INLAND REVENUE
AUTHORITY
OF SINGAPORE

IRAS e-Tax Guide

GST: Special input tax recovery method for banks
(Second Edition)

Published by
Inland Revenue Authority of Singapore

Published on 30 Jan 2026

First edition on 6 Mar 2024

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1 Aim

1.1 This e-Tax Guide explains the special input tax recovery method that licensed banks may opt to apply with effect from 1 Apr 2025, subject to approval by the Comptroller of GST (the "Comptroller"). The e-Tax Guide also clarifies the input tax recovery methods available to newly set-up banks and digital banks.

2 At a Glance

2.1 For administrative ease, banks are currently allowed to use an industry-wide fixed input tax recovery rate[1] ("FITR") to claim input tax incurred on their business expenses (excluding disallowed expenses under Regulations 26 and 27 of the GST (General) Regulations).

2.2 With effect from 1 Apr 2025, banks may opt to apply the special input tax recovery method which allows input tax attribution and apportionment (the "Special Method"), instead of the FITR. Banks which do not wish to opt for the Special Method will continue to use the FITR for their input tax claims, by default.

2.3 Banks that opt for the Special Method are required to submit an application to seek agreement from the Comptroller before applying the Special Method. **Once agreement is given and the bank commences to apply the Special Method, the bank must continue to apply the Special Method for future years and cannot revert to the FITR.**

2.4 Banks which have only a single business sector are generally required to apply the outputs-based method (explained in paragraph 5), whilst banks with more than one business sector must apply the sectoral method (explained in paragraph 6). Banks applying the sectoral method must seek the Comptroller's agreement on the bank's proposed business sectors, cost-allocation drivers and residual input tax apportionment methods. The proposed Special Method must result in a fair and reasonable input tax recovery outcome that best reflects the bank's use of input tax to make taxable and exempt supplies.

2.5 Reasonable proxies may be adopted to determine the value of zero-rated and exempt supplies, as well as the proportion of exempt supplies made to GST-registered persons, to ease the use of the Special Method.

[1] The fixed recovery rate is computed using proxy statistics provided by MAS annually. It varies according to the type of banking license and is reviewed annually.

3 Background

3.1 As a general rule, input tax can only be claimed if it is attributable to the making of taxable supplies. A taxable person who makes taxable and exempt supplies must therefore perform input tax attribution and apportionment such that he only claims so much of the input tax that is attributable to the making of taxable supplies. Input tax attributable to the making of exempt supplies cannot be claimed.

3.2 As banks make both taxable supplies and exempt supplies, banks are unable to claim input tax incurred on their business expenses in full. For administrative ease, banks are allowed to use an industry-wide FITR to claim input tax incurred on their business expenses (excluding disallowed expenses under Regulations 26 and 27 of the GST (General) Regulations).

3.3 Following industry feedback and consultation, IRAS recognises the concerns of some banks that a single FITR may be inappropriate for the profile and nature of their business. An input tax recovery method that allows them to perform input tax attribution, such that input tax directly attributable to the making of taxable supplies can be claimed in full, is more appropriate for these banks. At the same time, IRAS understands that most banks prefer to retain the existing input tax recovery method of a single FITR, which carries lower compliance costs, and to be given the option to choose between a single FITR and an alternative.

3.4 Considering the industry's diverse needs and preferences, banks other than newly set-up banks and digital banks may choose between either of the following input tax recovery methods with effect from 1 Apr 2025:

- <u>Option 1</u>: A single fixed input tax recovery rate for the entire bank. Each banking license type will have its own rate (the "FITR");

  OR

- <u>Option 2</u>: Special input tax recovery method which allows input tax attribution and apportionment, based on a sectoral method or outputs-based method (the "Special Method").

3.5 Banks which do not opt for the Special Method will continue to apply the FITR by default.

3.6 **<u>Banks under GST Group registration</u>**

3.6.1 The same option must be applied by all the members within a registered GST Group.

3.7 Approval required for newly set-up banks

3.7.1 Newly set-up banks refer to banks that obtained their banking license from the Monetary Authority of Singapore ("MAS") on or after 1 Apr 2025. Newly set-up banks must seek the Comptroller's agreement on the input tax recovery method they wish to adopt i.e., either the FITR or Special Method. They may seek agreement to adopt the FITR if their actual and intended activities and customer profile are typical of those of incumbent banks with the same banking license type.

3.8 Input tax recovery method for digital banks

3.8.1 Digital banks refer to the banks that are granted a digital full bank license or digital wholesale bank license by the MAS.

3.8.2 Considering the unique value proposition of digital banks, the FITR may not result in a fair and reasonable input tax recovery outcome for the digital banks, depending on their actual and intended activities and customer profile. Thus, IRAS will allow digital banks to adopt the FITR on a case-by-case basis if IRAS is satisfied that their actual and intended activities and customer profile are typical of those banks with the same banking license type.

3.9 Input tax on imported services

3.9.1 If the bank opts to apply the FITR, the FITR must be applied on all of the bank's allowable input tax claims[2] (i.e., input tax claims for both local purchases and imported services subject to reverse charge). In other words, if a bank had opted to perform direct attribution of input tax on imported services under Option 1 of the Reverse Charge Interim Solution[3], but chooses to adopt the FITR going forward, the bank will claim input tax on all its imported services based on the FITR.

3.9.2 Banks that wish to continue to perform direct attribution of input tax on imported services can consider applying for the Special Method, but the same Special Method must apply to the local purchases as well.

[2] Allowable input tax claims exclude any input tax claims that are disallowed under Regulations 26 and 27 of the GST (General) Regulations and any GST incurred for non-business purpose.

