



INLAND REVENUE  
AUTHORITY  
OF SINGAPORE

# IRAS e-Tax Guide

## GST Guide on Insurance: Cash Payments and Input Tax on Motor Car Expenses (Third Edition)



# GST Guide on Insurance: Cash Payments and Input Tax on Motor Car Expenses

---

Published by  
Inland Revenue Authority of Singapore

Published on 15 April 2021

First edition on 31 Dec 2013

Disclaimers: IRAS shall not be responsible or held accountable in any way for any damage, loss or expense whatsoever, arising directly or indirectly from any inaccuracy or incompleteness in the Contents of this e-Tax Guide, or errors or omissions in the transmission of the Contents. IRAS shall not be responsible or held accountable in any way for any decision made or action taken by you or any third party in reliance upon the Contents in this e-Tax Guide. This information aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary its position accordingly.

© Inland Revenue Authority of Singapore

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording without the written permission of the copyright holder, application for which should be addressed to the publisher. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

## **Table of Contents**

<b>1</b>	<b>Aim .....</b>	<b>1</b>
<b>2</b>	<b>At a glance.....</b>	<b>1</b>
<b>3</b>	<b>GST Treatment for Cash Payment.....</b>	<b>1</b>
	<b>Conditions .....</b>	<b>1</b>
	<b>Computation of Deemed Input Tax and GST Reporting.....</b>	<b>5</b>
	<b>Third Party Claims.....</b>	<b>6</b>
	<b>Excess .....</b>	<b>7</b>
	<b>Recovery of Cash Payment.....</b>	<b>8</b>
<b>4</b>	<b>Input Tax Incurred On Motor Car Expenses .....</b>	<b>9</b>
	<b>Conditions .....</b>	<b>10</b>
	<b>GST reporting.....</b>	<b>11</b>
	<b>Contractual Supply .....</b>	<b>11</b>
	<b>Excess .....</b>	<b>12</b>
<b>5</b>	<b>Frequently Asked Questions .....</b>	<b>14</b>
<b>6</b>	<b>Contact Information.....</b>	<b>20</b>
<b>7</b>	<b>Updates and Amendments.....</b>	<b>21</b>

## **1 Aim**

- 1.1 This e-Tax Guide explains the GST treatment for Cash Payments and input tax incurred on motor car expenses by GST-registered general insurance companies.

## **2 At a glance**

- 2.1 Under an insurance contract, an insurance company may choose or be required to make cash payment to the claimant when an insured event happens (referred to as “**Cash Payment**” in this e-Tax Guide).
- 2.2 There are generally two circumstances where Cash Payment is made under the insurance policy. One, where the insured incurs a loss and makes a cash claim from the insurance company (also known as cash indemnity payment) and two, where an insured event happens and the insured is entitled to receive an agreed sum from the insurance company. The GST-registered insurance company can claim deemed input tax on Cash Payments made under insurance policies that are subject to GST and issued to prescribed policyholders<sup>1</sup>.
- 2.3 For a motor car insurance contract, an insurance company may choose to repair, reinstate or replace an insured motor car instead of making a Cash Payment. In order to repair, reinstate or replace the motor car, the insurance company would have to contract with third party suppliers to perform the services or supply the goods and thus, incur input tax if the supplier is GST-registered. The GST-registered insurance company can claim input tax incurred in respect of motor cars that are insured under the insurance policies<sup>2</sup>.

## **3 GST Treatment for Cash Payment**

- 3.1 To capture only the value-add of insurance services, which is the difference between the gross premiums received and the Cash Payments, insurance companies are allowed a credit for input tax deemed incurred on the Cash Payments when certain conditions are satisfied. The conditions are explained in the following paragraphs.

### Conditions

- 3.2 A GST-registered insurance company is allowed to claim input tax deemed incurred on Cash Payment made if **ALL** the following conditions are satisfied:

(a) **Cash Payment is made pursuant to an insurance policy**

The Cash Payment must be made pursuant to an insurance policy upon the occurrence of an insured event.

---

<sup>1</sup> This change was effective from 1 Jan 2007 to capture the true value-add of insurance services and reduce the business costs of general insurers.

