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GST: Clarification on “Directly in Connection
With” and “Directly Benefit”
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1 Aim

- 1.1 This e-Tax guide explains the interpretation and application of the two expressions, “directly in connection with” and “directly benefit” used in certain provisions on the zero-rating of services. “Directly in connection with” is used for services which have direct effect on goods or land. “Directly benefit” is used in the context of person(s) who derive direct benefits from the services.
- 1.2 Examples and illustrations using common business scenarios are given to give further clarity on the application. However, these are not exhaustive. If your supplies of services do not fall into any of these scenarios, you will need to consider your business arrangement and the nature of your services in order to correctly determine whether your services are directly in connection with any goods or land and/or identify the person(s) who directly benefit from your services.

2 At a glance

- 2.1 Under the GST Act, a supply of services is zero-rated if the services are international services. A supply of services is regarded as international services if it falls under any of the services described in sections 21(3)(a) to (y) of the GST Act.
- 2.2 There are 2 categories of supplies of services for which the zero-rating relief may not apply:
 - (a) Where there is a direct connection between the supply of services and goods or land situated in Singapore¹.
 - (b) Where there are local persons who derive direct benefits from the services² (refer to paragraph 2.3 and 2.4 for the change in this rule with effect from 1 Jan 2020).
- 2.3 Prior to 1 Jan 2020, a supply of services must directly benefit a person belonging outside Singapore (“overseas person”) for zero-rating to apply under sections 21(3)(j), (k), (s) and (y). A supply of services will be standard-rated if it directly benefit local persons.
- 2.4 With the introduction of reverse charge on imported services effective from 1 Jan 2020³, you may zero-rate your services supplied to an overseas person where the services directly benefit GST-registered persons belonging in Singapore, subject to any other conditions that may be imposed under

¹ The exceptions are supplies of services which qualify for zero-rating under section 21(3)(y) and 21A(1)(b). Such services are directly in connection with goods located in Singapore at the time the services are performed.

² This is in the context of sections 21(3)(g), (j), (k), (s) and (y) of the GST Act. The condition likewise applies to the lease of an approved warehouse under the Specialised Warehouse Scheme (SWS).

³ Reverse charge will also apply to imported low-value goods from 1 Jan 2023. For more information on reverse charge, please refer to the e-Tax Guide “GST: Reverse Charge”.

sections 21(3)(j), (k), (s) and (y). The GST-registered direct beneficiary will be required to apply reverse charge on services⁴ procured from the overseas person if it is not entitled to full input tax recovery.

- 2.5 For zero-rating purposes, you should determine whether the local direct beneficiary is GST-registered at the time when you supply the services i.e. based on the time of supply rules⁵. This is generally at the earlier of when you issue an invoice or receive a payment for your services.

3 “Directly in connection with”

- 3.1 The expression “directly in connection with” is used in the following zero-rating provisions⁶ for services:
- Section 21(3)(e)⁷ — services supplied *directly in connection with* land or improvement thereto situated outside Singapore
 - Section 21(3)(f)⁸ — services supplied *directly in connection with* goods situated outside Singapore when the services are performed
 - Section 21(3)(g)⁹ — services supplied *directly in connection with* goods for export outside Singapore and supplied to an overseas person when the services are performed
 - Section 21(3)(y) — prescribed¹⁰ services supplied directly in connection with prescribed goods stored in an approved warehouse under a contract with an overseas person and which directly benefit an overseas person. With effect from 1 Jan 2020, the prescribed services may also be zero-rated if the services directly benefit GST-registered persons belonging in Singapore.
- 3.2 In addition, a supply of services which are directly in connection with goods or land situated in Singapore cannot be zero-rated under section 21(3)(j)¹¹.

⁴ Including recovery of costs by the overseas person.

⁵ For more information on the time of supply, please refer to the e-Tax Guide “GST: Time of Supply Rules”.

⁶ Please refer to Appendix 1 for the reproduction of the legislative provisions.

⁷ The section is subject to subsection (4B) and (4E). Please refer to Appendix 1 for subsection (4B) and (4E).

⁸ Ibid

⁹ Ibid

¹⁰ The services are prescribed under the Ninth Schedule of the GST (International Services) Order.

¹¹ This is because section 21(3)(j) is subject to subsection (4C) which provides that the services do not include any services which are directly in connection with land or goods situated in Singapore (except for goods referred to under subsection (3)(g)).

Clear and direct nexus between supply and goods/land

- 3.3 For a supply of services to be regarded as "directly in connection with" goods or land, there must be a clear and direct nexus between the supply of services and the goods or land. The relationship between the supply and the goods or land must be a sufficiently close one such that the location of the goods or land is regarded as the place where consumption occurs.
- 3.4 Services supplied are regarded as directly in connection with goods or land¹² only if:

- (a) *the goods or land exist at the time the services are performed.*

For example, the granting of a right to a patent (which is a supply of service) cannot be regarded as supplied directly in connection with goods manufactured using the patent as the goods do not yet exist when the patent is granted; and

- (b) *the services relate to identifiable goods or land.*

Goods are identifiable by model, type or serial number whereas land is identifiable by address or legal description.

Hence, if the services relate to goods or land in general, the services will not be regarded as directly in connection with any goods or land.

- 3.5 Paragraphs 3.6 and 3.7 describe situations which the Comptroller regards the services to be directly in connection with goods or land. Paragraph 3.8 describes situations which the Comptroller regards the services to be not directly in connection with goods or land.

Situations in which a supply is considered to be "directly in connection with" goods or land

- 3.6 Section 21(4) of the GST Act¹³ provides specifically that the following services are considered to be directly in connection with land:
- (a) The construction, alteration, repair, maintenance or demolition of any building or any civil engineering work.
- (b) Services supplied by estate agents and auctioneers, architects, surveyors, engineers and others involved in matters relating to land.

¹² Land includes a building under construction.

¹³ These services are specified for the purpose of section 21(3)(e). Please refer to Appendix 1 for the relevant sections.