[3] Under Option 1 of the Reverse Charge Interim Solution, the bank will apply the standard input tax attribution rules for imported services which are subject to reverse charge, as follows:-

- Input tax on imported services that are directly attributable to taxable supplies are allowed in full.
- Input tax on imported services that are directly attributable to exempt supplies are disallowed.
- Input tax on imported services that are not directly attributable to taxable or exempt supplies (i.e., residual input tax) will be claimed based on the FITR.

4 Overview of the Special Method

4.1 As a general rule, input tax can only be claimed if it is attributable to the making of taxable supplies. Input tax attributable to the making of exempt supplies cannot be claimed. Accordingly, under the Special Method, the bank will be required to segregate[4] its input tax into three categories and determine the amount claimable in the following manner:

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

(b) Input tax directly attributable to exempt supplies – not claimable.

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

4.2 Banks may apportion its RIT using the following methods:

(a) Outputs-based method for banks with only one business sector; and

(b) Sectoral method for banks with more than one business sector.

4.3 As the RIT recoverable in each prescribed accounting period is based on the proportion of taxable and exempt supplies made in each period or such other apportionment method as approved by the Comptroller, a longer period adjustment must be performed at the end of each tax year to account for the periodic variations in taxable and exempt supplies or such other basis of apportionment as approved by the Comptroller, so as to ensure fair and reasonable apportionment of input tax over the tax year[5].

4.4 In essence, the bank will re-compute its RIT apportionment based on the proportion of taxable to the total of taxable and exempt supplies made for the full tax year or such other basis of apportionment as approved by the Comptroller and perform an adjustment to the input tax provisionally claimed for the tax year. For more information on the longer period adjustment, please refer to the IRAS e-Tax Guide "GST: Partial Exemption and Input Tax Recovery".

4.5 Banks must seek the Comptroller's agreement to use the Special Method.

[4] Please refer to the IRAS e-Tax Guide "GST Guide on Attribution of Input Tax" for more information on determining whether input tax incurred is directly attributable to a supply or to be treated as residual input tax.

[5] Tax year refers to a 12-month period commencing on 1 Apr, 1 May or 1 Jun, depending on your prescribed accounting periods. For instance, a bank with the prescribed accounting periods Jan-Mar, Apr-Jun, Jul-Sep, Oct-Dec will have a tax year from 1 Apr to 31 Mar of the next year.

5 Banks with only one business sector

5.1 Banks with only one business sector should apply the outputs-based method to determine the recovery rate of its RIT. For banks with a single business sector, the outputs-based method will typically result in the most fair and reasonable attribution of RIT compared to other methods.

5.2 However, where an alternative RIT apportionment method results in a fairer and more reasonable input tax recovery outcome compared to the outputs-based method, the bank may seek the Comptroller's approval to use the alternative method. The proposed alternative method should be one that best reflects the bank's use of RIT to make taxable and exempt supplies.

5.3 Please refer to Paragraph 6.8 for examples of alternative input tax apportionment methods and Paragraph 8 for the procedure to seek the Comptroller's approval for the use of an alternative method.

5.4 **Outputs-based apportionment method**

5.4.1 The outputs-based method determines the recovery rate of the RIT based on the value of supplies made by the bank. The RIT recovery rate will be calculated based on the following formula:

$$\frac{\textit{Value of taxable supplies}^{N1} + \textit{Value of exempt supplies made to GST-registered Singapore persons}}{\textit{Total value of supplies}^{N1}}$$

Notes

N1 The value of relevant supplies received from your supplier that are subject to customer accounting and imported services and low-value goods that are subject to reverse charge should be excluded from the numerator and denominator of the apportionment formula.

6 Banks with more than one business sector

6.1 Banks may conduct different business activities through different business sectors that are segregated for financial or management reporting purposes.

6.2 Examples of business sectors of a bank may include:

- Retail banking
- Private banking
- Wealth management
- Corporate lending
- Global markets
- Group treasury

6.3 As each business sector has a distinct set of activities and may incur RIT in different proportions, computing the bank's RIT recovery rate by reference to a single calculation method may be distortionary. Hence, the sectoral method ensures that the RIT recovery is aligned to each business sector, such that the bank's RIT recovery outcome better reflects each business sector's actual use of the expenses on which the RIT is incurred ("residual expenses") to make taxable and exempt supplies.

6.4 The sectoral method allocates the RIT to each business sector based on appropriate cost-allocation drivers. The RIT allocated to each business sector will then be claimed based on a suitable input tax apportionment method that best reflects that sector's actual use of RIT to make taxable and exempt supplies.

6.5 <u>Applying the sectoral method</u>

6.5.1 To apply the sectoral method, the bank will have to perform the following steps:

(a) Determine the appropriate business sectors.

(b) Identify any RIT that wholly relates to a particular sector. This RIT will be allocated wholly to that sector.

(c) For the remaining RIT that relate to more than one sector, determine the appropriate cost-drivers to allocate this RIT to each sector.

(d) Determine the input tax apportionment method appropriate to the business activities for each sector.

(e) Lastly, apportion the RIT allocated to each sector based on the apportionment method assigned for that sector.

6.6 Sectorisation of the bank's business

6.6.1 The bank should segment its business activities into sectors aligned with the segmentation adopted for financial or management reporting purposes. The sectors should not be artificially created.

> Example 1
>
> For Bank A's annual financial reporting, the bank's profit and loss results are segmented into the following sectors:
>
> - Personal and Corporate Banking
> - Wealth and Asset Management
> - Investment Banking
> - Group Treasury and Group Support Services
>
> Bank A may adopt the same segmentation above for the purpose of sectorising its business in applying the sectoral method.

> Example 2
>
> For internal management reporting, Bank B computes the business segment results for each sector as follows:
>
> - Consumer Banking
> - Asset and Wealth Management
> - Corporate and Institutional Banking
> - Group Functions
>
> Bank B may adopt the same segmentation above for the purpose of sectorising its business in applying the sectoral method.