It does not include any payment made under a separate supply of service or goods contracted by the insurance company from third party suppliers such as fees paid to surveyors, adjustors, investigators and other specialists.

The payment can be made to any person including the policyholder, insured, third party, claimant, or beneficiary.

The Cash Payment can be made in any form such as cheque, cash and direct transfers to bank account or cash vouchers.

**(b) The Cash Payment is made to one of the following prescribed policyholders<sup>2</sup>:**

- Not GST registered

Condition (b) is satisfied if the policyholder is not GST registered<sup>3</sup> at the effective date of the insurance policy (the “Effective Date”). The Effective Date is also the start date of the insurance coverage under the policy. For a renewed policy, it refers to the start date of the renewed coverage.

The insurance company is required to ascertain the GST registration status of the policyholder. One way to do so is to refer to the “Register of GST Registered Businesses” available on the IRAS website at <http://www.iras.gov.sg> (Click on GST followed by “Consumers” and then “Checking if a business is GST-registered”).

To ease compliance, only one reference point is used to determine the policyholder’s GST registration status. Even if the policyholder became a GST-registered person after the effective date of the insurance policy, condition (b) is still considered satisfied.

- GST-registered but disallowed by GST regulations 26 and 27 from claiming the input tax incurred on the premiums of medical and accident insurance and passenger car insurance

Regulations 26 and 27 of the GST (General) Regulations disallow a GST registered policyholder from claiming input tax incurred on medical and accident insurance premium and motor car insurance premium<sup>4</sup>.

---

<sup>2</sup> There may be many parties named in an insurance contract, such as the insurance company, the policyholder, the insured or the beneficiary. The condition (b) applies to the policyholder who is the person contracting for the insurance service and who is liable to pay the premiums.

<sup>3</sup> A GST registered person is one who is already registered in accordance with section 9 of the GST Act.

<sup>4</sup> Medical and accident insurance premium and motor car is defined in regulation 25 of the GST (General) Regulations.

Condition (b) is satisfied if a Cash Payment was made to a GST-registered policyholder pursuant to an insurance contract for which the policyholder was disallowed from claiming input tax on the insurance premium paid for that insurance contract.

Condition (b) is not satisfied if the Cash Payment was made to the same GST-registered policyholder pursuant to another insurance contract (e.g. fire insurance for his business premises) which is not subject to regulations 26 and 27. In other words, the insurance company is not allowed to claim deemed input tax on such Cash Payment.

With effect from 1 October 2021, the insurance company is required to obtain declaration from the GST-registered policyholders on whether they meet Condition (b) based on the format of the Declaration Form in Appendix 1 of this guide.

Note:

- The insurance company may treat itself as having satisfied Condition (b) if the policyholder declares “Yes” in the Declaration Form (i.e. indicating that he is disallowed from claiming input tax on the insurance premium under regulations 26 or 27).
  - The insurance company is required to obtain a copy of the completed Declaration Form for each affected policy at the Effective Date – that is, at the point of renewal or inception of all affected insurance policies on or after 1 October 2021; and
  - The declaration made by the policyholder will apply during the entire insurance coverage period (i.e. effective date of the insurance policy till end of coverage period or date of renewal), even if the input tax entitlement of the policyholder were to change during this period.
- GST-registered sole-proprietor who buys insurance policies in their private capacity

If the insurance company is able to ascertain that the insurance contract is for a GST-registered policyholder’s personal use and is not related to any business carried on by him, condition (b) is satisfied. The insurance company would be able to deem input tax on the Cash Payment made.

Example 1

Mr Alvin has a GST registered sole-proprietorship business. He purchased a fire insurance contract for his office at 1 Tuas Avenue. This address is the registered address of his business. Since Mr Alvin is GST registered and the fire insurance is for the purpose of his business, condition (b) cannot be satisfied.

**Example 2**

Mr Raymond is a GST registered sole-proprietor. He purchased a personal accident insurance for himself. Since the insurance coverage is to cover him and not for the purpose of any business he is carrying on, condition (b) is considered as satisfied.

