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IRAS e-Tax Guide

GST Treatment of Hire Purchase Agreements and Financing Instruments (Third Edition)



GST Treatment of Hire Purchase Agreements and Financing Instruments

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1 Aim

1.1 This e-Tax guide¹ explains:

- i. the conditions for treating financing instruments as “hire purchase agreements” for GST purposes;
- ii. the GST treatment for hire purchase agreements, their invoicing and reporting requirements;
- iii. the applicability of Gross Margin Scheme to hire purchase agreements.

1.2 This guide is applicable to you if you are providing financing through leases or selling goods under a hire purchase agreement.

2 At a glance

2.1 The GST Act makes reference to ‘hire purchase’ agreement in paragraph 1(h) of Part I of the Fourth Schedule to the GST Act, Regulations 58 and 80 of the GST (General) Regulations.

2.2 As different businesses provide varying terms and conditions for their financing instruments, it may not be clear whether a particular financing or leasing instrument should be treated as a hire purchase agreement for GST purposes. To assist businesses, this guide outlines the conditions for treating a financing instrument as a hire purchase agreement.

2.3 It also clarifies the GST implications and GST obligations for the respective parties involved in a hire purchase agreement.

3 Conditions for treating financing instruments as “hire purchase agreements”

3.1 A financing or leasing instrument will be treated as a “hire purchase agreement” for GST purposes if the following two conditions are satisfied:

- i. The lease provides an option or right for the lessee to purchase the leased goods prior to or at the end of the lease period; and
- ii. The leased goods are not recognised as the lessor’s assets in his accounting records.

3.2 When a financing instrument satisfies both conditions, paragraph 1(2)(b) of the Second Schedule to the GST Act and all provisions in the GST

¹ This e-tax guide replaces the IRAS’ e-Tax guide on “GST: Clarifications on the GST Treatment of Hire Purchase and Other Financing Instruments” published on 1 Oct 2012.

legislation that make reference to “hire purchase agreement”² will apply to this instrument.

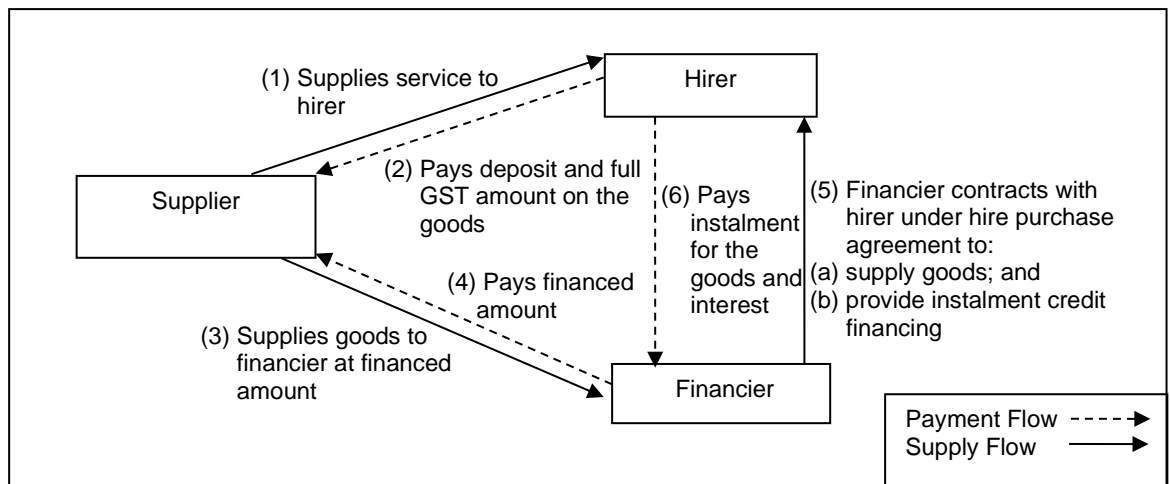
3.3 However, the scope of paragraph 1(2)(b) of the Second Schedule to the GST Act is not limited to hire purchase agreements. A financing instrument that is not regarded as a hire purchase agreement for GST purposes may still fall within the scope of paragraph 1(2)(b) if it provides for an option to purchase³.

3.4 The mere naming of any financing agreement as “hire purchase agreement” will not render it to be treated as one for GST purposes unless both of the conditions in paragraph 4.1 are satisfied. Likewise, an agreement termed differently (e.g. finance lease agreement) will be treated as “hire purchase agreement” if it satisfies the above conditions. It is the substance of the instrument, and not its label that will determine its GST treatment.