6.7 Determining cost-drivers where RIT relate to more than one sector

6.7.1 Where RIT relate to more than one sector, the input tax must be allocated to each individual sector using appropriate cost-drivers. The bank may propose to align its cost allocation basis with that used for financial or management reporting purposes.

6.7.2 Examples of appropriate cost-drivers include:

Outputs-based allocation

6.7.3 This method allocates RIT to each sector in the same proportion as the value of supplies made by each sector. This method is most appropriate where the sectors use the residual expenses in the same proportion as their supplies value and most supplies are made in the same tax year as the residual expenses are incurred.

Headcount allocation

6.7.4 This method allocates RIT to each sector in the same proportion as the number of staff in each sector. It is most appropriate when the residual expenses are used in the same proportion as the number of staff and most of the staff work only for one sector or another. Normally, staff numbers will be measured on a full-time equivalent basis.

Direct costs allocation

6.7.5 This method allocates RIT to each sector in the same proportion as the direct costs incurred by each sector. Direct costs refer to costs that are directly allocated to a particular sector, including any residual expenses which wholly relate to that sector. This method is most appropriate where most costs can be directly allocated to a particular sector and the sectors use the residual expenses in the same proportion as the direct costs incurred.

Floor space

6.7.6 This method allocates RIT to each sector in the same proportion as the floor space occupied exclusively by each sector. This method is most appropriate where the residual expenses are incurred in the same proportion as the floor space occupied by each sector, and the floor space is occupied exclusively by the sector.

6.7.7 The examples above are not exhaustive. The bank may also propose to adopt different cost-drivers for different types of expenses if this results in a more accurate basis of allocating the RIT to each sector. For example, a headcount allocation may be more appropriate for allocation of RIT relating to office supplies expenses that are used to support staff, whilst an outputs-based allocation may be more appropriate for allocation of RIT relating to general marketing and advertising expenses.

<u>Example 3</u>

Bank C incurred GST of S$80,000 on payroll processing services which are used by the Consumer Banking and Wealth Management sectors.

As the payroll processing services are used in the same proportion as the number of staff in each sector and most of the staff work only for one sector, Bank B applies the headcount method to allocate the RIT on the payroll processing services.

Allocation of RIT based on headcount

1. Determine the no. of full-time equivalent staff working for each sector

No. of full-time equivalent staff	Consumer Banking	Wealth Management
Working for one sector only	320	200
Working for both sectors	40 *As each staff spend approximately 50% of their time working for each sector, the no. of full-time equivalent staff in each sector is taken to be 40 x 50% = 20*	
Total headcount	560	

2. Compute RIT allocated to Consumer Banking:

$$S\$80{,}000 \times \frac{320 + 20}{560} = S\$48{,}571.43$$

3. Compute RIT allocated to Wealth Management:

$$S\$80{,}000 \times \frac{200 + 20}{560} = S\$31{,}428.57$$

Example 4

Bank D incurred GST of S$1.4m on operating expenses (e.g., audit, legal and tax services, fixed assets, rental) which are used by the following sectors:

- Corporate and Institutional Banking
- Asset Management
- Investment Banking

Each sector generally uses the operating expenses in the same proportion as their supplies value and the expenses are incurred in the same year in which the supplies are made. Hence, Bank D applies the outputs-based method to allocate the RIT on the operating expenses.

Allocation of RIT based on outputs

1. Determine the value of taxable and exempt supplies of each sector

	Corporate and Institutional Banking	Asset Management	Investment Banking	Total
Value of taxable and exempt supplies	S$4m	S$6m	S$10m	S$20m

2. Compute RIT allocated to Corporate and Institutional Banking:

$$S\$1.4m \times \frac{S\$4m}{S\$20m} = S\$280{,}000$$

3. Compute RIT allocated to Asset Management:

$$S\$1.4m \times \frac{S\$6m}{S\$20m} = S\$420{,}000$$

4. Compute RIT allocated to Investment Banking:

$$S\$1.4m \times \frac{S\$10m}{S\$20m} = S\$700{,}000$$

6.8 Input tax apportionment method for each sector

6.8.1 After the RIT is allocated to each sector, the RIT has to be further apportioned by an appropriate method for each sector, as only the portion of RIT that is attributable to the making of taxable supplies is claimable. The bank may propose to adopt different apportionment methods for different sectors, to the extent that the proposed method best reflects each sector's actual use of RIT to make taxable and exempt supplies.

6.8.2 The RIT claimable by each sector will be computed as such:

$$\text{Allowable RIT} \times \begin{array}{c}\text{Input tax recovery ratio} \\ \text{computed based on the relevant} \\ \text{input tax apportionment method}\end{array} = \text{RIT claimable}$$

6.8.3 The computed input tax recovery ratio must be applied as-is, and should not be rounded.

6.8.4 Input tax apportionment methods that may be considered by IRAS include:

Outputs-based apportionment

6.8.5 RIT will be apportioned between taxable and exempt supplies of the sector in the following ratio:

$$\frac{\textit{Value of taxable supplies}^{N1} + \textit{Value of exempt supplies made to GST-registered Singapore persons}}{\textit{Total value of supplies}^{N1}}$$

6.8.6 This method is most appropriate where the sector's use of the residual expenses is proportional to the value of the supplies made by the sector and most supplies are made in the same tax year as the residual expenses are incurred.

Notes
N1 The value of relevant supplies received from your supplier that are subject to customer accounting and imported services and low-value goods that are subject to reverse charge should be excluded from the numerator and denominator of the apportionment formula.

Transaction count apportionment

6.8.7 RIT will be apportioned between taxable and exempt supplies of the sector in the following ratio:

$$\frac{\textit{Number of taxable transactions} + \textit{Number of exempt transactions with GST-registered Singapore counterparties}}{\textit{Total number of transactions}}$$

6.8.8 This method is most appropriate where the sector's use of the residual expenses correlates more closely with the number of transactions (i.e., number of supplies made) than the value of supplies.