- 3.7 The services stated in section 21(4) are not exhaustive. The Comptroller also considers a supply of service to be directly in connection with goods or land where:
- (a) The supply *involves physical work done* on the goods or land in a way that changes or affects the goods or land. Examples are:
 - (i) Installation, alteration, repair, cleaning, restoration or modification of goods.
 - (b) The supply *involves physical contact or interaction with* the goods or land but does not change the goods or land physically. Examples are:
 - (i) Transportation of goods from one place to another;
 - (ii) Security services in relation to goods; and
 - (iii) Warehousing or storage services for goods.
 - (c) The supply *establishes the physical attributes* (such as quantity, size, or value) of the goods or land. Examples are:
 - (i) Provision of testing and certification services for water pipes to ensure safety standards of the goods. In this case, the assessor may have to test and certify that the water pipe is of a certain uniform thickness so as to withstand the expected water pressure.
 - (ii) Provision of physical stocktaking services to a warehouse trader to verify the accuracy of records of goods stored in the warehouse kept for compliance with certain regulations.
 - (iii) Provision of valuation services to a property owner to establish the value of his property. This service would require the supplier to examine the furnishing, fittings and conditions of the property to determine its value.
 - (d) The supply *affects (or its purpose is to affect) or protects the nature or value* (including indemnity against loss) of goods or land. Examples are:
 - (i) Fire insurance for a building. In the event of a fire, the policyholder is compensated for the damages to the building caused by the fire. The service provided by the insurance company protects the value of the building.
 - (ii) Interior design services for a specific property.
 - (e) The supply *affects, or proposes to affect, any interest in or right over goods or land (including the ownership of the goods or land) or any licence to occupy land, as well as the right to use goods or land.*

Examples are:

- (i) Auctioning services for goods.
- (ii) Supply of a right or an option to buy goods (e.g. granting of an option to purchase property or assets).
- (iii) Leasing of goods.
- (iv) Conveyance services on properties.
- (v) Provision of mortgage loans specifically to enable the purchaser to own the property. As the provision of a mortgage loan affects the ownership of land, it is considered as supplied directly in connection with land.

Situations in which a supply is not considered to be “directly in connection with” goods or land

3.8 The Comptroller considers the following situations to be generally not directly in connection with goods or land:

- (a) Services that do not relate to any specific/identifiable goods or land.
Examples are:
 - (i) Debt recovery services
 - (ii) Accounting and auditing services
 - (iii) Provision of credit facilities where assets may be used as collateral
 - (iv) Photography services
 - (v) Feasibility study or market research (e.g. research services on the economic viability of a shopping complex at Orchard Road)
 - (vi) Marketing services where activities relate only to the raising of awareness of a particular brand or creating goodwill for the brand (also commonly known as “brand asset management” or “partner relationship management”). Such activities include publicity campaigns, managing public relations, media releases and advertisements to promote a particular brand name. Such services generally do not involve any specific/identifiable goods or land¹⁴
 - (vii) Advisory services on land prices or property markets in general (i.e. no specific land or property is identified)

¹⁴ Where there are specific/identifiable goods or land involved, pure marketing services which are limited to promoting the market awareness of the goods or land, or the mere sourcing for and introducing potential buyers to the seller of the goods or land, can still be considered as not supplied directly in connection with the goods or land. On the other hand, if the services include the performance of other activities by the service provider such as facilitating the signing of the sales contracts and making arrangements for the delivery of the goods to the customers, the services are **not** pure marketing services and would be considered as supplied directly in connection with the goods.

- (viii) Architectural services that do not relate to an identifiable piece of land
 - (ix) Services comprising the arranging or facilitating the booking of accommodation, if supplied on or after 1 Jan 2023¹⁵
- (b) There are identifiable goods or land but the services do not fall within any of the situations (a) to (e) described in paragraph 3.7:
- (i) Company A outsourced its call centre to Company B. Company B provides services such as advising Company A's customers on maintenance or technical issues relating to certain equipment sold by Company A. Although the equipment is identifiable, the call centre services provided by the Company B to the Company A are not treated as directly in connection with goods as they do not fall within any of the situations described in paragraph 3.7.
 - (ii) Mr X took up a credit line for a new venture with a bank and he pledged a factory that he owned as collateral. Although the property is identifiable in this case, the provision of the credit line does not affect the ownership, interest in or right over the property. The credit line service provided by the bank is not considered as directly in connection with land.

Other points to note

- 3.9 Where only part of a supply of services is supplied directly in connection with goods or land situated outside Singapore, only that part of the services may be zero-rated. A reasonable basis of apportionment should be used to apportion the consideration for the supply. Paragraph 5 describes some methods of apportionment.
- 3.10 Where a transaction comprises multiple supplies of services, each supply should be examined on its own to determine whether it falls under any of the situations described in paragraph 3.7. If it is a single supply of services consisting of a number of service elements, the entire supply would be directly in connection with goods or land if the dominant service element is regarded as directly in connection with goods or land.
- 3.11 Neither the situations nor the examples listed in paragraphs 3.7 and 3.8 are intended to be exhaustive. However, they should cover the commonly encountered services and provide sufficient clarity on the correct GST treatment.

¹⁵ Prior to 1 Jan 2023, fees for arranging or facilitating the booking of accommodation would be regarded as directly in connection with land and the GST treatment would depend on where the property is located. The fees would be standard-rated if the property is located in Singapore and zero-rated under Section 21(3)(e) if the property is located outside Singapore. However, from 1 Jan 2023, Section 21(4E) has been inserted to specify that Section 21(3)(e) does not include any services comprising the arranging or facilitating the booking of accommodation. The GST treatment for such arranging services will depend on the belonging status of the customer and the direct beneficiary of the services.

