INLAND REVENUE AUTHORITY OF SINGAPORE

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1. Aim

1.1. This guide explains the GST treatment of the services provided or received by fund managers in the fund management industry.

2. At a glance

2.1. Fund management services provided by a fund manager ("FM") to his client generally include research, investment advice and the preparation of reports. In return for the services performed, the FM is paid a 'fund management fee'. The FM's duties are set out in the investment agreements, mandates or trust deeds.

2.2. The provision of certain financial services is exempt from GST if the service falls within the description of paragraph 1 of Part I of the Fourth Schedule to the GST Act. The exemption however is not applicable to any arranging, broking, underwriting or advising services in relation to the financial transaction, other than re-insurance services[1].

2.3. Fund management services provided by a GST-registered FM generally do not fall within the description of paragraph 1 of Part I of the Fourth Schedule. Hence, it is subject to GST. Separately, if the FM acts as a principal in the exempt financial transactions (e.g. the FM buys and sells units in his own name), he may be considered as making exempt supplies in respect of such financial transactions. The Comptroller will generally consider a person as a principal if he trades in his own name, assumes ownership of goods or services supplied or bears the risks and rewards arising from a sale or purchase of an investment.

2.4. This guide clarifies the GST treatment of the following scenarios:

a) Fund management services provided to clients other than unit trusts;
b) Fund management services provided to unit trusts;
c) Distribution services in respect of unit trusts;
d) Brokerage services received by FM; and
e) Soft dollar commission.

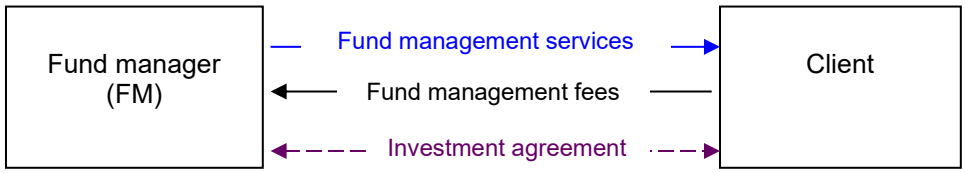
[1] Paragraph 3 of Part III of the Fourth Schedule to the GST Act

3. Fund Management Services Provided To Clients Other Than Unit Trusts

Background

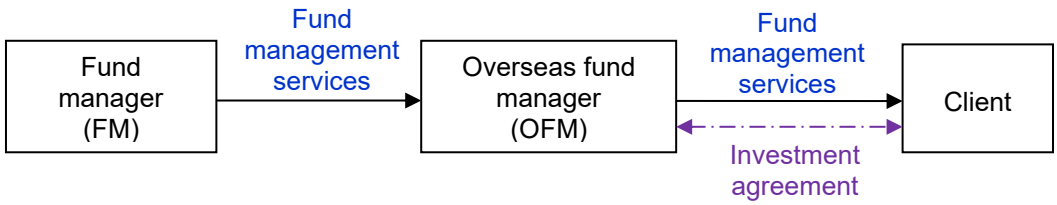
3.1. The FM usually enters into an investment agreement to provide services to his client. The duties of the FM are provided in the investment agreement. Generally, the client will have control over the FM's activities such that the activities are within the scope of the investment agreement. On the other hand, the FM may be authorized or empowered to represent his client to act in or enter into contracts of financial transactions on behalf of the client. In return for the services performed, the FM receives fund management fees.

Example 1: Supply of fund management services to a client



3.2. Alternatively, a FM may be engaged to supply fund management services to an overseas-based fund manager ("OFM") who in turn has an investment agreement with a client. The fund management services may be provided directly to the OFM or the client.

Example 1A: Supply of fund management services to an overseas fund manager



GST treatment of fund management services

3.3. The supply of fund management services is standard-rated if the supply is made to a person (i.e. client or OFM) who belongs in Singapore. Where the person belongs in a country outside Singapore, the supply of fund management services can be zero-rated under section 21(3)(j) of the GST Act provided that all the stipulated conditions were met[2].

[2] The services must be supplied:
a. Under a contract with a person who belongs outside Singapore;
b. Which directly benefit:
   (i) a person who belongs outside Singapore and who is not in Singapore when the services are performed; or
   (ii) a GST-registered person in Singapore*;
c. Not directly in connection with any land or good situated inside Singapore; and
d. Does not comprise the supply of a right to promulgate or the promulgation of an advertisement by means of any medium of communication.

3.4. Section 15(4) and (5) of the GST Act determine the place where a person to whom the supply is made belongs.

Belonging status of a client who is an individual

3.5. A client who is an individual shall be treated as belonging in Singapore if his usual place of residence is in Singapore during the period of service.

Belonging status of a client who is a fund

3.6. A fund in the form of a trust fund is treated as belonging in Singapore if its trustee belongs in Singapore. A fund in other forms is treated as belonging in Singapore if:

a) It has a business establishment (BE) or some other fixed establishment (FE) in Singapore, and no such establishment elsewhere;
b) It has BE or FE both in and outside Singapore, and the establishment at which the services are most directly used or to be used is in Singapore; or
c) It has no BE or FE in any country, but it is incorporated (for a company) or registered (for a partnership, limited partnership or limited liability partnership) in Singapore.

3.7. A fund that wholly relies on a Singapore-based fund manager ("SFM") to carry on its business will have a BE in Singapore through that SFM. A SFM is wholly relied on to carry on a fund's business if it is the sole contracting FM with the fund and has the overall responsibility to oversee or carry out the activities of the fund (e.g. day-to-day operations and core business functions).

3.8. The SFM is not treated as wholly relied on to carry on the fund's business if:

a) The fund has an administration office with employees of its own;
b) The fund contracts with the SFM only for non-discretionary services[3];
c) The fund contracts with two or more FMs separately to provide investment management services where each is in-charge of specific area (e.g. by region); or
d) The fund contracts directly with other independent services provider(s)[4] to carry out a business function of the fund (e.g. the fund contracts an administrator). This is provided that the SFM does not oversee or supervise that business function.

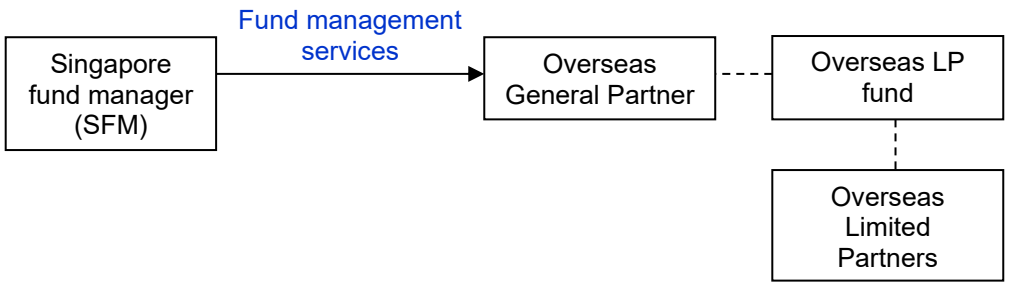
*Prior to 1 Jan 2020, a supply of services must "directly benefit" a person belonging outside Singapore in order to qualify for zero-rating under section 21(3)(j), With effect from 1 Jan 2020, you may also zero-rate your services that "directly benefit" a GST-registered person in Singapore. For more information, please refer to the e-Tax guide on "GST: Taxing imported services by way of reverse charge".

[3] Non-discretionary services mean that the SFM must have approval from the fund for the execution of trades. He cannot act independently to enter into financial contracts on behalf of the fund and has no business or investment authority / responsibility over any assets of the fund.

[4] This excludes: (i) the appointment of an external auditor as external audit function is not treated as a business function of the fund; and (ii) the appointment of service provider(s) for infrequent / ad-hoc services (e.g. one time tax advice).

3.9. A fund that conducts regular board meetings at a fixed place in Singapore will have a FE in Singapore through that board of directors[5]. If the board of directors receives or uses the fund management services to make investment decisions for the fund, the FE that it creates will be treated as the establishment most directly using the services. A fund that has an administration office with employees of its own in Singapore will also constitute a FE in Singapore.

Example 2: Supply of fund management services to a General Partner of an overseas registered limited partnership (LP) fund



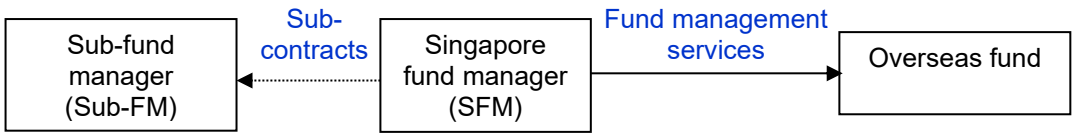
The General Partner of the LP fund enters into a contract with the SFM to provide fund management services for the LP fund, which include managing the operations and investments of the fund. The LP fund does not have an administration office with employees of its own, and its General Partner and Limited Partners are all incorporated, registered or resided overseas.

The LP fund has a BE in Singapore through the SFM as it wholly relies on the SFM to carry on its business. It does not have any other establishment elsewhere. Fund management services provided by the SFM are standard-rated as the fund belongs in Singapore.

[Note: Where the GP manages the LP fund himself, the GP will be treated as the BE of the fund since he runs the fund's business. The issue of "wholly relying on a SFM" to carry on business would become irrelevant.]

[5] "Regular" board meetings refer to meetings held at least four times within a 12-month period. Meetings held through conference call or video will not be considered unless there are at least two directors physically present at the meeting. A "fixed place" refers to a fixed location in a country. Different locations within the same country will not be regarded collectively as a "fixed place".

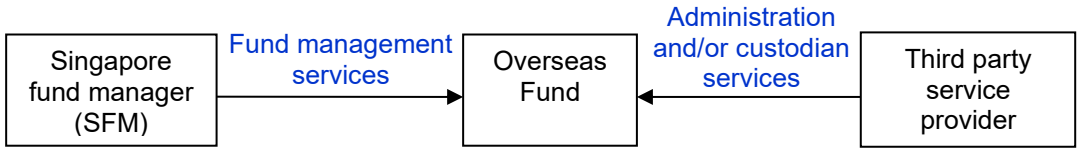
Example 2A: Supply of fund management services to an overseas incorporated fund



The SFM has a contract with, and manages the operations and investments of the overseas incorporated fund that does not have an administration office with employees of its own. The SFM subsequently sub-contracts part of its functions to another FM.

