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IRAS e-Tax Guide

GST: Zero-rating of Sale & Lease of Containers and Container Services (Second edition)

Published by
Inland Revenue Authority of Singapore

Published on 30 Jan 2026

First edition on 19 Feb 2016

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GST: Zero-rating of Sale & Lease of Containers and Container Services

1 Aim

1.1 This e-Tax Guide¹ provides details on when the supply of container services, and the sale and lease of containers can be zero-rated. You should read this guide if you are a GST-registered business that provides container services, and the sale and lease of containers.

2 At a glance

2.1 Recognising that the use of sea and air containers is an essential part of the international transportation of goods, the following supplies made in relation to containers can be zero-rated:

Nature of Supply	Supporting Legislation
Sale and lease of qualifying sea and air containers used for international transportation of goods	Section 21(3)(v) of the GST Act
Repair, maintenance and management services rendered on qualifying sea and air containers used for international transportation of goods	Section 21(3)(w) of the GST Act, Paragraph 9 and Eighth Schedule of GST (International Services) Order

2.2 This alleviates the compliance burden faced by the suppliers and service providers in tracking the destination of the containers and where the customers belong.

¹ This e-Tax Guide replaces the IRAS' e-Tax Guide on "GST: Zero-rating of Container Services and the Sale & Lease of Containers" published on 10 Sep 2012.

3 Qualifying Containers

- 3.1 For zero-rating to apply, the sea and air containers must satisfy two criteria:
 - (a) they are used or to be used for international transportation of goods; and
 - (b) they adhere to the prescribed definitions.
- 3.2 Sea and air containers that are used or to be used for purposes other than international carriage of goods would be treated as non-qualifying containers. Examples include containers used or to be used for local transportation, storage, dormitory and office.
- 3.3 The definitions for containers are:
 - (a) Sea containers shall conform to the standards defined by the International Organization for Standardization, the Institute of International Container Lessors or any other equivalent organization².
 - (b) Air containers shall conform to the standards for Aircraft Unit Load Devices defined by the International Air Transport Association or any other equivalent organization.

4 Container Services that Qualify for Zero-rating under Section 21(3)(w)

- 4.1 Whether you are considered as supplying the qualifying container services would depend on whether you have contractually agreed to provide such services to your customer. Existence of contractual agreement (written or verbal) is a question of fact and the Comptroller would consider that you have supplied the qualifying services only if the following two factors are present:
 - (a) You have contracted with the customer to provide the qualifying container services in your own name or capacity; and
 - (b) Your customer is liable to pay you (i.e. in the event of default payment, you have a legal recourse on the debt).
- 4.2 Qualifying container services are repair and maintenance services, management services and their ancillary services in relation to qualifying sea and air containers as described below.

Repair and Maintenance Services

- 4.3 Repair and maintenance of qualifying containers can be zero-rated in the following situations:
 - (a) Such services are performed on the sea or air container;
 - (b) Part or component of the sea or air container is removed for repair and reinstalled thereafter;
 - (c) Part or component of the sea or air container is removed for repair, and returned as a spare; or

² Examples: Institute for International Container Lessors ("IICL") and International Maritime Organisation ("IMO").

(d) Part or component of the sea or air container is removed and replaced by an identical part or component.

4.4 When you contract to provide repair or maintenance services on the qualifying containers including spare parts or materials which are essential for such services, the whole supply can be zero-rated as container services.

4.5 However, if you only supply spare parts or materials without providing the repair or maintenance service, such supplies do not qualify for zero-rating as container services. These supplies of goods can only be zero-rated if the spare parts or materials are exported and the export is supported by the necessary export documents. Otherwise, GST is chargeable at the prevailing rate on these supplies.

4.6 The types of repair or maintenance services performed on qualifying containers may include:

(a) Repair and overhaul including maintenance and refurbishment

Examples:

- Minor/major emergency or structural repairs, including the supply of labour and materials
- Machinery repairs such as repairs on reefer containers' cooling units, including the supply of labour and materials
- Blasting, painting, repainting, remounting and other touch-up jobs to prevent wear and tear and corrosion as well as extend life span of containers
- Replace structure frame or perform additional works on the structure frame or exterior of barrel

(b) Testing of parts and components

Examples:

- Services that ensure containers are fit to carry the intended cargoes which include reading, monitoring, and adjusting of temperatures, air vents, humidity and defrost setting of the reefer containers

(c) Washing, cleaning, fumigating and servicing

Examples:

- Removing stains and disposing of waste materials
- Chemical and normal washing

(d) Inspection and surveying

Examples:

- Pre-trip inspection

Assessment done on the machinery unit of the reefer container to ensure it is in working condition.

- Gate-in survey

Assessment done on the structure of the container after it has been returned to the depot to ensure that it is in working condition.

- Cleanliness survey

Verify that the tank containers are clean, without dirt, odour and water.

- Condition survey

Check for defects and damages on both the interior and exterior of the tank containers.