4 “Under a contract with” and “directly benefit”

- 4.1 Currently, the expressions “under a contract with” and/or “directly benefit” are used in the following zero-rating sections¹⁶ for services. With the implementation of reverse charge on imported services from 1 Jan 2020, changes are made to the “directly benefit” condition.
- Section 21(3)(j)¹⁷ — services supplied *under a contract with* an overseas person and which *directly benefit* an overseas person who is outside Singapore at the time the services are performed
 - Section 21(3)(k) — prescribed¹⁸ services supplied *under a contract with* an overseas person wholly in the person’s business capacity and which *directly benefit* an overseas person wholly in the person’s business capacity
 - Section 21(3)(s) — services supplied (i) *under a contract with* an overseas person and (ii) which *directly benefit* an overseas person, relating to the co-location in Singapore of computer server equipment belonging to the person referred to in (i) or (ii)
 - Section 21(3)(y) — prescribed services supplied directly in connection with prescribed goods stored at an approved warehouse *under a contract with* an overseas person and which *directly benefit* an overseas person who belongs in a country other than Singapore
- 4.2 Whether a contract exists or not is a question of fact. Contract can be in any form such as a service level agreement, a service requisition order, email exchanges between the service provider and the customer setting out the business arrangement.
- 4.3 Where the contract for services is with a local person, the supply cannot be zero-rated under sections 21(3)(j), (k), (s) and (y) even if the supply “directly benefits” person(s) belonging outside Singapore.
- 4.4 Only where the contract for services is with an overseas person, the local supplier would then need to proceed to identify persons who benefit from his supply of the services. Prior to 1 Jan 2020, where it is established that the services supplied “directly benefit” local persons, the supply cannot be zero-rated under these provisions. However, with effect from 1 Jan 2020, zero-rating of services is extended to services which directly benefit a GST-registered person belonging in Singapore, provided all other conditions

¹⁶ Other than the listed provisions, the expression is also found in sections 21(4A) and 21C. Please refer to Appendix 1 for a reproduction of these sections.

¹⁷ Subject to subsections (4B) and (4C). Please refer to Appendix 1 for these subsections.

¹⁸ The services refer to those prescribed under Second Schedule of the GST (International Services) Order.

specified in the provisions are satisfied. In other words, you can zero-rate your services under these provisions where the direct beneficiaries are overseas persons or GST-registered persons belonging in Singapore.

Directly benefit – Examine the contract

- 4.5 To identify persons who directly benefit from your services, you should start by examining your contract for the supply of services. If the contract stipulates the recipients of the services, the Comptroller will consider the supply to "directly benefit" all these recipients.
- 4.6 However, there can be persons other than the recipients stated in the contract who "directly benefit" from your supply. Hence, you should proceed to examine the flow of services to ensure all the persons the supply "directly benefits" are identified.

Directly benefit – Examine the flow of services

- 4.7 You should in carrying out your services from the beginning to completion, identify persons who use, receive or otherwise benefit from your services. However, not all persons who benefit from your services are regarded as direct beneficiaries. Persons who enjoy "spin-off" benefits ("spin-off recipients") will not be regarded as direct beneficiaries and will have no impact on the GST treatment of your supply of services. For a better understanding of what is a direct beneficiary versus a "spin-off recipient", please refer to Illustration 1 at paragraph 4.11.
- 4.8 For services which require physical performance, it is usually obvious who your direct beneficiary is. For example, if you enter into a contract with an overseas customer for software installation and you install the software into the computer system of its subsidiary in Singapore, it is obvious that the Singapore subsidiary is the direct beneficiary of your supply of services. The nature, objective and delivery of your services will also help you to determine the direct beneficiary of your services, such as:

- *Your services relate to fulfilling the statutory obligation of a person, that person is likely to be a direct beneficiary of your services.*

For example, you are engaged by an overseas holding company to prepare and file the GST return of its subsidiary in Singapore. The Singapore subsidiary is the direct beneficiary of your services.

- *Your services relate to a specific transaction carried out or to be carried out by a person, that person is likely to be a direct beneficiary of your services*

For example, you are engaged as an advisor by an overseas holding company to advise on the acquisition of assets by its Singapore

subsidiary. The Singapore subsidiary is the direct beneficiary of your services.

- *You are accountable to a person (other than the contracting party) for your service deliverables, that person is likely to be a direct beneficiary of your services.*

For example, you are engaged to develop customized software by an overseas holding company. However, you take instructions from its subsidiaries on the customization and are accountable to these subsidiaries for your deliverables. The subsidiaries are the direct beneficiaries of your services.

- 4.9 In performing your services, you may come into direct contact¹⁹ with a person who is not a recipient stated in your contract. That person may or may not be a direct beneficiary of your services. In addition to considering the nature and objective of your services, you need to consider the context in which the contact is made. Examples 1 to 5 below aim to give insights on whether a local person that a supplier of services comes into contact with is a direct beneficiary of his services.

Examples where local person contacted is a direct beneficiary

Example 1 — local person receives service

A local supplier contracts with an overseas person to provide technical advice to customers who have purchased products manufactured by the overseas person. The supplier gives advice on the products (via telephone calls and e-mails) to the customers in Singapore.

As the objective and nature of the services under the contract are to provide technical advice on the manufactured products, the local customers that the supplier comes into contact with will be regarded as the direct beneficiaries of his services.

¹⁹ This can be in any form such as via email, telephone or meeting.

Example 2 — local person decides on service deliverables

A local supplier contracts with an overseas person to provide services. However, the supplier takes instructions from a local company, A on work specifications and A decides on the service deliverables. That is, the supplier comes into contact with A.

As the supplier is accountable to A for the service deliverables, A is a direct beneficiary.

Examples where local person contacted is not a direct beneficiary

Example 3 — local person provides information to enable supplier to carry out its obligations

A local supplier contracts with an overseas company to provide marketing services. The overseas company instructs its local subsidiary to pass corporate and product information to the local supplier. The local subsidiary has no other involvement in the supply.

Although the supplier comes into contact with the local subsidiary, the contact is merely for the passing of information necessary for the supplier to perform the services and fulfil his obligations to the overseas company. The local subsidiary does not receive or enjoy the marketing services in any way and hence, is not a direct beneficiary of the services.

Example 4 — potential insurance buyers receiving advice on policies

A local insurance agent is engaged by an overseas insurance company to arrange for the sale of insurance policies. In the course of supplying the insurance agency services, the agent provides advice to potential policyholders (i.e. persons interested in taking up insurance policies) on the suitability of various insurance policies offered. The agent does not charge any commission to the policyholders who decide to buy the insurance policies.

The objective of the agency services is to assist in the sale of policies and not to provide financial advice. Hence, the potential policyholders that the insurance agent comes into contact with while performing his services are not direct beneficiaries of the supply of agency services to the insurance company.

