

IRAS e-Tax Guide

**GST: Construction Industry
(Second Edition)**



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1 Aim

- 1.1 This guide explains how GST affects you as a GST-registered contractor when you make a supply of construction services and other related services to your customers.

2 At a glance

- 2.1 You have to charge GST on all construction services (that is, on both residential and non-residential properties) performed in Singapore. Where construction services are performed wholly outside Singapore, you can zero-rate the supply as it is an international service.
- 2.2 You have to charge GST on the progress payments and retention sum received for the supply of construction services in Singapore:
- (i) at the earlier of payment received or invoice issued; and
 - (ii) based on the gross amount of contracted sum and not on the net amount where the contracted sum is used to offset against payment for materials.
- 2.3 You have to charge GST on deposits if it is charged for a sale of documents or if it is intended to be used to offset against future payments.
- 2.4 You do not have to charge GST on damages and out-of-court settlements which are paid for the breach of warranty or delays in completion of contracts as they are compensatory in nature.
- 2.5 When you make payment on behalf of the customer to a supplier, you have to charge GST if the recovery of cost is a reimbursement. You do not have to charge GST if the recovery of cost is a disbursement.

3 Glossary

3.1 Disbursement

Disbursement refers to the recovery of a payment made on behalf of another party as an agent and the obligation to pay is on the other party.

3.2 GST

GST is a tax on the supply of goods and services made in Singapore by a taxable person in the course or furtherance of any business carried on by him and on the importation of goods into Singapore.

3.3 International services

International services refer to supplies of services that fall within any of the descriptions under Section 21(3) of the Goods and Services Tax Act.

3.4 Invoice

Invoice includes any document that serves as a bill for payment for supplies made by a GST-registered supplier. An example would be a debit note.

3.5 Output tax

Output tax refers to the GST charged on taxable supplies of goods and/or services made in Singapore.

3.6 Reimbursement

Reimbursement refers to the recovery of an expense incurred as a principal from another party.

3.7 Tax Invoice

Tax invoice means such an invoice as is required under section 41 of the GST Act. For more information on tax invoice, please refer to our e-tax guide on "GST: General Guide for Businesses"

3.8 Time of supply

Time of supply will determine when a taxable person is required to charge and account for GST on the supply of goods and services made.

4 Construction Services

4.1 Construction services can be broadly defined to include a wide range of building and construction services that are performed by businesses. They include services such as site preparation, foundation work, scaffolding, bricklaying, roofing, renovation and repairs.

4.2 The key players in the construction industry are:

- (i) Developer – he acquires land and engages contractors to construct building or structure on the land;
- (ii) Main Contractor – he is engaged by the developer to carry out the construction and he takes full responsibility for the completion of the construction project.
- (iii) Sub-Contractor – he is engaged by the main contractor to perform part of the main contractor's work. Sub-Contractors include specialists such as plumbers, electricians, painters and bricklayers.

Construction services rendered in Singapore

4.3 All construction services performed on residential and non-residential properties in Singapore are subject to GST. Hence, you have to charge GST on all supplies of construction services performed in Singapore.

Example 1

A property developer, D1 Pte Ltd acquired a piece of land in Singapore to be developed into flatted factories. It engaged a main contractor, MC1 Pte Ltd to be fully in charge of the project.

MC1 Pte Ltd bills D1 Pte Ltd progressively for the work done for the project. Upon certification by D1 Pte Ltd's architect, MC1 Pte Ltd will bill D1 Pte Ltd for the agreed amount of work done.

As MC1 Pte Ltd is GST-registered, it will have to charge GST on all the amounts billed to D1 Pte Ltd.

Example 2

A main contractor, MC2 Pte Ltd engaged sub-contractor SC2A for site preparation work and sub-contractor SC2B for foundation work on a piece of land in Singapore. Sub-contractor SC2A and sub-contractor SC2B bill MC2 Pte Ltd progressively for their work done.

As both sub-contractor SC2A and sub-contractor SC2B are GST-registered, they will have to charge GST on the amounts billed to MC2 Pte Ltd for the work performed.

GST: Construction Industry

Construction services rendered overseas

- 4.4 If you supply construction services that are in connection with land or improvements situated outside Singapore, you do not have to charge and account for GST on these supplies. These are international services which can be zero-rated under the GST Act.

Example 3

A GST-registered construction company, C3 Pte Ltd was engaged by a Singapore developer to develop a hotel in Beijing.

As the construction services would be performed in Beijing, and not in Singapore, C3 Pte Ltd need not charge GST on its supply of construction services to the developer. This is so even though the developer is a Singapore company.