6.8.9 For example, transaction count apportionment may be appropriate for a sector predominantly involved in trading activities (e.g., securities trading), where the amount of residual expenses involved in each transaction remains fairly constant regardless of the value of each supply.

Example 5

Bank E adopts the transaction count apportionment method to compute the RIT recoverable for its Global Markets sector that undertakes securities, foreign exchange and derivatives trading. Each trade executed by Bank E may be counted as one transaction.

Bank E will compute the recoverable RIT of the Global Markets sector using the following ratio:

$$\frac{\textit{Number of executed trades with overseas counterparties} + \textit{Number of executed trades with GST-registered Singapore counterparties}}{\textit{Total number of executed trades}}$$

Inputs-based apportionment

6.8.10 RIT will be apportioned between taxable and exempt supplies of the sector in the following ratio:

$$\frac{\textit{Value of costs or input tax directly attributable to taxable supplies of the sector} + \textit{Value of costs or input tax directly attributable to exempt supplies made to GST-registered Singapore customers}}{\textit{Value of costs or input tax directly attributable to taxable supplies of the sector} + \textit{Value of costs or input tax directly attributable to exempt supplies of the sector}}$$

6.8.11 This method is most appropriate where costs involved in making supplies by the sector are normally incurred in a different tax year than the year the supplies are made, a significant proportion of the costs are directly attributable to supplies in that sector, and the directly attributable costs are incurred in approximately the same proportion as the residual input tax is used to make taxable and exempt supplies.

6.8.12 Costs or input tax that are not directly attributable to either taxable or exempt supplies (i.e., residual expenses or RIT) generally need not be included in the denominator of the inputs-based apportionment ratio, unless doing so would lead to a more fair and reasonable result.

6.8.13 For instance, if a material proportion of the total costs or input tax incurred by the sector is not directly attributable to either taxable or exempt supplies, including the value of such residual expenses or RIT in the denominator of the inputs-based apportionment ratio is likely to better reflect the actual use of inputs in making taxable and exempt supplies.

<u>Example 6</u>

Bank F adopts the inputs-based apportionment method for its Consumer Banking sector where most of the costs (e.g., banking system and application development) are incurred in a different tax year than the year the supplies are made.

A significant portion of the sector's total costs of S$10m can be directly attributed to taxable and exempt supplies, and are incurred in the following proportions:

- Directly attributable to taxable supplies and exempt supplies made to GST-registered persons: 10% (S$1m)
- Directly attributable to exempt supplies made to non-GST-registered persons: 40% (S$4m)

Applying the inputs-based method, the RIT recovery ratio would be 20% (i.e., S$1 m / (S$4m + S$1m)).

However, as a material proportion (50%) of the sector's total costs are used to support the making of both taxable and exempt supplies (i.e., residual expenses) and the sector makes predominantly exempt supplies, the vast majority of the total costs incurred by the sector are in fact used to make exempt supplies.

In this instance, including the value of residual expenses in the denominator of the inputs-based apportionment ratio will produce a fairer and more reasonable RIT recovery outcome. Bank F should therefore apportion the RIT of the Consumer Banking sector in the following ratio:

$$\frac{S\$1m}{S\$1m + S\$4m + S\$5m \text{ (Residual expenses)}}$$

The resultant RIT recovery ratio of 10% more accurately reflects the actual use of inputs to make taxable supplies and exempt supplies to non-GST registered persons as compared to 20% computed without taking into account the residual expenses in the denominator.

Headcount or staff time apportionment

6.8.14 RIT will be apportioned between taxable and exempt supplies of the sector in the following ratio:

$$\frac{\textit{Staff time spent or number of staff}^{N1}\textit{ involved in making taxable supplies + Staff time spent or number of staff}^{N1}\textit{ involved in making exempt supplies to GST-registered Singapore customers}}{\textit{Total staff time spent or number of staff}^{N1}}$$

Notes
[N1] The number of staff is normally measured on full-time equivalent basis.

6.8.15 This method is most appropriate where the staff record their time spent on different activities and the GST treatment of supplies that they have worked on can be identified, or where most staff are involved in activities that generate only taxable supplies or exempt supplies.

6.8.16 Staff that are not involved in making only taxable supplies or only exempt supplies should be excluded from the numerator, but included in the denominator of the ratio (i.e., the total staff time spent or number of staff). However, if a significant pool of staff work on both taxable and exempt supplies, the headcount or staff time method would not be appropriate for the sector.

6.8.17 Please refer to **Annex A** for an illustration of how the input tax recoverable under the Sectoral Method is to be computed.

7 Use of reasonable proxies for the Special Method

7.1 As an administrative concession to ease the use of the Special Method, the Comptroller is prepared to allow the use of reasonable proxies to determine the value of supplies and the proportion of exempt supplies made to GST-registered persons.

7.2 **Value of zero-rated and exempt supplies**

7.2.1 The proxies listed in **Annex B** are considered acceptable for determining the value of zero-rated and exempt supplies under the outputs-based allocation or apportionment method.

7.3 **Exempt supplies made to taxable persons**

7.3.1 If the bank does not track or does not wish to track the proportion of exempt supplies made to GST-registered Singapore clients, the Comptroller is prepared to allow the bank to treat 50% of its exempt supplies made to businesses as being made to GST-registered Singapore persons, for the purpose of computing the recoverable RIT.

7.4 Once a proxy is adopted, the bank must apply the same proxy consistently in all its GST returns.

7.5 In its application for the Special Method, the bank may also seek the Comptroller's approval to use other reasonable proxies if the bank has difficulties applying the proxies mentioned at paragraphs 7.2 and 7.3.