- On-hire survey

Inspection performed on containers before the lessee accepts the lease containers.

- Off-hire survey

Inspection performed on containers when the lessee returns the containers at the end of the lease. It includes verifying the estimate of repairs (EOR) raised by the depots.

- In-service survey

Inspection performed on the containers after returning from a voyage. It includes verifying the EOR raised by the depots.

- Pre-cool services

Preset temperature level of containers prior to storage or transportation to maintain cargo temperature during transportation.

- Testing of air or water leakage

- Pre- and post-repairs inspections

4.7 Common business scenarios on container repair and maintenance services are illustrated in Appendix 1.

Management Services

4.8 Management services rendered on qualifying containers can be zero-rated if they are provided to the owner, agent or lessee of the container.

4.9 You are regarded as supplying management services if you earn a fee through taking charge of all matters relating to import and export of the qualifying containers and taking on the associated risks.

4.10 Examples of management services may include:

- (a) Administrative support and handling of containers associated with releasing and receiving of containers to and from customers
- (b) Monitoring and supervising the movements of containers
- (c) Arranging for imports and exports of containers
- (d) Handling imports and export documents on containers
- (e) Securing freight
- (f) Arranging for repair and maintenance of containers
- (g) Ensuring containers are qualified for international travel and carrying intended cargoes

Other Ancillary Services

4.11 Transportation, storage and handling services of containers that are provided as part and parcel of repair, maintenance and management services for sea and air containers can similarly be zero-rated if:

- (a) They are provided in the same contract for the repair, maintenance and management services; and
- (b) They are not standalone services provided to the same customer.

4.12 Examples of such services that qualify for zero-rating:

- (a) Depot handling charge³ for repair and maintenance of containers
- (b) Transportation of empty containers between ports and depots for repairs and maintenance
- (c) Transportation of containers between ports and depots for temporary storage and handling due to transshipment arrangements
- (d) Storage and handling of damaged containers that are due for repairs
- (e) Storage and handling of containers until they are ready to be exported

³ Depot Handling Charge is a fee levied by depot operators whenever a container enters/leaves the depot. It is a consideration for the supply of surveying service performed on container before it can be admitted or discharged into/from the depot area.

5 Services that Do Not Qualify for Zero-rating under Section 21(3)(w)

5.1 Regardless of whether you provide repair, maintenance and management services for sea and air containers, the following services do not qualify for zero-rating under the provisions for container services:

- (a) Depot audit on repair facility
- (b) Cargo or transportation survey on loading, unloading and transporting of cargoes
- (c) Arrangement for mobile crane services
- (d) Cargo loading and unloading
- (e) Demurrage and detention charges⁴ on delay in return of containers
- (f) Yard overtime charges on consignee for collecting or returning the containers after regular working hours

5.2 In addition, standalone services such as transportation, handling and storage of sea and air containers (without the provision of the container repair, maintenance or management services) do not qualify for zero-rating as container services. For example, a GST-registered depot operator, who does not provide repair or maintenance services on containers, provides transportation service for containers between ports and depots and between depots. These services cannot be zero-rated under the provision for container services.

5.3 Rebilling of expenses incurred (e.g. depot handling charges, repair charges, etc) in the course of providing services that are not repair, maintenance and management of containers cannot be zero-rated under the provisions for container services. This is because you are not contracted to provide container repair, maintenance or management services. Appendix 2 illustrates the scenario pertaining to rebilling of expenses.

5.4 For services and rebilling of expenses (which are not disbursements) that do not qualify as container services to be zero-rated under Section 21(3)(w), GST is chargeable at the prevailing rate unless they satisfy other zero-rating provisions of international services.

⁴ Although demurrage and detention charges do not qualify for zero-rating under Section 21(3)(w), these charges may qualify for zero-rating under other provisions of international services in the GST Act.

Example: As part of their provision of international transportation services, shipping lines provide containers to their customers for loading or unloading the goods and may charge demurrage and detention charges. These container-related charges are ancillary to their international transportation services and can be zero-rated under Section 21(3)(a) of the GST Act.

6 Documentary Requirements

6.1 You are required to keep all commercial documents / evidence to substantiate the zero-rating of container services and the sale and lease of containers. When required, such documents should be produced to support your GST treatment. If you have incorrectly zero-rated your supplies, you are required to repay the GST chargeable on these supplies as well as the penalties (where applicable).