**(c) The insurance policy is subject to a standard-rate of GST**

The premiums of the insurance policy must be subject to a standard-rate of GST.

Where no GST was collected on premiums for insurance policies that are zero-rated or exempt from GST, there will be no corresponding deemed input tax allowed on cash payments made under such zero-rated or exempt insurance policies.

Examples of insurance policies that, if standard-rated, would satisfy condition (c):

- Motor insurance
- Personal accident insurance
- Health and medical insurance
- Workmen's compensation
- Fire and property insurance
- Public liability insurance

Examples of insurance policies that, if exempt or zero-rated, would not satisfy condition (c):

- Life insurance such as whole life and endowment plans (exempt from GST)
- Marine Hull (zero-rated)
- Reinsurance contracts (exempt from GST)

The examples above are not exhaustive.

**(d) The insurance coverage starts on or after 1 Jan 2007**

The commencement date of the insurance coverage under the insurance policy must be on or after 1 Jan 2007 (including renewal of policies on or after this date).

**(e) Supporting documents are maintained**

All claims for deemed input tax must be supported by documents such as:

- Records showing that Cash Payment was made in fulfillment of an insurance contract

Insurance companies should maintain as part of their record-keeping some level of documentation to support and validate Cash Payments made under their insurance contracts. Insurance companies should make available such documents upon request by IRAS' officers.

Examples of documents kept by insurance companies include discharge voucher, letters to policyholders informing them of the Cash Payment made, or payment details, etc.

- Records showing that conditions (a) to (d) are satisfied

Examples include tax invoices showing the GST charged on the insurance premium, a copy of the insurance policy showing that insurance coverage starts on or after 1 Jan 2007, completed Declaration Form showing that the GST-registered policyholders are disallowed from claiming GST on the insurance premiums under regulations 26 or 27 etc.

### Computation of Deemed Input Tax and GST Reporting

- 3.3 The amount of input tax deemed incurred is to be computed as follows:

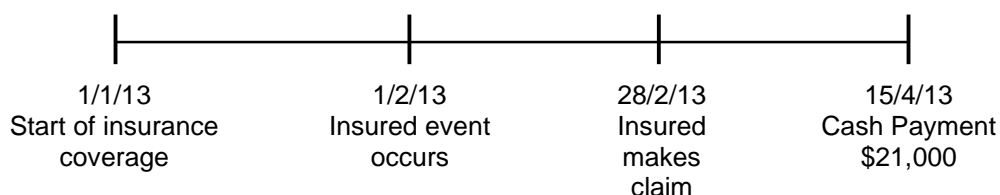
Deemed input tax	=	$\frac{\text{GST rate}}{100\% + \text{GST rate}}$	X Amount of Cash Payment made
---------------------	---	---	-------------------------------

Where GST rate is the same rate of GST that was applied to the insurance premiums for the relevant period of the insurance cover that gave rise to the Cash Payment.

- 3.4 If the Cash Payment was made in the period where there was a GST rate change, the GST rate to be used is still the GST rate, which was applied to the insurance premium relating to the insurance cover period that gave rise to the Cash Payment.
- 3.5 This deemed input tax is subject to normal input tax recovery rules, or any special input tax recovery formula that the insurance company has obtained prior approval from the Comptroller to use. Under the normal input tax recovery rules, the deemed input tax would be treated as directly attributable to the making of taxable supplies and claimable in full.
- 3.6 The allowable deemed input tax is to be included under Box 7 – Input tax and refund claims of the GST F5 in the relevant prescribed accounting period in which the Cash Payment was made. There should be no corresponding value reported under Box 5 – Total value of taxable purchases, since this is not a taxable purchase of the insurance company.



**Example 3**



Assuming that all the conditions are satisfied, the insurance company is allowed to claim deemed input tax of \$1,373.83 ( $7/107 \times \$21,000$ ). This is based on the assumption that 7% GST was applied to the insurance premium relating to the insurance cover period that gave rise to the Cash Payment. The \$1,373.83 should be reported under Box 7 of the GST F5 for the prescribed accounting period where Cash Payment is made.

