

# **IRAS e-Tax Guide**

**GST: Guide For  
The Banking Industry  
(Third Edition)**



**INLAND REVENUE  
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### 1 Aim

- 1.1 This Guide explains the general GST principles applicable to the banking industry and clarifies the GST treatment for the common business models that the banks engage in. Information published in the GST Handbook for Banks will not be repeated in this e-Tax Guide.

### 2 At a glance

#### Provision of financial services

- 2.1 Part I of the Fourth Schedule of the GST Act exempts the provision of financial services from GST. Generally, banks provide a wide range of financial services that may qualify for GST exemption under the Fourth Schedule to the GST Act.
- 2.2 However, exemption is not extended to services that facilitate the provision of financial services. Therefore, commission or fees arising from the arranging, broking, underwriting or advising services provided by banks are taxable for GST purposes.
- 2.3 When banks provide exempt financial services to overseas customers, the supply of such financial services can be zero-rated if it falls within any of the descriptions of international services under section 21(3) of the GST Act.

#### Input tax recovery

- 2.4 As banks make both taxable supplies and exempt supplies, banks are unable to claim input tax incurred on their business expenses in full. For administrative ease, banks are allowed to use an industry-wide recovery rate<sup>1</sup> to claim input tax incurred on their business expenses (excluding disallowed expenses under Regulation 26 & 27 of the GST (General) Regulations).

### 3 GST Treatment of Fee Based Services

#### Types of fees charged by the banks

- 3.1 As the business models of banks evolve, banks are increasingly charging fees separately to customers for the provision of services<sup>2</sup>. Such fees can be broadly classified into the following three categories:
- a. Fees charged for services provided as part of a main exempt supply
  - b. Fees charged for additional value added services
  - c. Fees charged for leveraging on the bank's network

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<sup>1</sup> The fixed recovery rate is computed using proxy statistics provided by MAS annually. It varies according to the type of banking license and is reviewed yearly.

<sup>2</sup> Refer to Appendix 1 for the list of fee-based services provided by the banks through the ATM network, internet banking or other mobile banking delivery channels.

### Fees charged for services provided as part of a main exempt supply

- 3.2 Generally, where banks are required to provide elements of a service as part and parcel of a main exempt financial service such as the operation of a savings or current account or the provision of a loan, these elements may be viewed as being incidental to the provision of the main financial service. Accordingly, fees for such elements, even though separately charged to the customers, are exempt from GST under the relevant provisions in Part I of the Fourth Schedule to the GST Act together with the relevant principal supply.
- 3.3 Examples of such elements include the withdrawals of cash or fund transfers from overseas automated teller machines (“ATM”) of same or different bank, operation of internet banking account and purchase of cashier’s order via internet.
- 3.4 To determine whether an element of a service may be viewed as part and parcel of the provision of a main exempt supply or whether it should be assessed on its own, please refer to paragraphs 3.10 to 3.12 for more information.

### Fees charged for additional value added services

- 3.5 Through technological advancement, banks are able to make available new services to their customers through internet banking or their ATM network.
- 3.6 Although such new services may be provided to the banks’ account holders, some of these services may not form an essential component of an exempt financial service. These services are often available separately and may not be required by the account holders at large. In such instances, these services are treated as additional value added services which are separate and distinct from the exempt financial service. These services are taxable for the purpose of GST.
- 3.7 Examples of such services include the provision of information through internet / foreign exchange / money market platform, application for IPO shares and rights entitlement via ATM and internet platform, COE bidding, fees charged to cash card holders for statement printouts, fees charged for retrieving documents previously submitted to the banks.

### Fees charged for leveraging on the bank’s network

- 3.8 The banks may also provide services which enable other businesses to reach out to the banks’ customers. As banks are providing value-added services to these third party businesses, these services are taxable for GST purposes even though the third party businesses may also maintain bank accounts with the banks.
- 3.9 Examples would include fees charged to CPF Board for encashment of Economic Restructuring Shares/Workfare Bonus/GST credits through ATM or mobile banking delivery channels, to billing organizations for the payment of

bills through internet banking and to the telecommunication companies for the purchase of telephone card by the banks' customers.

### Determining whether an element of a service forms part and parcel of the provision of a main exempt supply

- 3.10 Generally, where it is viewed that there are elements of a service which are incidental to the main supply, the whole service will take the tax treatment of the main supply.
- 3.11 Conversely, if the elements of a service cannot be viewed to be incidental to the main supply, the consideration for the whole service will not follow the tax treatment of that main supply. Instead, each element of that service will be treated as an individual supply and its GST treatment, i.e. whether it is taxable or exempt, will have to be assessed in its own right.
- 3.12 To determine whether the banks' services may be considered to be part and parcel of an exempt financial service as described in paragraph 3.2 above, it is essential to identify the key elements of the transaction and consider the following factors:
- a. Establish the customers' intention in contracting for the service and their perception of that service

An understanding of the customers' needs and their objectives for procuring the service will affirm the key elements and the characteristics of the service supplied. The customers' main purpose of procuring the service and perception of the service will also help ascertain whether a single supply of services is made.

For example, the lockbox /cheque processing service consists of two elements, i.e. the clearing of the cheques and the provision of debtors' information in the form of customised reports.

Customers procure the lockbox / cheque processing service offered by the banks with the main intention of having their debtors' cheques channeled directly to the banks and obtaining essential debtors' information<sup>3</sup> in addition to having the cheques cleared. Otherwise, a conventional cheque processing service will suffice.

Based on the above, the lockbox / cheque processing service is a single supply of service and its GST treatment will follow the principal supply relating to the provision of customised debtors' information, which would be standard-rated accordingly.

- b. Examine each element of the service and assess whether it:
- Constitutes an aim in itself;
  - Enhances the quality of another element;
  - Is necessary or integral to another element.

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<sup>3</sup> Such as debtors' names, invoice numbers relating to the payment and the payment amounts.

Where an element does not constitute an aim in itself and is only a means of better enjoying the principal service supplied, it can be seen to be ancillary or incidental to the principal supply.

For example, the primary aim for the customer to procure the cheque issuance service from the banks is to issue cheques to third parties on its behalf. The delivery service offered by the bank is merely a means for the customer to better enjoy the service such that the customer need not arrange for self delivery.

The mailing and dispatching of the cheques as part of the cheque issuance service does not constitute an aim in itself. It facilitates and enhances the issue of cheques to third parties. Therefore, the supply relating to the mailing and dispatch of cheques will be exempt from GST on the basis that it is incidental to the issue of cheques.

c. Availability of separate elements of the service

In a situation where the different elements of a service are not available separately and customers cannot choose to have only certain elements of the service, they will be considered as part and parcel of the main supply.

On the other hand, if the elements are available separately and customers have the option to procure only certain elements of the service, they are not considered as incidental to the principal supply and their treatment will have to be assessed on their own.

d. Pricing

In most circumstances, there is a single supply of service if there is only one price charged for the different elements of the service, particularly where the overall amount that the customers pay is not affected by the number or combination of the different elements of the service that the customer may choose to take up. If so, the GST treatment of the various elements will follow that of the main supply.

If there are separate prices charged for different elements of the service such that the overall amount that the customers pay is reduced by the price of the element which they opt not to have, the GST treatment of the different elements of the service will have to be determined in its own right.

- 3.13 It is important to note that no single factor is conclusive on its own and not all factors are applicable to every case. The banks should exercise judgment when considering the relevant factors to the specific transaction under scrutiny.

### 4 Credit Card Reward Schemes

#### Types of credit card reward schemes

- 4.1 To encourage the use of credit cards, the banks work with participating merchants to come up with different credit card reward schemes.
- 4.2 Credit card reward schemes may be fully funded by banks or merchants or partially funded by participating merchants, with the funding percentages often stipulated in the agreement between the banks and the merchants. There are several scenarios in which the banks can operate the reward schemes for their credit cardholders. Typically, there is either an issue of reward points or a provision of cash rebates to the cardholders.
- 4.3 As the GST implications for each scenario may differ, there is a need for the banks to examine their contractual agreements with the merchants in order to determine the correct treatment to apply. The following sections illustrate the common scenarios for credit card rewards scheme and explain the GST treatment.

#### Credit Card Reward Schemes – Reward Points Fully Funded by Banks

##### *General principles*

- 4.4 For credit card reward schemes fully funded by the banks, reward points issued by banks are given to cardholders based on their past spending and at no consideration. The GST treatment of the transactions between the merchant and the bank will not be affected by the voucher rules<sup>4</sup> and normal rules would apply accordingly.
- 4.5 The banks may use various mechanisms<sup>5</sup> to make available vouchers to the cardholders. Generally, the mechanism used to deliver the vouchers is not relevant in determining whether there is a sale of vouchers or goods and services from the merchant to the bank. A sale of vouchers or goods and services from the merchant to the bank should be determined based on contractual arrangement entered between the bank and the merchant.
- 4.6 Scenarios 1 to 4 illustrate the various arrangements where the reward points are funded fully by the banks and explain the corresponding GST treatment.

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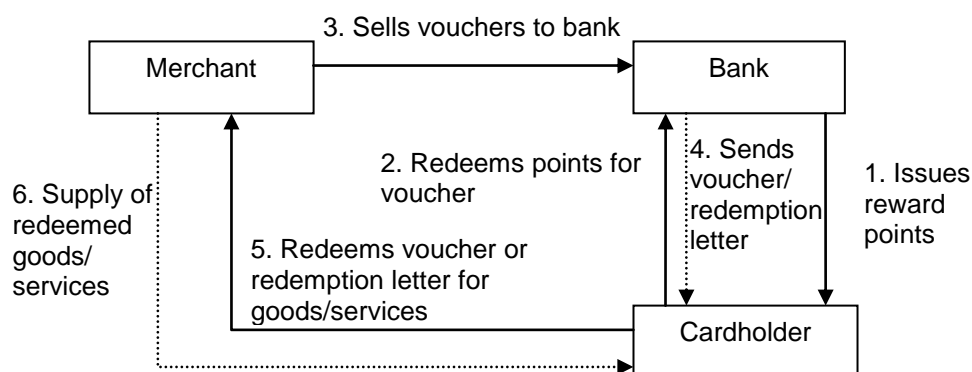
<sup>4</sup> Refer to e-tax guide "[GST Treatment of Vouchers](#)".

