

Case Stories of GST Errors made by Large Businesses

(i) Errors relating to retail sales

Case Story 1 – Under-accounting of output tax during sales promotion period for a temporary outlet

Company A is a retailer that has outsourced its accounting and GST reporting function to an overseas shared service centre. During its sales promotion period for a temporary outlet, the tax rate was incorrectly set up as 5% instead of 7% in its Point-Of-Sale (POS) system.

The output tax declared in the GST return was extracted based on the GST amount captured in the POS system. No variance check was performed on the standard-rated supplies value to ensure that the correct tax rate has been applied.

Case Story 2 – Omission of output tax on merchant commission received from a Central Refund Agency (“CRA”)

Company B offered tourist refunds to its customers through a participating CRA. Company B received periodic commission income from the CRA based on a percentage of the total tourist refunds processed.

The staff recording the receipt of commission was not aware that output tax is accountable on such receipts and hence did not issue a tax invoice to CRA. As the commission income was not captured in the invoicing module, it was omitted from the GST return.

(ii) Incorrect zero-rating of supplies of goods

Case Story 1 – Omission of output tax on sales of goods delivered locally

Company A is a wholesaler that had pre-set the tax code for its supplies of goods based on the ‘ship-to-address’ at the customer account creation stage, and the tax code for local Customer B was set as “standard-rated”. However, during migration to a new accounting system, the tax code for Customer B was incorrectly tagged as “zero-rated” in the new system.

The staff who performed checks on the migration of tax codes did not detect the error. The staff who processed the sales transaction and issuance of tax invoice to Customer B also failed to check the ‘ship-to-address’ and amend the tax code accordingly. Company A had therefore omitted to charge and account for GST on the local supplies of goods.

Case Story 2 – Omission of output tax on subsequent sales of imported goods

Company B is a manufacturer of electronic goods. It had an arrangement to sell goods to a local customer when the goods were situated outside Singapore. Company B had correctly classified the sales of goods as “out-of-scope” in its system. Subsequently, due to a change of incoterms, the ownership of the goods was passed to the customer only when the goods were delivered in Singapore. However, as the new arrangement was not communicated by the sales staff to the finance team, Company B had continued to treat the sales as out-of-scope supplies and omitted to account for GST.

Separately, Company B had purchased and imported inventories into Singapore to manufacture goods for an overseas customer. It had zero-rated the supply of manufactured goods which were exported, as well as unused inventories situated in Singapore, to the overseas customer. However, given that Company B was uncertain when the unused inventories would be exported, it should have standard-rated the supply.

Case Story 3 – Lack of export documents to support zero-rating of goods

Company C is a distributor that had multiple export arrangements with its overseas customers for its sale of goods. For instance, it would deliver goods to the customers’ freight forwarder for export or to a warehouse within the Free Trade Zone (FTZ). Company C had zero-rated the supplies of goods on the understanding that the goods would be exported and it would maintain the required export documents. However, the designated staff had failed to obtain the following export documents to support the zero-rating treatment:

- (a) Subsidiary Export Certificate / Note of Shipment for goods delivered to customer’s freight forwarder; and
- (b) Air waybill / bill of lading for goods delivered to FTZ.

The finance team was also not informed of the absence of export documentary evidence. As a result, Company C had omitted to account for GST on the supplies of goods.

(iii) Incorrect zero-rating of supplies of services

Case Story 1 – Incorrectly zero-rated services that directly benefitted an overseas entity but provided under a contract with a local entity

Company A was engaged by a local company to source for potential candidates to work for its related entity in Hong Kong. Company A had the misconception that it could zero-rate the staff placement services which would directly benefit the Hong Kong entity. However, zero-rating under section 21(3)(j) of the GST Act does not apply as the service was supplied under a contract with a local person.

Case Story 2 – Incorrectly zero-rated services provided under a contract with an overseas entity but directly benefitted local persons

Company B was engaged by its overseas holding company to provide administrative support services to related companies within the Asia-Pacific region in return for a monthly fee. In its invoicing system, it had pre-set the tax code as “zero-rated” based on the belonging status of the ‘bill-to party’.

As Company B’s services had benefitted related companies in Singapore, it should apportion the fees received and account for GST on the portion of services that directly benefit local persons, instead of wholly zero-rating the supply.

(iv) Wrong tax classification for non-trade supplies

Case Story 1 – Omission of output tax on free use of assets

Company A and its related Company B entered into an agreement for the latter to take over its manufacturing plant. However, Company A did not transfer the legal title of the plant as planned. The staff preparing the GST return was unaware that Company A had remained as the owner of the plant. As such, Company A had overlooked the GST implication of the free use of the plant and the relating fixed assets by Company B, which is a deemed supply under the GST rules. Company A had to repay GST on the deemed supply.

Case Story 2 – Omission of output tax on supply of manpower services

Company C operates in the construction industry. It was the legal employer of foreign workers for whom the work permits are applied under its name. Company C often deployed its foreign workers to its sub-contractors. It incurred expenses on foreign worker levy which it billed to the subcontractors with GST. However, it did not charge any GST on salaries paid directly by the sub-contractors to the foreign workers.

The deployment of foreign workers by Company C is a supply of manpower services that is subject to GST. The full value of the supply comprises the salary cost and other expenses borne by the sub-contractors.

The operations staff did not inform the finance team of the salary payment arrangement and there was no invoice billing for salary cost. As such, the finance team was not aware of the GST implication. For past salaries borne by the subcontractors, Company C had recovered the GST from the subcontractors and repaid to IRAS. The GST-registered subcontractors can claim GST on billings for manpower services, if the input tax conditions are met.

Case Story 3 – Omission to charge and account for GST on recoveries of expenses

Company D is an investment holding company that provides management support services to its related companies. It had omitted to charge and account for GST on the following recovery of expenses:

- (i) Company D had acquired an old factory and carried out renovation. In the midst of renovation, Company D transferred the factory to its subsidiary, Company E. Company D had correctly accounted for output tax on the sale of factory. Subsequent to the transfer, Company D continued to incur renovation expenses which it recovered from Company E. However, as the recoveries were made via the posting of journal entries in the intercompany general ledger account without issuing invoices, Company D had overlooked to account for GST on the recovery.
- (ii) Company D had recovered expenses on petrol, rental of S-plated cars and other expenses from its related companies. It wrongly assumed that GST was not chargeable on the recoveries when no input tax was incurred or claimed on such expenses.
- (iii) Company D had recovered expenses on replacement of staff passes, family day tickets and company transport via payroll deduction from its employees. Its HR department failed to communicate such deductions to the finance personnel for assessment of GST implications. Such recoveries are supplies made to the staff which attract GST.