Time of supply rules for progress payments

- 4.5 You may invoice your customers in progress payments monthly or at regular intervals for the construction services performed. You must account for GST at the earlier of:
- (i) the date of receipt of payment; or
 - (ii) the date of issuance of a tax invoice or an invoice (with effect from 1 Jan 2011) .
- 4.6 If payment is received before the issuance of invoice, you have to issue the invoice to your customer within 30 days from the date of receipt of payment.

Retention Sum

- 4.7 Most construction contracts contain provisions for the retention of amount due to the contractor. This amount (commonly known as the “retention sum”) is a specified amount withheld at each stage of progress payment, and will only be released to the contractor when the customer is satisfied with the work performed. Usually, the total retention sum is released only after the construction project has been completed.
- 4.8 You have to account for GST on the retention sum at the earlier of:
- (i) the date of receipt of payment; or
 - (ii) the date of issuance of a tax invoice or an invoice (with effect from 1 Jan 2011) for the retention sum.

Tax invoices and letters of claims

- 4.9 When you issue letters of claim to your customers stating the value of work completed after each completed stage of the construction, your customer's architect will perform a valuation and certify the value of work done before payment is made. The certified amount may differ from the amount stated in the letter of claim.
- 4.10 The letter of claim cannot be treated as a tax invoice, as it does not contain the final amount payable by the customer. You should issue a tax invoice to your customer upon certification by the architect on the agreed amount of billing. You are also required to maintain the "certificate of work done" by the architect together with the tax invoice to support the value invoiced to your customer.
- 4.11 If you have to make adjustments to your tax invoice issued previously, you have to issue a credit note (to reduce the value of your supply and corresponding GST) or issue an additional tax invoice (to increase the value of your supply and corresponding GST) to reflect the adjustment.

5 Counter Supplies or "Back Charges"

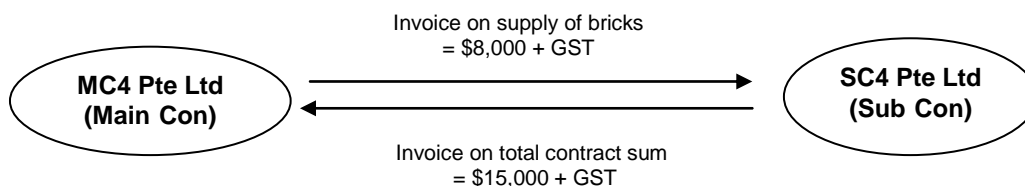
- 5.1 If you enter into arrangements (either verbal or contractual) to supply both the goods and services to the developer or the main contractor, you have to charge and account for GST on the gross value of the supply of goods and services made.
- 5.2 For example, you are contracted by the main contractor to provide flooring works which include the supply of tiles and tile-laying services. The main contractor purchases the tiles directly and provides them to you for the flooring work. In this case, there are two separate supplies:
- (i) the supply of the tiles from the main contractor to you; and
 - (ii) the supply of the tiles and tile-laying services from you to the main contractor.
- 5.3 Both the GST-registered main contractor and you should each issue a tax invoice for the gross value of the supply made to each other and account for the GST accordingly.
- 5.4 It is incorrect for you to charge and account for GST only on the amount of payment made by the main contractor, net of the value of the tiles. You have to charge and account for GST based on the gross value of the supply of tiles and tile-laying services.
- 5.5 However, if you are contracted to provide only the tile-laying services and not the tiles, there is only one supply from you to the main contractor, that is, the provision of this tile-laying service. This is because the main contractor has engaged you to provide the tile-laying services only. In this case, you are required to charge and account for GST on the supply of tile-laying services.

Example 4A

A main contractor, MC4 Pte Ltd, awards a tender to sub-contractor, SC4 Pte Ltd to supply the bricks and construct the brickwalls for a building project for a total contract sum of \$15,000. Both MC4 Pte Ltd and SC4 are registered for GST.

MC4 Pte Ltd subsequently decides to supply the bricks to SC4 Pte Ltd for this project. The total value of the bricks is \$8,000. The correct GST treatment for the two supplies is as follows:

- MC4 Pte Ltd has to charge GST on \$8,000 which is for the supply of bricks to SC4 Pte Ltd.
- SC4 Pte Ltd has to charge GST on the contract sum of \$15,000 which is for the supply of bricks and construction service to MC4 Pte Ltd.

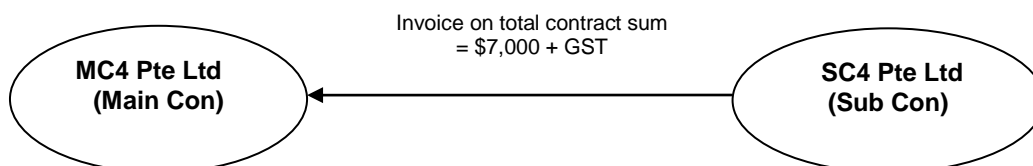


It will be incorrect for SC4 Pte Ltd to bill MC4 Pte Ltd GST only on the difference of \$7,000 (i.e. \$15,000 - \$8,000) that is payable by MC4 Pte Ltd.