4 GST treatment of Hire Purchase (HP) agreements

A typical hire purchase arrangement involves three parties, i.e. the supplier of goods, the financier, and the hirer. Usually, the supplier collects a deposit and the GST on the full value of goods⁴ upfront from hirer. After the HP arrangement is finalised, the financier pays the remaining amount (“financed amount”) to the supplier.

4.1 The following diagram illustrates a typical hire purchase arrangement:



Supplies made by the supplier

² Paragraph 1(h) of Part I of the Fourth Schedule to the GST Act, Regulations 58 and 80 of the GST (General) Regulations.

³ An option to purchase indicates an express intention for title to pass in the future. It is not relevant whether the option is ultimately exercised.

⁴ This is because financiers generally do not provide financing for the GST amount.

4.2 In a sale of goods made under a hire purchase agreement, the supplier makes two supplies:

(a) a supply of service to the hirer in return for the deposit paid by the hirer to him and

(b) a supply of goods to the financier for the financed amount. This is because the title of the goods is transferred to the financier instead of the hirer in return for the balance payment made by the financier.

4.3 The supplier should issue tax invoices to both the hirer and the financier. Please refer to paragraph 5 for more details.

Supplies made by the financier

4.4 Under a hire purchase agreement, a financier makes two supplies to the hirer for GST purposes. They comprise a taxable supply of goods and an exempt supply of financial service.

Taxable supply⁵ of goods

4.5 Under a hire purchase agreement, the financier remains the legal owner of the goods until the hirer pays the last instalment or exercises the option to purchase.

4.6 As the hire purchase agreement provides for the title in goods to pass in the future, the financier is regarded as making a supply of goods under paragraph 1(2)(b) of the Second Schedule to the GST Act, even though legal ownership has not been transferred. The financier should account for GST on the total value of goods financed at the time he issues the invoice for the first instalment under the hire purchase agreement⁶.

Exempt supply of financial service

4.7 The financier also makes an exempt supply arising from the provision of the facility of instalment credit finance⁷. This is provided that a separate charge for the provision of credit is made and disclosed to the hirer.

Sale in satisfaction of a debt

4.8 In the event that the hirer defaults on payment and the financier repossesses the goods for sale in satisfaction of the hirer's debt, the sale is deemed to be a supply made by the hirer. If the hirer is GST-registered, the financier, regardless of its registration status, is required to charge GST on

⁵ The GST rate has been increased from 7% to 8% with effect from 1 Jan 2023 and will be increased from 8% to 9% with effect from 1 Jan 2024. Please refer to the e-Tax Guide "2023 GST Rate Change: A Guide for GST-registered Businesses" for more information on rate change.

⁶ This is provided under section 11B(5) of the GST Act.

'the supply of the goods or services shall be treated as wholly taking place at the time when —
(i) the invoice in respect of the first instalment is issued or the first instalment is paid; or
(ii) where both events occur, the first of the 2 events occurs.'