Example 5 — holders of shares being acquired

A local supplier enters into a contract with an overseas customer A to facilitate A’s acquisition of shares in company B. The supplier provides advice to A on structuring the terms of offer, makes the offer to B’s shareholders on A’s behalf and arranges for the transfer of shares to A. Although the supplier makes contact with B’s shareholders to give them information on the share offer and assist in transferring their shares to A when they decide to take up the offer, the objective of the services supplied is to assist A to acquire shares in B at a good price. The services are performed in the best interests of A and not B’s shareholders. Hence, B’s shareholders are not direct beneficiaries of the supply.

- 4.10 On the other hand, it is possible for persons that the supplier does not have direct contact with to be direct beneficiaries of his services. Hence, “direct contact” alone is not a conclusive indicator. More examples on identifying the direct beneficiaries of services are listed in Appendix 2.

Other points to note about “directly benefit”

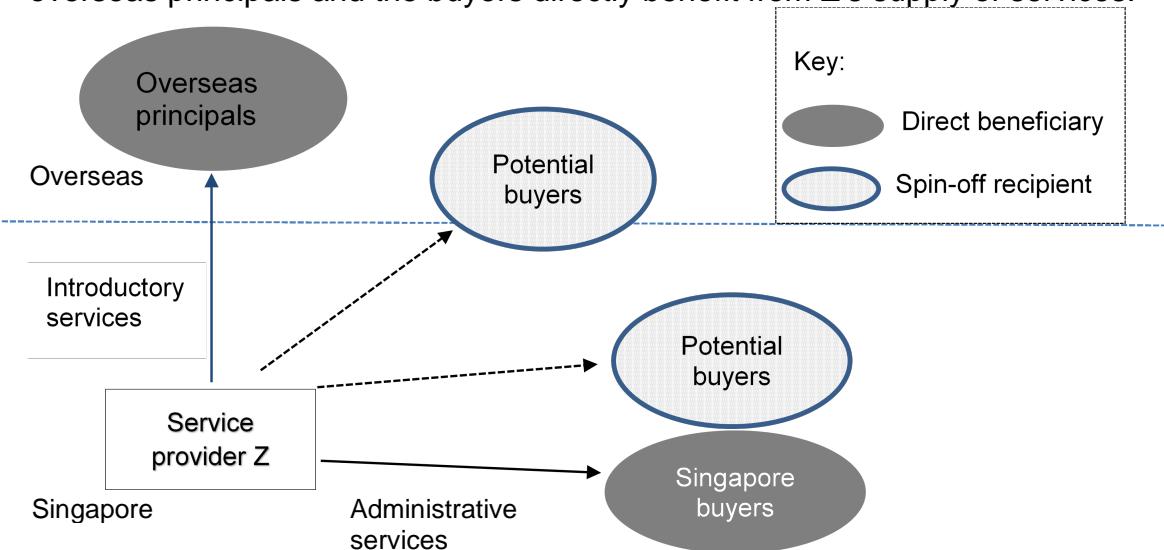
- 4.11 ***Spin-off Recipient is Not a Direct Beneficiary.*** In the course of performing or providing the services, there may be persons who benefit from the services in an indirect manner. To determine whether a person is deriving direct benefits or merely enjoying spin-off benefits, the nature and objective of the services need to be considered. Illustration 1 below serves to give a clearer distinction between a direct beneficiary and a spin-off recipient.

Illustration 1 — Direct Beneficiary vs Spin-off recipient

A Singapore service provider Z acts as the representative office for its overseas principals in performing the following activities.

- Sources for buyers throughout the region to purchase hand tools that the overseas principals manufacture.
- Handles administrative work in relation to purchases by buyers in Singapore.
- Assists overseas principals in liaising with freight forwarders for the import of goods to buyers in Singapore. The importer on record is the Singapore buyer and not Z.

In sourcing for potential buyers for the overseas principals, Z would have shared product knowledge with these potential buyers. Z is concerned whether its supply of services would be regarded as directly benefitting potential buyers whom it contacted but who did not buy the hand tools eventually. Potential buyers would not be considered as direct beneficiaries as they merely obtain "spin-off" benefits (in gaining product knowledge) from the supply of introductory services from Z to the overseas principals. Z did not perform any services for this group of persons. When the potential buyers eventually decide to buy the tools, Z will handle the necessary paperwork for their purchase as part of its services to the overseas principals. Hence, both the overseas principals and the buyers directly benefit from Z's supply of services.



- 4.12 ***Direct beneficiaries of services ancillary or incidental to a supply do not determine the GST treatment.*** Where there are more than 1 service elements, the direct beneficiaries of the predominant service element will determine whether the services can be zero-rated.
- 4.13 Using the example of the services provided by Z in Illustration 1 above, the main or predominant service Z provides is the supply of introductory services to its overseas principals. The administrative services to the Singapore buyers are regarded as incidental to the main supply of introductory services as the administrative services do not constitute an aim in itself and merely enhances the quality of the main supply²⁰. Hence, the entire supply can be zero-rated as the direct beneficiaries of the main supply are the overseas principals.
- 4.14 ***Direct beneficiaries of an onward supply may not be the direct beneficiaries of the original supply.*** For transactions involving an onward supply, a person may appear to be benefitting from a supply X (the "original supply") but in reality he is benefitting from another supply Y ("the "onward supply"). However, the existence of an onward supply Y alone does not necessarily mean that the service recipient of supply Y is not a direct beneficiary of supply X in all instances. It is essential to examine carefully the flow of services to determine the direct beneficiaries for the respective supplies. Illustration 2A showcases a scenario where the direct beneficiaries of an onward supply are different from the direct beneficiaries of the original supply. Illustration 2B on the other hand is a scenario where the direct beneficiaries of both the original and onward supplies are the same persons.

²⁰ Whether a particular service element can be considered as incidental has to be examined based on the facts of each case. The absence of a separate contract between a supplier and the beneficiary of his supply is not a conclusive indicator, on its own, that services directly benefitting the latter can be considered as incidental or ancillary to the services provided by the supplier to his overseas customer.

Illustration 2 A)— Direct beneficiaries of original supply and onward supply are different

A GST-registered business A contracts with an overseas company B to collate information for B to publish in its magazine and website. Persons in Singapore pay to read B's magazine or access its website.

There are 2 supplies in this instance:

- Supply 1 — the data collation services by A to B.
- Supply 2 — the sale of magazine and the grant of access to its website by B to its customers in Singapore

B is the only direct beneficiary of Supply 1. The data collated is used by B as inputs for publication on its magazine and website.