<sup>5</sup> Some variations of how a voucher may be made available to the cardholders include:

- (i) Bank sends voucher to cardholder;
- (ii) Bank sends redemption letter to cardholder that is used for redemption;
- (iii) Bank sends redemption letter to cardholder who in turn exchange it for voucher from merchant and use voucher for redemption;
- (iv) Cardholder obtains redemption receipt from Bank's terminal, exchange receipt for voucher from merchant and use voucher for redemption; or
- (v) Reward points are recorded in Bank's terminal and are redeemed when cardholder swipes card at the merchant's point-of-sales terminal.



### Scenario 1: The bank buys cash vouchers from the merchant and gives them free to cardholder.



#### Event 1 – Issue of reward points by the bank

The issue of reward points by the bank constitutes a free supply of service (supply of the right to redeem for goods and services) and no GST is chargeable.

#### Events 2 & 4: Provision of cash vouchers upon redemption of reward points

The provision of free vouchers to the cardholder by the bank in return for the cardholder's reward points in this instance constitutes a free supply of services. No GST is chargeable.

#### Event 3 – Sale of cash vouchers from merchant to bank

The supply of vouchers from merchant to bank is disregarded if the vouchers are sold at or below the specified value. GST is not accountable by merchant and no input tax is claimable by bank on the purchase of these vouchers.

If the vouchers are sold above the specified value, the merchant is required to account for GST on the difference between the consideration and the specified value. The bank may claim input tax on the GST imposed on the difference between the consideration and specified value but subject to the fixed input tax recovery rate.

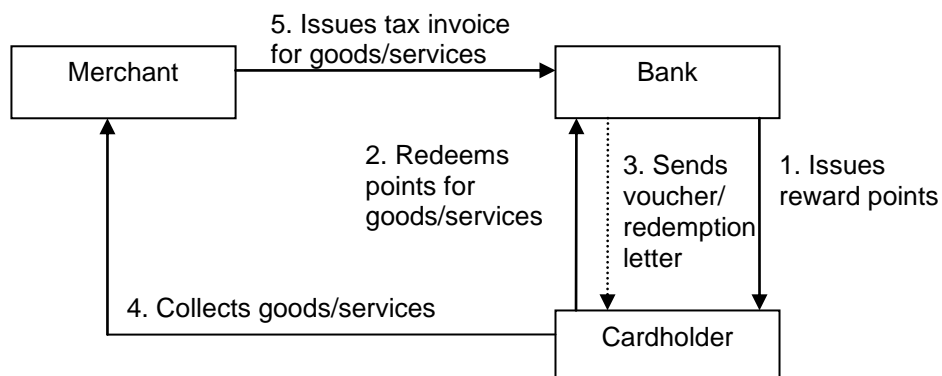
If the bank receives a discount<sup>6</sup> for the purchase of the vouchers from the merchant, GST will not be accountable by the bank on such discounts from the merchant. Please refer to Scenario 4 where the discount is consideration for a taxable supply of service.

#### Events 5 and 6 – Redemption of voucher by cardholder and supply of redeemed goods / services

The sale of redeemed goods/services is a taxable supply and GST is accountable by merchant on the gross value of the redeemed goods/services. This would be inclusive of any additional payment in cash received from the cardholder where the value of the goods or services exceeds the specified value of the vouchers. The input tax would be claimable by the cardholder if he is GST-registered.

<sup>6</sup> The discount received for the purchase of vouchers or goods and services does not refer to the "Merchant Discount Rate" (MDR) paid by the merchants to the acquiring banks for accepting credit cards. The MDR does not form part of the Credit Card Rewards Scheme and is a separate supply of services which is exempt from GST under paragraph 1(c) of Part I of the Fourth Schedule to the GST Act.

### Scenario 2: The bank buys goods/services from merchant and provides them free to cardholder



In this scenario, the bank contracts with the merchant to purchase certain goods/services and provides them free to cardholder. The contractual agreement is such that the supply of goods and services only takes place when redeemed by cardholder from the merchant.

#### Event 1 – Issue of reward points by the bank to cardholder

The issue of reward points by the bank is a free supply of service and no GST is chargeable.

#### Events 2 and 3 – Redemption of points for goods/services

The redemption of points for goods or services from the bank does not trigger a deemed supply of goods/services by the bank to the cardholder at this point as the cardholder has not collected the goods/ services and thus the supply from merchant to bank has not taken place.

#### Events 4 and 5 – Supply of goods/services by merchant to the bank and by the bank to the cardholder

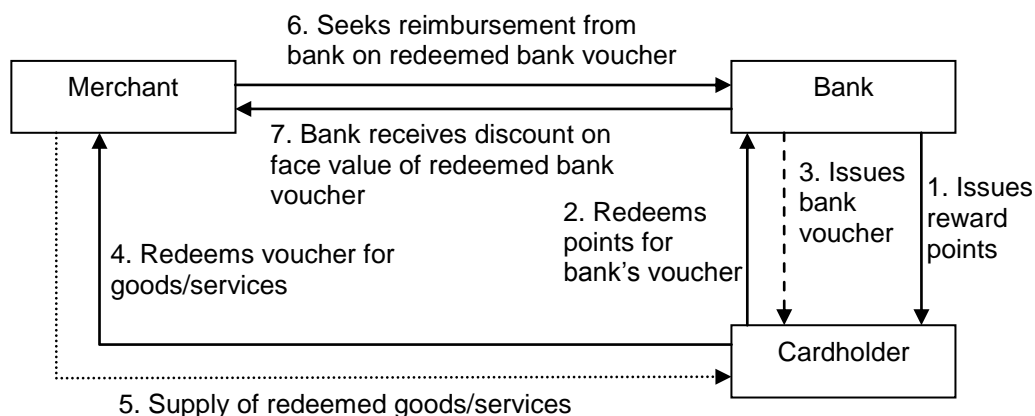
Since the merchant has contracted with the bank to provide certain goods/services, merchant is required to charge and account for GST on the supply of goods/services made to the bank. The bank is entitled to claim input tax on the purchase of goods/services from merchant, subject to the fixed input tax recovery rate.

The supply of redeemed goods by the bank to the cardholder without consideration (wholly in points) is a deemed supply and GST is accountable by the bank on the deemed supply of free goods if the goods exceed \$200 each and input tax on the goods has been allowed to the bank<sup>7</sup>. The bank is required to account for output tax on the deemed supply of free goods in the accounting period where the merchant's invoices are posted in the bank's system on the understanding that the input tax claims would be made and the output tax on the deemed supply would be accounted in the same period when the merchant's invoices are processed.

<sup>7</sup> With effect from 1 Oct 2012, the condition which requires businesses to assess if there is "a series or succession of gifts costing not more than \$200 made to the same person from time to time" will be removed and businesses need to deem a supply and account for output tax for gift of goods only if each gift costs more than S\$200 and input tax on these goods has been allowed to them. Hence, if the bank did not claim the GST incurred on the purchase of the goods, the bank need not deem a supply nor account for the output tax when it subsequently gives away those goods for free. Refer to paragraphs 9.1 to 9.3 for more information.

On the other hand, the supply of redeemed services without consideration is a free supply of services and no GST is accountable.

### Scenario 3: The bank issues vouchers to cardholder which the merchant will accept as payment for their goods/services



In this scenario, the bank and the merchant do not have an agreement for the supply of vouchers, goods or services. Rather, the merchant accepts the bank's vouchers as payment for the goods/services.

#### Event 1 - Issue of reward points

The issue of reward points by the bank is a free supply of service and no GST is chargeable.

#### Events 2 and 3 – Issue of bank voucher in return for points issued by bank

The issue of voucher in return for bank's reward points is a free supply of service and no GST is chargeable.

#### Events 4 and 5 – Redemption of goods/services

There is a taxable supply of the redeemed goods/services from merchant to cardholder. GST is chargeable by merchant to cardholder on the gross value of the redeemed goods/services. This would be inclusive of any part payment in cash received from the cardholder where the value of the goods or services exceeds the face value of the vouchers. Input tax is claimable by cardholder if he is GST-registered.

#### Event 6 – Reimbursement from bank on redeemed bank voucher

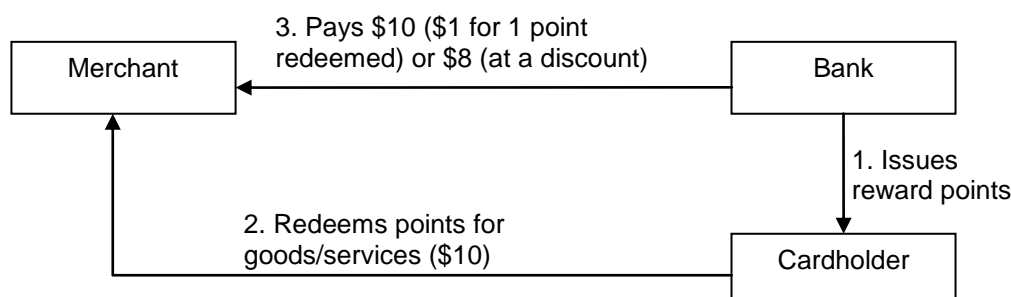
When merchant seeks reimbursement from bank for the redeemed voucher, the reimbursement by bank is regarded as payment made on behalf of the end-consumer of the goods/services. As such, merchant is not required to charge GST and no input tax is claimable by bank.

#### Event 7 – Discount on face value of redeemed bank voucher

In this scenario, the merchant accepts an amount lower than the value of the voucher. The difference between the amount received and the value of the voucher (i.e. a "discount" on the voucher) constitutes consideration for a taxable supply of services of promotional service by the bank to boost merchant's sales and therefore

GST is chargeable and accountable by the bank. The bank is not receiving a discount on the purchase of vouchers as there is no purchase of vouchers from merchants in the first place.

### Scenario 4: The cardholder redeems reward points directly with the merchant



Similar to Scenario 3, there is no agreement between the bank and the merchant for supply of goods or services. The bank has an agreement with the merchant where the merchant agrees to accept the bank's reward points as payment for their goods or services.

The merchant would have to charge and account for GST on the supply of goods/services on the gross value to cardholder. GST is claimable by cardholder if he is GST-registered.

Payment from the bank to the merchant is a third party payment arrangement where GST is not chargeable by merchant and input tax is not claimable by bank. If the merchant accepts a lower amount as payment, the discount given to the bank (\$2) represents consideration for a taxable supply of promotional service by the bank to boost the merchant's sales. GST is hence chargeable by bank to merchant.