The fund has a BE in Singapore through the SFM notwithstanding that part of the SFM's functions are sub-contracted to a third party. The fund does not have any other establishment elsewhere. Fund management services provided by the SFM are standard-rated as the fund belongs in Singapore.

Example 2B: Supply of fund management services to an overseas incorporated fund that engages an independent services provider



The overseas incorporated fund contracted with the SFM for fund management services and a third party service provider for administration and/or custodian services. The services provided by the service provider are performed independently from the SFM, i.e. the service provider does not report to or seek directions from the SFM, and the SFM does not oversee or supervise the administration and/or custodian functions of the fund.

The fund does not have a BE in Singapore through the SFM as it does not wholly rely on the SFM to carry on its business. The fund does not have any other establishment in Singapore. Fund management services provided by the SFM are zero-rated under section 21(3)(j)[2] as the fund belongs outside Singapore (assuming that all other conditions are satisfied).

Belonging status of an overseas-based fund manager ("OFM")

3.10. An OFM belongs in Singapore if:

a) It has BE or FE in Singapore and no such establishment elsewhere;
b) It has BE or FE in and outside Singapore and the establishment at which the services are most directly used or to be used is in Singapore; or
c) It has no BE or FE anywhere but it is incorporated or registered in Singapore.

3.11. An OFM can wholly rely on a SFM to carry on its business if it does not have the necessary capabilities or resources to conduct its own business. For example,

an OFM who has no office with employees of its own and who has wholly delegated the business activities of performing the fund management activities for the fund to a SFM will be treated as wholly relying on the SFM to carry on its business. The OFM will have a BE in Singapore through the SFM.

GST remission on services supplied to a fund / OFM

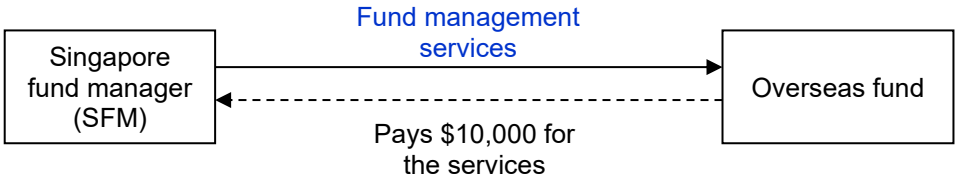
Before 1 Apr 2015

3.12. For a fund / OFM that is incorporated or registered overseas, it may have been unclear that the fund / OFM could be treated as "belonging in Singapore". As a concession, GST need not be charged on services supplied before 1 Apr 2015 to: [6]

a) A fund that is incorporated or registered overseas and belongs in Singapore; or

b) An OFM that is incorporated or registered overseas and belongs in Singapore, subject to the condition that the services supplied to the OFM must be in relation to the services supplied or to be supplied by the OFM to a fund in that is incorporated or registered overseas.

Example 3: Supply of fund management services to an overseas fund



The overseas incorporated / registered fund contracted with the SFM for fund management services and wholly relies on the SFM to carry on its business. The overseas fund does not have any other establishment elsewhere.

As the supply of fund management service by the SFM to the overseas fund is made before 1 Apr 2015, it qualifies for GST remission such that GST need not be charge on the supply.

From 1 Apr 2015

3.13. To remove any disincentive for engaging a SFM, a remission is granted to ensure that the GST treatment of supply of services to a qualifying fund / OFM is unaffected by the BE arising from them wholly relying on a SFM to carry on their business. From 1 Apr 2015, GST is not chargeable on services supplied to:

a) A qualifying fund that is incorporated or registered overseas and belongs in Singapore only due to its whole reliance on a SFM; or

[6] With this remission, the earlier concession of GST chargeable on services supplied before 1 Apr 2014 to a non-resident fund incorporated or registered overseas, as conveyed in para 8.4 of MAS Circular FDD Cir 02/2014, will be superseded.

b) An OFM that is incorporated or registered overseas and belongs in Singapore only due to its whole reliance on a SFM, subject to the conditions that:
   i. The services supplied to the OFM must be in relation to the services supplied or to be supplied by the OFM to a qualifying fund incorporated or registered overseas; and
   ii. The qualifying fund belongs outside Singapore or belongs in Singapore only due to its whole reliance on a SFM.

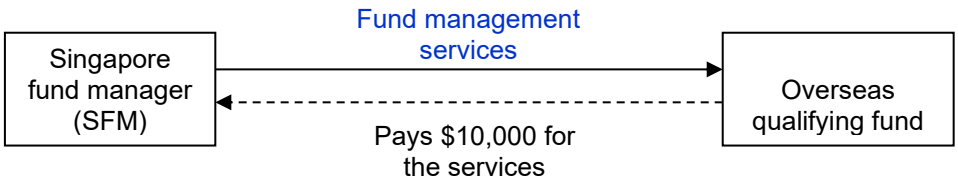
3.14. A SFM refers to a prescribed fund manager in Singapore that holds a capital markets services license under the Securities and Futures Act (Cap. 289) or one that is exempted under the Act from holding such a license.

3.15. A qualifying fund / OFM that belongs in Singapore only due to its whole reliance on a SFM refers to a qualifying fund / OFM that does not have any establishment in Singapore[7] other than through the SFM.

3.16. For the purpose of the remission, a qualifying fund refers to a fund that satisfies conditions of the income tax concession under section 13D (formerly 13CA) or S13U (formerly S13X)[8] of the Income Tax Act as at the last day of its preceding financial year.[9] If a fund intends to qualify for income tax concession for the first time in a financial year, a supplier can provisionally apply the remission to his supplies made on or after the date which the fund starts to satisfy all conditions of the income tax concession.[10] However, in the event that the fund subsequently fails to qualify for the intended income tax concession, the remission would not apply to those supplies (i.e. GST is chargeable) and the supplier must account for the corresponding output tax.

[7] In general, this is satisfied if the qualifying fund / OFM does not have an administrative office with employees in Singapore and does not conduct regular board meetings at a fixed place in Singapore.
[8] The renumbering changes took effect from 31 Dec 2021
[9] For a general partnership fund, the fund can be treated as a qualifying fund if any of the partners qualify for the income tax concession.
[10] The supplier can provisionally apply the remission to his supplies based on the fund's declaration.

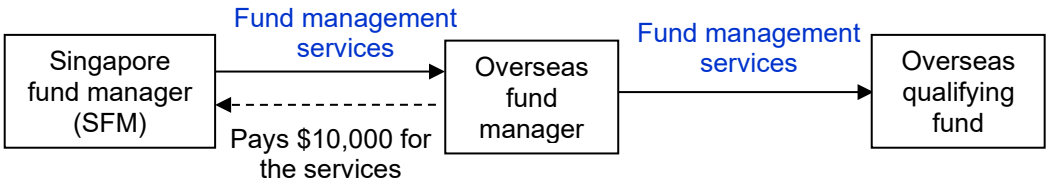
Example 3A: Supply of fund management services to an overseas qualifying fund after 1 Apr 2015



The overseas incorporated / registered fund contracted with the SFM for fund management services and wholly relies on the SFM to carry on its business. The fund does not have any office with employees of its own and does not conduct regular board meetings at a fixed place in Singapore. The fund qualifies for the income tax concession under section 13D (formerly 13CA) of the Income Tax Act.

As the supply of fund management services by the SFM to the overseas fund is made after 1 Apr 2015 and it satisfies all conditions of the remission, GST need not be charge on the supply.

Example 3B: Supply of fund management services to an overseas fund manager after 1 Apr 2015



The overseas fund contracted with the OFM for fund management services and wholly relies on the OFM to carry on its business. The OFM in turn outsourced its whole business function of providing the fund management services to the SFM such that it wholly relies on the SFM to carry on its business. The overseas fund and OFM does not have any other BE or FE in Singapore except through the SFM. The overseas fund qualifies for the income tax concession under section 13D (formerly 13CA) of the Income Tax Act.

As the supply of fund management services by the SFM to the OFM is made after 1 Apr 2015 and it satisfies all conditions of the remission, GST need not be charge on the supply.

3.17. The GST remissions in paragraphs 3.12 and 3.13 are self-assessed[11]. You may refer to the table in Annex A for a summary of the GST treatment for services supplied to funds on or after 1 Apr 2015 in various scenarios.

Reporting in GST return

[11] A service provider may rely on the fund or OFM's representation that supplies to it qualifies for the GST remission. However, where the representation provided by the fund or OFM is found to be incorrect, the service provider will be held liable by IRAS for the GST undercharged on its services.

3.18. Supplies of services that qualify for the GST remission are to be reported as zero-rated supplies in the GST return.

Exemption from GST registration

3.19. Fund managers that make taxable supplies that are wholly or substantially zero-rated may be exempted from GST registration. Supplies of services that qualify for the GST remission are treated as zero-rated supplies. Please refer to the e-Tax Guide "GST: Do I Need to Register?" for information on applying for exemption from GST registration.

GST treatment of the sale of investment on behalf of clients

3.20. Based on the scope of work performed by the FM described in paragraph 3.1, the FM is treated as an agent[12] acting on behalf of his clients when engaging in financial transactions. In this regard, when the FM sells securities belonging to his client, the FM is not making any exempt supplies. For example, when the FM sells shares for his client, the sale of shares (which is an exempt supply) is treated as a supply made by the client, and not by the FM.

3.21. Consequently, the FM is only required to report the consideration received for his fund management services as his taxable supplies and output tax in his GST return. This is regardless of whether the client pays for the fund management services in full or by netting off the fees from the sales proceeds of the securities.

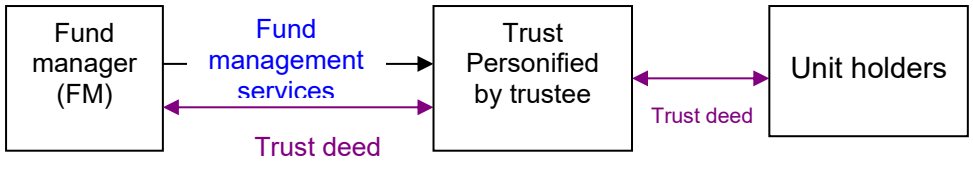
4. Fund Management Services Provided To Unit Trusts

Background

4.1. When the FM provides fund management services under a unit trust[13] arrangement, the responsibilities of the FM are spelled out in a trust deed. The trust deed also sets out the relationships among the unit holders, the FM and the trustee.