The Singapore customers are not direct beneficiaries of Supply 1, although they get to see the data collated by A. The customers are not paying for or enjoying “data collation services”. Instead, they are paying to read the contents published in the magazine and the website. Hence, the Singapore customers are directly benefitting from Supply 2 but not Supply 1.

Illustration 2 B)— Direct beneficiaries of original and onward supplies are the same

A GST-registered business C contracts with an overseas company D to provide IT support and marketing services to D's subsidiaries in Asia Pacific region. D in turn will recover the costs of the services with a mark-up from its subsidiaries. The recovery of the expenses with a mark-up is regarded as an onward supply from D to each of its subsidiaries.

The 2 supplies are:

- Supply 1 — the supply of the IT support and marketing services from C to D.
- Supply 2 — the onward supply of the same services from D to its subsidiaries.

Although C's contract is with D, it actually provides the IT support and marketing services to the subsidiaries. Hence, the subsidiaries are the direct beneficiaries of Supply 1 and Supply 2.

(NB: Supply 2 is a supply made outside Singapore since D is an overseas person. Hence, no GST is chargeable on Supply 2. However, with the implementation of reverse charge on 1 Jan 2020, the GST-registered Singapore subsidiaries may need to account GST on the services procured from D if they are not entitled to full input tax recovery²¹.)

Illustration 2 B) shows that where there is no change in the nature of services rendered by a supplier through an “intermediary” to the customer of the intermediary (i.e. the end-customer), it is likely that the end-customer would be regarded as a direct beneficiary of the services of the first supplier.

- 4.15 **Contracting Customer May Not Be a Direct Beneficiary.** The person whom the local service provider contracts with and the person who directly benefits from his services may be the same or different person²².
- 4.16 For example, a regional headquarters in Hong Kong enters into a contract with a Singapore firm to service its subsidiary in Singapore, without the Hong Kong company receiving any of the services. Hence, it is possible for the supply not to “directly benefit” the Hong Kong company, even though it has contracted for the services. Instead, the direct beneficiary of the service is the Singapore subsidiary.
- 4.17 **Prior to 1 Jan 2020, all direct beneficiaries must be overseas persons for the supply to be wholly zero-rated. From 1 Jan 2020, the services may be wholly zero-rated only where all direct beneficiaries are overseas persons or local GST-registered persons.** You should determine whether the local direct beneficiary is a GST-registered person at the time when you

²¹ For more information on reverse charge, please refer to the e-Tax Guide, “GST: Reverse Charge”.

²² As provided for by section 21(4A).

supply the services i.e. according to the time of supply rules²³. You can check whether the local direct beneficiary is GST-registered via IRAS’ website²⁴. For zero-rating of services directly benefiting local GST-registered persons, you should maintain records of these local beneficiaries such as their names and GST registration numbers. These records should be made available to IRAS upon request.

- 4.18 Where not all direct beneficiaries are overseas persons or local GST-registered persons, the supply of services may be zero-rated to the extent that the services directly benefit overseas persons or local GST-registered persons, and the services are not directly in connection with goods or land in Singapore. Paragraph 5 describes some methods of apportionment.
- 4.19 **No Relation to Magnitude of Consumption.** The word “directly” in “directly benefits” does not connote magnitude. That is, a supply of services “directly benefits” a person even if the person only consumes a small proportion of the services relative to the other beneficiaries.

5 Methods of apportionment

- 5.1 Where a supply of services is directly in connection with goods or land located in both Singapore and overseas, or directly benefit both local and overseas persons, as an administrative concession, the Comptroller will allow the value of the supply to be apportioned. The portion of the value that is attributable to services directly in connection with goods or land in Singapore or enjoyed by local persons needs to be standard-rated. The remaining portion that is attributable to the services directly in connection with goods or land outside Singapore or directly benefitting overseas persons can be zero-rated. With the change in “directly benefit” condition effective from 1 Jan 2020, where a supply of services directly benefits both overseas and local persons, the value of supply needs to be apportioned only if there are local direct beneficiaries that are not GST-registered. GST is to be charged on the portion of services attributable to local non-GST registered direct beneficiaries whereas the portion attributable to local GST-registered direct beneficiaries can be zero-rated.
- 5.2 The Comptroller accepts reasonable proxies²⁵ in apportioning the value of the services such as:
- (a) Market prices chargeable. This refers to the respective market prices that you would have charged the local direct beneficiaries and the overseas direct beneficiaries if you had supplied your services to them

²³ This is usually the earlier of when you issue an invoice or receive a payment. For more information on the time of supply, please refer to the e-Tax Guide “GST: Time of Supply Rules”.

²⁴ www.iras.gov.sg > Digital Services > GST > GST Registered Business Search

²⁵ For the purpose of paragraph 5.2, from 1 Jan 2020, “local direct beneficiaries” or “Singapore customers” refers to local non-GST registered direct beneficiaries as from that date, zero-rating is extended to local GST-registered direct beneficiaries.

under separate contracts. This proxy can also be used for services directly in connection with goods or land in Singapore and overseas.

- (b) Costs incurred. This can include both direct and indirect costs incurred by you in the course of performing the services. It is up to you to decide on the most appropriate cost driver(s) to be used to compute the costs incurred in performing the services for the local direct beneficiaries vis-à-vis the overseas direct beneficiaries. This proxy can also be used for services directly in connection with goods or land in Singapore and overseas.
 - (c) Amount of time spent. This proxy is suitable for services that require special expertise, knowledge or skills e.g. engineering services, information technology related services and consultancy services. To use this proxy, you are required to track the time spent in servicing the local direct beneficiaries vis-à-vis overseas direct beneficiaries or in performing the services on goods in Singapore vis-à-vis goods located outside Singapore.
 - (d) Sales revenue supported. This proxy is suitable for marketing support services. You may use the proportion of revenue from goods sold in Singapore and overseas to apportion your total service fees.
 - (e) Number of end-customers serviced. This proxy is suitable for client support services such as answering queries and managing complaints from the customers of your client. You may use the proportion of number of Singapore customers and overseas customers serviced to apportion your total service fees. You may rely on declarations provided by your client²⁶ on the proportion of Singapore and overseas customers.
- 5.3 You may also adopt a "fixed" proxy determined annually to apportion your supplies of services made during each prescribed accounting period. The proxy can be determined based on your financial year, calendar year or tax year. You are not required to make adjustments to the value of standard-rated and zero-rated supplies and output tax using actual figures at the end of the year, provided that there are no material changes to your business arrangement or agreement. However, the proxy for the subsequent year has to be recomputed based on actual figures of the preceding year.