Example 4B

In contrast to example 4A, if SC4 Pte Ltd is contracted by MC4 Pte Ltd to construct the brickwalls only, there is only one supply from SC4 Pte Ltd to MC4 Pte Ltd. Assuming the contract sum for the construction of brickwalls is \$7,000, the correct GST treatment is as follows:

- SC4 Pte Ltd has to charge GST on \$7,000 which is for the supply of construction service to MC4 Pte Ltd.



6 Tender and Contract Deposit

- 6.1 If a payment of deposit is received by you from a customer to obtain copies of the contract documents (e.g., plans, specifications, schedule of quantities), you have to charge and account for GST on the deposit as this is a sale of documents.
- 6.2 If a payment of deposit received by you is intended to be used to offset against the future payments (partly or fully) once the supply has been made, you have to charge and account for GST on the deposit.
- 6.3 However, if the payment of deposit received by you is a security deposit to ensure that the tenderer proceeds with the contract or to ensure that the successful tenderer carries out the obligations detailed in the contract, you do not have to charge and account for GST on the security deposit.

Example 5

A GST-registered property developer, D5 Pte Ltd, calls for tender for a building project. Interested tenderers can purchase the tender documents containing details of the project (e.g. plans, specifications, schedule of quantities) for a fee of \$25.

D5 Pte Ltd awards the building contract to a GST-registered main contractor, MC5 Pte Ltd. Under the contract, MC5 Pte Ltd is required to submit a security deposit in the form of a banker's guarantee of 5% of the contract sum for non-performance. This deposit will be refunded upon the completion of the contract.

This project is a large-scale project and MC5 Pte Ltd does not have sufficient funds to purchase the raw materials and procure the labour required to get the project started. Therefore, MC5 Pte Ltd requested D5 Pte Ltd for an advance payment (akin to a deposit) which will be used to offset against future progress payments.

In this case, D5 Pte Ltd has to charge and account for GST on the sale of the tender documents of \$25. As for the security deposit submitted by MC5 Pte Ltd, D5 Pte Ltd does not have to charge and account for GST as there is no supply made.

MC5 Pte Ltd has to charge and account for GST on the receipt of advance payment from D5 Pte Ltd as it will be used to offset against future progress payments.

7 Compensation for Suspension of Work

- 7.1 In the process of developing a property, the developer may request you to suspend work for a certain period of time and in return, pay a certain sum of money to you as compensation.
- 7.2 If the payment is to compensate you for the loss of income or for costs incurred as a result of the suspension of work, this payment will not attract GST. However, if the payment relates to work carried out by you prior to the suspension of work, this payment is a consideration for the supply that was made by you to the developer. Accordingly, you will have to charge and account for GST on this payment.

8 Damages and Out-of-Court Settlements

- 8.1 You may enter into construction contracts which contain a provision for payment to be made if you delay the completion of the contract. If payments are paid for a breach of warranty or delays in the completion of project, it is not subject to GST as the payments are compensatory in nature.
- 8.2 However, if the settlement payments are paid in relation to the supplies made by you, you have to charge and account for GST on the settlement payments received.

Example 6

A GST-registered main contractor, MC6 Pte Ltd, did not complete the building project by the stipulated completion date stated in the contract with a developer. MC6 Pte Ltd is required to pay liquidated damages to the developer at a cost of \$3,000 per calendar day for each day that the completion of the project is delayed. Such liquidated damages are not subject to GST as they are compensatory in nature.

Example 7

A main contractor, MC7 Pte Ltd has entered into a contract for a building project for a total contract sum of \$1,200,000 with a developer, D7 Pte Ltd. Both MC7 Pte Ltd and D7 Pte Ltd are registered for GST.

Under the contract, MC7 Pte Ltd is required to carry out rectification works during the defect liability period while D7 Pte Ltd will hold \$150,000 as retention sum which will only be released to MC7 Pte Ltd upon completion of the building project.

During the defect liability period, D7 Pte Ltd noted some defects in the building. MC7 Pte Ltd, however, did not carry out the rectification work.