4.2. Generally, the FM would manage and invest the fund's money and is responsible for the fund's performance while the trustee holds the property on behalf of the unit holders and ensures that the FM carry out his duties in accordance with the trust deed.

Example 4: A diagrammatic illustration of a typical unit trust arrangement



[12] This does not include situations where the FM is involved in buying and selling the securities in his own name.

[13] A unit trust is a pool of money held by a trustee on behalf of the unit holders, constituted by way of a trust deed.

GST treatment of fund management services provided to unit trusts

4.3. For GST purposes, the FM's services are treated as supplied to the unit trust[14] in return for fund management fees charged to the unit trust. Given that a unit trust is not a legal entity, the FM's services are treated as supplied to the trust, personified by the trustee[15].

4.4. In return for the services performed, the FM receives a management fee, usually computed as a percentage of the fund's net asset value. The management fee received by the FM constitutes consideration for a taxable supply made to the trustee. The FM can zero-rate his services if the trustee belongs outside Singapore.

Are fund management services treated as supplied 'directly in connection' with land?

4.5. The FM may be appointed to manage an asset portfolio comprising properties, for example, for a Real Estate Investment Trust (REIT), and be entitled to receive various fees including periodic fund management / performance fee and a fee payable only upon successful acquisition or disposal of a specific property by the unit trust. This does not extend to managing the physical condition or leases for the property. The FM shall hereinafter be referred to as the "REIT manager[16]".

4.6. The role of a REIT manager who manages the property fund portfolio (where it does not extend to managing the physical condition or leases for the property) is no different from other FMs who provide investment advice in respect of their clients' investments in other financial products. The fees charged by the REIT manager for his investment advisory services are not considered as supplied directly in connection with land.

4.7. On the other hand, the fees charged for acquisitions or divestments of properties are considered as supplied directly in connection with land[17].

GST treatment for sale of units

FM as the principal

4.8. The FM is treated as a principal for the sale of units to investors if the FM operates a 'manager's box' which holds units in his own name[18] for sales to investors.

4.9. If the FM acts as a principal in buying and selling the units, the FM is regarded as making an exempt supply from the sale of units. The FM is required to report in

[14] The trust deed creates the contractual relationship between the FM and the trust where the FM must conduct itself in the interests of the trust.
[15] In essence, it is the trustee who is contracting on behalf of the unit trust for the supply of fund management services for the unit holders. The unit holders' status and place of registration of the unit trust do not determine the belonging status of the unit trust.
[16] The role of the REIT manager is distinct from the property manager who is only responsible for the physical upkeep of the properties under management.
[17] This does not include acquisitions or divestments of shares in companies holding specific properties.
[18] This is on the basis that the FM bears the risks and rewards arising from holding title to the units.

his GST return, the value of exempt supply arising from the sale of units under a unit trust, including any fees charged for the sale of units.

FM as an agent

4.10. The FM is treated as an agent for the sale of units[19] if:

a) He does not operate a manager's box to hold units in his own name for sales to investors; and
b) The trust deed between the FM and the trustee does not explicitly indicate that the FM is acting in the capacity of a principal for the sale of units.

4.11. If the FM acts as an agent for the sale of units, the units are regarded as sold by the trustee of the unit trust as the principal. Accordingly, the exempt supply of the sale of units is made by the trustee. The FM is not required to report the sale of units to investors as his exempt supply in his GST return. However, he would need to report the fees received for his services performed as an agent as they represent taxable supplies made.

GST treatment of front-end load / sales charge

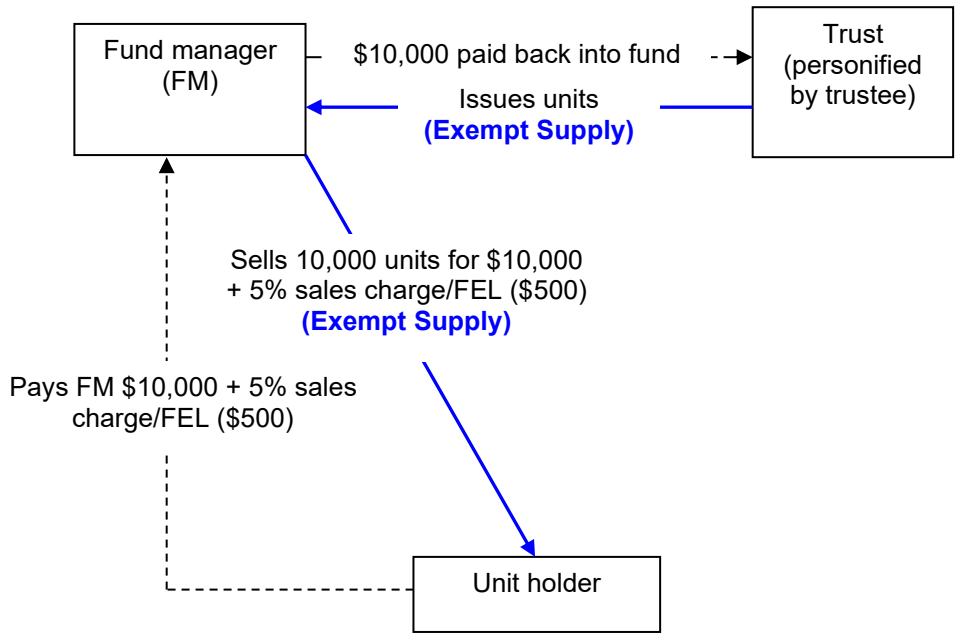
4.12. The FM can sell units to investors directly or through a distributor (e.g. a bank).

FM sells units to investors directly as a principal

4.13. When the FM sells units to the unit holders as a principal, the FM charges an initial sales charge commonly known as the front-end load ("FEL") to the unit holder. The FEL is charged to cover distribution and marketing expenses arising from the issuance of the units and is retained by the FM as his trading profit.

[19] This does not include instances where the FM acquires units in his own right and sells these units (e.g. in proprietary trades).

Example 5: FM as principal sells units directly without any distributor



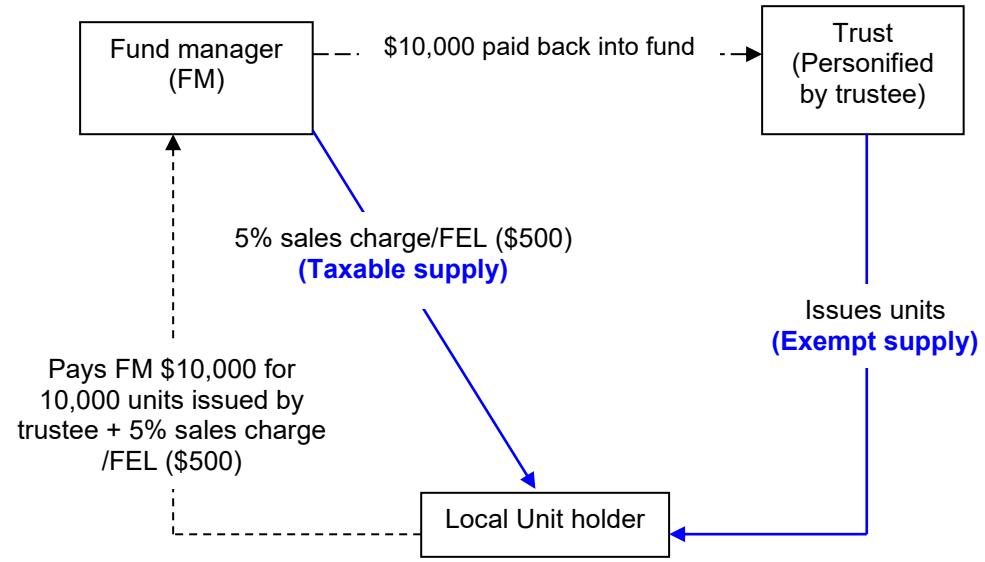
In this example, the FM is required to report $10,500 as his exempt supplies.

4.14. When the FM sells units as a principal to the unit holders as highlighted in paragraph 4.8, the FEL is treated as part of the consideration from the sale of units and forms the FM's exempt supply. This is regardless of whether the FM appoints a distributor to sell the units (refer to paragraph 5.1) or not.

FM sells units to investors as an agent

4.15. When the FM sells units as an agent to the unit holders, the FM would also generally charge an initial sales charge / FEL to the unit holder. In such cases, the FM is treated as making a supply of services in facilitating the issue / subscription of units to the unit holders in return for the sales charge / FEL charged. The FM should determine the GST treatment of the sales charge / FEL based on the belonging status of the unit holders.

Example 6: FM as an agent sells units directly without any distributor



In this example, the FM is required to report $500 as his taxable supplies.

FM sells units to investors as an agent and appoints a distributor

4.16. If the FM appoints a distributor to help promote and sell units of the unit trust, the FM may not know the identity of the unit holders and therefore, is unable to determine their belonging status for the purpose of determining the GST treatment of the sales charge / FEL (i.e. standard-rate or zero-rate).

4.17. In cases where the identity of the end unit holders is not available, the FM may use the belonging status of the registered unit holders as a proxy to determine the belonging status of the end unit holders. Specifically, the FM may use the mailing address of the registered unit holders to determine the belonging status of the registered unit holder[20].

4.18. As an administrative concession, the FM need not issue tax invoices / receipts for the sales charge / FEL where a proxy is applied to determine the belonging status of the end unit holders.

Cancellation of units within 7 days from the date of purchase

4.19. Under the MAS guidelines "Notice on Cancellation Period for Collective Investment Schemes Constituted as Unit Trusts", the unit holder may cancel his purchase of units within 7 days from the date of purchase. The unit holder is refunded the sales charge / FEL and has to bear losses (if any) arising from the differences in prices between the time the units were purchased and the time the units were cancelled. However, the unit holder is not entitled to any upside gains arising from price movements. The gains are instead retained in the unit trust.

[20] For the purposes of applying the proxy, the FM may use the mailing address of the registered unit holders as at the end of the accounting period. If the FM is able to obtain information from the Registrar on the registered unit holders' mailing address earlier, the FM may use such mailing addresses then instead of at the end of the accounting period.