²⁶ As zero-rating is extended to local GST-registered direct beneficiaries with effect from 1 Jan 2020, you may rely on declarations provided by your client on the proportion of overseas customers, Singapore GST-registered and non-registered customers serviced to apportion your total service fees. Alternatively, where you have information on the identities of the Singapore customers of your client, you can check the GST status of the local customers. As a supplier, it is your responsibility to ensure that your supplies and output tax are properly accounted for. Hence, it is in your interest to assess the reasonableness of the declaration provided by your client. In the event that the declaration is found to be unreasonable, the Comptroller may adjust the value of supplies and recover any additional output tax due from you.

Example — Use of a “fixed” proxy for periods after 1 Jan 2020

Co. A provides support services that directly benefit both customers in Singapore and overseas. It has decided to use yearly manhours as a fixed proxy to apportion its supply of support services.

Year 1	Non-GST reg Customers in S'pore²⁷	GST-reg Customers in S'pore	Customers Overseas	Total
Actual hours taken to service:	200	4,800		5,000
In terms of percentage:	4%	96%		100%
Year 2				
Actual hours taken to service:	400	5,600		6,000
In terms of percentage	7%	93%		100%
Proxy applied to supplies of support services:				
Standard-rated	4%			
Zero-rated	96%			
Co. A need not make any adjustments to the values of its standard-rated and zero-rated supplies and output tax although the actual proportional hours spent are different from the proxy applied.				
Proxy to be applied to support services in Year 3:				
Standard-rated	7%			
Zero-rated	93%			

- 5.4 You need not seek prior approval from the Comptroller to use any of the above proxies. The proxy chosen should be based on a consideration of the nature and scope of the services provided and the resources expended to supply the services and not because it gives a particular result. It should also be consistently applied on all relevant transactions.
- 5.5 As part of the record-keeping requirements of a GST-registered person, you need to keep records that:
- Explain the proxy you choose; and
 - Detail all transactions and other acts you engage in which are relevant to the supplies you make.

²⁷ From 1 Jan 2020, you need to standard-rate only the portion attributable to services directly benefitting non-GST registered customers in Singapore. Hence, the hours taken to service GST-registered customers in Singapore should be aggregated with that to service overseas customers to derive the proxy for the zero-rated portion.

6 Input tax claims by local direct beneficiary

- 6.1 Where a local GST-registered supplier contracts with an overseas customer to provide services on a global basis but has to charge GST as the supply (or part thereof) of services directly benefits a local person, we recognize that the GST burden on the overseas customer may have an adverse impact on the international competitiveness of our local service sector. As an administrative concession, the Comptroller will allow the local beneficiary to claim the GST charged by the local supplier to the overseas customer as its input tax provided the following conditions are satisfied:
- (a) The local beneficiary is registered for GST;
 - (b) The local beneficiary has paid GST on the portion of the standard-rated services received by him and maintains documentation to support this payment. Examples of supporting documents can include an invoice issued by the overseas supplier which reflects the amount of the GST charge passed on by the overseas supplier and is included in the price charged to the local beneficiary, or a tax invoice issued by the local supplier to charge the GST on the portion of the standard-rated services directly to the local beneficiary; and
 - (c) The local beneficiary satisfies the normal input tax claiming conditions under sections 19 and 20 of the GST Act, had the supply been made to him directly.
- 6.2 A local beneficiary who wishes to avail himself of this administrative concession is required to self-assess and ensure that conditions (a) to (c) listed in paragraph 6.1 above are satisfied before claiming the input tax in his GST return. The claim should be made within 5 years from the end of the prescribed accounting period in which the payment of the tax was made or the date when the invoice was issued, whichever is the later. He should also maintain records on the input tax claim such as a detailed description of the global contract arrangement (including the name and GST registration number of the local supplier).
- 6.3 This administrative concession will be removed for supplies of services made on or after 1 Jan 2020 where the services directly benefit local GST-registered persons and qualify for zero-rating²⁸.

²⁸ Where the service directly benefits a local GST-registered person but is supplied directly in connection with goods in Singapore, the supply will remain standard-rated under section 21(3)(j). In this case, the local direct beneficiary may continue to claim the GST charged by the local supplier if the conditions stated in paragraph 6.1(a) to (c) are satisfied.

7 Application: A typical case scenario

Facts of the case

- 7.1 A Singapore company (Company A) enters into an agreement with an overseas company (Company B) to provide maintenance services on machinery sold by Company B to their customers in the Asia Pacific region (including Singapore).
- 7.2 Whenever a customer requires the maintenance services, he will contact Company B, which will then instruct Company A to carry out the work. Company A will dispatch their engineers to the customer's site to perform the maintenance services.
- 7.3 Company A bills Company B maintenance charges based on the number of man-hours spent by their engineers at the customers' sites plus a fixed fee of S\$500 on a monthly basis.

Illustration of "directly in connection with"

- 7.4 The supply involves physical work done on the machinery and also protects the nature and value of the machinery owned by Company B's customers. Hence, it is considered to be directly in connection with the machinery (goods).
- 7.5 As some of the machineries serviced by Company A are situated in Singapore, part of the supply is directly in connection with goods situated in Singapore at the time the services are performed.

Illustration of "directly benefit"

- 7.6 The nature of the supply is that of maintenance services performed on machinery owned by Company B's customers.
- 7.7 Company B's customers are the direct beneficiaries because they receive the maintenance services directly from Company A. Company B is, however, not a direct beneficiary because it does not receive any maintenance services.

Taxability

- 7.8 Only the portion of maintenance services on machinery situated outside Singapore will qualify for zero-rating under section 21(3)(f) of the GST Act. The remaining portion that relates to machinery located in Singapore will have to be standard-rated.

Apportionment

- 7.9 Company A can use the proportion of man-hours spent by their engineers at Singapore sites to the total number of man-hours spent for the month.