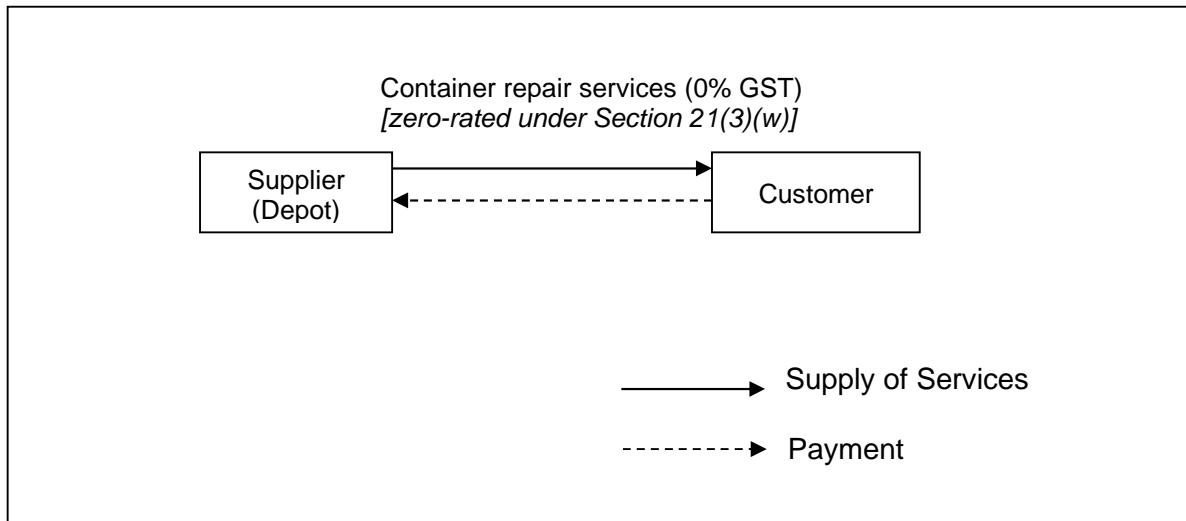
7 Contact Information

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

Appendix 1: Scenarios on Container Repair and Maintenance Services

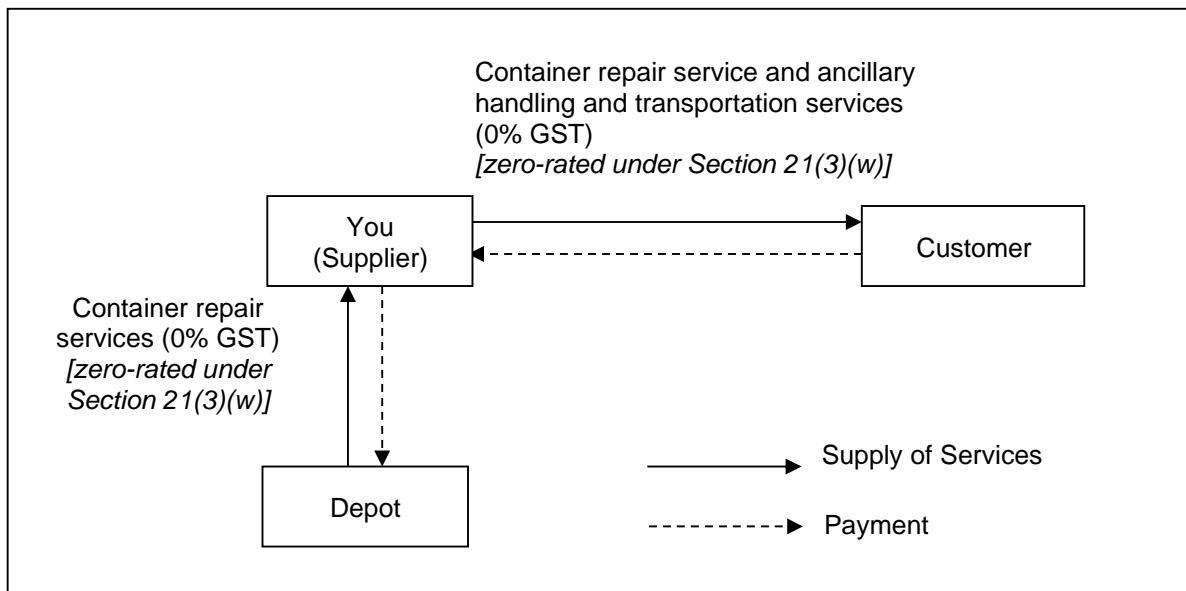
Scenario A

You are contracted to provide container repair services to the customer (local or overseas) and the customer is liable to pay you. Hence, the supply can be zero-rated under the provisions for container services.



Scenario B

You have a contractual agreement with your customer to provide container repair services as well as container handling and transportation services. However, you subcontracted the repair services to another depot operator. You can zero-rate the container handling and transportation services as well as the container repair services to the customer even though you did not perform the services personally.



Appendix 2: Scenario on Rebilling of Expenses

You have a contractual agreement with the customer to provide only handling and transportation services on containers, and not any of the qualifying container services. However, you incurred container repair costs (in your own capacity) in the course of providing handling and transportation services and would recover this from your customers.

Since there is no contractual supply to provide container repair services, any billing by you to the customer on the repair costs (even though there is no mark-up added) would be considered as rebilling of expenses which cannot be zero-rated under Section 21(3)(w).