### Credit Card Rewards Scheme – Reward Points Funded Fully or Partially By Merchants

- 4.7 The reward points for credit card rewards scheme funded fully or partially by merchants fall within the definition of Multi-Redemption Vouchers<sup>8</sup> ("MRVs") under the GST rules on vouchers with effect from 1 January 2010.
- 4.8 Therefore, the sale and redemption of the reward points are treated as 2 separate supplies - (i) the supply of the right to redeem for goods and services and (ii) the supply of the redeemed goods or services. The specified value of the rewards points is the equivalent monetary value assigned by the bank.

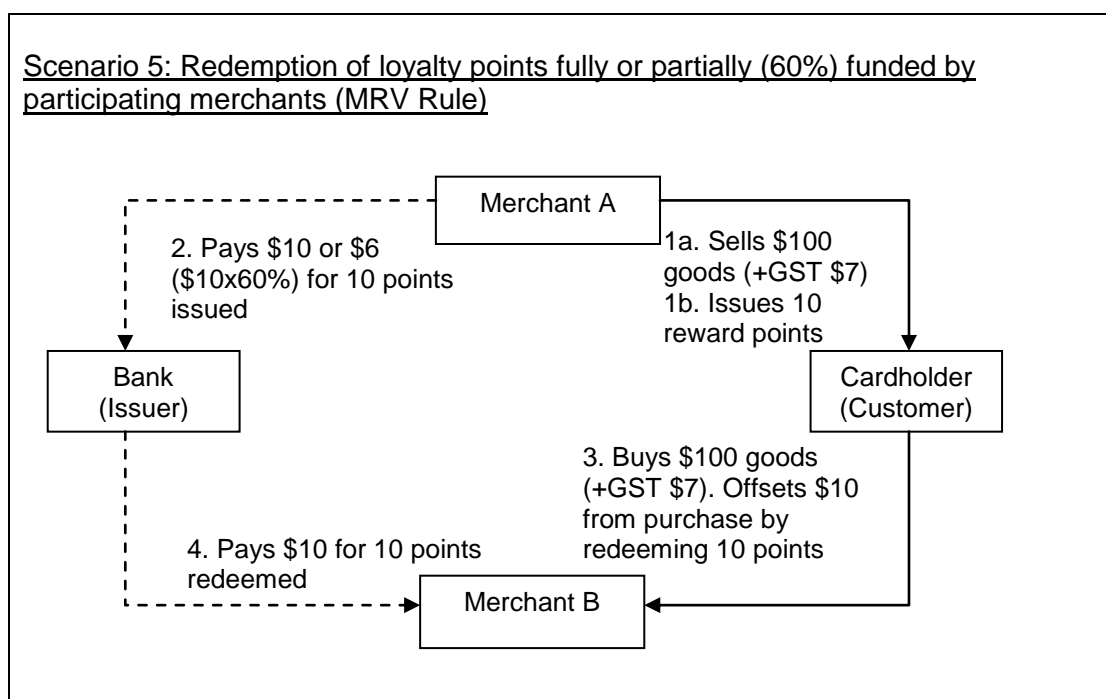
<sup>8</sup> The conditions for a voucher to be treated as "Multi-Redemption Voucher" are as follows:

- i. It must be sold for a consideration.
- ii. It confers a right to receive goods and services up to the monetary value or non-monetary value, stated on or recorded in the voucher. Both monetary and non-monetary value for all vouchers (with the exception of prepaid phone cards) must not make reference to the value or description of any particular goods or services that may be redeemed under the voucher.
- iii. The voucher must be presented or utilized to exchange for the goods and services acquired.

- 4.9 Under the above scenario, the bank sells reward points (MRVs) to participating merchants who give them free to cardholders. The customers can then redeem these MRVs for goods and services at the participating merchants. The merchant will seek reimbursement from the bank based on the reward points accepted as payment for the redeemed goods and services. Depending on the contractual arrangement, the payment made by the bank may be at or below the specified value of the reward points.
- 4.10 Any expired unredeemed reward points are usually retained by the bank and recognised in the bank's Income Statement.

### *General Principles*

- 4.11 To prevent double taxation on the sale and redemption of reward points, GST on the sale of reward points is deferred until the redemption of goods and services.
- 4.12 If the reward points are redeemed for another MRV (e.g. a cash voucher purchased by the Bank from Merchant), no GST is chargeable until the MRV is redeemed by the card holder for goods and services.
- 4.13 Where the reward points are not redeemed either because the reward points have expired or the credit card is terminated, the unredeemed reward points are subject to GST at the point the consideration for the unredeemed expired points are recorded in the income statement<sup>9</sup>.
- 4.14 A diagrammatic representation of the above model and the GST treatment is shown in Scenario 5 below.



<sup>9</sup> The consideration received for the unredeemed and expired reward points may be recognised in the income statement through the following ways:

- Reduction in accrued expenses or contra-revenue account; or
- Increase in revenue

### Event 1a – Sale of goods

As before, merchant A is required to account for GST of \$7 (7% x \$100) on the supply of goods/services made to the cardholder.

### Event 1b and 2 – Sale of MRV

Even though the reward points are issued by merchant A, it is actually a case of merchant A buying the reward points from the bank. Therefore, the sale of reward points (MRVs) from the bank to merchant A is disregarded if the reward points are sold at or below specified value and GST is not accountable by bank. Where the sale of reward points is above the specified value, the bank will be required to account for GST on the difference above the specified value and issue a tax invoice/ with GST shown separately.

### Event 3 – Redemption of MRV by cardholder and supply of redeemed goods/services by merchant to cardholder

The supply of redeemed goods/services from merchant B to customer is a taxable supply and GST is accountable by merchant B on the gross value of redeemed goods/services (specified value of reward points + additional consideration received, if any).

### Event 4 – Payment by Bank to Merchant

As GST is already accounted for by merchant B when the goods/services are redeemed, no GST is accountable by merchant B and the bank is not entitled to any input tax claim.

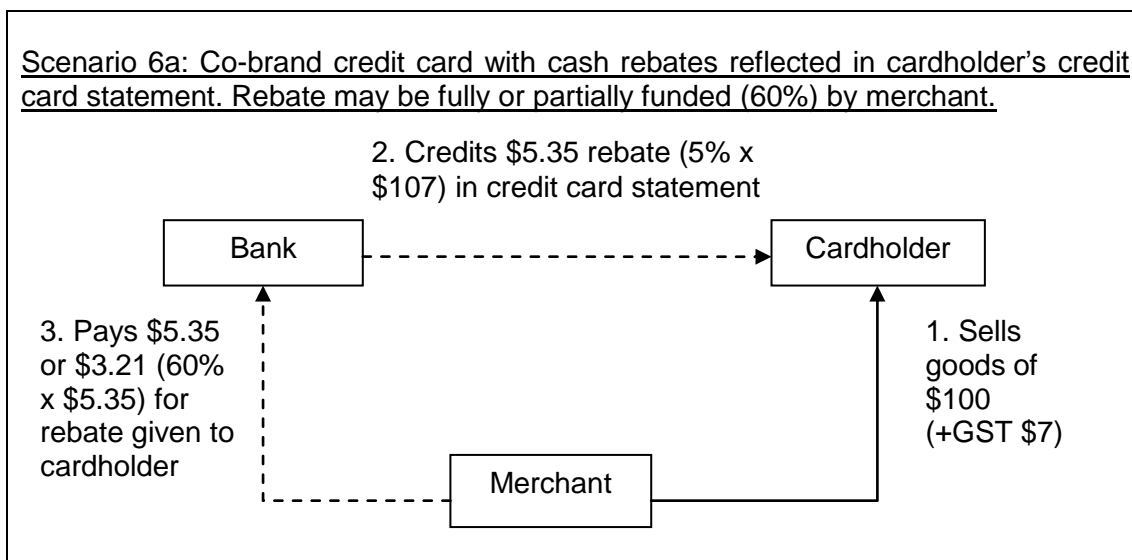
### Expiry of reward points

The bank is required to account for GST on the consideration received for unredeemed reward points (MRVs) upon the expiry of the points and their recognition in the income statement.

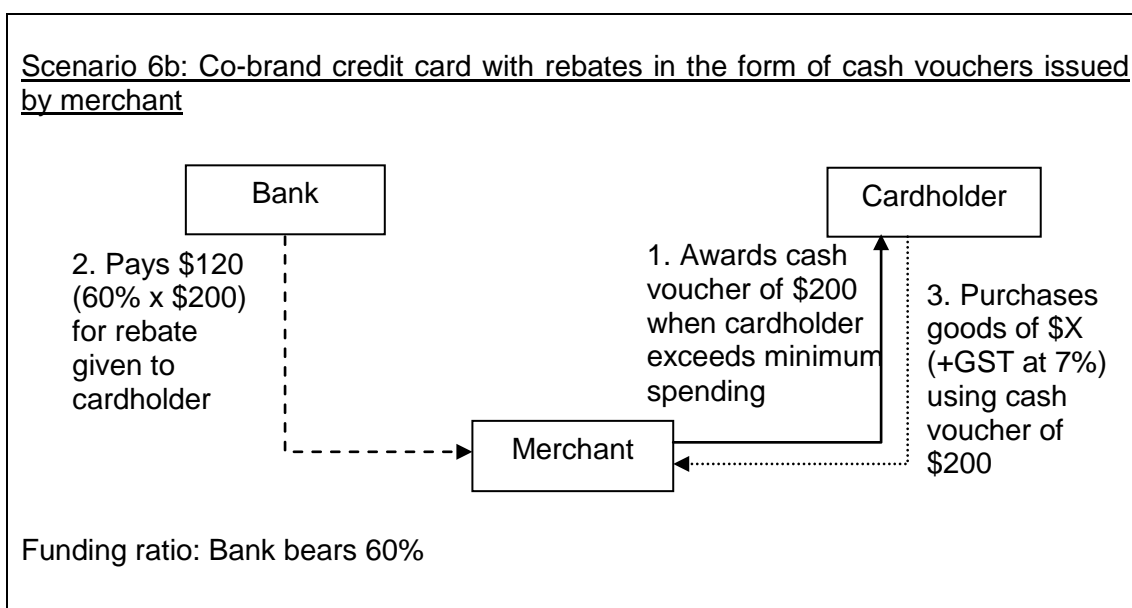
### Credit Cards Rewards Scheme relating to Co-Brand Credit Card – cash rebates / annual rebates in the form of goods voucher fully or partially funded by Merchant

- 4.15 In a reward scheme involving the co-brand credit card, the bank and the merchant award cardholders with monthly cash rebates when the cardholders spend at the merchant's store.
- 4.16 As both the bank and the merchant have common business interests and derive mutual benefits from the reward scheme, the bank may agree to share the costs of the cash rebates given to the cardholders. The percentage of the rebates funded by each party and the mechanism through which the rebates are given to the cardholders are both stipulated in the contract between the bank and the merchant. There are also instances where the merchant fully funds the cash rebates given to the cardholders.
- 4.17 The bank will usually give the rebates to the cardholder through the credit card statement and recover the merchant's share of the rebates from the merchant later. The recovery amount is the exact amount of rebates that the

merchant agrees to fund under the agreement, without any mark-up. The merchant will have charged and accounted for GST on the gross value of the goods or services supplied to the cardholder. Please refer to Scenario 6a below.