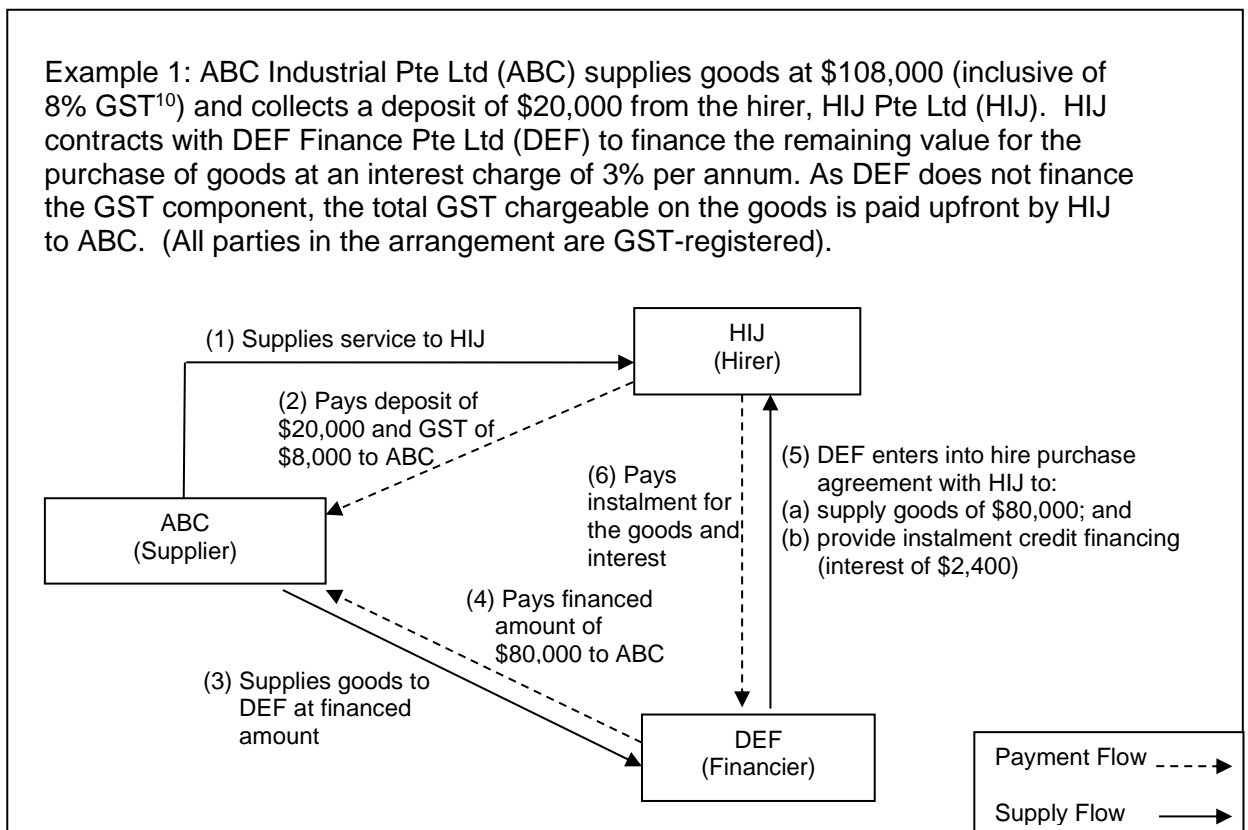
⁷ This is provided under paragraph 1(h) of Part I of the Fourth Schedule to the GST Act.

the sale, and provide a statement to IRAS to report the sale made in satisfaction of debt. The financier is required to forward a copy of this statement to the owner and buyer of the asset and remit the GST due to IRAS within 21 days from the date of sale⁸.

5 GST invoicing and reporting requirements for supplies made in relation to hire purchase agreements

5.1 The supplier and financier are required to issue tax invoices⁹ for taxable supplies made in relation to hire purchase agreements and report the supplies made in their GST returns.

5.2 The following numerical example illustrates the invoicing and reporting requirements:



5.3 The GST invoicing requirements for the taxable supplies made by the supplier and financier are summarised in the table below:

⁸ This is provided for in regulation 58 of the GST (General) Regulations.

⁹ The supplier and financier must issue a tax invoice when he makes a taxable supply (including GST) exceeding \$1000 to a GST-registered customer. If he makes a taxable supply (including GST) not exceeding \$1000 to a GST-registered customer, he can issue a simplified tax invoice. If he makes a supply to a non GST-registered customer, he can issue an invoice or receipt.

¹⁰ Refer to Footnote 5.

	Transactions	GST Invoicing Requirements
1	Supplier makes a supply of service to the hirer in return for the down payment collected.	Supplier should issue a tax invoice to hirer for taxable supply of \$20,000 and GST of \$1,600. The remaining GST amount of \$6,400 (\$8,000 less \$1,600) should be reflected as GST paid upfront by hirer on behalf of financier.
2	Supplier makes a supply of goods to the financier as the legal title of the goods is transferred to the financier in return for the balance payment for the goods.	Supplier should issue a tax invoice to financier for taxable supply of \$80,000 and GST of \$6,400. The tax invoice should reflect that the GST is being paid upfront by hirer on behalf of the financier.
3a	Financier makes a supply of goods under the hire purchase agreement entered into with hirer.	Financier should issue a tax invoice to hirer for the taxable supply of \$80,000 and GST of \$6,400. The GST is paid upfront to supplier.
3b	Financier makes an exempt supply of credit instalment financing to hirer under the hire purchase agreement.	Financier may issue an invoice to hirer for instalment credit financing, i.e. exempt supply of \$2,400.