4.20. When the FM acts as an agent for the sale of units, there are no GST implications arising from the cancellation of units during the 7-day cooling period.

4.21. However, when the FM acts as a principal for the sale of units, the FM is treated as purchasing the units back from the unit holders and then selling the units back to the unit trust for cancellation. The FM is required to record the sale of units to the unit trust as his exempt supplies.

Recovery of losses from the unit holder

4.22. As the unit holder is required to bear any losses from the price movements resulting from the cancellation of his purchase, the FM would recover the difference in price movements (i.e. losses) from the unit holders and put the amount recovered from the unit holder back into the unit trust fund such that other unit holders are not affected by the cancellation.

4.23. For GST purposes, the FM is regarded as not making a supply to the unit holders when recovering such losses from the unit holders.

CPF failed trades

4.24. For purchases of units with money from CPF accounts, the FM should ensure that there are sufficient funds in the CPF account of the investor before units are issued to the investor. However, some FMs may arrange for units to be issued to the investor without making prior checks on the investor's CPF accounts. The units created would have to be cancelled when the CPF account of the investor has insufficient funds.

4.25. Unlike the scenario in paragraph 4.19, there is no requirement for the investor to bear the loss arising from the cancellation of units for CPF failed trades since the cancellation did not arise from his decision to cancel the purchase. The gains or losses arose as a result of the business decision of the FM to take on the risk of creating units for the investor without confirming that there are sufficient funds in the investor's account. The market practice is for the FM to retain any gains or losses arising from such CPF failed trades.

4.26. Since the FM bears the risks and rewards of units issued under CPF failed trades, the FM is treated as a principal in the transaction. The units issued for the investor are treated as having been transferred to the FM and then transferred back to the unit trust for cancellation. The FM is required to report the net gains or losses arising from the CPF failed trades as his exempt supplies[21].

[21] This is an exception made for CPF failed trades in view of the industry practice. For normal sales of units as a principal, the FM is still required to report the gross proceeds received from the sale of units as his exempt supplies.

GST treatment on realization charge

4.27. The FM is treated as making a supply of service to the unit holders in facilitating their sale / redemption of units in return for the realization charge imposed on the unit holders. As such, the realization charge amounts to a taxable supply made to the unit holders. The FM should determine the GST treatment of the realization charge (i.e. standard-rate or zero-rate) based on the belonging status of the unit holders.

5. Distribution Services In Respect Of Unit Trusts

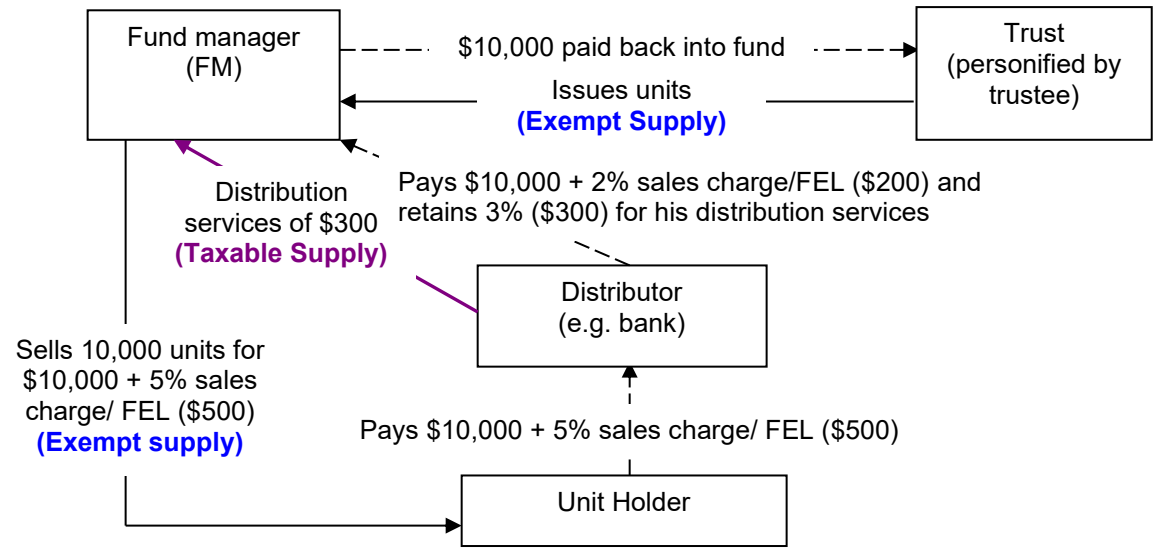
Distribution services engaged by FM

5.1. The FM may appoint a local distributor (e.g. a bank, an asset management company or a security firm) to help promote and sell units of the unit trust[22]. The distributor usually acts as the point of contact between the FM and the unit holder and collects the sales charge / FEL from the unit holders. Although the distributor collects the sales charge / FEL on behalf of the FM, the FM should treat the total amount of sales charge / FEL collected as his taxable supplies.

5.2. The distributor usually retains part of the sales charge collected from the unit holder as his commission for his distribution services (e.g. arranging for sale of units). The fees retained constitute consideration for taxable supplies made by the distributor[23]. The distributor is required to issue tax invoices to charge and account for GST on his distribution services made to the FM.

[22] The distribution agreement between the FM and the distributor represents a contract for service.
[23] The GST treatment of distribution services provided by distributors does not change whether the FM acts as a principal or an agent for the sale of units.

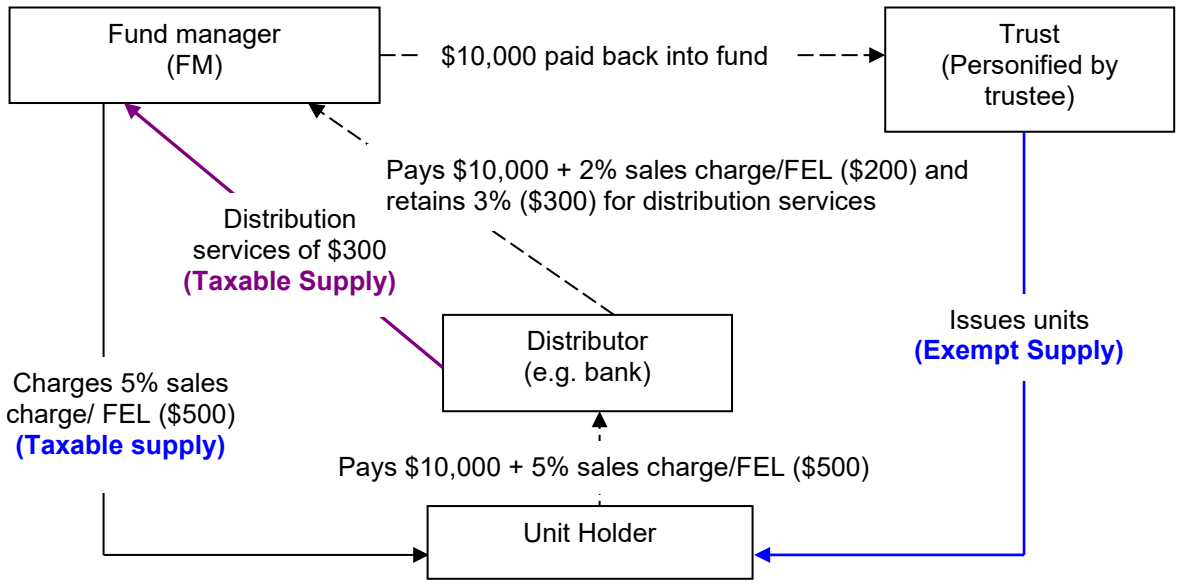
Example 7: FM as a **principal** sells units through a distributor



In this example, the distributor collects $500 as FEL from the unit holder, retains $300 as commission for his distribution services and returns $200 back to the FM. For GST purposes, the FM is required to report $10,500 (including 5% FEL collected) as his exempt supplies as he is acting as a principal for the sale of units. The distributor is required to charge and account for GST on the value of distribution services provided (i.e. $300).

The FM is not allowed to claim input tax on the distribution services since he is making an exempt supply from the sale of units.

Example 8: FM as an **agent** sells units through a distributor



In this example, the distributor collects $500 as FEL from the unit holder, retains $300 as commission for his distribution services and returns $200 back to the FM. For GST purposes, the FM is required to report $500 (5% FEL collected) as his taxable supplies as he is acting as an agent for the sale of units. This is so although the FM receives only $200 from the distributor. The distributor is required to charge and account for GST on the value of distribution services provided (i.e. $300) to the FM.
The FM is entitled to claim input tax on the distribution services received.

5.3. In some instances, the distributor may give a "discount"[24] to the unit holder by collecting a lower amount of sales charge / FEL than the amount stated in the prospectus or the trust deed. Consequently, the distributor retains a lower amount as its distribution commission.

Value of supply to be reported by the FM in the GST return

5.4. If the distributor gives a "discount" to the unitholder on his own accord, the FM should report the total amount of sales charge / FEL he is entitled to receive as provided in the trust deed (see example 8A). This is because the discount is not given to the unitholder by the FM.

5.5. On the other hand, if the FM agrees to give the discount to the unitholder through the distributor[25], the FM can report the reduced amount collected by the distributor as his value of supply (see example 8B).

5.6. However, if the "discount" is given by the distributor on his own accord to the unit holder and not by the FM to the unit holder, the FM should report the total amount of sales charge / FEL he is entitled to receive as provided in the trust deed.

Value of supply to be reported by the distributor in the GST return

5.7. The value of distribution services to be reported by the distributor is dependent on whether the distributor agreed to give a discount to the FM on his distribution services.