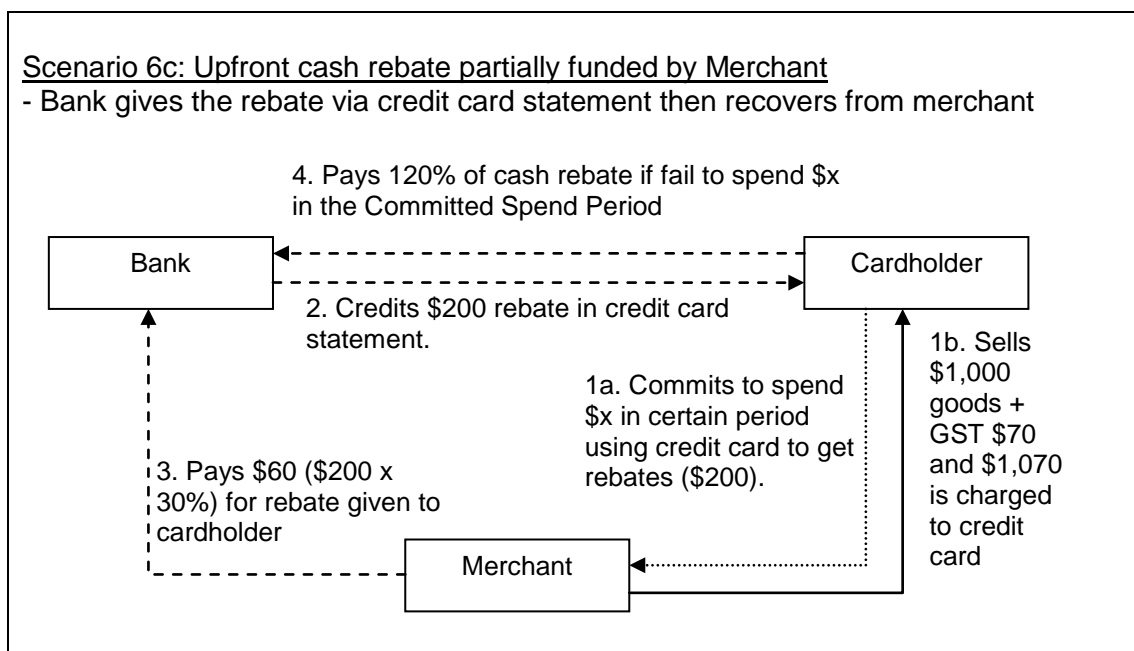


4.18 Alternatively, the arrangement can also be such that the cardholder is entitled to an annual rebate when his annual spending at a particular merchant's store using the co-brand credit card exceeds a certain amount. In this scenario, the merchant or the bank will inform the cardholder that he will be rewarded with a cash voucher that is redeemable only at the merchant's store. The specified value of the voucher is equivalent to the amount of annual rebate that the cardholder is entitled to. The merchant will thereafter recover a portion of the annual rebate from the bank based on the agreed terms and conditions between the bank and the merchant. Please refer to Scenario 6b below.



Credit Cards Rewards Scheme – Upfront Cash Rebate or Discount Partially Funded by Merchant

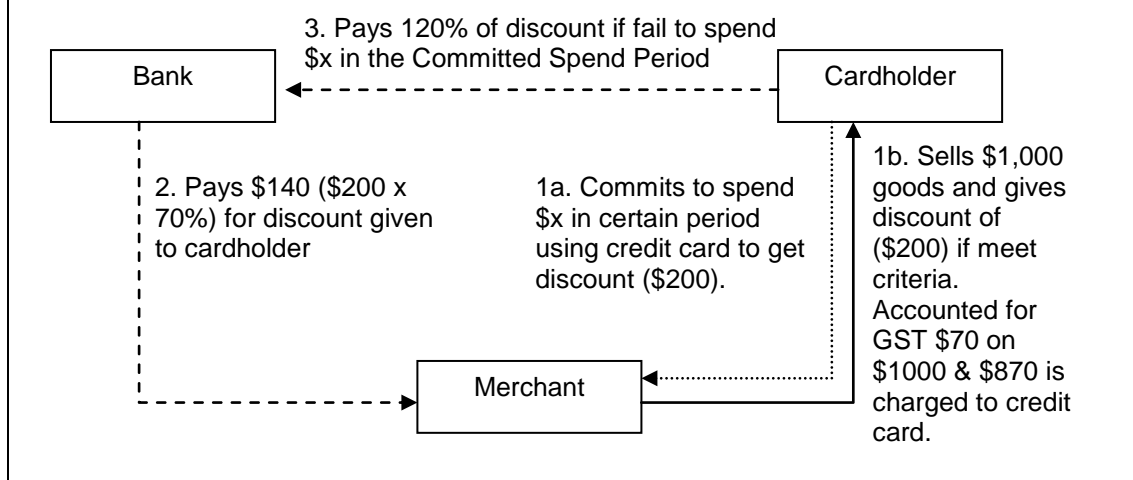
- 4.19 The above arrangement is similar to the co-brand card in that the merchant and the bank come together to provide cash rebates or discounts to cardholders. As before, the percentage of funding and the mechanism through which the rebates and discounts are given to the cardholders would be stipulated in the agreement between the bank and the merchant.
- 4.20 For cash rebates, the bank will give the rebates to the cardholder via the credit card statement and thereafter recovers the merchant’s share of the rebates from the merchant later. For discounts, the merchant will give upfront discount to the cardholder and then recover the bank’s share of the discount from the bank. The recovery amount is the exact portion of the discount that the bank or merchant agrees to fund under the agreement, without any mark-up.
- 4.21 Under the above arrangement, the cash rebates and discounts are provided to the cardholder on the condition that the cardholder fulfils a committed spend amount (by charging to any of the bank’s credit cards under his/her name) at the participating merchants during an agreed period.
- 4.22 If the cardholder does not meet the committed spend amount within the stated period, the cardholder will be required to pay an amount equal to 120% of the rebate or discount previously granted by the bank.
- 4.23 Notwithstanding the terms (rebates and discounts) used, the rebates and/or the discounts given by the bank and the merchant to the cardholder do not reduce the GST charged and accounted by the merchant. That is to say that the merchant will charge and account for GST on the gross value of the goods and services supplied to the cardholder. Please refer to scenarios 6c and 6d below.





### Scenario 6d: Upfront discount partially funded by Merchant (30%)

- Merchant provides discount upfront to cardholder and then recovers from bank



### GST Treatment for Scenarios 6a to 6d

4.24 The recovery of the merchant's share of cash rebates or discounts by the bank or vice versa in scenarios 6a to 6d is merely a payment arrangement. It is not a supply for GST purposes and therefore no GST is chargeable. This is provided that the credit card reward schemes bear the following characteristics:

- There is an agreement in place which sets out the common business motives, benefits and respective shares of interest;
- GST is charged on the gross value of the goods and services supplied by the merchant to the cardholder<sup>10</sup>;
- Recovery of the expense is based strictly on the respective shares stated in the agreement without any mark-up; and
- The recovery does not result in an increase in the bank's or merchant's income.

4.25 The above GST treatment is to be differentiated from the recovery of third party purchases. For example, if the bank incurs advertising expenses to promote the use of the credit card at the merchant's store and recovers from the merchant his share of the promotional or advertising expenses, GST will be chargeable on the recovery.

4.26 For scenarios 6c and 6d, the payment of 120% of the value of cash rebate or discount from the cardholder to the bank results from a breach of contract by the cardholder for failing to meet the committed spend amount within the stipulated period. As the payment does not form any consideration for a supply, GST is not chargeable on the payments received by the bank.

<sup>10</sup> In scenario 6b, this refers to the gross value of the goods and services purchased by the cardholder using the cash voucher (specified value of cash voucher + additional consideration received, if any) awarded by the merchant. Refer to event 3.

- 4.27 Please refer to Appendix 2 for an overview of the various types of credit card rewards scheme and their GST treatment.

## 5 Syndicated Loan Arrangement

### Introduction

- 5.1 When a borrower requires a large or sophisticated loan facility, this is commonly provided by a group of lenders known as a syndicate under a syndicated loan agreement. A syndicated loan agreement simplifies the borrowing process as the borrower uses one agreement covering the whole group of banks and different types of facility rather than entering into a series of separate bilateral loans, each with different terms and conditions.
- 5.2 Generally, the consideration for the provision of a loan, advance or credit is exempt under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act.
- 5.3 In a syndicated loan arrangement, several banks provide a loan to the borrower and charge the borrower fees for making that syndicated loan. Some of these fees may be exempt as part of the consideration of the provision of loan while others may be taxable if they relate to arranging services or do not form part of the consideration arising from the provision of loan.
- 5.4 In determining the taxability of the consideration received under a syndicated loan arrangement, it is important to consider the following factors:

a. Whether there is a contractual loan agreement in place

The nature of the services rendered in return for the fees charged can often be established from the loan agreement entered into by and between the borrower and the banks.

b. Whether the nature of the underlying service can be ascertained from documents signed between the borrower and the banks which are separate from the contractual loan agreement

Sometimes, the contractual loan agreement may not explain the nature of service rendered and the fees charged by the banks to the borrower. Therefore there is a need to look beyond the contractual loan agreement for any alternative document<sup>11</sup> which may spell out the nature of the service rendered by the banks to the borrower.

There could be instances where the banks and the borrower may sign a separate document, such as the mandate letter, requiring the bank to

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<sup>11</sup> While alternative or separate documents may be relied upon in determining the GST treatment of the fees charged by the bank, it does not mean that the existence of such separate documents will result in the fees being taxed. Taxability of the fees will depend on the nature of the service rendered by the bank to the borrower.

perform services such as the underwriting, structuring or syndication of the loan and/or the negotiation of the loan documentation.