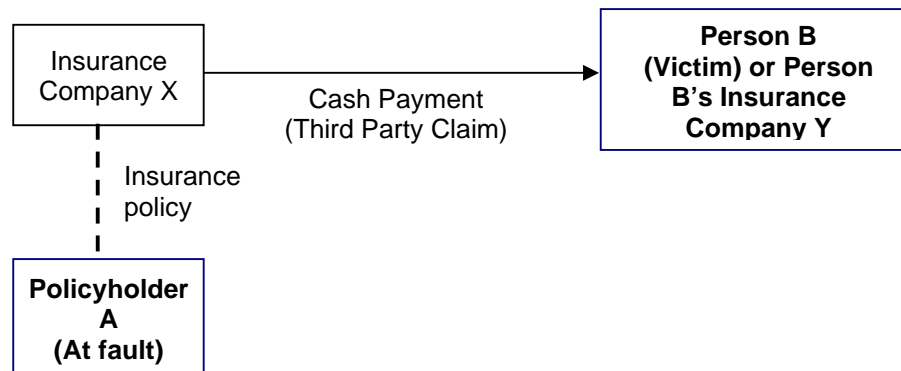
An insurance company with prescribed accounting cycle ending Mar, Jun, Sep and Dec would claim \$1,373.83 as deemed input tax in the period ended 30 Jun 2013.

- 3.7 Generally, Cash Payment is considered as being made when a cheque is issued to the claimant. However, if the claimant does not present the cheque in due course, the insurance company may reverse out the accounting entry and treat the payment as no longer required based on their standard accounting practice. Since the payment is not made ultimately, the insurance company should reduce the deemed input tax claims in the period that it treats the payment as no longer being made.

**Third Party Claims**

- 3.8 Under some insurance policies, the policyholder is insured against third party liabilities.
- 3.9 The insurance company may make a Cash Payment under such an insurance policy to discharge the liability of the policyholder to a third party. The entitlement to a deemed input tax by the insurance company would still depend on the GST registration status of the policyholder (i.e. whether or not condition (b) in paragraph 3.2 is satisfied) and not the recipient of the Cash Payment.

**Example 4**



Insurance Company X can claim deemed input tax if:

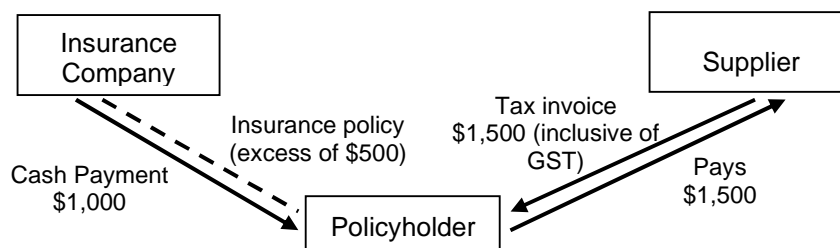
- (a) Cash Payment was made pursuant to an insurance policy
- (b) **Policyholder A** is not GST registered
- (c) Premiums for the insurance policy is standard-rated
- (d) Insurance coverage of insurance policy starts on or after 1 Jan 2007
- (e) Supporting documents are maintained

[Note: The GST registration status of **Person B or Insurance Company Y** would not affect Insurance Company X's input tax claims]

**Excess**

- 3.10 Where there is excess provided under the insurance policy, the policyholder is required to bear that amount of excess in the event of loss. The amount paid by an insurance company as Cash Payment will be that amount of claims made by claimant less the excess amount. Deemed input tax is allowed only on that exact amount of Cash Payment made by the insurance company.

**Example 5**



The insurance company is allowed to claim deemed input tax on Cash Payment of \$1,000 and not \$1,500.

Recovery of Cash Payment

- 3.11 There are circumstances under which an insurance company is able to recover part or whole of the Cash Payment made under the insurance contract:

(a) *Subrogation*

After the insurance company pays for all sums that are liable under the insurance contract, the insurance company assumes the right to step into the shoes of the insured and in his name enforces any legal right of recourse available to the insured, including a right of action against the third party who caused the loss. Under such circumstances, the insurance company will be able to recover part or whole of that Cash Payment made by him under the insurance contract.