8 Applying for the Special Method

8.1 <u>When to apply and effective dates of the Special Method</u>

For effective date in tax year beginning in 2025

8.1.1 If a bank wishes to apply the Special Method with effect from the tax year beginning in 2025, it should submit its application to the Comptroller as soon as possible and by 30 Jun 2024 at the latest. This is to allow the bank and the Comptroller sufficient time to agree on and implement the Special Method by the tax year beginning in 2025.

<u>Example 7</u>

The following table illustrates the effective dates of the Special Method in the tax year beginning in 2025 for banks with different tax years:

	Bank A	Bank B	Bank C
Prescribed accounting periods	Jan-Mar, Apr-Jun, Jul-Sep, Oct-Dec	Feb-Apr, May-Jul, Aug-Oct, Nov-Jan	Mar-May, Jun-Aug, Sep-Nov, Dec-Feb
Tax year	1 Apr to 31 Mar of the next year	1 May to 30 Apr of the next year	1 Jun to 31 May of the next year
Submit application by	30 Jun 2024		
Special Method effective date	1 Apr 2025	1 May 2025	1 Jun 2025

8.1.2 For banks that opt to apply the Special Method from 1 Apr, 1 May or 1 Jun 2025, IRAS is prepared to allow a 12-month extension of time till 1 Apr, 1 May or 1 Jun 2026 to implement the Special Method if the bank requires more time to get its systems and processes ready. Approval will be granted on a case-by-case basis and the bank must be able to commit to an implementation timeline.

8.1.3 In the interim period before the Special Method takes effect, the bank will use the prevailing FITR to claim its input tax. Banks that have opted to perform direct attribution for their imported services under Option 1 of the Reverse Charge Interim Solution may also continue to do so during this interim period.

For effective dates in tax years beginning in 2026 onwards

8.1.4 The bank may submit its application in any year. The application must be made between the period 1 Jan to 31 Mar of each calendar year.

8.1.5 The bank must commence using the Special Method with effect from:

(a) the start of the bank's next tax year immediately following the approval date; or

(b) if the bank is not ready by (a), the start of the bank's second tax year following the approval date.

<u>Example 8</u>

The following table illustrates when the Special Method will take effect after approval is granted, for banks with different tax years:

	Tax year beginning 1 Apr	**Tax year beginning 1 May**	**Tax year beginning 1 Jun**
Approval date: 17 May 2025	Effective date: 1 Apr 2026 or 1 Apr 2027	Effective date: 1 May 2026 or 1 May 2027	Effective date: 1 Jun 2025 or 1 Jun 2026
Approval date: 8 Nov 2026	Effective date: 1 Apr 2027 or 1 Apr 2028	Effective date: 1 May 2027 or 1 May 2028	Effective date: 1 Jun 2027 or 1 Jun 2028

8.1.6 In the interim period before the Special Method takes effect, the bank will continue to use the prevailing FITR to claim its input tax on <u>both</u> local purchases and imported services.

<u>Validity period of the Special Method</u>

8.1.7 Once a bank's application for the Special Method is approved, it must continue to apply the Special Method and will not be allowed to revert to the FITR. The approved Special Method will be valid until such a time when significant changes to the bank's business occur such that the approved Special Method is no longer reflective of the actual resources used by the bank to make taxable and exempt supplies.

Significant changes to the bank's business

8.1.8 The bank is required to inform the Comptroller in writing and furnish information on any significant changes in its business activities, structure or nature of business that may impact whether the approved Special Method remains a fair and reasonable input tax recovery method. The

Comptroller will then consider whether the approved Special Method remains suitable for the bank.

8.1.9 Significant changes include cases where the whole or part of the business is sold or transferred to another party, where the bank acquires the whole or part of another party's business, where the bank ceases the main business activities undertaken by a particular business segment, and a change in the GST group membership for banks in GST groups.

8.1.10 Where significant changes to the business result in the approved Special Method no longer being fair and reasonable, the Comptroller may direct the bank to use another method or to stop using the existing Special Method from the date the change in business circumstances occurred.

8.2 **<u>How to apply</u>**

8.2.1 To apply for the Special Method, please submit your application via the *myTax Mail* e-services on myTaxPortal and indicate the nature of enquiry as "GST Treatment". Please attach your submission letter and relevant supporting documents.

8.2.2 Please ensure that all the information listed in **Annex C** are included in your submission letter so that your application can be processed expeditiously.

9 Frequently asked questions

9.1 *Can input tax directly attributable to exempt supplies made to GST-registered person be claimed?*

No, input tax directly attributable to any exempt supply is not claimable by the bank. Exempt supplies made to GST-registered persons will only be regarded as taxable supplies for the purpose of computing the RIT recoverable. In other words, only the portion of RIT used to make exempt supplies to GST-registered person is claimable by the bank.

9.2 *Can the bank use the value of supplies for the preceding year to compute the allocation and apportionment method for the current year?*

The bank may do so to the extent that it performs a year-end adjustment to its input tax claims based on the actual value of supplies in the current year, once the current year figures are available.

9.3 *Should inter-branch and intra-GST group supplies made by the bank be treated as taxable supplies in determining the amount of taxable supplies made?*

No, the normal GST rules apply where supplies made between members of the same GST group, as well as supplies made between head office and its branches (i.e., such supplies are disregarded for GST purposes[6]). Hence, such inter-branch and intra-GST group supplies made by the bank are not taxable supplies and should not be included in the amount of taxable supplies for the purpose of computing the input tax recoverable by the bank.

9.4 *Should supplies received that are subject to customer accounting and reverse charge supplies of imported services and low-value goods procured by the bank be treated as taxable supplies in determining the amount of input tax recoverable by the bank?*

No, supplies received that are subject to customer accounting and reverse charge supplies should not be included in the amount of taxable supplies for the purpose of computing the input tax recoverable by the bank.