In this regard, that document shall constitute a contract for the said services which are separate and distinct from the provision of the loan. Consequently, any fees received by the banks will be taxable. Whether the bank eventually manages to find other lenders to participate in the loan or not will not change the nature of this service.

c. Whether the fees are charged even though the loan is not provided

Fees that are charged irrespective of whether the loan applied for is eventually provided, such as up-front loan processing fees, do not form part of the consideration for provision of the loan and are therefore taxable.

### Types of syndicated loan arrangements

5.5 Syndicated loan arrangements can be structured in various ways and fees charged can take various forms. Each lender may take on more than one role, for example as agent, arranger, participating bank, underwriter, etc and receive different types of fees, depending on the roles they play in the syndicated loan arrangement.

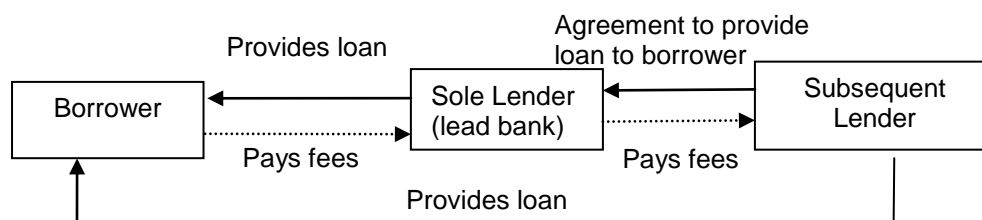
5.6 Syndicated loan arrangements may be structured such that the loan agreement is signed between the lead bank and the borrower upfront while the lead bank sources for participating lenders. The borrower may or may not know the identities of the participating lenders. There are also instances where all lender banks are identified upfront and the syndicated loan contract is signed among all the lenders and the borrower.

### GST treatment of fees charged under a syndicated loan arrangement

5.7 The GST treatment of the fees charged under a syndicated loan arrangement is dependent on the underlying nature of the services rendered and not the term or label given to the fees.

5.8 The following sections illustrate common syndicated loan arrangements and provide explanations of the GST treatment of the fees received under these arrangements.

Scenario 1: Where only one lender is known upfront to the borrower. The lender can at the commencement or subsequently, assign or transfer the loans to other lender. However, this may or may not happen.



### From the perspective of Sole Lender

If there is only 1 lender (i.e. the lead bank) known to the borrower upfront and that lead bank commits to provide entire the loan to the borrower, we will treat such a loan arrangement as if it is a bilateral (non-syndicated) loan arrangement.

The GST treatment of the fees received by the sole lender from the borrower would depend on the nature of the services rendered. On the basis that the sole lender only provides a loan to the borrower, all fees charged to the borrower by the sole lender shall be treated as part of the consideration arising from the provision of the loan. Therefore, all fees charged by lead bank (sole lender) above qualify for exemption.

However, if it is possible to identify separate elements of such services from the provision of loan, the GST treatment of such services has to be assessed in their own right. For example, the borrower mandates the sole lender (for example by way of a mandate letter) to perform other services such as syndicating the loan, negotiating the documentation, underwriting the loan etc., and the mandate letter provides that such fees are chargeable and non-refundable even though the loan is not provided, then the fees received by the sole lender for performing the arranging or underwriting services shall be taxable. Refer to paragraph 5.4b and 5.4c above.

### From the perspective of Subsequent Lender

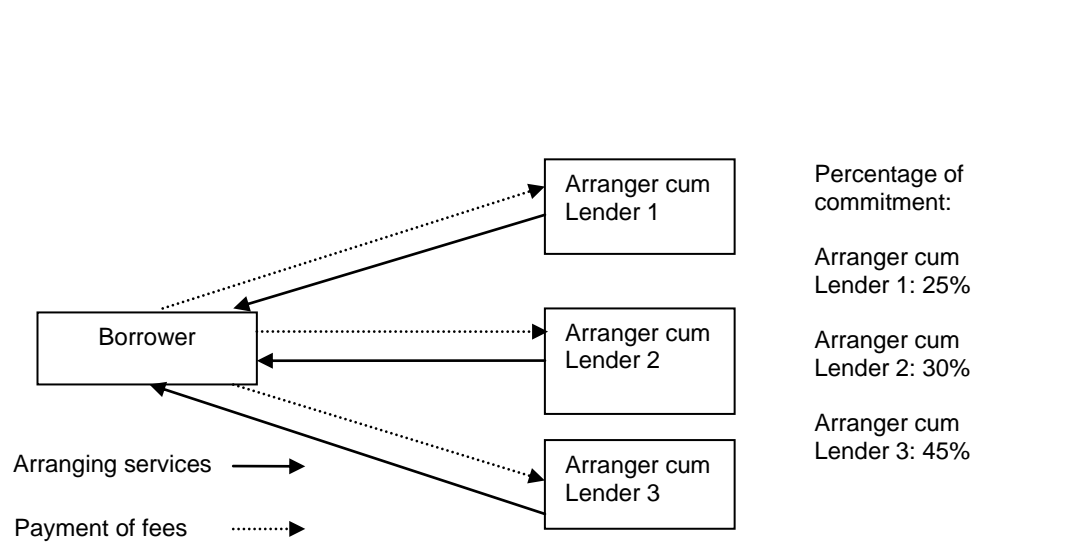
After entering into a loan contract with the borrower, the sole lender may 'sell down' a portion or whole of its loan commitment to a subsequent lender. The subsequent lender effects the take-over of part or all of its loan commitment through the signing of the transfer certificate and in return the sole lender gives part of the fees received from the borrower to the subsequent lender.

If the subsequent lender is not required to provide any arranging or similar services to the borrower or the sole lender, the fees received by him from the sole lender represents consideration for him to provide the loan to the borrower. Consequently, the fee would be exempt from GST.

### Scenario 2: Where multiple lenders are known upfront at the point the loan agreement is signed.

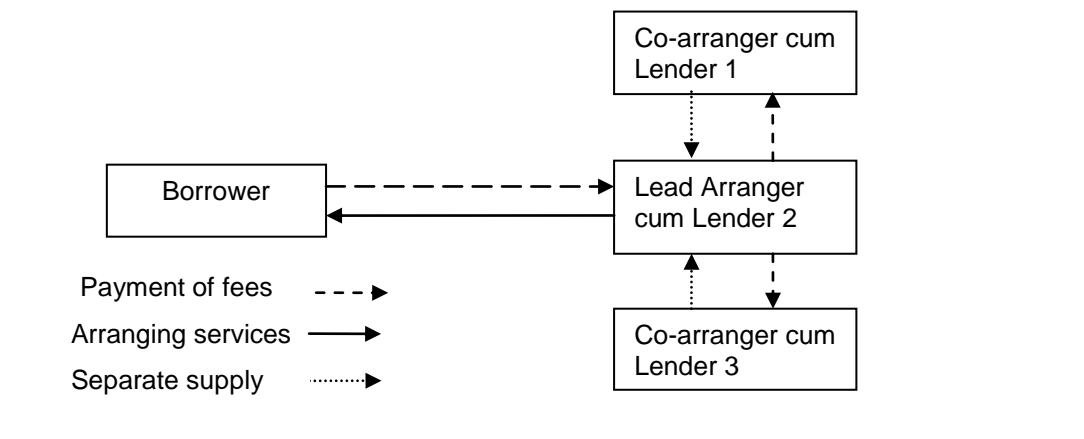
Where the multiple lenders are known upfront to the borrower, one of the banks usually acts as the arranger or agent for the other lenders. Arrangement or agency fees paid to the arranger or agent are subject to GST as such fees relate to the provision of arranging services by the particular bank.

If a group of banks arranges for a syndicated loan, the arrangement fees charged to the borrower are shared among the arrangers. If the arrangers are contractually providing their services directly to the borrower, each arranger is treated as providing a supply of arranging service to the borrower individually and is required to account for GST on their respective portion of arrangement fees received and issue tax invoices individually to the borrower. This is so even if one of the arrangers ('lead arranger') is collecting all the fees on behalf of the other arrangers (co-arranger). Please refer to the diagram below.

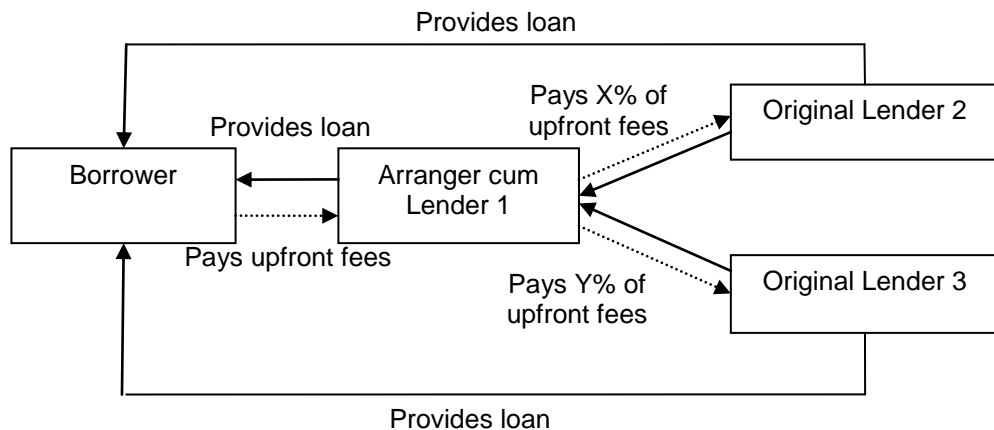


\* Fees are contractually due to Arrangers cum Lenders 1, 2 and 3 based on the percentage of commitment. The actual disbursement of the monies to the respective lenders may be done by an agent bank (not presented in the above diagram).

If the syndicated arrangement is structured such that only the lead arranger is contractually providing an arranging service to the borrower, the lead arranger is then required to account for GST on the total amount of arrangement fees received. The portion of fees that the co-arranger receives constitutes consideration for a separate taxable supply of service by the co-arranger to the lead arranger. Therefore, the co-arranger is required to issue tax invoices to the lead-arranger for its services provided. The lead arranger will then claim the GST incurred, subject to its fixed input tax recovery rate. Please refer to the diagram below.