5.4 The GST reporting requirements of the supplies and purchases made by the respective parties are as follows:

GST Return	GST Reporting		
	Supplier (\$)	Financier (\$)	Hirer (\$)
Standard-rated supply	100,000	80,000	
Output tax	8,000	6,400	
Exempt supply	-	2,400	
Taxable purchase	-	80,000	100,000
Input tax	-	6,400	8,000 ¹¹

5.5 Both the supplier and the financier are required to issue tax invoices to the hirer (if the hirer is GST-registered) for the taxable supplies made to the hirer. The hirer is required to maintain the tax invoices issued by the supplier and financier to support its input tax claims made on the purchase of the goods. Likewise, the financier has to maintain the tax invoice issued by the supplier for the financed amount to support its input tax claims.

¹¹ Where the input tax is directly attributable to the making of taxable supplies of the hirer's business

Please refer to Appendix 1 for a sample of the tax invoices to be issued by the supplier and financier respectively for their taxable supplies.

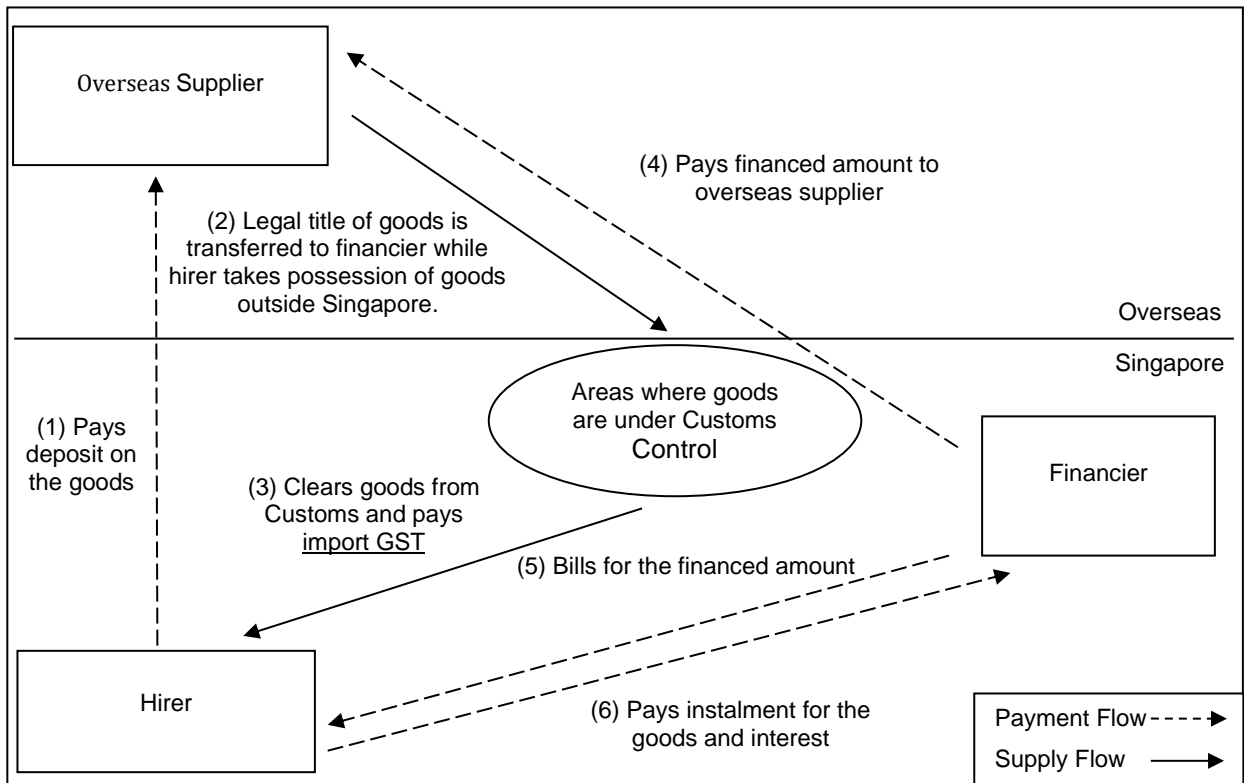
- 5.6 In the event the financier is not GST-registered, the supply of goods made by the financier to the hirer under the hire purchase agreement will not be a taxable supply. Consequently, the hirer cannot recover any input tax on the supply made under the hire purchase agreement. The GST paid upfront on the financed amount by the hirer is merely a payment made on behalf of the financier on the supply of goods made by the supplier to the financier and therefore it is not claimable by the hirer.