(b) *Contribution*

In a situation of double insurance, the insurance company may recover part of the Cash Payment made by him as contribution by another insurance company who had insured the policyholder for the same risk.

(c) *Fraud*

In the event of fraud, the insurance company has the right to end the policy retrospectively and recover back the Cash Payment that ought not to be made.

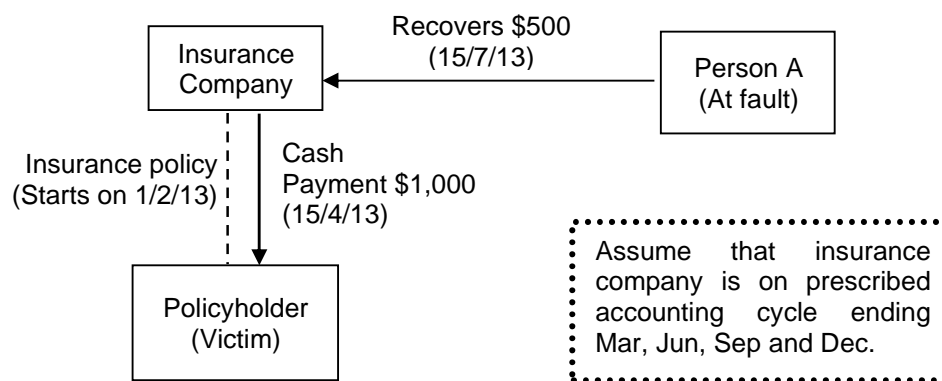
- 3.12 Where there is recovery of part or whole of the Cash Payment made by an insurance company in any of the circumstances above, the insurance company should reduce his deemed input tax claims since he did not bear part or whole of the Cash Payment.

- 3.13 The adjustment should be made in the period in which the recovery was received and the value to adjust is the relevant tax fraction of that amount of recovery received. The formula is as follows:

$$\text{Deemed input tax} = \frac{\text{GST rate}}{100\% + \text{GST rate}} \times \text{Amount of recovery received}$$

Where GST rate is the same rate of GST that was applied to the insurance premiums for the relevant period of the insurance cover that gave rise to the Cash Payment.

**Example 6**



Insurance company claims deemed input tax of \$65.42 (i.e.  $7/107 \times \$1,000$ ) in its GST return for the period ended 30 Jun 2013. (GST was accounted at 7% on the premiums that gave rise to the cash payment). When insurance company subsequently recovers \$525 from Person A, it has to reduce its input tax claims by \$32.71 ( $7/107 \times \$500$ ) for the period ended 30 Sept 2013.

- 3.14 It is common for insurance companies to purchase reinsurance contracts. If a claim is made against the insurance company, the insurance company will recover his losses by making a claim against the reinsurer under the reinsurance contract. As such claims are made under a separate contract of reinsurance for which the insurance company is now an insured, it will not be treated as a recovery of Cash Payment. Therefore, the insurance company need not reduce its input tax claims if it receives any Cash Payments under a separate reinsurance contract.

#### 4 Input Tax Incurred On Motor Car Expenses

- 4.1 To recognise that insurance companies are not the “end-consumers” for repair services and also to better reflect the value-add of insurance services, insurance companies are allowed input tax claims on motor car purchases or motor car-related expenses.
- 4.2 The GST treatment explained under this paragraph is different from and should not be confused with that of deemed input tax on Cash Payment explained under paragraph 3.
- 4.3 The motor car purchases or motor car-related expenses must be expenses that the insurance companies are obligated to incur under the contract of insurance services issued to their policyholders.

Example 7

Situations that qualify for the GST Treatment:

- Insurance company incurs repair expenses to repair the motor car of his policyholder.
- Insurance company purchases a motor car to replace the motor car of a third party where the damage was caused by his policyholder.

Situations that do not qualify for the GST Treatment:

- Insurance company pays for repair expenses for his employees as staff benefits and the motor car is not covered under an insurance contract provided by the insurance company to the staff for which the staff had paid a premium.
- Insurance company purchases a new motor car registered under the company's name.