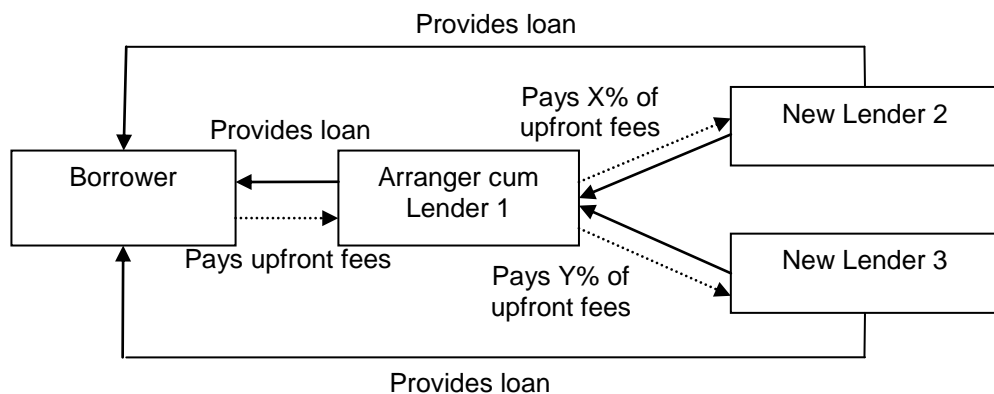
Scenario 3: Arranger sources for other lenders before all lenders come together to sign the original loan document



\* For simplicity, only two original lenders are illustrated.

In the above scenario, the Borrower mandates Arranger cum Lender 1 to source for other lenders to come together to provide the loan. Upon sourcing for two other lenders, all three lenders sign the original loan document or syndication agreement with the Borrower.

There may be instances where it can be extremely difficult to coordinate the syndicated loan with a large number of banks given the size of the loan transaction. Therefore, all the original lenders may enter into the loan transaction in two waves. A group of existing lenders would first enter into the loan agreement with the Borrower. Thereafter, a second group of lenders (herein known as the new lenders) would come into the loan arrangement and take over part of the commitment, rights and obligations from the existing lenders by way of a transfer certificate. Please refer to the diagram below.



\* For simplicity, only two new lenders are illustrated.

Although New Lenders 2 and 3 had entered the loan transaction contractually at a later stage, they are nonetheless treated as the original lenders because they had entered into the loan agreement with the borrower to provide the loan to the borrower.

The GST treatment from the perspective of Arranger cum Lender 1 and the Original and the New Lenders under the above scenarios is as follows:

### From the perspective of Arranger cum Lender 1

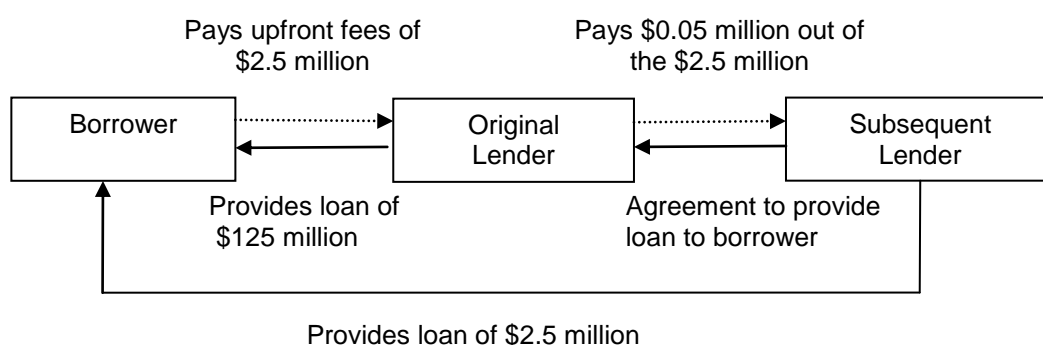
The GST treatment of the upfront fees received by Arranger cum Lender 1 from the borrower would depend on the nature of services rendered. Depending on the contractual agreement, the upfront fees paid by the Borrower to Arranger cum Lender 1 may relate to arranging and/or underwriting services which would be treated as taxable supplies for the purpose of GST.

The Arranger cum Lender 1 may propose a reasonable proxy to apportion the upfront fees that is attributable to the provision of loan and that portion can be exempt from GST. In the event the bank is unable to apportion the upfront fees, the full upfront fees would be subject to GST.

### From the perspective of Original / New Lender 2 or 3

The fees received by the original lenders from the existing lender, i.e. Arranger cum Lender 1 and the fees received by the new lenders from the mandated lead arrangers are both viewed as consideration for the original/new lenders' agreement to provide the loan to the borrower. This is provided that the original and new lenders do not provide any arranging or underwriting services in respect of the loan arrangement. Consequently, the fee would be exempt from GST.

### Scenario 4: Subsequent lenders take over loan obligations from original lenders and provide loans directly to the borrower



After entering into a loan contract with the borrower, the original lender may 'sell down' a portion or whole of its loan commitment to subsequent lenders.

In the above scenario, the original lender contracts to provide a loan of \$125 million to the borrower. The total upfront fees payable by borrower to the original lender amounted to \$2.5 million in total. When the original lender finds a subsequent lender to take over part of its loan commitment (i.e. \$2.5 million out of the total loan of \$125 million) through the transfer certificate, the original lender gives up \$0.05 million of the fees received from the borrower to the subsequent lender.

### From the perspective of Original Lender

Depending on the contractual agreement, the upfront fees paid by the borrower to original lender may consist of arranging, structuring or underwriting services and the provision of loan. The original lender may propose a reasonable proxy to apportion the upfront fees that is attributed to the provision of loan which can be exempt from GST. In the event the bank is unable to apportion the fees, the full upfront fees would be treated as consideration for taxable supplies and hence subject to GST.

### From the perspective of Subsequent Lender

The fee of \$0.05 million received by the subsequent lender from the original lender represents consideration for the subsequent lender's agreement to provide the loan to the borrower. Consequently, the fee would be exempt from GST.

### Fees charged for underwriting

- 5.9 In instances where a borrower engages an arranger to provide the borrower with a syndicated loan on an underwritten basis<sup>12</sup> and the arranger receives underwriting fees, such underwriting fees are taxable. If the arranger underwrites a portion of the loan amount while sub-underwriters underwrite the remaining portion, underwriting fees paid to sub-underwriters are similarly taxable.

### Fees charged for the provision of loans

- 5.10 Lenders may charge commitment fees for the commitment to lend in a syndicated loan facility. Such fees are typically paid on a recurring basis and are computed as a percentage of the un-drawn amount. For GST purposes, we are prepared to treat such fees as fees charged for the provision of a loan and exempt such fees from GST under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act.

### Waiver fees charged for amending the terms of the loan agreement

- 5.11 When a borrower fails to meet the conditions previously set forth in the loan agreement, the bank may choose to waive those conditions instead of withdrawing the loan provided to the borrower. As a result of waiving those conditions, the bank will charge the borrower a waiver fee and put in place a new set of conditions in relation to the loan provided to the borrower by varying the terms of the original loan contract.
- 5.12 On account that waiver fees are charged for varying the terms of the original loan agreement, the waiver fees would be exempt from GST under Paragraph 1(k) of Part I of the Fourth Schedule to the GST Act.

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<sup>12</sup> The arranger undertakes to provide the loan itself to the extent that it is unsuccessful in procuring the loan from a syndicate.



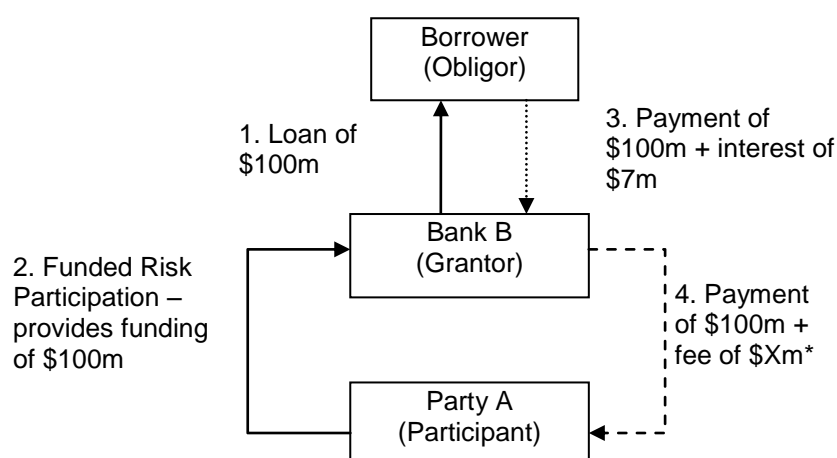
### 6 Risk Participation Arrangement

- 6.1 Risk participation is an arrangement where the risk participant agrees, for a fee, to provide funds to the grantor (i.e. existing lender) in default on payment by the obligor (i.e. borrower).
- 6.2 No consent is required from the obligor for risk participation arrangements and there is no direct contract between the risk participant and the obligor.
- 6.3 Risk participation arrangements may be funded or unfunded. When the risk participant undertakes risk and also provides funding to the grantor, it is a funded risk participation arrangement. An unfunded risk participation arrangement is one where the risk participant only undertakes risk and does not provide funds for the grantor to provide the loan to the obligor.

#### Funded risk participation

- 6.4 In a funded risk participation arrangement, the risk participant provides funding to the grantor of an amount equal to the principal amount of the loan made by the grantor to the obligor upfront, at the point of entering into the arrangement. The grantor will then on-pay all the monthly instalments received from the obligor to the funded risk participant. In the event of default by the obligor, the grantor does not pay anything to the risk participant.
- 6.5 Refer to the diagrammatic representation below.

