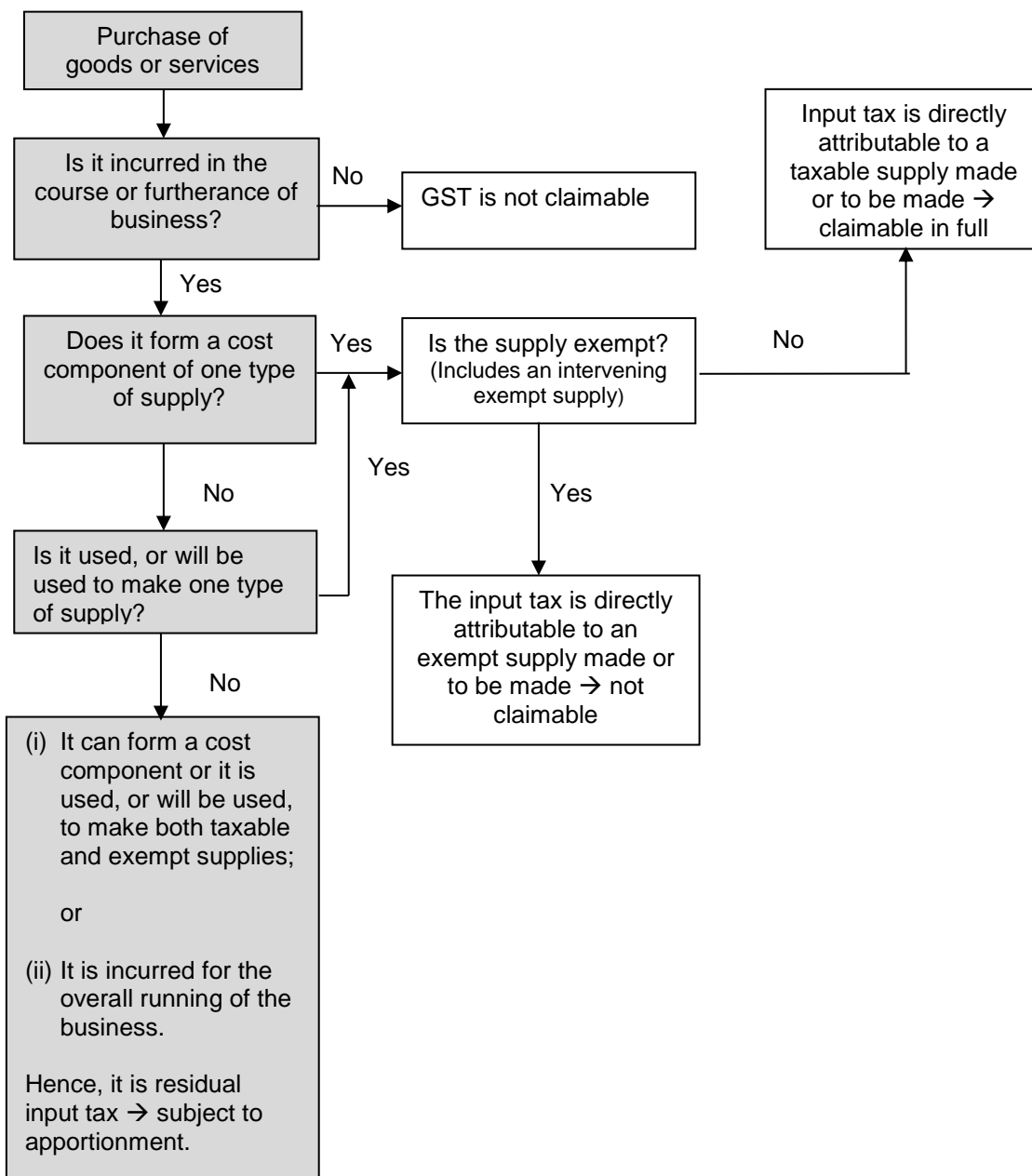
However, as the annual listing fees are incurred to maintain ABC’s listing on the SGX and not to make any particular taxable or exempt supply, it is treated as residual in nature and subject to apportionment. It is not directly attributable to ABC’s earlier exempt supply of issue of shares.

Example 7 - Professional fees incurred by ABC to issue shares or bonds to raise funds for it to carry out its management services.