9.5 *How should banks that predominantly receive transfer pricing income apply the input tax apportionment methods?*

To the extent that the transfer pricing income constitutes consideration received by the bank in return for services supplied by the bank to its

[6] Please however note that under reverse charge rules, reverse charge will apply on (a) imported services and low-value goods procured by a local branch or head office from an overseas branch or head office; and (b) imported services and low-value goods procured by a local member of a GST group from an overseas member within the same GST group. Such supplies are not to be included in the numerator and denominator of the input tax apportionment formula.

overseas related entities, the bank would need to determine if the services supplied are taxable or exempt supplies. If the transfer pricing income relates to taxable and/or exempt supplies made by the bank, the input tax apportionment methods listed in paragraphs 5.4 and 6.8 will likewise apply for the transfer pricing income.

10 Contact Information

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

Annex A – Illustration of the Special Method (Sectoral Method)

ABC Bank is a licensed bank in Singapore.

ABC Bank's business sectors and the supplies made by ABC Bank under each sector are as follows:

Business line/ sector	Sector 1 Corporate banking services	Sector 2 Investment and treasury activities (for the bank's own investments and funds)
Supplies made by each sector	Interest income from corporate loans made to persons belonging outside Singapore – Zero-rated supplies. Interest income from corporate loans made to persons belonging in Singapore (including GST-registered persons) – Exempt supplies.	Sales of securities to and trading in financial derivatives with persons belonging outside Singapore – Zero-rated supplies. Sales of securities to and trading in financial derivatives with local persons – Exempt supplies.

Agreed Special Method

ABC Bank has agreed with IRAS to adopt a Special Method for input tax recovery with effect from the period beginning 1 Apr 2025, as follows:

- ABC Bank will adopt the sectoral method and will sectorise its business based on the following sectors:

    - Sector 1: Corporate banking services
    - Sector 2: Investment and treasury activities

- Allocation of residual input tax ("RIT"): For RIT incurred for both Sectors 1 and 2, ABC Bank would use the average headcount of each sector (as at the end of the preceding year) to allocate the RIT to each sector.

- Apportionment of RIT: RIT allocated to Sector 1 will be apportioned using the outputs-based method. RIT allocated to Sector 2 will be apportioned using the transaction count method. ABC Bank will adopt the proxy to treat 50% of its exempt supplies as made to GST-registered persons for the purposes of RIT apportionment.

The GST-bearing expenses[7] incurred by ABC Bank for the prescribed accounting period 1 Apr 2025 to 30 Jun 2025 are shown below:

	Reference	GST amount (SGD)
Sector 1		
Professional fees incurred solely to make zero-rated supplies of corporate loans	E1	8,100
Professional fees incurred solely to make exempt supplies of corporate loans	E2	900
Professional fees that is not identifiable to zero-rated or exempt supplies of corporate loans	E3	63,000
Sector 2		
Fees charged by Exchanges incurred to make zero-rated supplies of sales of securities and trading in derivatives	E4	45,000
Legal fees incurred for the exempt supplies of the sales of securities to and trading in derivatives with local persons	E5	9,000
Expenses relating to more than one sector		
Rental of office space	E6	9,000
Printing and stationeries	E7	2,700

To compute the recoverable input tax for the period 1 Apr 2025 to 30 Jun 2025, ABC Bank will perform the four steps below.

<u>Step 1: Identify input tax that is directly attributable to taxable supplies and exempt supplies, as well as RIT</u>

Segregate input tax into the following categories:
- Input tax that is directly attributable to the making of taxable supplies;
- Input tax that is directly attributable to the making of exempt supplies;
- RIT wholly relating to a particular sector (“sector-specific RIT”); and
- RIT relating to more than one sector (“non-sector specific RIT”).

[7] Excluding any input tax that is disallowed under Regulations 26 and 27 of the GST (General) Regulations and any GST incurred for non-business purpose.

	Input tax (SGD)	Remarks
Input tax that is directly attributable to taxable supplies	E1 + E4 = 53,100	Claimable in full
Input tax that is directly attributable to exempt supplies	E2 + E5 = 9,900	Not claimable
Sector-specific RIT	E3 (Sector 1) = 63,000	To be apportioned based on sector's recovery rate computed in Step 3
Non-sector specific RIT	**E6 + E7 = 11,700**	

Step 2: Allocate non-sector specific RIT to each sector based on agreed allocation method

Agreed allocation method: Average headcount of each sector as at end of preceding year

- Headcount for Sector 1: 200 *[40% of total headcount]*
- Headcount for Sector 2: 300 *[60% of total headcount]*

Non-sector specific RIT allocated to Sector 1 (SGD)	11,700 x 40% = 4,680
Non-sector specific RIT allocated to Sector 2 (SGD)	11,700 x 60% = 7,020

Step 3a: Perform RIT apportionment – compute RIT recovery rate of sector

Sector 1: RIT apportionment using outputs-based method (i.e., value of supplies)

Value of taxable supplies (SGD)	[A]	24,000,000
Value of exempt supplies (SGD)	[B]	36,000,000
Total supplies (SGD)	[C]	60,000,000
RIT recovery rate for Sector 1		(Value of taxable supplies + value of exempt supplies made to GST-registered persons)/ Total supplies = ([A] + 50% of [B]) / [C] = 70%

Sector 2: RIT apportionment using transaction count method (i.e., no. of transactions)

Transaction count of taxable supplies	[D]	450,000
Transaction count of exempt supplies	[E]	50,000
Total transaction count	[F]	500,000
RIT recovery rate for Sector 2		(Transaction count of taxable supplies + transaction count of exempt supplies made to GST-registered persons)/ Total transaction count = ([D] + 50% of [E]) / [F] = 95%

<u>Step 3b: Perform RIT apportionment – Compute recoverable RIT of sector based on RIT recovery rate</u>