#### Funded Risk Participation Arrangement – Party A purchases the entire loan due from Bank B. Bank B agrees to pay Party A, the loan amount repaid by the Borrower plus interest

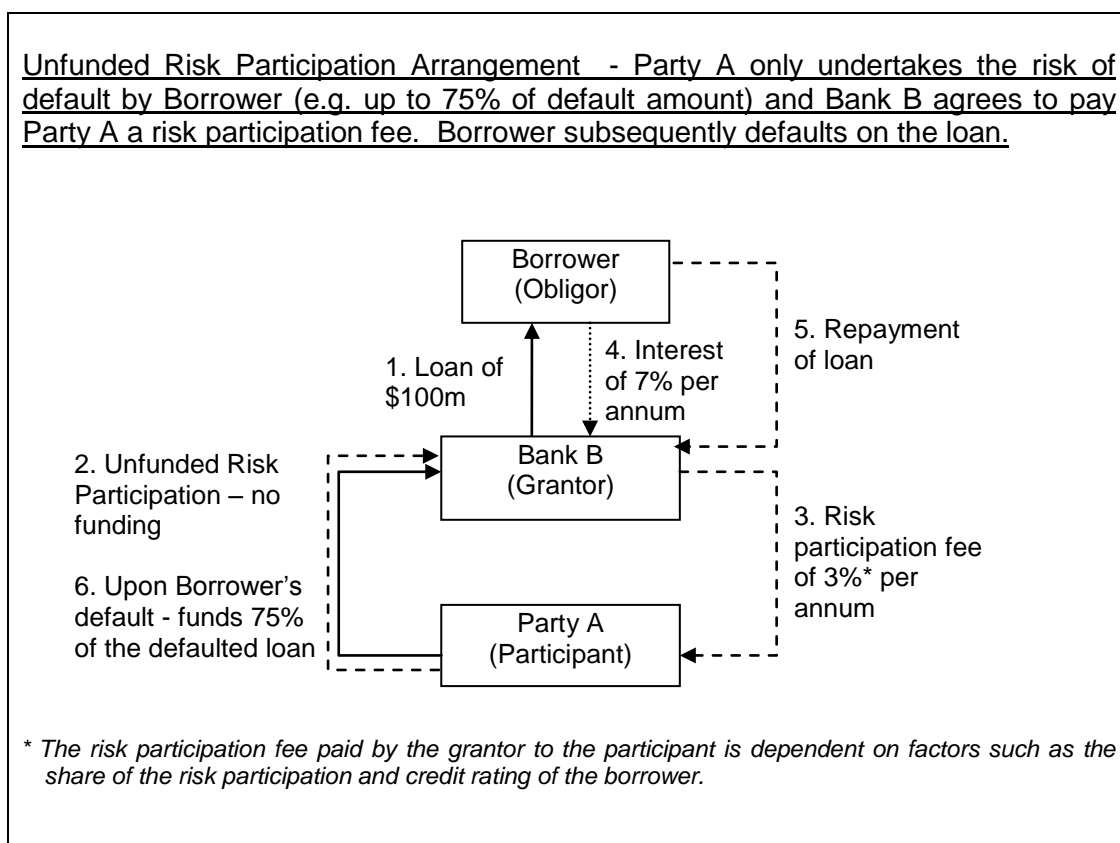


\* The fee paid by the grantor to the participant is dependent on factors such as the time the participant entered into the arrangement, the credit rating of the borrower and the interest rate at that time. Therefore, it may not be the case that the grantor pays the full amount of interest it receives from the borrower to the risk participant.

- 6.6 On the understanding that the risk participant provides full funding and no other service to the grantor, the fees, including interest, earned by the risk participant would qualify for exemption from GST under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act.

### Unfunded risk participation

- 6.7 In an unfunded risk participation arrangement, the risk participant does not provide any upfront funding to the grantor. The participant will only pay the grantor the amount up to its share of the risk participation if the obligor defaults on payment. The participant will earn a fee from the grantor.



- 6.8 Unlike funded risk participation, the risk participant in an unfunded risk participation does not provide funds to the grantor before the default occurs. Since there is no provision of loan, the risk participation fee earned by the risk participant is to protect the grantor from credit risk when the obligor defaults. Therefore, a risk participation fee charged for an unfunded arrangement is taxable for GST purposes. If the risk participation arrangement is contracted with a risk participant to insure the grantor's risk incurred in the making of advance of money or loan directly related to the export of goods, the fee charged will qualify for zero-rating under section 21(3)(h).

### 7 Recovery of Expenses and Fees In Relation To Loan Contracts

#### Recovery of fees in relation to loans

- 7.1 In the provision of loans to their customers, the bank may incur certain expenses like legal and valuation fees. If the supply of the legal and valuation services is made directly to the borrower and the bank merely makes payment on behalf of the borrower, the subsequent recovery of the expense at cost is a disbursement. No GST needs to be charged.
- 7.2 If the supply of the legal and valuation services is contractually made to the bank, the subsequent recovery of the expense from the borrower is a separate supply. So long as the valuation or legal fees are incurred before and in connection with an approved loan, the recovery of these expenses shall be treated as part of the overall value of the provision of loan and is exempt from GST under paragraph 1(g) of the 4<sup>th</sup> Schedule to the GST Act.
- 7.3 For the recovery of legal or valuation fee to be treated as consideration for the provision of loan, the following three conditions are required to be satisfied:
- (i) Fees are incurred by and are inputs to the bank for providing the loan;
  - (ii) Recovery of fees is explicitly stated in the loan contract; and
  - (iii) Bank recovers the fees only if the loan is approved.
- 7.4 On the other hand, the recovery of legal or valuation fees would be treated as a taxable supply if:
- The recovery takes place regardless of whether the loan is approved; or
  - The recovery takes places only when the loan is not approved.

#### Recovery of subsidies given in respect of legal and valuation fees

- 7.5 As part of its marketing strategy, the bank may provide a subsidy for the legal and valuation fees, for example, up to a certain percentage of the loan amount. The borrower only needs to pay the difference between the full legal and valuation fees incurred by the bank and the subsidy provided by the bank.
- 7.6 However, the bank may recover the subsidies given earlier to the borrower under certain circumstances, for example,
- When the borrower redeems the loans within a stipulated "lock-in period"
  - When the borrower decides to cancel the loan after it has been granted but not disbursed
  - When the borrower defaults in loan payments
- 7.7 The amount of subsidies recovered by the bank can be based on the maximum subsidy stated in the contract or based on the actual subsidy given previously. Regardless of the amount recovered, the recovery of the

subsidies in respect of the legal and valuation fees incurred by the bank in connection with an approved loan is exempt from GST under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act, similar to the case where the bank had recovered the legal and valuation fees in full upfront when the loan was first provided.

### Recovery of fire insurance premium and subsidies for fire insurance premiums on mortgaged property

- 7.8 The bank may take up the fire insurance policy on the mortgaged property to protect its own interest. As the policyholder<sup>13</sup>, the bank can claim the input tax on the premiums incurred to insure the property. The recovery of insurance premiums from the borrower is treated as consideration for the provision of loan and exempt from GST if all the conditions in paragraph 7.3 (i) to (iii) are met. Otherwise, the recovery would be treated as a separate taxable supply.
- 7.9 On the other hand, if the bank is not the policyholder, it cannot claim any input tax. The recovery of insurance premiums (whether in full or partially) upon approval of the loan is treated as a disbursement, i.e. no supply is made by the bank. No GST needs to be charged.
- 7.10 The bank may also provide a subsidy for fire insurance premium on the borrower's mortgaged property and subsequently recover the subsidy from the borrower under certain circumstances. The subsequent recovery is treated as part of consideration for provision of loan and can be exempt from GST if the recovery is explicitly provided for in the loan contract.

### Recovery of valuation fees following a periodic review

- 7.11 The bank may also recover from the borrower, valuation fees incurred following its periodic reviews of the loan arrangement. The recovery is treated as part of the consideration for the provision of loan if it is explicitly provided for in the loan contract and the bank has a right to vary the outstanding loan amount following that review. Otherwise, the recovery will be treated as a taxable supply.
- 7.12 If the bank incurs the valuation charges as a result of the borrower's request to vary the loan contract, the recovery of the valuation fees can be treated as part of the consideration for the variation of loan and be exempt from GST under paragraph 1(k) of Part I of the Fourth Schedule to the GST Act.

### Fees charged for cancellation (cancellation fees)

- 7.13 A cancellation fee is usually charged when the borrower fails to draw down the loan facility after accepting it or the loan amount is left un-drawn upon expiry of the availability period.
- 7.14 The supply of the loan is regarded to have taken place once the facility letter has been signed and the loan made available to the borrower,

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<sup>13</sup> "Policy Holder" refers to the entity who holds an insurance contract or policy.

notwithstanding that it has not been drawn down. Hence, the cancellation fee is treated as part of the consideration arising from making available the loan and is exempt from GST under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act.

### Fees charged for early payment (prepayment fees)

- 7.15 The bank may charge a prepayment fee when the borrower pays off a loan within an earlier period. For example, a borrower may decide to pay off a loan with an original tenure of 10 years within 3 years instead.
- 7.16 It is computed based on a specific percentage of the amount prepaid. The percentage is stipulated in the loan agreement and is known upfront to the borrower.

#### *Example*

Amount repaid early	S\$1,000,000
Prepayment fee rate	1%
Prepayment fee	$S\$1,000,000 \times 1\% = S\$10,000$

- 7.17 In this instance, the prepayment fee would be exempt from GST under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act on the basis that it is additional consideration for the provision of the loan, albeit that the tenure of the loan was shortened unilaterally by the borrower.

### Break-funding fee (also known as break cost)

- 7.18 If a borrower cancels or prepays a loan, the bank will charge a break-funding fee if it is unable to obtain an interbank interest rate that is the same as the original loan rate from the break date (date on which the loan is cancelled or prepaid) to the maturity date of the loan.
- 7.19 The break-funding fee is computed from the break date to the maturity date of the loan and is based on the difference between the interest the bank should have received from the principal sum of the cancelled or prepaid amount of the loan ("original loan interest rate") and the interest which the bank would be able to obtain if it has placed that principal sum on deposit with a leading bank in the Singapore interbank market ("interbank rate").

#### *Example*

Amount repaid earlier	S\$1,000,000
Maturity date	31 Mar 2012
Break date	31 Jan 2012
Original loan interest rate	1%
Interbank rate	0.4%
No. of days from break date to maturity date	60 days
Break cost	$S\$1,000,000 \times 60/365 \times 0.6\%$ $= S\$986.30$

- 7.20 As break-funding fee is imposed to reimburse the bank for the costs of its commitment to provide the loan to the borrower over a specific period of time, the fee would qualify for exemption under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act.

### Interest in lieu of notice

- 7.21 Interest will be charged when the borrower does not provide sufficient notice to the bank before his repayment of the loan. It is computed based on the period of notice required to be given.
- 7.22 Generally, a written notice of one month is required to be given by the borrower to the bank for the partial repayment of a loan. If a borrower fails to give the said notice, the bank will charge the borrower with one month's interest on the amount prepaid. On the other hand, a written notice of three months is required to be given for the full repayment of the loan. Therefore if the borrower fails to give the advance notice, the bank will likewise charge the borrower with three months' interest payment on the amount prepaid.