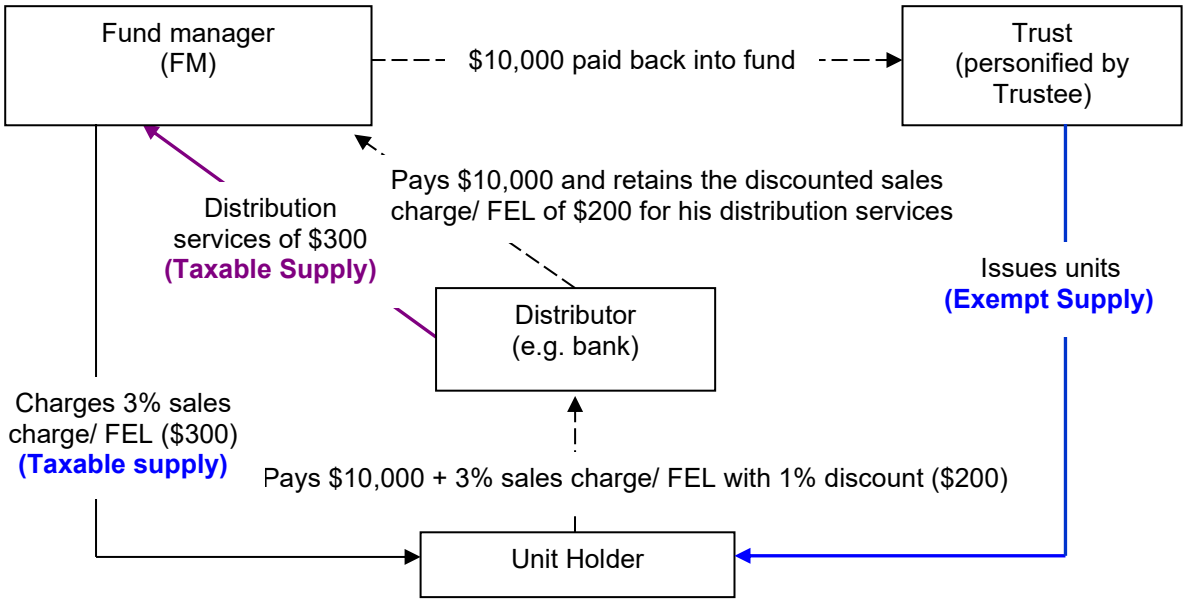
5.8. If the distributor gives up a portion of his distribution commission due from the FM as a "discount" to the unit holder, the value of his supply to the FM remains unchanged as per the distribution agreement. The distributor should report the total value (before the "discount") that he is entitled to receive as provided in the distribution agreement. This is notwithstanding that the distributor retains a reduced amount as his distribution commission (see example 8A).

5.9. However, if the distributor agrees to give a discount on his distribution services to the FM and it is explicitly provided in the distribution agreement that the distributor's commission will be correspondingly reduced by the "discount" given to the unit holder, the distributor can report the reduced amount of sales charge / FEL retained as his distribution commission (see example 8B).

[24] As the distributor is not making any taxable supply to the unit holder, the distributor is not regarded as giving a discount on any supply to the unit holder.

[25] IRAS understands that it is an industry practice for the fund managers to give blanket approval to allow distributors to give discounts on the sales charge/ FEL without the distributors' specific request. This is so although the agreements may state that the sales charge/ FEL can only be reduced upon request. IRAS is prepared to accept that the fund manager agrees to give the discount if the industry practice is adhered to, i.e. as long as the agreements provide that the sales charge/ FEL can be reduced.

Example 8A: FM as an **agent** sells units through a distributor & **distributor collects a reduced amount** of FEL from unit holder



In this example, the percentage of FEL to be imposed by the FM as stated in the trust deed/distribution agreement is 3%. The distributor, on his own accord, gives a 1% 'discount' to the unit holders out of the distribution commission he is entitled to receive. The distributor did not agree to give the FM a discount on his distribution services.

GST implications for the distributor

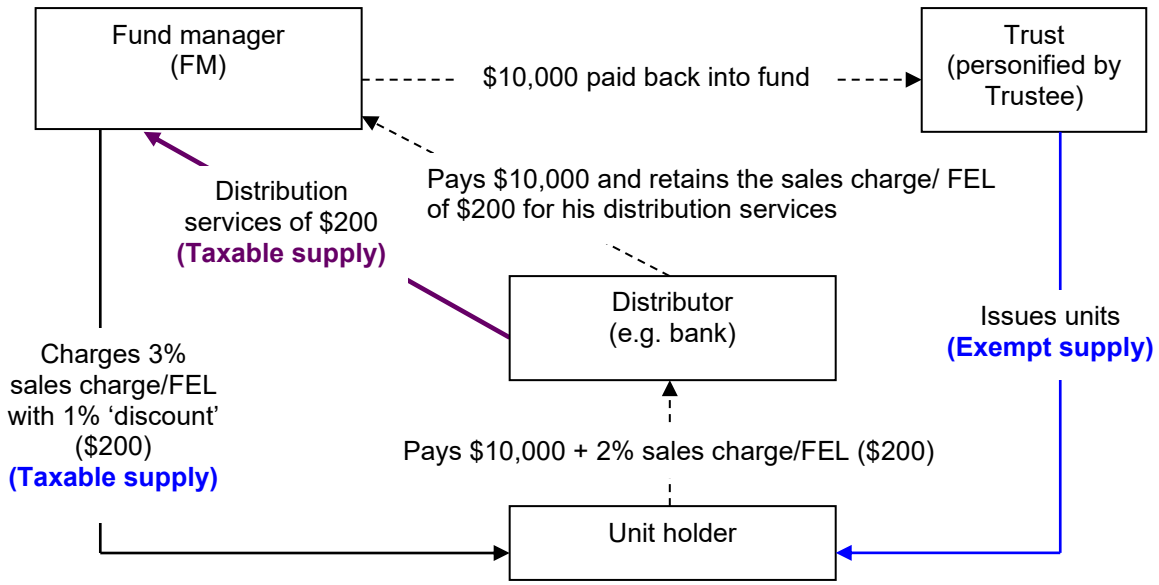
As the distributor is not giving a discount on his distribution services to the FM, he should still account for GST on his distribution services of $300 to the FM. This is notwithstanding that he collects only $200 FEL from the unit holder.

GST implications for the FM

The FM is required to account for GST on the total FEL he is entitled to receive (i.e. 3%), even if only 2% is collected by the distributor on behalf of the FM. This is based on the assumption that the FM did not agree to give the discount to the unit holder and that it was the unilateral decision of the distributor to collect a lower amount from the unit holder.

The FM is entitled to claim the GST incurred on the distribution services.

Example 8B: FM as an **agent** sells units through a distributor, **fund manager gives a discount** on FEL to unit holder and the distributor agrees to accept a lower amount of distribution commission



In this example, the percentage of FEL to be imposed by the FM as stated in the trust deed/distribution agreement is 3% and the FM agrees to give up 1% of FEL in order to entice potential unit holders. The distribution agreement also provides that the *distributor's commission will be correspondingly reduced by the discount*. Hence, the distributor retains $200 as commission for his distribution services.

GST implications for the distributor

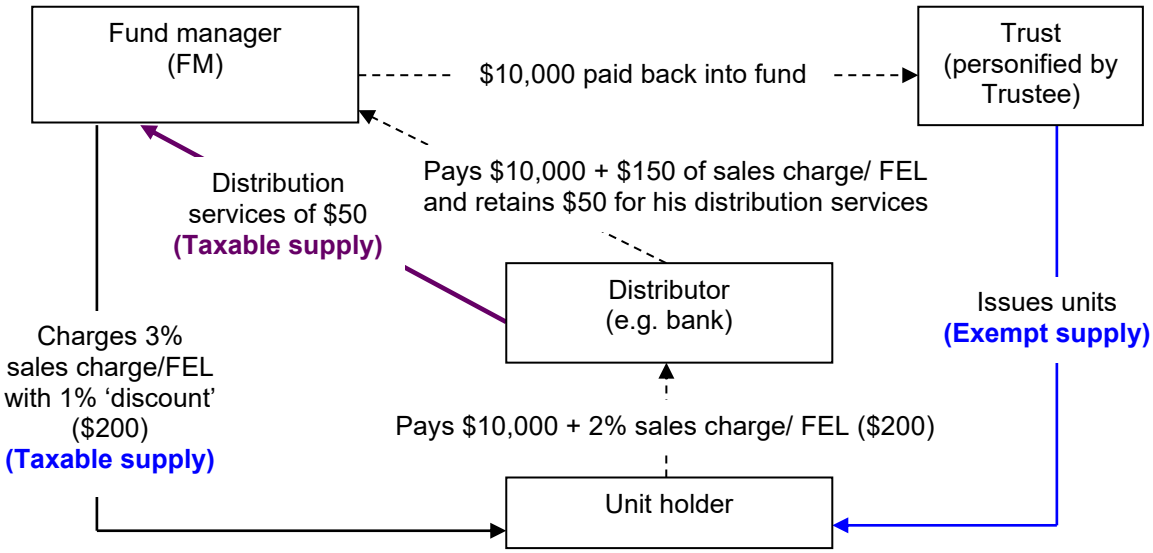
Since the distributor agrees to accept a reduced amount of distribution commission (i.e. $200 instead of $300), he should account for GST on his distribution services of $200 to the FM.

GST implications for the FM

Since the FM agreed to give the discount on FEL, the FM should account for GST on the discounted FEL of 2%, even though the distributor does not remit any FEL to him.

The FM is entitled to claim GST incurred on distribution services received.

Example 8C: FM as an **agent** sells units through a distributor, **fund manager gives a discount** on FEL to unit holder and value of distribution commission is fixed



In this example, the percentage of FEL to be imposed by the FM as stated in the trust deed/distribution agreement is 3% and the FM agrees to give up 1% of FEL in order to entice potential unit holders. The distribution agreement provides that the *distributor's commission will be $50*. The distributor retains $50 as commission for his distribution services and returns the remaining $150 back to the FM.

GST implications for the distributor

The distributor should account for GST on his distribution services of $50 to the FM, regardless of the FEL amount collected from the unit holder.

GST implications for the FM

Since the FM agreed to give the discount on FEL, the FM should account for GST on the discounted FEL of 2%, although he receives only $150 from the distributor.

The FM is entitled to claim GST incurred on distribution services received.

Distribution services supplied by FM

5.10. Sometimes, a FM ("A") can appoint another FM ("B") to distribute units for his unit trusts. In this case, FM B acts as a distributor and receives commission from FM A. The commission received by FM B for his distribution services constitutes consideration for a taxable supply of services subject to GST[26]. FM B should issue tax invoices for his distribution services performed.

5.11. If FM A belongs outside Singapore for GST purposes, FM B can zero-rate his distribution services to FM A.

[26] B should charge GST on his distribution services whether or not A is acting as a principal or agent for the sale of units.

