

General Contractors in the Construction Industry

Since Aug 2012, IRAS has audited 71 general contractors. From the audits, the following observations and errors were detected:

a. Setting up of multiple entities to provide renovation services

GST-registered contractors that have set up multiple entities to provide renovation services must have valid business reasons for doing so. They should not artificially split their business activities and operate many entities for tax avoidance purposes. Each entity should maintain proper accounting and business records to support its supplies and purchases.

b. Failure to account for GST on common operating expenses when there are multiple entities operating from the same business premise

Where multiple entities operate from the same business premise, the GST-registered contractor should charge and account for GST on the recovery of common expenses (such as rental and utilities) from the other contractors. They also cannot claim GST on common expenses not incurred by them.

c. Failure to account for GST on renovation contracts that straddle GST registration date

Where the invoice is issued and payment is collected after the GST registration date, the GST-registered contractor is required to charge and account for GST on his supply of renovation services regardless of the date of the contract.

d. Failure to account for GST on referral fees, commission or rebates received

Other than income earned from the provision of construction and renovation services, GST-registered contractors should also account for GST on other sources of income. These may include referral fees or commissions earned when they introduce customers to banks for loans or recommend their customers to purchase raw materials from suppliers.

e. Failure to account for GST on free use of office space and utilities provided to related companies

GST-registered contractors that allow related companies to use their premises for free must account for GST based on the cost incurred by them. This is because the license to occupy the space and provision of utilities are considered as supplies of goods under the GST Act and GST-registered businesses are required to account for GST on any free use of business goods (e.g. office space, utilities) if they have previously claimed input tax on them.

f. Claiming input tax on subcontractor's purchases

GST-registered main contractors should not claim input tax on their sub-contractors' purchases. They should only claim input tax on their own purchases and support their input tax claims with valid tax invoices addressed to them.

g. Claiming of input tax on disallowed expenses

Finally, another typical error in this industry is the wrong claiming of private motor car

expenses incurred by the company director who used the car for travelling to construction work sites, as they are specifically disallowed under the GST Act¹. Other disallowed expenses include medical and insurance expenses incurred for their own employees, unless these are mandatory under the Work Injury Compensation Act or under any collective agreement within the meaning of the Industrial Relations Act.

For case studies involving general contractors in the renovation industry, please refer to [Annex A](#).

¹ Regulations 26 and 27 of the GST (General) Regulations.

Case Story

Mr X set up a company, A Pte Ltd, to provide renovation services and registered the company for GST. Mr X subsequently set up two other companies, B Pte Ltd and C Pte Ltd, to provide specialised renovation services in kitchen works and interior design respectively. These two companies are not registered for GST. All the three companies operate their business in the same showroom.

IRAS found that A Pte Ltd had claimed the GST incurred on the rental of the showroom and utilities expenses. It also claimed other expenses incurred by B Pte Ltd and C Pte Ltd. The tax invoices on the rental of the showroom and utilities were issued to A Pte Ltd while the tax invoices on the other expenses incurred by B Pte Ltd and C Pte Ltd were issued to B Pte Ltd and C Pte Ltd. A Pte Ltd did not invoice nor receive payment from B Pte Ltd or C Pte Ltd for any of these expenses.

In allowing B Pte Ltd and C Ltd to use its showroom and utilities for free, A Pte Ltd has made a supply to B Pte Ltd and C Pte Ltd. It needs to account for GST on the supply based on the cost to him in providing the supply. For example, A Pte Ltd incurred the following costs on the rental of showroom and utilities:

	Value before GST	GST amount
Rental of showroom	\$10,000	\$700
Utilities	\$400	\$28
Total	\$10,400	\$728

A Pte Ltd can use the floor area occupied by B Pte Ltd and C Pte Ltd as a proxy in apportioning the cost. If B Pte Ltd and C Pte Ltd occupied half of the showroom, A Pte Ltd will have to account for GST of \$364 (i.e. 50% of \$728) on the supplies made to B Pte Ltd and C Pte Ltd.

A Pte Ltd can only claim the input tax on expenses incurred for the purpose of its business and has to support the input tax claim with tax invoices issued to its name. As the expenses of B Pte Ltd and C Pte Ltd were not incurred for the business of A Pte Ltd, A Pte Ltd is not allowed to claim the input tax on these expenses.