### *Example*

Partial amount repaid early	S\$1,000,000
Written notice to prepay	16 Jan 2012
Notice required	1 month
Date the loan should be prepaid	15 Feb 2012
Actual prepaid / break date	16 Jan 2012
Original loan interest rate	1%
Interest in lieu of notice <sup>14</sup>	S\$1,000,000 x 31/365 x 1% = S\$849.32

- 7.23 As interest in lieu of notice is an adjustment to the total consideration charged by the bank for the provision of loan, it would qualify for exemption from GST under paragraph 1(g) of Part I of the Fourth Schedule to the GST Act.

## **8 Recovery of Brokerage Differential**

- 8.1 When a business raises capital ("issuer") through an Initial Public Offering ("IPO"), it typically contracts with a group of financial institutions under an underwriting agreement.
- 8.2 Under the underwriting agreement, each financial institution guarantees to the issuer to purchase any unsubscribed securities, up to an agreed underwriting ratio. The group of financial institutions will then separately enter into an agreement (i.e. "Joint Bookrunner agreement") on the specific terms and conditions for the joint provision of services to the the issuer of the shares or bonds. In the Joint Bookrunner agreement, each financial institution agrees to distribute securities to their investors according to their underwriting commitment and share all expenses and brokerage fees collected from investors based on an pre-agreed ratio.

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<sup>14</sup> The interest is calculated from 16 January (break date) to 15 Feb 2012 (the date that the loan ought to have been prepaid, assuming that prior notice of 1 month is given).

- 8.3 The total brokerage fees collected by all the financial institutions will then be shared based on the sharing ratio agreed in the Joint Bookrunner agreement. If the total amount of brokerage one financial institution collects from its investors is more than the agreed amount of fees it is entitled to receive under the Joint Bookrunner agreement, that financial institution will pay the brokerage differential to other financial institutions that have collected less than the agreed amount of fees they are entitled to.
- 8.4 For example, Bank 1 and 2 agreed that they will share the total underwriting commitment in the ratio of 30% and 70% respectively. For a total brokerage fee collected of \$1,000,000, Bank 1 and 2 are entitled to receive \$300,000 and \$700,000 respectively. However, Bank 1 received brokerage fee of \$340,000 from the investors while Bank 2 only received \$660,000. Thus, Bank 1 will distribute \$40,000 to Bank 2.

### GST treatment on recovery of brokerage differential

- 8.5 As the financial institution which receives the redistributed brokerage fee did not provide anything to the financial institution that made the payment, the brokerage differential received is not consideration for any supply.

## 9 Miscellaneous

### Gifts and Output Tax

- 9.1 Before 1 October 2012, a business is required to deem a supply<sup>15</sup> when its business assets are given away for free, except when:
- (i) The gift of goods does not cost more than \$200<sup>16</sup> and *it does not form a series or succession of gifts*; or
  - (ii) The business *is not entitled to input tax* on the purchase of goods.
- 9.2 With effect from 1 October 2012, the following changes have been made to the gift rules:
- (i) The series of gifts condition will be removed. Hence, businesses no longer have to track the number of goods given to a person and only needs to account for output tax if the cost of each gift<sup>17</sup> exceeds \$200; and
  - (ii) Businesses only need to account for output tax if input tax on those goods has been allowed to them. Hence, if they choose not to claim the GST incurred on those goods, they need not account for output tax when they subsequently give the goods away for free.

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<sup>15</sup> Under paragraph 5 of the 2<sup>nd</sup> Schedule to the GST Act.

<sup>16</sup> The cost of \$200 does not include GST.

<sup>17</sup> If more than one item is given as a gift on an occasion, the total value of all the items should be taken into account to determine whether the threshold of \$200 is exceeded.

- 9.3 Essentially, with effect from 1 October 2012, the banks are no longer required to account for output tax on all gifts costing not more than \$200 each given away free. Furthermore, the banks can choose not to claim input tax upfront on gifts costing more than \$200 each so that they are not required to account for output tax on the deemed supply of gifts of goods subsequently. Accordingly, the administrative concession granted to the fully licensed banks<sup>18</sup> will cease on 30 September 2012.

### Prepaid Card

- 9.4 The bank sells prepaid cards which are payment cards pre-loaded with the cardholders' monies and they can be used to purchase goods and services at the merchant's store.
- 9.5 When the merchant supplies goods or services to a cardholder who uses the prepaid card, the issuing bank of the card would deduct the transaction amount from the prepaid account of the cardholder and transfer that amount to the acquiring bank before the acquiring bank remits the amount to the merchant. Interchange fees are charged by the issuing bank to the acquiring bank for each completed transaction.
- 9.6 Besides transferring funds, the issuing bank does not provide any other service to the acquiring bank. Therefore, the fees charged by the issuing bank to the acquiring bank in respect of the prepaid card is exempt from GST under paragraph 1(d) of Part I of the Fourth Schedule to the GST Act.

### Hire Purchase Financing Arrangements

- 9.7 In a hire purchase transaction, the supplier is making a supply of goods to the financier<sup>19</sup> and the financier in turn makes a supply of goods<sup>20</sup> and a supply of exempt services i.e. installment credit finance<sup>21</sup> to the hirer. The legal title to the hired goods will be transferred to the hirer when the hirer pays the last instalment or exercises his option to purchase.
- 9.8 In substance, the financier is only providing a loan to the hirer with respect to the goods purchased from the supplier. As a concession, the financier would be allowed full input tax on the purchase of the goods on the understanding that the financier will be making a taxable supply of the same goods to the hirer under the hire-purchase agreement.

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<sup>18</sup> The fully licensed banks have been granted an administrative concession not to track the number of gifts given to individual customers for goods costing not more than \$200. These banks are allowed to account for output tax based on 80% of the value of deemed supply of goods given free during a three month period provided that all of the following conditions are satisfied:

- (i) The cost of each item must not be more than \$200;
- (ii) Input tax has been incurred on the purchase of the goods;
- (iii) The goods are in original state and not subject to any value adding process by the giver; and
- (iv) The percentage of output tax to be accounted for must not be less than the average input tax recovery rate for that period.

<sup>19</sup> Under paragraph 1(1) of the Second Schedule to the GST Act as legal title to the goods is transferred to the financier instead of the hirer.

<sup>20</sup> Under paragraph 1(2)(b) of the Second Schedule to the GST Act.

<sup>21</sup> Under paragraph 1(h) of Part I of the Fourth Schedule to the GST Act.



- 9.9 In view of the above, a bank is allowed to claim full input tax on the purchase of goods supplied by the bank in hire purchase transactions in spite of its lower input tax recovery rates. For the reporting and invoicing requirements in respect of hire purchase transactions, please refer to the e-tax guide “

### **10 Contact Information**

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

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Inland Revenue Authority of Singapore  
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Singapore 307987  
Tel: 1800 356 8633  
Fax: (+65) 6351 3553  
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**11 Updates and Amendments**

	<b>Date of amendment</b>	<b>Amendments made</b>
1	01 Oct 2012	Revised paragraphs 2.1, 3.2, 4.6 (Scenario 2), 5.2, 5.10, 5.12, 7.7, 7.12, 7.14, 7.17, 7.20, 7.23, 8.1 to 8.3, 8.6 and Appendix 2 Inserted Footnotes 7 and 17
2.	13 Oct 2014	Revised paragraphs 6.3, 6.4, 6.6. Inserted paragraphs 6.7, 6.8 and paragraph 8. Inserted (xv) under paragraph (a) and (vii) under paragraph (b) of Appendix 1. Inserted Footnote 17.

### Appendix 1 - Examples of fee-based services provided by banks

- a. Fees charged to customers for services provided as part of a main exempt supply (Exempt)
- i. Successful cash withdrawal or funds transfer from overseas Automated Teller Machine (“ATM”) from the same or another bank;
  - ii. Successful withdrawal at another bank’s ATM;
  - iii. Operation of internet bank account including issue and replacement of 2-factor authentication, set up charges, monthly and yearly fees, cash pooling;
  - iv. Purchase of cashier’s order via internet or other mobile banking delivery channels;
  - v. Payment made via the bank’s internet payment service or other mobile banking delivery channels;
  - vi. Application of cheque payments via internet or other mobile banking delivery channels;
  - vii. Purchase of demand draft via internet or other mobile banking delivery channels;
  - viii. Setting up standing instruction online;
  - ix. Telegraphic transfers;
  - x. Transfer of funds from credit card to another bank account (cash advance fee or finance charges);
  - xi. Transfer of funds from a local bank account / debit or credit card to another bank’s debit / credit card (overseas);
  - xii. Trade related facilities (for example, import and export documentary credit);
  - xiii. Account verification and direct crediting fees charged to CPF Board for the encashment of ERS/WBS/GST or similar credits;
  - xiv. Transfer of funds from a local bank account to another bank account through GIRO (for example, transfer of salaries from a company’s bank account to its employees’ bank accounts).
  - xv. Annual fee charged for the provision of an unsecured credit facility<sup>22</sup>
- b. Fees charged to customers for additional value-added services (Taxable)
- i. Application for IPO shares via bank’s ATM, internet banking or other mobile banking delivery channels;
  - ii. Application for rights entitlement via bank’s ATM, internet banking or other mobile banking delivery channels;
  - iii. COE bidding;
  - iv. Fees charged to cash card holder for each cash card statement printout;
  - v. Provision of information through internet, foreign exchange or money market platform or other mobile banking delivery channels; and
  - vi. Lockbox / cheque processing services
  - vii. Fees charged for retrieving a copy of documents previously submitted by the customers to the bank
- c. Fees charged to business customers for leveraging on the bank’s network (Taxable)
- i. Fees charged to CPF Board for the collation of signs-ups of encashment of ERS/WBS/GST or similar credits through ATM, internet banking or other mobile banking delivery channels;
  - ii. Fees charged to telecommunications company for purchase of telephone card by bank’s customer;

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<sup>22</sup> Provided that the annual fee is not explicitly charged for the supply of a debit, credit or payment card.

- iii. Fees charged to billing organisations which make arrangements with the bank to allow the bank's customers to pay their bills or levies through self-service channels such as ATM, internet banking or other mobile banking delivery channels;
- iv. Fees charged to other banks or NETS for ATM cash withdrawal or account balance enquiry transactions performed by another local or overseas bank's customers;
- v. Fees charged to NETS for topping up cash cards belonging to bank's customers through GIRO.

Appendix 2 - Credit card rewards schemes at a glance