6. Brokerage Services Received By FM

Background

6.1. While making investments on behalf of his client, the FM would engage the services of a stockbroker and instruct the stockbroker to carry out trades. The stockbroker would charge brokerage fees for its broking services. For confidentiality reasons, the FM usually does not disclose the identity of his client when buying or selling shares on his client's behalf.

6.2. If a direct contractual relationship exists between the FM and the broker[27], the broking service is treated as directly supplied by the broker to the FM and not to the client for GST purposes, even if the stockbroker is aware that the FM is acting on the instructions of his client. The FM's client is regarded as a direct beneficiary of the stockbroker's services for the purpose of zero-rating under Section 21(3)(j)[2].

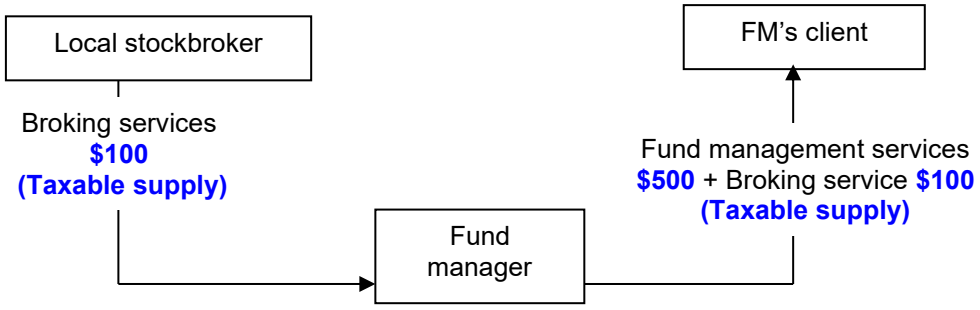
6.3. Hence, the stockbroker is able to zero-rate his supply of brokerage services only when both the FM and the FM's client are overseas persons.

6.4. If the FM recovers the brokerage fees from his client, this is a separate supply of brokerage service provided by the FM to the client.

GST treatment of brokerage services in respect of securities traded on local exchanges

6.5. When the broker provides services to the FM, he should charge GST on his brokerage services. The FM will claim input tax on the brokerage fees incurred, subject to the input tax recovery rules. When the FM recovers the brokerage fees from his client, he should charge and account for GST unless the client belongs outside Singapore (i.e. zero-rated).

Example 9: Stockbroker provides services to FM

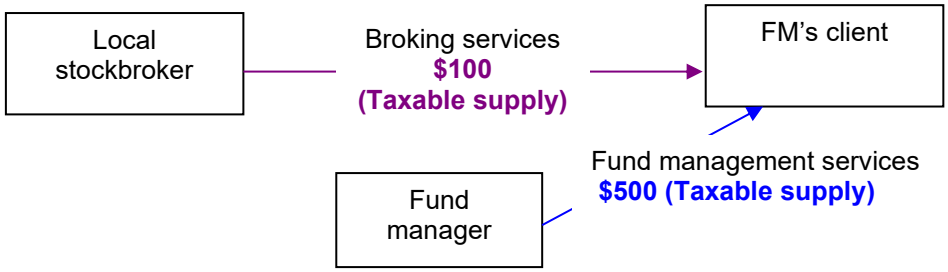


In this example, the FM should account for GST on the total amount of $600.

6.6. However, if the FM's client has opened a trading account with the stockbroker in his own name, such that a direct contractual relationship exists between the broker and the FM's client, the stockbroker can treat his broking services as supplied directly to the client and not to the FM (as opposed to paragraph 6.2).

[27] A direct contractual relationship would exist if the trading account is opened by the FM with the stockbroker.

Example 10: Stockbroker supplies services directly to FM's client



In this scenario, the FM should charge and account for GST on $500.

GST treatment of brokerage and other related costs in respect of shares traded on overseas exchange

6.7. The FM, broker or bank (collectively referred to as the "Local Broker") may engage services from overseas brokers for shares traded on overseas exchanges and onward charge the overseas brokerage charges to his client. The Local Broker may thereafter receive a rebate from the overseas broker.

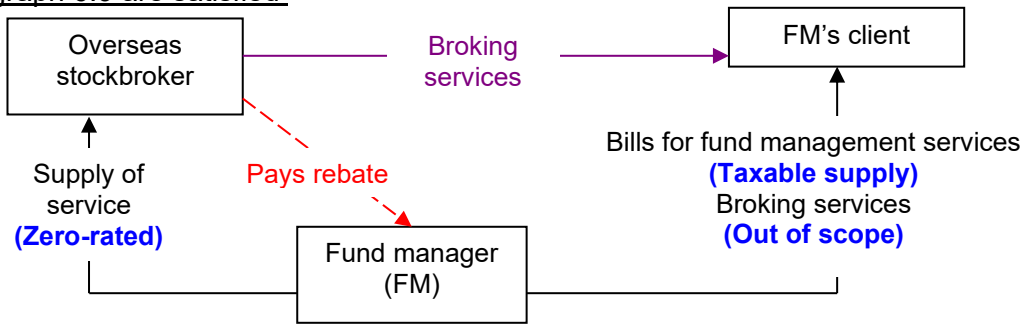
Before 1 Jan 2023

6.8. As an administrative concession[28], Local Brokers are treated as agents in receiving stockbroking services for shares traded on overseas stock exchanges.

6.9. The Local Broker can treat the recovery of the overseas brokerage from the client as an out-of-scope supply if the following criteria are satisfied:

a) The shares are listed on overseas exchanges;
b) The Local Broker did not incur any GST on the overseas brokerage services; and
c) The Local Broker does not impose a mark-up on the recovery. If there is a mark-up, only the mark-up will be subject to GST. The mark-up should be shown separately on the tax invoice issued by the Local Broker. Otherwise, both the overseas brokerage and the mark-up are subject to GST.

Example 11: For shares traded on overseas exchange & the qualifying conditions in paragraph 6.9 are satisfied



[28] The administrative concession was granted to all companies (e.g. banks and brokers) in Singapore that are involved in the buying and selling of shares on behalf of clients. It only covers shares traded on overseas exchanges.

6.10. The recovery of other costs (e.g. clearing fees and stamp duties) relating to shares traded through overseas exchanges will similarly not be subject to GST.

6.11. The rebate that the Local Broker is entitled to receive from the overseas broker is treated as consideration for a zero-rated supply made to the overseas broker (for bringing business to the overseas broker).

From 1 Jan 2023

6.12. The administrative concession will be removed with effect from 1 Jan 2023[29].

6.13. The GST treatment of recovery of overseas brokerage for shares traded on overseas exchanges and other related costs will depend on whether the costs are incurred by the Local Broker as a principal or an agent. Similar to the principles in paragraph 6.2, if a direct contractual relationship exists between the overseas supplier and the Local Broker, the supply of services is treated as made by the overseas supplier to the Local Broker as a principal and not to the client for GST purposes.

Overseas brokerage services contracted by the Local Broker

6.14. Where the Local Broker contracts with the overseas brokers for the overseas brokerage services, the Local Broker is acting as a principal in procuring the overseas brokerage services.

6.15. If the Local Broker is a Reverse Charge ("RC") Business[30], the Local Broker is not required to apply RC on the overseas brokerage if the overseas brokerage is directly attributable to the Local Broker's taxable supply of brokerage services to its end-clients. This is so unless he is accorded a fixed input tax recovery rate (FITR) or special input tax recovery (SITRF) formula that does not require him to perform direct attribution of input tax.

Custodial services and other overseas costs

6.16. Generally, overseas shares are purchased and held under a custodian nominee's name. The custodian is usually engaged by the Local Broker to hold the shares and cover administrative tasks, such as settlement of trades and processing of corporate actions[31]. The Local Broker is charged a custodial fee in return for a supply of services supplied by the custodian.

[29] This will apply to all companies (e.g. banks and brokers) in Singapore that are involved in the buying and selling of shares on behalf of clients.

[30] In general, an RC Business refers to a GST-registered person that is not entitled to full input tax credit or belongs to a GST group that is not entitled to full input tax credit. They include financial institutions that are accorded fixed input tax recovery rates or special input tax recovery formula. An RC Business must account for GST on the value of his imported services as if he is the supplier with effect from 1 Jan 2020. He can claim the GST accounted for on the imported services based on his normal input tax formula. For more information, please refer to the e-Tax guide on "GST: Taxing imported services by way of reverse charge".

[31] A public-listed company may take corporate actions that may affect its shareholders. Such corporate actions may include dividend payments, rights issue and bonus share issue. The custodian nominee is the registered shareholder and the listed company has no information of the end-client that owns the beneficiary interest in the shares. Therefore, the custodian nominee is responsible for responding to the corporate actions in accordance with the instructions received from the Local Broker. Due to the corporate

6.17. Besides the overseas brokerage and custodial fees, overseas stock exchanges and tax authorities (collectively referred to as "the overseas entities") may impose fees, charges, stamp duty and other taxes (collectively referred to as "the overseas costs") relating to the trading of shares and corporate actions. These overseas costs are generally payable by the overseas brokers and custodian nominees who would then recover such charges from the Local Broker.

6.18. When the Local Broker recovers the overseas costs from the end-client subsequently, the recovery of such costs forms part of the Local Broker's supply of brokerage and custodial services that is subject to GST[32]. For more details, please refer to Annex B.

6.19. In the event that the Local Broker is acting as the custodian and is liable to pay for the overseas costs to the overseas exchanges and tax authorities, if the Local Broker is not accorded the FITR or SITRF, he is not required to apply RC on the overseas costs, regardless of who is liable to pay for such costs, as these costs are directly attributable to the making of taxable supplies (i.e. supply of brokerage services to end-clients). Conversely, if the Local Broker is an RC Business that is accorded the FITR or SITRF, the Local Broker generally is required to apply RC on overseas costs[33] which are not excluded from the scope of RC[34].

Overseas brokerage and custodial services contracted by client and other overseas costs

6.20. If a direct contractual relationship exists between the overseas entities and the Local broker's client such that the client is liable to pay the overseas brokerage and custodial costs to the overseas broker and custodian or the overseas costs to the respective overseas entities directly, the client is acting as the principal in each instance. The Local Broker is not required to apply RC on the overseas brokerage, custodial or overseas costs as the Local Broker is merely paying the costs on its client's behalf. The Local Broker's recovery of the overseas brokerage, custodial or overseas costs from its client would constitute a disbursement which is not subject to GST[35]. If it is unclear who is liable to pay for the overseas brokerage or overseas costs, the Local Broker can take the prudent approach to subject the recovery of such costs to GST[36].