Company A can then apply this fraction to the total sum charged to Company B for that month to calculate the portion of the value of supply that should be standard-rated. A numerical worked example is shown as follows:

- 7.10 Assume that for the month of Sept, the total number of man-hours spent is 2000 hrs and the total maintenance charges to Company B is S\$100,000. Out of the 2000 hrs, the amount of time spent at Singapore sites is 500 hrs.

$$\text{Value of standard-rated supply} = \frac{500 \text{ hrs}}{2000 \text{ hrs}} \times \text{S\$100,000}$$
$$= \text{S\$25,000}$$

$$\text{Value of zero-rated supply} = \frac{2000 \text{ hrs} - 500 \text{ hrs}}{2000 \text{ hrs}} \times \text{S\$100,000}$$
$$= \text{S\$75,000}$$

- 7.11 Assuming that the Singapore customers can satisfy the conditions (a) to (c) stated in paragraph 6.1, they may proceed to claim the GST charged by Company A to Company B by including the amount in Box 7 of their GST returns.

8 Contact Information

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

9 Updates and amendments

	Date of amendment	Amendments made
1	14 Oct 2015	<ul style="list-style-type: none"> • Added another example in paragraph 3.3.2(b) • Amended paragraph 4.8.6 and inserted footnote 9 to clarify the GST treatment in Diagram 1 • Amended paragraph 4.9.4(c) to clarify the GST treatment in Diagram 2 • Amended paragraphs 6.2 and 7.11 to remove the requirement for the local beneficiary to seek prior approval from the Comptroller before claiming the input tax allowable under the administrative concession • Editorial changes
2	26 Oct 2017	<ul style="list-style-type: none"> • Added another example in paragraph 3.7(d) • Amended paragraph 3.7(e) to clarify the meaning of "ownership" in the context of the indicator • Amended/inserted paragraphs 3.4 and 3.10 to further clarify the application of "directly in connection with" • Amended paragraphs 4.6 and 4.7 to remove the concept of "to the exclusion of other persons" as it is rarely used commercially • Amended/inserted paragraphs 4.2, 4.8 to 4.11, 4.15 and Appendix 2 to further clarify the application of "directly benefit" and include more examples on identifying direct beneficiaries • Amended/inserted paragraphs 5.2(e), 5.3 and 5.4 on apportionment methods • Amended paragraph 6.2 to clarify the time limit for making claims • Editorial changes

	Date of amendment	Amendments made
3	11 Oct 2019	<ul style="list-style-type: none"> • To reflect changes in GST rules from amendment to "directly benefit" condition due to reverse charge: <ul style="list-style-type: none"> (a) Amended paragraphs 2.2, 3.1, 4.1, 4.4, 4.17, 4.18, 5.1 and footnote 24 (b) Inserted paragraphs 2.3, 2.4, 2.5, 6.3, footnotes 3 to 5, 19, 21 to 23, 25 and 26 (c) Updated zero-rating provisions stated in Appendix 1 • Amended paragraph 8.1 on contact information • Editorial changes
4	3 Aug 2022	<ul style="list-style-type: none"> • Amended paragraph 3.8(a)(vi) and inserted footnote 14 to clarify the example on marketing services • Updated zero-rating provisions stated in Appendix 1 • Inserted footnote 28 on the change in GST treatment of media sales with effect from 1 Jan 2022 • Editorial changes
5	6 Apr 2023	<ul style="list-style-type: none"> • Amended footnote 7, footnote 15, paragraph 3.8 and Appendix 1 due to the change in GST treatment for travel arranging services supplied on or after 1 Jan 2023.

Appendix 1

Extract of section 21(3), (4), (4A), (4B), (4C), (4E), section 21A and section 21C of the GST Act

Zero-rating for exports and international services

21. —(3) A supply of services is treated as a supply of international services where the services or the supply are for the time being of any of the following descriptions:

- (e) subject to subsection (4B) and 4(E), services supplied directly in connection with land or any improvement thereto situated outside Singapore;
- (f) subject to subsection (4B), services supplied directly in connection with goods situated outside Singapore when the services are performed;
- (g) subject to subsection (4B), services supplied directly in connection with goods for export outside Singapore and supplied to a person who belongs in a country other than Singapore, at the time the services are performed;
- (j) subject to subsections (4B) and (4C), services supplied —
 - (i) under a contract with a person who belongs in a country outside Singapore; and
 - (ii) which directly benefit —
 - (A) a person who belongs in a country other than Singapore and who is outside Singapore at the time the services are performed; or
 - (B) a registered person who belongs in Singapore;
- (k) prescribed services supplied —
 - (i) under a contract with a person wholly in the person's business capacity (and not in the person's private or personal capacity) and who in that capacity belongs in a country outside Singapore; and
 - (ii) which directly benefit —
 - (A) a person wholly in the person's business capacity (and not in the person's private or personal capacity) and who in that capacity belongs in a country other than Singapore; or
 - (B) a registered person who belongs in Singapore;
- (s) services supplied —
 - (i) under a contract with a person who belongs in a country outside Singapore; and

- (ii) which directly benefit —
 - (A) a person who belongs in a country other than Singapore; or
 - (B) a registered person who belongs in Singapore,

relating to the co-location in Singapore of computer server equipment belonging to the person referred to in sub-paragraph (i) or (ii);

- (y) prescribed services supplied directly in connection with prescribed goods —

- (i) under a contract with a person who belongs in a country outside Singapore; and

- (ii) which directly benefit —
 - (A) a person who belongs in a country other than Singapore; or
 - (B) a registered person who belongs in Singapore,

if, at the time the prescribed services are performed, the prescribed goods are —

- (iii) at an approved warehouse; or

- (iv) at any place from which they may not be removed except with the permission of the proper officer of customs (and by virtue of which the prescribed goods remain under customs control), if —

- (A) the goods have been brought to that place from an approved warehouse for the purpose of the repair of, maintenance of or performance of any other similar service on the goods, or for the purpose of an auction, an exhibition or any other similar event involving the display of goods; and

- (B) the goods will be returned to any approved warehouse after the activity or event referred to in sub-paragraph (A).

21.—(4) For the purposes of subsection (3) —

- (b) the services in subsection (3)(e) include —

- (i) services in the course of the construction, alteration, repair, maintenance or demolition of any building or civil engineering work; and

- (ii) services such as are supplied by estate agents and auctioneers, architects, surveyors, engineers and others involved in matters

relating to land.