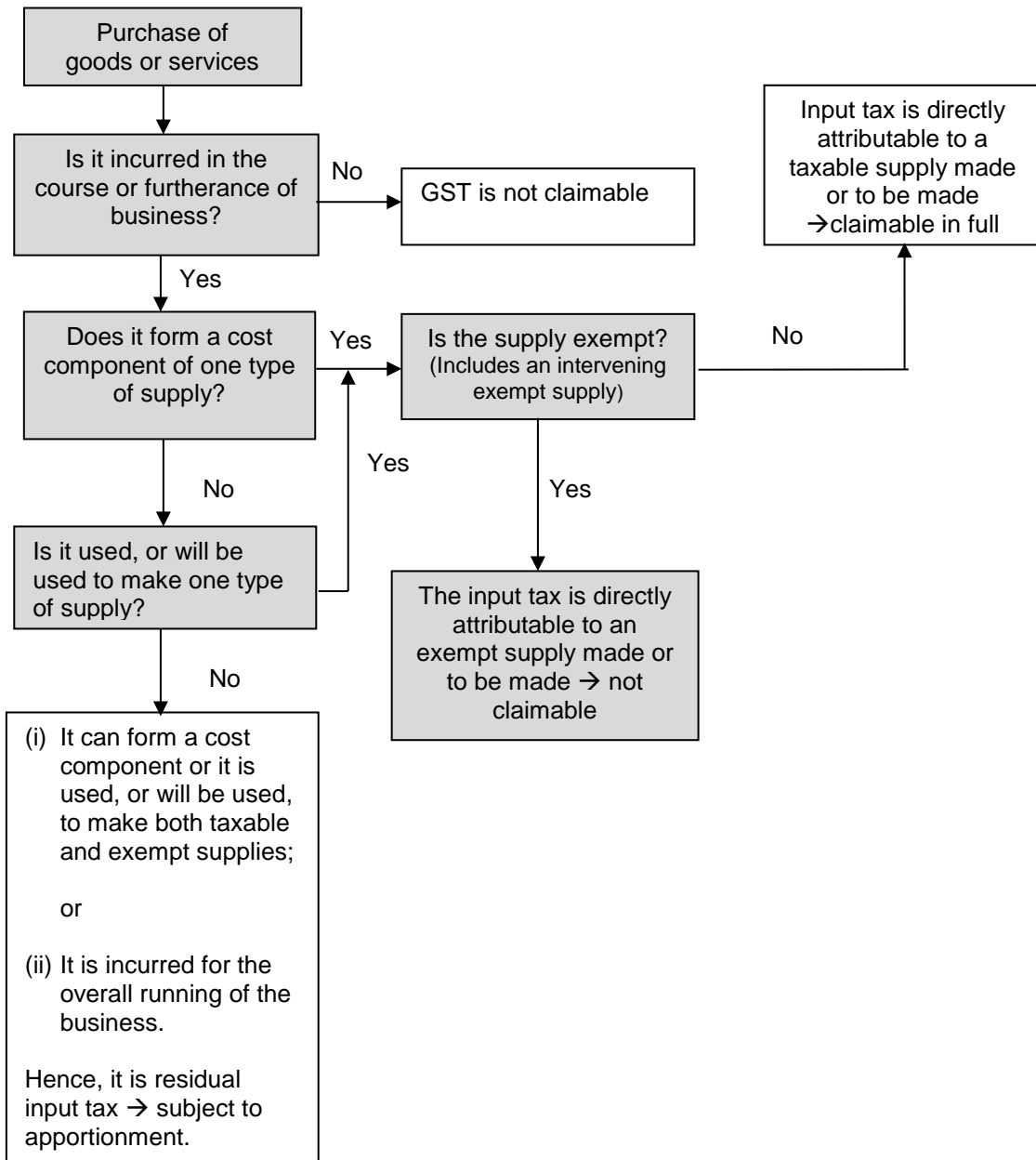
The input tax incurred on the professional fees cannot be attributed to ABC's ultimate taxable supply of management services because its use is interrupted by the exempt supply made from issuing shares or bonds. Hence, the input tax is directly attributable to ABC's exempt supply of issuing shares or bonds and is not claimable unless regulation 35 is satisfied.

Example 8 – Administrative services incurred by ABC to make dividend payments to its shareholders.