Recoverable RIT for Sector 1 (SGD)	(Sector 1 specific RIT + Non-sector specific RIT allocated to Sector 1) x Sector 1 recovery rate computed in Step 3a = 47,376
Recoverable RIT for Sector 2 (SGD)	(Sector 2 specific RIT + Non-sector specific RIT allocated to Sector 2) x Sector 2 recovery rate computed in Step 3a = 6,669
Total recoverable RIT	54,045

<u>Step 4: To arrive at the total recoverable input tax, add input tax that is directly attributable to taxable supplies to recoverable RIT computed in Step 3b</u>

Input tax that is directly attributable to taxable supplies – See Step 1	53,100
Total recoverable RIT – See Step 3b	54,045
Total recoverable input tax	107,145[8]

ABC Bank's input tax to be claimed in its GST return for the period 1 Apr 2025 to 30 Jun 2025 is <u>SGD107,145</u>.

[8] This assumes that all other input tax claim conditions under section 19 of the GST Act are satisfied e.g., supplies are made to ABC Bank and are incurred for ABC Bank's business purposes, and ABC Bank is able to support the claims with valid supporting documents.

Annex B – Proxies for zero-rated and exempt supplies value

	Transaction	Acceptable proxies
1)	Sale of Equity and Debt Securities[9]	Cumulative net realised gains/losses for each GST accounting period (where there is a cumulative loss, the negative sign is ignored i.e., the amount is treated as a positive number)[10]. The net gains/losses should be determined based on the original cost without taking into account any diminution in value of securities. To determine the proportion of the sale of securities that are taxable supplies, exempt supplies made to GST-registered persons and exempt supplies made to non-GST registered persons, the following allocation ratio may be applied (depending on how the security is traded):
1a)	Securities traded through SGX-ST (Main Board & SESDAQ)	The cumulative net gains/losses are allocated on a 50:50 ratio between: (i) Exempt supplies to GST-registered persons; and (ii) Exempt supplies to non-GST registered persons.
1b)	Securities traded through overseas exchanges	100% of the cumulative net gains/losses are treated as taxable supplies. *Alternatively, if the above tracking of exchanges is not made and there is no security sold directly to counter parties (i.e., (1c) is not applicable), the allocation ratio shall be as follows:* *(i) 25% treated as taxable supplies;* *(ii) 25% treated as exempt supplies to GST-registered persons; and* (iii) *50% treated as exempt supplies to non-GST registered persons.*
1c)	Securities sold directly to a counter party	Direct identification of the cumulative net gains/losses to:

[9] Include sale of shares booked through your arbitrage/suspense, stock and error-in-trading accounts.

[10] For example, if there are two sale of shares transactions within the same GST accounting period, one of which results in a gain of $10,000 and the other results in a loss of $12,000, this means that you have a cumulative net loss of $2,000. Since the net loss is treated as if it is a positive number, you should include $2,000 as the value of your supply for sale of shares transactions.

	Transaction	Acceptable proxies
	(without going through an exchange)	(i) Taxable supplies; (ii) Exempt supplies to GST-registered persons; and (iii) Exempt supplies to non-GST registered persons. *<u>Note for 1(a), (b) and (c):</u>* *If no tracking is made for:* *- securities traded through SGX-ST;* *- securities traded through overseas exchanges; and* *- securities not traded through any exchange;* *the allocation ratio shall be as follows:* *(i) 25% treated as taxable supplies;* *(ii) 25% treated as exempt supplies to GST-registered persons; and* *(iii) 50% treated as exempt supplies to non-GST registered persons.* *If tracking is made for:* *- securities traded through SGX-ST;* *- securities traded through overseas exchanges;* *but no tracking is made for securities sold directly to counter parties; the above allocation ratio is not applicable.* *You should instead assume that all securities sold directly to counter parties are exempt supplies made to non-GST registered persons.*
2)	Trading in financial derivatives[11]	Cumulative net gains/losses (both realised and unrealised) for each GST accounting period. Where there is a cumulative loss, the negative sign is ignored, i.e., the amount is treated as a positive number. The allocation ratio (depending on how the financial derivative is traded) is as follows:

[11] Include contracts executed wrongly for your clients and booked into your house/suspense accounts.

	Transaction	Acceptable proxies
2a)	Financial derivatives traded on local exchange (e.g., SGX-DT, including trades done on CME and transferred under the Mutual Offset System)	The cumulative net gains/losses are allocated on a 50:50 ratio between: (i) Exempt supplies to GST-registered persons; and (ii) Exempt supplies to non-GST registered persons.
2b)	Financial derivatives traded on overseas exchanges	100% of the cumulative net gains/losses are treated as taxable supplies. *Alternatively, if the above tracking of exchanges is not done and there is no financial derivative entered directly with counter parties (i.e., (2c) is not applicable), the allocation ratio shall be as follows:* *(i) 25% treated as taxable supplies;* *(ii) 25% treated as exempt supplies to GST-registered persons; and* *(iii) 50% treated as exempt supplies to non-GST registered persons.*
2c)	Financial derivatives not done through any exchange (where the counter party is known), e.g., swaps.	The cumulative net gains/losses are allocated to: (i) Taxable supplies; (ii) Exempt supplies to GST-registered persons; and (iii) Exempt supplies to non-GST registered persons. based on the notional principal amounts relating to each category of customers. *<u>Note for 2(a), (b) and (c):</u>* *If no tracking is made for:* *- financial derivatives traded on local exchange;* *- financial derivatives traded on overseas exchanges; and* *- financial derivatives not done through any exchange;* *the allocation ratio shall be as follows:* *(i) 25% treated as taxable supplies;* *(ii) 25% treated as exempt supplies to GST-registered persons; and*