(4A) For the purposes of subsection (3)(j), (k) and (s) and (y) the person with whom the contract is made and the person who directly benefits from the services may be the same person or different persons.

(4B) The services referred to in —

- (a) subsection (3)(e), (f) and (g); and
- (b) subsection (3)(j), if supplied before 1 January 2022²⁹,

do not include any services comprising either or both of the following:

- (c) the supply of a right to promulgate an advertisement by means of any medium of communication;
- (d) the promulgation of an advertisement by means of any medium of communication.

(4C) The services referred to in subsection (3)(j) do not include any services which are supplied directly in connection with —

- (a) land or any improvement thereto situated inside Singapore; or
- (b) goods situated inside Singapore at the time the services are performed, other than goods referred to in subsection (3)(g).

(4E) The services referred to in subsection (3)(e) do not include any services comprising the arranging or facilitating the booking of accommodation, if supplied on or after 1 Jan 2023.

21A. —(1) Subject to such conditions as the Minister may prescribe, the supply by any taxable person of —

- (a) any prescribed tool or prescribed machinery used in the manufacture of goods;
- (b) any services directly in connection with such tool or machinery; or
- (a) any prototype of such tool or machinery,

²⁹ In Budget 2021, the Minister for Finance announced that the basis for determining whether zero-rating applies to a supply of media sales, will be changed from the place of circulation of advertisement to the place where the customer and direct beneficiary of the service belong. The supply of media sales on or after 1 Jan 2022 falls under section 21(3)(j) instead of section 21(3)(u). For more information, please refer to the e-Tax Guide "GST: Guide for Advertising Industry".

to a person who belongs in a country outside Singapore and who is not a registered person or is a registered (Seventh Schedule — pay only) person, is zero-rated where such tool or machinery is used in Singapore for the manufacture of goods for the person who belongs in a country outside Singapore.

- (2) Where a supply of goods or services by a taxable person is zero-rated under subsection (1), then, whether or not tax would be chargeable on the supply apart from this section —
 - (a) no tax is charged on the supply; but
 - (b) it is in all other respects treated as a taxable supply, and accordingly the rate at which tax is treated as charged on the supply is nil.
- (3) This section does not apply to Seventh Schedule supplies.

21C. —(1) The grant or assignment by any taxable person of a lease, tenancy or licence to occupy land where the lease, tenancy or licence —

- (a) is granted or assigned under a contract with a person who belongs in a country outside Singapore; and
- (b) directly benefits a person who belongs in a country other than Singapore,

is zero-rated if —

- (c) the taxable person has made an application to and the Comptroller has approved the application for a warehouse or other premises to be an approved warehouse;
 - (d) the whole of the land which is the subject of the lease, tenancy or licence is part of the approved warehouse; and
 - (e) the land which is the subject of the lease, tenancy or licence is used by the taxable person in the taxable person's business of storing prescribed goods other than the goods of the taxable person.
- (2) Where a supply by a taxable person is zero-rated under subsection (1), then, whether or not tax would be chargeable on the supply apart from this section —
 - (a) no tax is charged on the supply; but
 - (b) it is in all other respects treated as a taxable supply,

and accordingly the rate at which tax is treated as charged on the supply is nil.

- (3) In this section, "approved warehouse" has the meaning given by section 21(4)(a).

Appendix 2

Examples on identifying direct beneficiaries

(a) Stock/Futures brokerage services

A local broker, who is licensed to execute and clear trades on the Singapore Exchange (SGX), is engaged by an overseas broker to execute and clear trades for the latter's clients (end-clients). The execution and clearing services supplied by the local broker to the overseas broker would directly benefit the end-clients. This is regardless whether the local broker has any contact with the end-clients.

(b) Domain name registration services

Domain name registration services can only be provided by an appointed authority in Singapore. As such, the direct beneficiaries are the actual registrants and not the overseas registrar which contracts with the authority.

(c) Insurance services

For a life insurance policy, the policyholder is regarded as the only direct beneficiary of the provision of life insurance services. Even though the insured or a nominated beneficiary of the policy is named in the insurance contract, they are not the direct recipients of the services provided by the insurance company.

For a general insurance policy which insures the liabilities of insured persons other than the policyholder, the provision of the general insurance services will be regarded as directly benefitting both the policyholder and the insured. For example, for director's liability insurance that also covers the personal liabilities of the company's directors, both the company and the directors covered will be regarded as the direct beneficiaries of the insurance service.

(d) Legal services

An overseas company seconded employees to work for its subsidiary in Singapore for three years. The overseas company engaged a local law firm to provide advice on the local tax and employment law in relation to the seconded employees. Since the legal advice would assist the Singapore subsidiary to comply with statutory requirements in Singapore, the Singapore subsidiary would be a direct beneficiary of the legal services. This is regardless whether the local law firm has any contact with the Singapore subsidiary.

(e) Legal services

An overseas company is contemplating a merger of its subsidiaries in Singapore as part of a corporate restructuring exercise. The overseas company engaged a local law firm to provide advice on the local regulatory requirements in relation to the proposed merger. The overseas company is a direct beneficiary while its Singapore subsidiaries are not direct beneficiaries of the legal services.

(f) Tax advisory, accounting or audit services

A local consultancy firm is engaged by an overseas customer to provide tax advisory, accounting or audit services in respect of matters relating to the overseas customer and its related companies in the Asia Pacific region including Singapore. As the services provided would assist the related companies to meet their statutory

obligations in their domestic countries, these companies would be regarded as the direct beneficiaries of the services. This is regardless whether the local consultancy firm has any contact with the related companies of its overseas customer.

(g) Financial administration services

A local company enters into a contract with its overseas parent company to provide group financial administration services for the parent company. The parent company is responsible for the group performance of its subsidiaries in Singapore and overseas. The local supplier would perform periodic reporting and analysis of financial data of the parent company and its subsidiaries. Such reports would be provided only to the parent company. The parent company's subsidiaries have their own in-house financial reporting teams and the local supplier does not provide any services to them. This being the case, the parent company is a direct beneficiary while the subsidiaries are not direct beneficiaries of the services provided by the local supplier.