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actions, the overseas entities may impose overseas costs on overseas custodian nominees and brokers (if the corporate action involves the buying and selling of shares). These overseas costs can be similar to those incurred during the share purchase. The custodian may bill the Local Broker additional fees for handling the corporation actions.

[32] Please refer to Annex B - Scenario A for the GST treatment of the recovery of overseas costs incurred by overseas broker and custodian.

[33] The Local Broker will be able to claim a portion of the GST on the overseas brokerage cost as his input tax based on the FITR or SITRF accorded.

[34] Please refer to Annex B - Scenario B for the GST treatment of the recovery of overseas costs incurred by the Local Broker.

[35] If the client is an RC business, the client would need to establish whether each of the costs constitutes a consideration for a supply of service made to the end-client and whether they fall within the scope of RC and apply RC accordingly.

[36] Please refer to Annex B - Scenario C for the GST treatment of the recovery of overseas costs incurred by the client.

7. Soft Dollar Commission

Background

7.1. It is common in the fund management industry that stockbrokers will fund certain expenses[37] incurred by the FMs in recognition of the business that the FMs will bring in for the stockbrokers. This funding is known as the 'soft dollar commission'.

7.2. Under the soft dollar arrangement, the FM is awarded soft dollar commission, the value of which is equivalent to a percentage of the commission earned by the stockbroker from the FM. The FM may utilize the soft dollar credits to exchange for free goods or services of the equivalent dollar amount. The stockbroker would then adjust the value of soft dollar credits upon redemption.

7.3. Generally, the FM can utilize his soft dollar commission by obtaining goods or services from the stockbroker. The stockbroker may purchase the goods or services from third party suppliers and onward supply to the FM. Alternatively, the FM can utilize his soft dollar commission by obtaining goods or services from third party suppliers directly.

GST treatment of soft dollar commission received from stockbrokers

7.4. If there is no direct contractual relationship between the FM's client and the stockbroker, the stockbroker provides stockbroking services directly to the FM and gives the FM soft dollar commission.

7.5. The stockbroker would have accounted for GST on his stockbroking services taking into account the soft dollar commission including any supplies of goods and services procured from third party suppliers to be given to the FM.

7.6. Hence, the soft dollar commission given to the FM would not trigger any separate supply made by the stockbroker. It shall be treated as part of the original supply of stockbroking services provided by the stockbroker. The stockbroker should not reduce the value of stockbroking services and the corresponding output tax previously accounted on his stockbroking services. This applies to both examples 12 and 13.

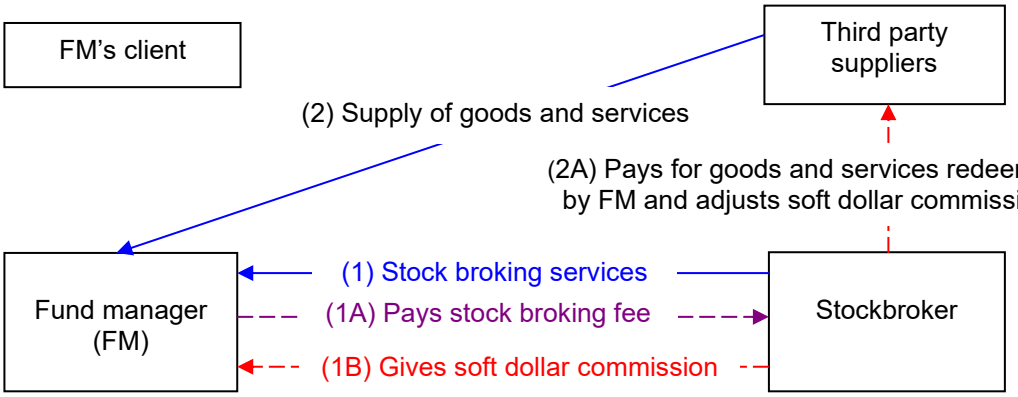
GST implications upon utilization of soft dollar commission

7.7. As explained in paragraph 7.3, the FM can choose to utilize his soft dollar commission by obtaining goods or services from the stockbroker or third party suppliers.

[37] Based on the Code of Ethics & Standards of Professional Conduct issued by Investment Management Association of Singapore (IMAS), soft dollars are awarded to the FM based on certain qualifying conditions. Stockbrokers can only provide goods and services in relation to the provision of investment services, such as research and advisory services, economic and political analyses, portfolio analyses, market analyses, data and quotation services, computer hardware and software etc. but do not include travel, accommodation and entertainment expenses, membership fees, employees' salaries or direct monies payments / rebates.

7.8. If the FM contracts directly with a third party for the supply of goods and services, the FM is entitled to claim the GST incurred on the supply of goods and services as his input tax, subject to the input tax recovery rules. This is notwithstanding that the stockbroker makes payment for the goods and services to the third party suppliers as this is viewed as a third party payment.

Example 12: Stockbroker supplies brokerage services to FM and FM contracts directly with third party suppliers



GST Implications for the FM

In this example, the stockbroking services are supplied directly to the FM. Based on paragraph 7.6, the soft dollar commission given to the FM is treated as part of the supply of stockbroking services provided to the FM. The FM is not making a separate supply to the stockbroker when he receives soft dollar commission from the stockbroker.

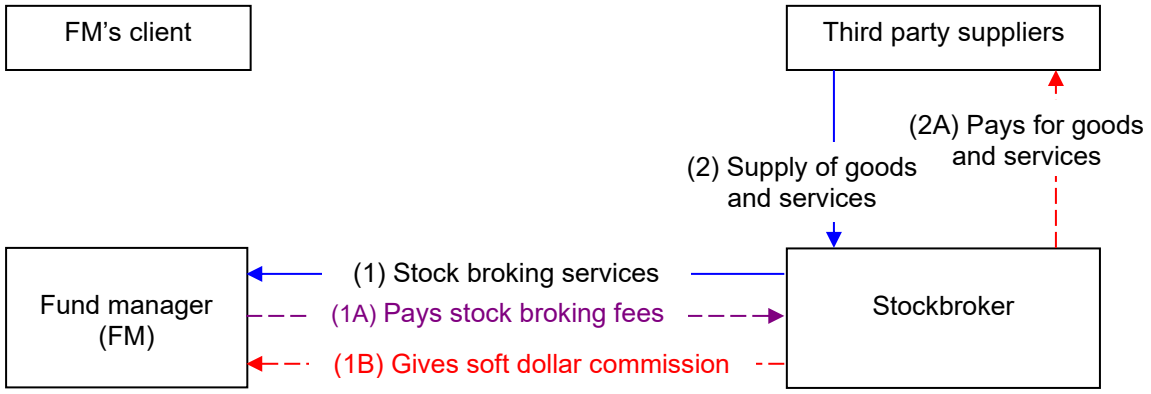
As the FM has contracted directly with the third party suppliers for the supply of goods and services, the FM is entitled to claim GST incurred on the supply of goods and services, subject to the input tax recovery rules.

GST Implications for the stockbroker

The stockbroker is merely making payment to the third party suppliers on behalf of the FM. Thus, the stockbroker is not entitled to any input tax claims paid on the goods and services provided by the third party suppliers.

7.9. If the FM redeems his soft dollar commission by obtaining goods and services from the stockbroker instead of third party suppliers, the stockbroker is not required to charge and account for GST on the redeemed goods and services. As highlighted in paragraph 7.5, the stockbroker would have taken into account the goods and services purchased from third party suppliers to be given to the FM and accounted for GST upfront when he supplied his stockbroking services to the FM. Hence, the FM's procurement of goods and services via the redemption of soft dollar commission from the stockbroker is treated as part of the supply of the stockbroking services to the FM.

Example 13: Stockbroker supplies brokerage services to FM & purchases goods and services to give to FM



GST Implications for the FM

In this example, the stockbroking services are supplied directly to the FM. Based on paragraph 7.6, the soft dollar commission given to the FM is regarded as part of the supply of stockbroking services provided to the FM. The FM is not making a separate supply to the stockbroker when he receives soft dollar commission from the stockbroker.

The FM is entitled to claim GST incurred on the supply of stockbroking services provided by the stockbroker, subject to the normal input tax recovery rules.

GST Implications for the stockbroker

Based on paragraph 7.5, the supply of goods and services is regarded as part of the supply of stockbroking services provided by the stockbroker and the stockbroker would have accounted GST upfront on his stockbroking services to the FM. Thus, the stockbroker is not required to charge and account for GST on the value of goods and services made available to the FM when the soft dollar commission is redeemed.

As the stockbroker contracted with third party suppliers for the supply of goods and services, the stockbroker is entitled to claim input tax incurred on the goods and services purchased from third party suppliers.