Transaction	Acceptable proxies
	(iii) 50% treated as exempt supplies to non-GST registered persons. *If tracking is made for:* *- financial derivatives traded on local exchange;* *- financial derivatives traded on overseas exchanges;* *but no tracking is made for financial derivatives not done through any exchange; the above allocation ratio is not applicable.* *You should instead assume that all securities sold directly to counter parties are exempt supplies made to non-GST registered persons.*
3) Interest based transactions	Gross interest income received. Interest income may be reported on accruals instead of receipt basis, if the accrual basis of reporting interest income is: • used for the bank's financial reporting purposes; • conforms to proper accounting and reporting standards; and • is consistently applied in all GST returns. Tracking of counter parties will be required to properly attribute income to: (i) Taxable supplies; (ii) Exempt supplies to GST-registered persons; and (iii) Exempt supplies to non-GST registered persons. If there is no tracking of the counter parties, you have to assume that all the interest based transactions are exempt supplies made to local non-GST registered persons.
4) Foreign exchange transactions	Cumulative net gains/losses (both realised and unrealised) for each GST accounting period. Where there is a cumulative loss, the negative sign is ignored, i.e., the amount is treated as a positive number.

Transaction	Acceptable proxies
	The cumulative net gains or losses are allocated to: (i) Taxable supplies; (ii) Exempt supplies to GST-registered persons; and (iii) Exempt supplies to non-GST registered persons. based on the principal amounts relating to each category of customers. *When there is no direct identification of the principal amounts transacted with the various parties, the allocation ratio shall be as follows:* *(i) 25% treated as taxable supplies;* *(ii) 25% treated as exempt supplies to GST-registered persons; and* *(iii) 50% treated as exempt supplies to non-GST registered persons.*

Annex C – Information required to apply for the Special Method

Please include all of the following information in your submission letter for the application for the Special Method:

Section 1: Applicant's Particulars

1. Full name of applicant.
2. Registered business address.
3. GST registration number.
4. If you are under a GST group, each member is to provide the information required in the remaining sections separately, and also provide the following particulars:

   (a) Full name of member; and

   (b) Unique entity number (UEN) of member.

Section 2: Business Details of Applicant

1. Detailed description of the nature of your business and type of business activities carried out.
2. Types of services that you supply and the general customer profile (i.e., customer's belonging status and GST registration status) to whom the services are supplied.
3. Whether you are able to identify and perform attribution of the input tax incurred on your purchases and imports to your supplies.

   If "Yes", please provide more details on how the attribution is performed (e.g., tax coding assigned based on tax logic in-built into system, tax code manually assigned by process owner at time of processing the transaction).
4. Whether you keep track of the GST-registration status of your customers.

   If "Yes", please provide more details on how the GST-registration status is maintained (e.g., information obtained during client onboarding, GST-registration status checks performed on existing clients on a periodic basis).
5. If you are a bank with a single business sector, you will generally apply the outputs-based method for the recovery rate of your RIT. Sections 3 and 4 will not be applicable to you.

   However, if you wish to propose the use of an alternative RIT apportionment method that results in a fairer and more reasonable input

tax recovery outcome than the outputs-based method, please also provide the information required in Section 4 in respect of your proposed alternative RIT apportionment method. 6. If you have multiple business sectors[12], please provide documentary evidence on the basis of the segmentation (e.g., a copy of your latest financial or management reports). 7. If the proposed Special Method is approved, expected timeframe needed to implement the proposed Special Method, beginning from the date of approval.
<u>Section 3: Residual Input Tax ("RIT") Cost-allocation Driver</u> 1. Description of the RIT and the cost-allocation driver proposed. *If you wish to adopt more than one type of cost-allocation drivers, please provide the description of each cost-allocation driver and the associated RIT on which the cost-allocation driver will apply.* 2. Reasons why the proposed cost-allocation driver(s) is an appropriate method of allocating the RIT to each sector. 3. Where relevant, documentary evidence to support the proposed cost-allocation driver(s).
<u>Section 4: Residual Input Tax Apportionment Method for each Sector</u> The information required in this section should be provided separately for each business sector. 1. Name of business sector. 2. Taxable and exempt supplies of the business sector. 3. The RIT apportionment method proposed. 4. Reasons why the proposed RIT apportionment method best reflects the sector's actual use of RIT to make its taxable and exempt supplies. 5. Whether the bank is using the actual proportion of exempt supplies made to GST-registered Singapore clients or applying a proposed proxy for the purpose of computing the RIT. *If the bank intends to apply a proposed proxy other than the 50% proxy[13], please also complete section 5.*

[12] The bank should segment its business activities into sectors aligned with the segmentation adopted for financial or management reporting purposes.
[13] As mentioned in paragraph 7.3, IRAS is prepared to allow the bank to treat 50% of its exempt supplies made to businesses as being made to GST-registered Singapore persons, for the purpose of computing the recoverable RIT.

6. Where relevant, documentary evidence to support the proposed RIT apportionment method.

Section 5: Alternative proxies adopted

The section only needs to be completed if the bank wishes to adopt:

(i) an alternative proxy in determining the value of its zero-rated and/or exempt supplies that is not already stated in **Annex B**; or

(ii) a proxy for determining the proportion of exempt supplies made to GST-registered Singapore clients, other than the 50% proxy.

For proxies on value of supplies

1. Type of taxable and/or exempt supplies on which the proposed proxy will be applied.
2. Description of the proposed proxy.
3. Reasons why the bank has difficulties obtaining the actual value of supply or adopting one of the proxies stated in Annex B (if relevant).
4. Reasons why the proposed proxy is a reasonable basis of determining the value of supplies.

For proxies on proportion of exempt supplies made to GST-registered Singapore clients

1. Description of the proposed proxy.
2. Reasons why the proposed proxy is a reasonable basis of determining the proportion of exempt supplies made to GST-registered Singapore clients.