6 GST treatment of imported goods purchased under HP arrangements

- 6.1 For goods purchased from overseas suppliers, the financier is not required to charge and account for GST on the financed amount if the possession (i.e. custody and control) of the goods is transferred to the hirer outside Singapore¹² before the goods are imported to Singapore¹³. The hirer is considered to have taken possession of the goods outside Singapore if he is responsible for delivering the goods to Singapore and bears the risks of loss or damage to those goods.
- 6.2 The above GST treatment applies even if the legal title to the goods is passed only to the hirer after the goods have arrived in Singapore. Hence, the hirer will only pay import GST when he clears the goods from Singapore Customs. If the hirer is GST-registered, the hirer is entitled to claim the import GST if he has the supporting import documents and all other input tax conditions are satisfied.
- 6.3 The following diagram illustrates the GST treatment on the purchase of imported goods under HP arrangement in which possession of the goods is transferred to the hirer outside Singapore.

¹² Under Paragraph 1(2)(b) of the 2nd Schedule to the GST Act, there is a supply of goods if possession of goods is transferred under an agreement that expressly contemplate that property in the goods will pass at some future time.

¹³ Under Section 13(3) of the GST Act, the goods shall be treated as supplied outside Singapore if it involves their removal to Singapore.



6.4 If the hirer takes possession of the imported goods only after they arrive in Singapore, there is a taxable supply of goods made by the financier to the hirer in Singapore. Accordingly, the financier would have to charge and account for output tax on the financed amount provided to the hirer.

7 Application of the Gross Margin Scheme

7.1 The GST legislation allows GST-registered businesses to charge GST on the excess of the sale price over the purchase price of the goods they sell¹⁴, under the gross margin scheme. This scheme applies only to the supply of goods¹⁵ and not services. The use of the scheme is subject to the prior approval of and any conditions imposed by the Comptroller of GST. It cannot be used for any supply of goods where GST has been charged on the previous supply of these goods¹⁶.

7.2 The gross margin scheme is normally applied to the sales of second-hand or used goods¹⁷. However, the GST legislation also allows the scheme to be used for both new and used goods if they are supplied under a hire purchase agreement. The extension of the gross margin scheme to new goods supplied under hire purchase agreements has been applied only to pure financiers (such as banks, finance companies or leasing companies).

¹⁴ This is provided under section 23 of the GST Act.

¹⁵ The mere "letting of hire" is treated as a supply of services for GST purposes.

¹⁶ Except where the previous supply was also made under the gross margin scheme.

¹⁷ This is provided under regulation 80(1) of the GST (General) Regulations.

These are businesses whose intention is to provide solely financing and they do not add a mark-up to the price of the goods being supplied under hire purchase agreements. In other words, these are not businesses that purchase goods for resale purposes.

- 7.3 If a financing instrument, such as finance lease or conditional sale agreement satisfies the conditions at paragraph 4.1 to be treated as “hire purchase agreement”, the extension of the gross margin scheme to the supply of new goods will also apply to this instrument. This is provided the pure financier has obtained prior approval from the Comptroller to use this scheme for new goods supplied by him under hire purchase agreements.

8 Contact Information

8.1 For enquiries on this e-Tax Guide, please contact:

**Goods & Services Tax Division
Inland Revenue Authority of Singapore**

55 Newton Road

Singapore 307987

Tel: 1800 356 8633

Fax: (+65) 6351 3553

Email: gst@iras.gov.sg

9 Updates and Amendments

Date of amendments	Amendments made
5 Jun 2015	Paragraph 6 has been added to clarify the GST treatment of imported goods purchased under HP arrangements.
1 Jan 2023	Inserted footnote 5 and 10, and made editorial amendments regarding the GST rate changes from 1 Jan 2023 and 1 Jan 2024.