Conditions

4.4 A GST registered insurance company is allowed to claim input tax incurred on motor car expenses if **ALL** the following conditions are satisfied:

(a) **The insurance coverage<sup>5</sup> starts on or after 1 Jan 2007**

Refer to paragraph 3.2(d).

(b) **The insurance company is able to satisfy the general input tax claiming conditions:**

- GST was incurred

Supplier was GST-registered and had charged GST on the supply.

- Goods or services are supplied to insurance company

There must be a contractual supply between the insurance company and the supplier (see paragraph 4.9 below on more details on how to establish existence of a contractual supply).

- Input tax was incurred on expenses that are used or are to be used for the purpose of insurance company's business

The insurance company incurred the expenses to fulfill its obligations under contracts of insurance services issued to its policyholders. The expenses that are incurred by the insurance company on its own motor cars would continue to be disallowed under regulation 27 of the GST (General) Regulations, as is the case for other GST-registered businesses.

---

<sup>5</sup> The insurance refers to any insurance policy that insures motor cars.

- The input tax incurred is attributable to the making of taxable insurance policies (i.e. standard-rated or zero-rated insurance policies)

Most motor car insurance policies are standard-rated as the motor cars insured are usually situated in Singapore.

#### GST reporting

- 4.5 The reporting of input tax is no different from the reporting of other input tax incurred on normal business expenses. Claims for input tax should be reported in the accounting period in which the tax became chargeable provided tax invoices are available to support the claims.

#### Contractual Supply

- 4.6 Whether there is a contractual supply between the supplier and the insurance company is a question of fact and it would depend on the contractual arrangement between the insurance company and the supplier.
- 4.7 Under the GST legislation, a supplier can only issue a tax invoice to a person to whom he has made a taxable supply<sup>6</sup>. Hence, a valid tax invoice is prima facie evidence of a contractual supply. The insurance company will be treated as receiving a contractual supply from a supplier if he receives a tax invoice from that supplier addressed to him, unless it is proven otherwise. The insurance company can make an input tax claim based on this tax invoice provided the conditions stated in paragraph 4.9 are satisfied.
- 4.8 In the absence of any contractual supply made by the supplier to the insurance company, any payment made by the insurance company directly to the supplier would be treated as just a payment arrangement made on behalf of the policyholder under the insurance contract.
- 4.9 However, a contractual supply can be considered as being made by the supplier to the insurance company if the following three factors are present:

##### **(a) The insurance company chooses the supplier**

It is common for insurance companies to have a list of authorised workshops from which the policyholder may choose to get his motor car repaired at. There may be instances where the policyholder chooses a workshop that is outside the list of authorised workshops and obtains the agreement of the insurance company on the scope and costs of repair work before the repair works are carried out.

---

<sup>6</sup> Regulation 10(1) of GST (General) Regulations states that "...a registered taxable person making a taxable supply to a taxable person shall provide him with a tax invoice."

Hence, the insurance company is considered as having chosen the supplier as long as:

- The policyholder chooses a workshop listed in the insurance company's list of authorised workshops; or
- The policyholder has obtained the agreement of the insurance company on the scope and costs of repair before the repairs are carried out, even though the workshop is not in the authorised list.

**(b) The insurance company instructs the supplier about the supply**

This factor is present if the insurance company authorises or approves the repairs to be done on the motor car. It is also present if there is a pre-agreed arrangement with the workshop as to what kind of repairs will be accepted by the insurance company (e.g. there are pre-agreed instructions as to when should secondhand spare parts be used and when should original spare parts be used).

**(c) The insurance company enters into a contractual relationship with the supplier for a right to have the supply made to the policyholder. With the existence of such contractual relationship, the insurance company would be liable to pay the supplier for the supply.**

The contractual relationship may in writing or oral or implied from certain actions. Therefore, although there may not be a written contract that the supplier is acquiring a right for the supply to be made to the policyholder, it must still exist in an implied manner. This factor is present if the insurance company (and not the policyholder) is the party who is liable to pay for the repair services of the workshop.

