

## WARRANTY REPAIRS

### INTRODUCTION

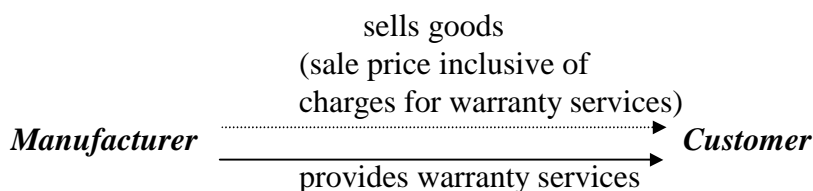
- 1 A warranty service is a guarantee given by a trader to his customer, undertaking to remedy any defects of his good due to faulty workmanship or materials for a specified time period (e.g. 12 months from the date of purchase).
- 2 Basically, warranty service may be made available to a customer in two ways. The usual way is for the trader to automatically make available the warranty service to the customer upon his purchase of the good. In such cases, the charge for the warranty service for the specified time period would have been included in the price of the good sold. Another way is for the trader to supply and charge for the warranty service separately from the sale of the good. In such instances, the customer may purchase a warranty service plan at specified prices, which would vary according to the period of warranty service requested.
- 3 The purpose of this Practice Note is to clarify the GST treatment in cases where warranty repair is carried out for a customer by a GST-registered trader.

### ADMINISTRATIVE PRACTICE

- 4 Generally, the repair or service work under a warranty service plan may be undertaken by the product manufacturer or distributor or an authorised agent of the manufacturer. The GST treatment for the provision of warranty repair in each of the circumstances is set out below:

#### **Direct sale and repair by manufacturer and cost of warranty service has been included in the price of the product**

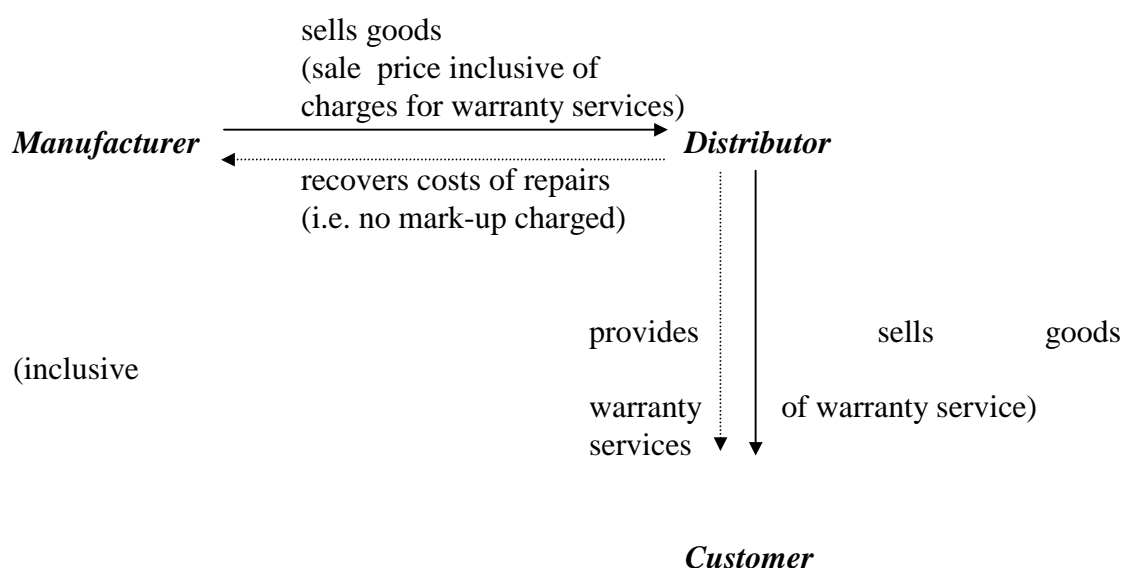
- 4.1 In this case, a manufacturer (including an overseas manufacturer) sells the good to a final customer and undertakes to rectify any defects of the good for a specified time period. If repair work for the product under warranty is performed during the stipulated time period, the manufacturer will not charge the customer for the repairs.



- 4.2 As the price of the original supply of the good has already included the charge for the warranty service, the manufacturer is not required to charge a deemed output tax on the supply of any items associated with the warranty service. The input tax incurred on any items used to carry out the warranty repairs is also allowable to the manufacturer since it was incurred in the making of taxable supplies.