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	18 Mar 2015	(i) Amended paragraph 3 to provide new information on fund management services provided to clients other than a unit trust (ii) Inserted Annex A to provide a summary of GST treatment for services supplied to a fund (iii) Made editorial amendments to paragraphs 4.17 and 6.7(b)
2	1 Sep 2016	(i) Amended paragraphs 6.2 and 6.3 to clarify that a stock broker can only zero-rate his services if both the fund manager and its customer belong overseas.
3	11 Feb 2022	(i) Amended footnote 2 to clarify that with effect from 1 Jan 2020, zero-rating of services under Section 21(3)(j) is extended to services that directly benefit GST-registered persons belonging in Singapore (ii) Amended footnote 9 to clarify that for funds constituted as a limited partnership, there is no need for the GP to also meet the incentive conditions for S13U (formerly S13X) (iii) Inserted paragraphs 6.7 to 6.20 and Annex B to explain the removal of administrative concession for overseas traded shares and clarify GST treatment of recovery of overseas brokerage and other related costs with effect from 1 Jan 2023

Annex A: GST treatment for services (other than a trust fund) supplied to a fund on or after 1 Apr 2015

Scenario	Establishments of a fund (other than a trust fund)*			Place of incorporation or registration of the fund	GST treatment for services supplied to the fund on or after 1 Apr 2015
	Does the fund have its own administration office with employees?	Does the fund conduct board meetings at a fixed place on a regular basis?	Does the fund wholly rely on a SFM to carry on its business?		
1	No	No	No	Overseas	Zero-rated+
2	No	No	No	Singapore	Standard-rated#
3	No	No	Yes	Overseas	Supplier is granted a remission of GST chargeable if the conditions are satisfied (refer to paragraph 3.13).
4	No	No	Yes	Singapore	Standard-rated#
5	No	Overseas	No	Overseas	Zero-rated+
6	No	Overseas	No	Singapore	Zero-rated+
7	No	Overseas	Yes	Overseas	Supplier is granted a remission of GST chargeable if the conditions are satisfied (refer to paragraph 3.13).
8	No	Overseas	Yes	Singapore	The board of directors gives rise to a FE outside Singapore. Fund management service used by the board of directors to make investment decisions for the fund can be zero-rated+. Other supplies of services are standard-rated#.
9	No	In Singapore	No	Overseas	Standard-rated#
10	No	In Singapore	No	Singapore	Standard-rated#
11	No	In Singapore	Yes	Overseas	Standard-rated#
12	No	In Singapore	Yes	Singapore	Standard-rated#
13	Overseas	No	No	Overseas	Zero-rated+

* The fund is assumed to have no BE and FE other than those listed in the table.

+ This is provided that the services supplied satisfy all conditions stipulated under section 21(3)(j) of the GST Act. Please refer to footnote 2.

This is unless the services are directly in connection with land or goods situated outside Singapore, which qualify for zero-rating under section 21(3)(e) or 21(3)(f).

Scenario	Establishments of a fund (other than a trust fund)*			Place of incorporation or registration of the fund	GST treatment for services supplied to the fund on or after 1 Apr 2015
	Does the fund have its own administration office with employees?	Does the fund conduct board meetings at a fixed place on a regular basis?	Does the fund wholly rely on a SFM to carry on its business?		
14	Overseas	No	No	Singapore	Zero-rated+
15	Overseas	Overseas	No	Overseas	Zero-rated+
16	Overseas	Overseas	No	Singapore	Zero-rated+
17	Overseas	In Singapore	No	Overseas	The board of directors gives rise to a FE in Singapore. Fund management service used by the board of directors to make investment decisions for the fund is standard-rated. Other supplies of services are zero-rated+.
18	Overseas	In Singapore	No	Singapore	
19	In Singapore	No	No	Overseas	Standard-rated#
20	In Singapore	No	No	Singapore	Standard-rated#
21	In Singapore	Overseas	No	Singapore	The board of directors gives rise to a FE outside Singapore. Fund management service used by the board of directors to make investment decisions for the fund can be zero-rated+. Other supplies of services are standard-rated#.
22	In Singapore	Overseas	No	Overseas	
23	In Singapore	In Singapore	No	Overseas	Standard-rated#
24	In Singapore	In Singapore	No	Singapore	Standard-rated#

* The fund is assumed to have no BE and FE other than those listed in the table.
+ This is provided that the services supplied satisfy all conditions stipulated under section 21(3)(j) of the GST Act. Please refer to footnote 2.
# This is unless the services are directly in connection with land or goods situated outside Singapore, which qualify for zero-rating under section 21(3)(e) or 21(3)(f).

Scenario	Establishments of a fund (other than a trust fund)*			Place of incorporation or registration of the fund	GST treatment for services supplied the fund on or after 1 Apr 2015
	Does the fund have its own administration office with employees?	Does the fund conduct board meetings at a fixed place on a regular basis?	Does the fund wholly rely on a SFM to carry on its business?		
25	In Singapore and Overseas	No	No	Overseas	The fund has FEs both in and outside Singapore. The supplier needs to determine the FE which most directly uses the services supplied. Supplies of services most directly used by the FE(s) outside Singapore can be zero-rated+. Services most directly used by the FE(s) in Singapore are standard-rated#. If the board of directors gives rise to a FE in a country, the fund management service is treated as most directly used by the board of directors.
26	In Singapore and Overseas	No	No	Singapore	
27	In Singapore and Overseas	Overseas	No	Overseas	
28	In Singapore and Overseas	Overseas	No	Singapore	
29	In Singapore and Overseas	In Singapore	No	Overseas	
30	In Singapore and Overseas	In Singapore	No	Singapore	

* The fund is assumed to have no BE and FE other than those listed in the table.
+ This is provided that the services supplied satisfy all conditions stipulated under section 21(3)(j) of the GST Act. Please refer to footnote 2.
# This is unless the services are directly in connection with land or goods situated outside Singapore, which qualify for zero-rating under section 21(3)(e) or 21(3)(f).

Annex B: GST treatment of recovery of overseas costs from clients

Scenario A: GST treatment of recovery of overseas costs which overseas broker and custodian are liable to pay

Types of overseas costs	Overseas broker's recovery of overseas costs from Local Broker	Local Broker's subsequent recovery of overseas costs from client
(a) Overseas brokerage and custodial costs billed to Local Broker	If the Local Broker is an RC Business that is accorded the FITR or SITRF, the Local Broker needs to apply RC on the overseas brokerage and custodial costs billed by the overseas broker to the Local Broker.	The Local Broker's recovery of the overseas brokerage and the overseas costs from the client is a reimbursement and forms part of the Local Broker's primary supply of brokerage service which is subject to GST[37].
(b) Fees and charges imposed by overseas exchanges on overseas broker or buyer/ seller	The overseas broker's recovery of these costs from the Local Broker form part of the consideration of the services supplied to the Local Broker. If the Local Broker is an RC business that is accorded the FITR or SITRF, the Local Broker is required to apply RC on these costs [38].	
(c) Stamp duty imposed by overseas authorities on overseas broker or buyer/ seller[39]		
(d) Other taxes imposed by overseas authorities on overseas broker or buyer/ seller		

[38] The Local Broker is not required to apply RC on withholding tax that is deducted at source by overseas authorities on the distribution of dividends to shareholders. This is based on the understanding that the end-client that is receiving the dividend is paying the withholding tax to the overseas authorities. As such, the Local Broker is not required to charge GST to the end-client on the withholding tax.

[39] As the overseas custodian is the legal owner of the shares, the overseas custodian is liable to pay for the stamp duty.

Scenario B: GST treatment of recovery of overseas costs which the Local Broker is liable to pay

This scenario may arise if the Local Broker is contractually liable to pay for the overseas costs to the overseas exchanges and tax authorities, such as where the local broker acts as a custodian for the overseas shares. If so, the overseas broker is helping the Local Broker to pay for the fees and charges, stamp duty and overseas taxes to the overseas entities first. The overseas broker's recovery of these overseas costs from the Local Broker is a disbursement which falls outside the scope of GST.

Types of overseas costs	Overseas broker's recovery of overseas costs from Local Broker	Local Broker's subsequent recovery of overseas costs from client
(a) Overseas brokerage costs billed to Local Broker	If the Local Broker is an RC Business that is accorded the FITR or SITRF, the Local Broker needs to apply RC on the overseas brokerage costs billed by the overseas broker to the Local Broker.	The Local Broker's recovery of the overseas brokerage and the overseas costs* from the client is a reimbursement and forms part of the Local Broker's primary supply of brokerage service which is subject to GST. **The GST treatment of the recharged stamp duty will also follow that of the Local Broker's primary supply of brokerage service and be subject to GST. This is because Paragraph 12 of the Third Schedule to the GST Act applies only to a principal supply situation but not to the subsequent reimbursement of stamp duty.*
(b) Fees and charges imposed by overseas exchanges on overseas broker or buyer/ seller	The Local Broker needs to establish whether the costs fall within the scope of RC and apply RC accordingly. For example, if the fees and charges are regulatory in nature, they would fall outside the scope of RC, as there is no supply made by the overseas exchange to the Local Broker.	
(c) Stamp duty imposed by overseas authorities on overseas broker or buyer/ seller[40]	The Local Broker is not required to apply RC on the stamp duty, pursuant to Paragraph 12 of the Third Schedule to the GST Act[41].	
(d) Other taxes imposed by overseas authorities on overseas broker or buyer/ seller	Taxes imposed by overseas tax authorities are generally not regarded as supplies made for GST purposes. However, where the tax is imposed or levied by reason of the supply of the services (e.g. GST or VAT), the tax will form part of the value of the Local Broker's imported services which is	

[40] As the overseas custodian is the legal owner of the shares, the overseas custodian is liable to pay for the stamp duty.

[41] Paragraph 12 of the Third Schedule to the GST Act states that "where any taxes or duties other than goods and services tax, including entertainments duty, excise duty, betting and sweepstake duties, cess, film hire duty, lotteries duty and tax imposed under the Statutory Boards (Taxable Services) Act (Cap. 318) but excluding stamp duty are imposed or levied by reason of the supply of goods or services, the value of the supply shall include the amount of such taxes or duties".

Types of overseas costs	Overseas broker's recovery of overseas costs from Local Broker	Local Broker's subsequent recovery of overseas costs from client
	subject to RC, if the Local Broker is an RC Business that is accorded the FITR or SITRF[37].	

Scenario C: GST treatment of recovery of overseas costs which the client is liable to pay

This scenario will happen if a direct contractual relationship exists between the overseas entities and the Local broker's client such that the client is liable to pay the overseas brokerage and custodial costs to the overseas broker and custodian or the overseas costs to the respective overseas entities directly. The client is acting as the principal in this instance.

Types of overseas costs	Overseas broker's recovery of overseas costs from Local Broker	Local Broker's subsequent recovery of overseas costs from client
(e) Overseas brokerage and custodial costs billed by overseas broker to Local Broker's client.	The Local Broker is not required to apply RC on these costs, as the Local Broker is merely paying these costs on behalf of the Local Broker's client.	The Local Broker's recovery of these costs from the client would constitute a disbursement which is not subject to GST. The client may be required to apply RC on the imported services based on the normal rules. If it is unclear who is liable to pay for the costs, the Local Broker can take the prudent approach to subject the recovery of such costs to GST.
(f) Fees and charges imposed by overseas exchanges on Local Broker's client		
(g) Stamp duty imposed by overseas authorities on Local Broker's client		
(h) Other taxes imposed by overseas authorities on Local Broker's client		