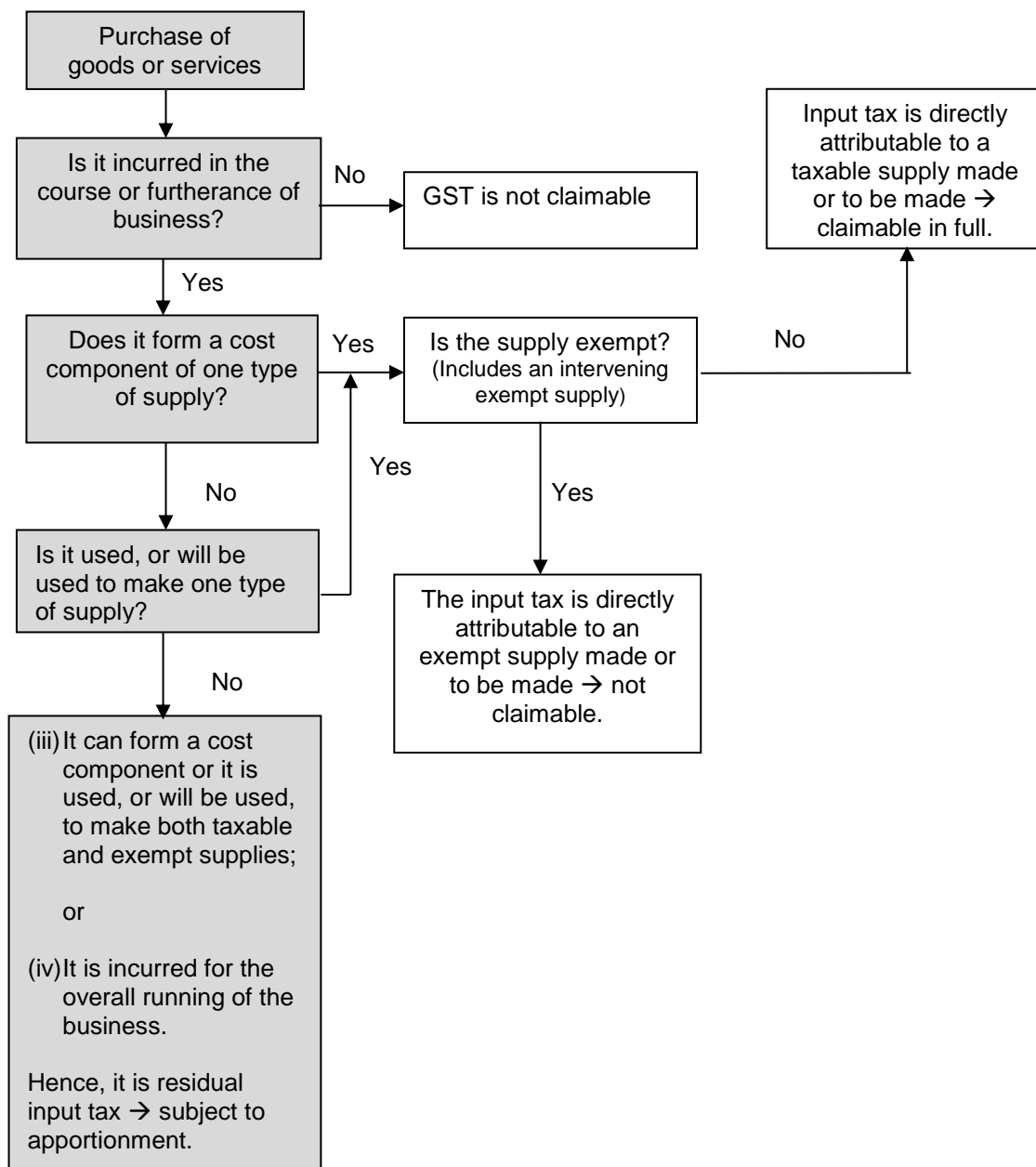
Dividend payouts by ABC to its shareholders do not amount to a consideration for any supply. Paying dividends to shareholders is to return capital to the investors who had contributed funds for ABC to carry out its activities, which includes the making of taxable supplies and exempt supplies. Hence, the payment of dividends has a link to ABC's overall business. Since the input tax incurred on the administrative services is used to make neither taxable supply nor exempt supply but incurred for ABC's overall business, it is residual in nature and subject to apportionment.