**Sale and repair by distributor who seeks compensation from manufacturer for the costs of repairs made under warranty**

- 4.3 In this case, a manufacturer (including an overseas manufacturer) sells his good (inclusive of warranty service for a specified time period) to a distributor, who takes title to the good. The distributor then on-sells the good to a final customer, with warranty service provided for a specified time period (i.e. the charge for the warranty service has been included in the sale price of the good). The distributor would undertake to rectify any defects of the good for the final customer as part of his after sales service.
- 4.4 If the distributor carries out repairs of the good for the final customer during the warranty period, he will not charge the customer for the repairs. As the price of the original supply of the good by the distributor to the final customer has already included the charge for the warranty service, the distributor is not required to charge a deemed output tax on any items associated with the warranty service. The GST treatment in this case is therefore similar to the situation set out in paragraph 4.1 above.
- 4.5 In some instances, where the distributor incurs costs to repair the good under warranty for the final customer, he may in turn recover all or part of the costs of warranty repairs from the manufacturer. As the manufacturer has sold the good with warranty service to the distributor, he is obliged to rectify any defects of the good for the distributor during the warranty period. Therefore, the repair costs incurred by the distributor represent the costs which would have been incurred by the manufacturer had the latter directly undertaken the repairs of the good under warranty for the distributor. Accordingly, the costs recovered by the distributor in substance represent payments in settlement of expenses incurred by him on behalf of the manufacturer. In such cases, the distributor is not required to charge an output tax on the recovery of repair costs from the manufacturer.



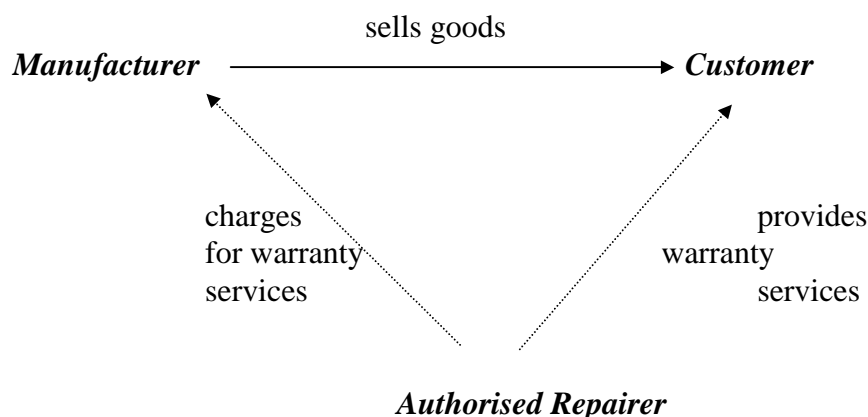
- 4.6 The GST treatment set out in paragraph 4.5 will not apply to cases where a distributor charges a mark-up for the repair services performed on behalf of the manufacturer. In

such cases, the repairs performed by the distributor constitute a supply of service made in relation to goods situated in Singapore. Accordingly, the distributor is required to charge GST on the full value of the payments received from the manufacturer.

- 4.7 As output tax for the warranty repair has already been accounted for by the distributor in the original supply of the good, he would be entitled to claim input tax in respect of the GST incurred in the course of making the warranty repairs, regardless of whether he recovers any costs of repairs from the manufacturer or not.

### **Sale by Manufacturer and Repair by Third Party**

- 4.8 In this case, a manufacturer (including an overseas manufacturer) sells the good directly to a customer and undertakes to rectify any defects of the good for a specified time period. However, an independent agent has been appointed by the manufacturer to perform any warranty service requested by the customer (hereafter referred to as the authorised repairer). Where a customer requires warranty service, he will bring the good to the authorised repairer to rectify the defects. The authorised repairer will then bill the manufacturer for the repairs performed for the customer.



- 4.9 In the above case, the repairer does not take title to the good. He is merely making a supply of repair services to the manufacturer. Therefore, the authorised repairer would have to charge output tax on the supply of repair service to the manufacturer. This is because it is a supply of services in connection with goods situated in Singapore. Likewise, he may claim input tax credit incurred on any items associated with the repair service provided to the manufacturer since it was incurred in the making of taxable supplies.