Appendix 1

(A) Sample tax invoice issued by ABC Industrial Pte Ltd (supplier) to HIJ Pte Ltd (hirer) and DEF Finance Pte Ltd (financier) for sale of goods under hire purchase agreement

(Based on example 1 in paragraph 6.2)

<p>ABC Industrial Pte Ltd No. 1 Tuas Ave 2 Singapore 123456 GST Reg No: 212345678A</p>																																												
<p><u>Tax Invoice</u></p>																																												
<p>Finance Co: DEF Finance Pte Ltd 2 Cecil Street #11-00 Singapore 054321</p>	<p>Invoice No : T2201/14 Date : 22/01/2023</p>																																											
<p>Customer: HIJ Pte Ltd 88 Tai Seng Drive #01-00 Singapore 336699</p>																																												
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">No.</th> <th style="width: 70%;">Description</th> <th style="width: 20%;">Amount (S\$)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>New Hydraulic Drilling machine Model No. ED777-88Z</td> <td></td> </tr> <tr> <td></td> <td>Selling price of machine before GST</td> <td style="text-align: right;">100,000.00</td> </tr> <tr> <td></td> <td>GST (8%⁹)</td> <td style="text-align: right;"><u>8,000.00</u></td> </tr> <tr> <td></td> <td>Total price inclusive of GST</td> <td style="text-align: right;"><u>108,000.00</u></td> </tr> <tr> <td></td> <td>Less: Down payment paid by customer</td> <td style="text-align: right;">(20,000.00)</td> </tr> <tr> <td></td> <td> GST paid on down payment</td> <td style="text-align: right;">(1,600.00)</td> </tr> <tr> <td></td> <td> GST paid upfront on remaining amount by hirer on behalf of Finance Co.</td> <td style="text-align: right;"><u>(6,400.00)</u></td> </tr> <tr> <td></td> <td>Hire purchase amount due from financier</td> <td style="text-align: right;"><u>80,000.00</u></td> </tr> <tr> <td></td> <td>GST details:</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>Taxable supplies</u></td> <td style="text-align: center;"><u>GST (8%⁹)</u></td> </tr> <tr> <td></td> <td>Customer \$ 20,000.00</td> <td style="text-align: right;">\$1,600.00</td> </tr> <tr> <td></td> <td>Finance co. <u>\$ 80,000.00</u></td> <td style="text-align: right;"><u>\$6,400.00</u></td> </tr> <tr> <td></td> <td>Total <u>\$100,000.00</u></td> <td style="text-align: right;"><u>\$8,000.00</u></td> </tr> </tbody> </table>	No.	Description	Amount (S\$)	1	New Hydraulic Drilling machine Model No. ED777-88Z			Selling price of machine before GST	100,000.00		GST (8% ⁹)	<u>8,000.00</u>		Total price inclusive of GST	<u>108,000.00</u>		Less: Down payment paid by customer	(20,000.00)		GST paid on down payment	(1,600.00)		GST paid upfront on remaining amount by hirer on behalf of Finance Co.	<u>(6,400.00)</u>		Hire purchase amount due from financier	<u>80,000.00</u>		GST details:			<u>Taxable supplies</u>	<u>GST (8%⁹)</u>		Customer \$ 20,000.00	\$1,600.00		Finance co. <u>\$ 80,000.00</u>	<u>\$6,400.00</u>		Total <u>\$100,000.00</u>	<u>\$8,000.00</u>		
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(B) Sample tax invoice issued by the DEF Finance Pte Ltd (financier) to the HIJ Pte Ltd (hirer) for sale of goods under hire purchase agreement.
 (Based on example 1 in paragraph 6.2)

DEF Finance Pte Ltd
 2 Cecil Street #11-00 Singapore 054321
 GST Reg No: M2-0008899-1

Tax Invoice

Hirer's Name and Address:

HIJ Pte Ltd
 88 Tai Seng Drive #01-00
 Singapore 336699

Invoice No : HP-1200-01-2014
 Date : 23/01/2023

Hire Purchase Agreement No: 123-ABC
 Loan Account No: 123-ABC

No.	Description	Amount (SGD)
1	New Hydraulic Drilling machine ED777-88Z	
	Selling price of machine before GST under hire purchase agreement	100,000.00
	8% ⁹ GST	<u>8,000.00</u>
	Total price inclusive of GST	<u>108,000.00</u>
	Less:	
	Down payment	
	20,000.00	
	8% GST ⁹ on 20,000.00 paid by hirer to supplier	<u>(28,000.00)</u>
	1,600.00	
	8% GST ⁹ on 80,000 paid upfront by hirer to supplier	<u>80,000.00</u>
	6,400.00	
	Hire purchase amount due	
	Taxable Supply : 80,000.00	
	GST Amount : 6,400.00	

This is a computer-generated document. No signature is required.