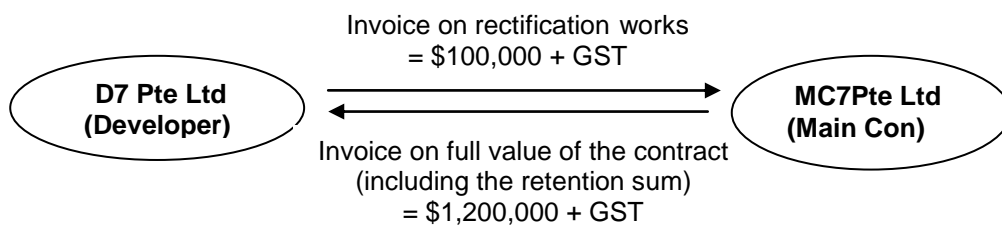
Scenario A:

D7 Pte Ltd hired another contractor to rectify the poor workmanship of MC7 Pte Ltd. D7 Pte Ltd incurred \$100,000 for the rectification works. D7 Pte Ltd can recover the \$100,000 from MC7 Pte Ltd in two ways:

- a) Deduct the \$100,000 from the retention sum of \$150,000

In this case, there are two separate supplies made:

- The first supply is from MC7 Pte Ltd to D7 Pte Ltd for completing the building project (though not entirely to D7 Pte Ltd's satisfaction). MC7 has to charge and account for GST on the full value of the building project (i.e. \$1,200,000).
- The second supply is from D7 Pte Ltd to MC7 Pte Ltd for the supply of rectification works because D7 Pte Ltd is making good the defects that should have been done by MC7 Pte Ltd. D7 Pte Ltd has to charge and account for GST on \$100,000.



- b) Claim payment from MC7 Pte Ltd

D7 Pte Ltd may go to court to seek payment from MC7 Pte Ltd for the rectification cost of \$100,000 or this may be agreed by an out-of-court settlement. Such payment is subject to GST as it is paid in relation to taxable supplies made by D7 Pte Ltd to MC7 Pte Ltd for making good the defects which should have been done by MC7 Pte Ltd.

In this case, MC7 Pte Ltd should still charge GST on the full value of the building project (i.e. \$1,200,000) to D7 Pte Ltd and D7 Pte Ltd should charge GST on the rectification works of \$100,000 to MC7 Pte Ltd.

Scenario B:

D7 Pte Ltd decided that it is not cost effective to rectify the poor workmanship of MC7 Pte Ltd and therefore, no rectification work was carried out. Nevertheless, D7 Pte Ltd went to court to claim compensation from MC7 Pte Ltd for the poor work done.

In this case, the compensation received by D7 Pte Ltd is not subject to GST as there is no supply made. The decision taken by D7 Pte Ltd to sue MC7 Pte Ltd will not affect the original supply of building project made by MC7 Pte Ltd to D7 Pte Ltd. Accordingly, MC7 Pte Ltd should continue to charge GST on the full value of the building project (i.e. \$1,200,000) to D7 Pte Ltd.

9 Reimbursements

- 9.1 If you purchase materials for your customers and subsequently recover the material cost from your customers, you will have to charge on the recovery of costs if the recovery is a reimbursement. To determine whether the recovery is a reimbursement or disbursement, it is necessary to look at whether you have acted as a principal or agent in purchasing the goods or incurring the expenses. You do not have to charge GST on the recovery of costs if it is a disbursement.
- 9.2 Generally, you are acting as a principal in procuring the goods or services if you are contracting with the supplier in your own name or capacity (e.g. the supplier issues the invoice to you). If you are acting as a principal, you are required to charge and account for GST on the recovery of these costs. This is regardless of the fact that the recovery is on a dollar-for-dollar basis or if the original purchase was incurred without GST.

Example 8

A sub-contractor SC8 Pte Ltd requested its main contractor MC8 Pte Ltd to buy certain raw materials on its behalf. MC8 Pte Ltd bought these goods from a non GST-registered supplier for \$1,000 and was issued an invoice in its name.

As MC8 Pte Ltd is registered for GST, MC8 Pte Ltd has to issue a tax invoice and charge GST of \$70 on the supply of the raw materials to SC8 Pte Ltd, even though these goods were purchased without GST. MC8 Pte Ltd is making a separate supply of goods to SC8 Pte Ltd in this instance.

Example 9

A developer D9 Pte Ltd requested its main contractor MC9 Pte Ltd to apply for a building permit on its behalf with the Building and Construction Authority (BCA). The building permit is registered under the developer D9 Pte Ltd. In this instance, MC9 Pte Ltd does not have to issue a tax invoice and charge GST on the recovery of expenses for the application of a building permit as it is merely making the payment to BCA on behalf of D9 Pte Ltd.

9.3 For more details, please refer to the e-Tax Guide on GST Guide on Reimbursement and Disbursement of Expenses.

10 Contact information

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

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11 Updates and amendments

	Date of amendment	Amendments made
1	6 Feb 2015	(i) Editorial amendments to paragraphs 1 to 9. (ii) Removed basic tax point in paragraph 4.6. (iii) Revised example 4, 5 and 7. (iv) Inserted paragraph 7 on compensation received for suspension of work.