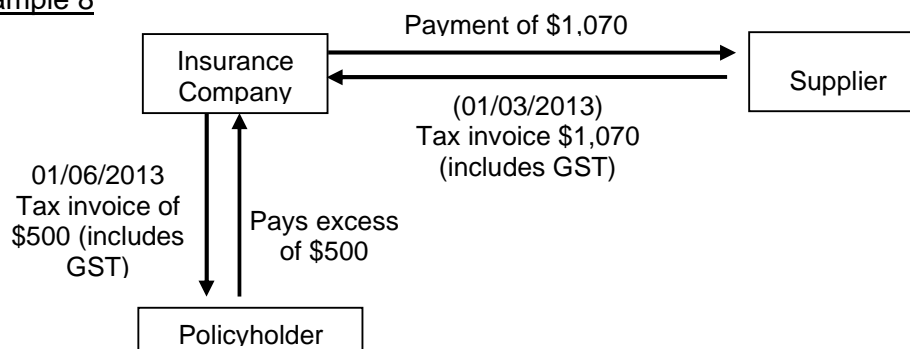
**Excess**

- 4.10 Assuming that the supplier makes a contractual supply to and invoices the insurance company for the full price of the service, the insurance company would be allowed to claim input tax based on that amount as charged by the supplier. When the insurance company subsequently recovers the amount of excess from the policyholder, he would have to charge and account for GST as the recovery of excess is treated as a taxable supply of service for GST purposes.
- 4.11 The full amount of consideration received for a taxable supply is treated as inclusive of GST. Therefore, whatever the amount of excess the insurance company collects from the insured should be treated as inclusive of GST<sup>7</sup>.

---

<sup>7</sup> Whether the insurance company can recover GST on top of the excess, or only the excess amount which is treated as inclusive of GST, depends on the terms and conditions of the contract between the insurance company and its policyholder. In example 8, it is assumed that the insurance company can only recover \$500 inclusive of GST.

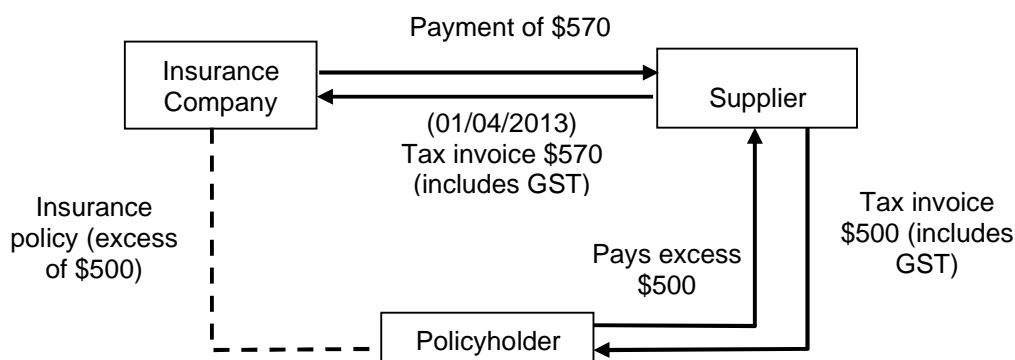
**Example 8**



The insurance company is allowed to claim input tax of \$70. For the recovery of excess from the policyholder, the insurance company will have to charge and account for GST of \$32.71 (i.e.  $7/107 \times \$500$ ).

- 4.12 However, if the supplier has two contracts of services, one with the insurance company for part of the bill payable by the insurance company and the other with the policyholder for the amount of excess payable by the policyholder, the insurance company will only be allowed to claim input tax as charged by the supplier to him (excluding the excess amount). The supplier should charge GST to the insurance company only for that part of the bill borne by the insurance company.

**Example 9**



The insurance company is allowed to claim GST incurred of \$37.29 ( $7/107 \times \$570$ ) only and will not be required to charge any GST to the policyholder on the amount of excess since the supplier had already done so in a separate billing.



## 5 Frequently Asked Questions

### General Issues

- 1 Q Does the GST treatment apply to all insurance companies?
- A Yes, it would apply to all GST-registered insurance companies in Singapore.