Example 9: Brokerage expenses to purchase shares locally for investment



The input tax incurred on the brokerage expense to purchase shares is attributable to an ultimate exempt sale of shares that will take place in the future. The input tax is hence not claimable. It is irrelevant whether ABC holds the shares as short term or long term investment.

Example 10: Legal Costs incurred by ABC to sue its customers for defaulting on payment



ABC’s act of recovering its bad debts is separate from its original supply of goods or services. Hence, input tax incurred on legal fees cannot be directly attributed to its past taxable supplies. Nonetheless, it is recognised that this recovery action is in the course and furtherance of the company’s business. Therefore, the input tax incurred on the recovery actions should be treated as residual in nature since it is used to make neither taxable supply nor exempt supply but is incurred for the company’s overall business.

9 Frequently Asked Questions

Q1 Can input tax incurred on termination expenses¹⁰ such as liquidation fees, be directly attributable to past taxable supplies made?

A1 No. Input tax incurred on termination expenses cannot be attributed to past supplies. However, as the termination of a business is regarded as made in the course or furtherance of that business under the GST Act, expenses incurred for winding up would be regarded as residual input tax subject to apportionment. In the case where the business has ceased to make any taxable supplies and thus could not claim any input tax by means of the standard input tax apportionment formula, input tax incurred on termination expenses would be allowed in full by way of administrative concession.

Expenses incurred in periods where the business had ceased and not for the purpose of winding up the business ('non termination expenses') are not incurred in the course or furtherance of a business and hence, will strictly not be allowed.

However, if you can establish a link between the non termination expense and taxable supplies that were made in the past, you may, as an exception, claim these non-termination expenses, as residual input tax in full¹¹. Such expenses include audit fees incurred to audit the periods in which the business was still making taxable supplies.

Rental and utilities incurred in periods where the business had ceased will remain disallowed since no link between these expenses and past taxable supplies can be established.

Q2 How should I attribute the input tax incurred on supplies between branches of the same legal entity?

A2 You should attribute such input tax to the supplies made by the legal entity as a whole to customers outside the legal entity, and not to the intra-branch supplies.

For example, your Singapore branch incurs input tax to procure goods. The goods are provided to your overseas branch and the overseas branch in turn supplies the goods to its end customer (i.e. a separate legal entity). In this case, you should attribute the input tax incurred by the Singapore branch to the supplies made by the overseas branch to its end customer.

¹⁰ Termination expenses refer to expenses you have to incur for closing down your business. It excludes rental or utilities expenses.

¹¹ However, if your business still makes some taxable or exempt supplies in the period you incurred such non-termination expenses, you are required to apportion the input tax incurred by the apportionment formula applicable to you.

Q3 Can I treat the input tax incurred in connection with the purchase of local shares as my residual input tax as I am uncertain when and to whom I will sell the shares?

A3 No, input tax incurred in the course of buying local shares is to be regarded as directly attributable to the exempt supply of shares (unless the shares are to be sold to an overseas person) and therefore, is not claimable.

Q4 I engage a professional firm to perform due diligence on a potential investment target. I may or may not acquire the targeted company eventually. Is the input tax incurred on the professional fees for the due diligence considered as directly attributable to future exempt supply of shares if I were to purchase shares in the company?

A4 No, the input tax will not be treated as directly attributable to any future exempt supply of shares as the due diligence is performed to evaluate a potential investment target. It is a step removed from the subsequent acquisition of shares in the company and therefore, does not form a cost component of or an input to the making of any future supply of the acquired shares. However, such expenses can be regarded as incurred for the overall running of your business and therefore residual in nature.

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	3 Aug 2015	<ul style="list-style-type: none"> • Editorial changes • Inserted paragraph 5.4
2	30 Oct 2015	<ul style="list-style-type: none"> • Amended paragraph 6.1
3	23 Aug 2018	<ul style="list-style-type: none"> • Inserted Partial Exemption Input Tax Recovery Calculator at paragraph 2.2
4	24 Sep 2019	<ul style="list-style-type: none"> • Added footnotes at paragraph 3.3 for an explanation of “first issue” • Expanded Frequently Asked Questions section at paragraph 9 to include Q2, 3 and 4 • Added footnotes on the value of taxable supplies and total supplies for De Minimis Rule and Regulation 35 Test at paragraph 3.5 (this update is in line with the implementation of the reverse charge and overseas vendor registration regime from 1 Jan 2020) • Included details on imported services that are directly attributable to taxable supplies at paragraph 4.4