### Deemed Input Tax on Cash Payments

- 2 Q When can the insurance companies start claiming deemed input tax on Cash Payments?
- A They can start claiming when Cash Payments are paid out under policies where the insurance coverage starts on or after 1 Jan 2007 (including renewals of policies on or after this date) and the conditions in paragraph 3.2 are satisfied.

- 3 Q Can the company still claim deemed input tax if the policyholder is not GST-registered when insurance coverage starts but is subsequently GST registered when claim is made?

- A Deemed input tax claim is allowed as long as the policyholder was not GST registered on the effective date of that particular period of insurance coverage for which a Cash Payment is made. It does not matter if the policyholder becomes GST registered after the effective date.

However, when the policy is renewed after the policyholder becomes GST registered, Cash Payments made in respect of the renewed insurance coverage period will not qualify for deemed input tax.

Refer to paragraph 3.2(b).

- 4 Q Some policies are taken up by employers for benefit of their employees. Whose GST registration status should the insurance company look at when a Cash Payment is made, the employer which may be GST registered or the employees who are not?

- A If the policyholder is the employer and the insured parties are the employees, the insurance company should ascertain the GST registration status of the employer for purpose of claiming deemed input tax.

- 5 Q What are the exceptions for input tax claims? For example, are claims connected to profit, income, human incapacity or other items excluded from the deeming provision?

A There are no exceptions. Cash Payments would include any payments under insurance contracts made in connection to loss of profit, income and human incapacity.

However deemed input tax can only be claimed on the Cash Payment if all the conditions under paragraph 3.2 are satisfied.

6 Q Does the insurance company have to maintain the original tax invoices submitted by the claimant (e.g. policyholder) to support its deemed input tax?

A The insurance company is not required to maintain the original tax invoices if it is not normally required for its claims processing. It only has to maintain the documents, which it normally keeps as part of its internal controls to support and validate the Cash Payments made under insurance contracts. Refer to paragraph 3.2(e) for more details.

7 Q Does the insurance company need to find out if the expenses incurred by the claimant, which are the subject of claim, are with or without GST?

A No. The insurance company only needs to be satisfied that the policyholder falls within the description of condition (b) of paragraph 3.2 before it claims the deemed input tax on Cash Payment. Whether the claimant uses the Cash Payment to pay for expenses which are subject to GST is irrelevant.

8 Q Does the insurance company need to find out whether the policyholder is a partially exempt GST trader or not?

A No. So long as the policyholder is GST registered, insurance company will not be entitled to any deemed input tax on the Cash Payment except for GST registered policyholders described in paragraphs 3.2(b)(ii) and 3.2(b)(iii).

9 Q Paragraph 3.12 mentions that insurance company should reduce its deemed input tax claim when there is a recovery of the Cash Payment. However, paragraph 4.10 states that insurance company is required to charge and account GST on recovery of excess. Why is the treatment different?

A A Cash Payment made by the insurance company to a policyholder is not treated as a consideration for a taxable supply of the policyholder. There is no GST payable on the Cash Payment, but input tax is deemed as incurred by the insurance company and allowed as a claim on this basis. As a subsequent recovery of the Cash Payment would reduce the insurance company's losses, it is

therefore required to reduce its deemed input tax claim accordingly as explained in paragraph 3.12.

On the other hand, when the insurance company contracts with a third party supplier to receive a supply of goods or services to enable it to discharge its obligation under the insurance contract, it would incur GST if that is a standard-rated supply from a GST registered supplier. Input tax is claimable on this GST subject to the usual input tax recovery rules. When the insurance company recovers the excess from its policyholder, it is making an onward taxable supply to the policyholder, hence it has to charge and account GST (output tax) on the amount of excess recovered from the policyholder as explained in paragraph 4.10.

10 Q If the insurance policy specifically provides that it will not cover GST incurred by claimant, would the insurance company be allowed to claim input tax?

A The intention is to capture the value-add of the insurance service. Whether the Cash Payment covers a component of GST or not does not matter. Therefore, the input tax claim would be allowed provided the conditions in paragraph 3.2 are satisfied.

11 Q What if the claimant incurs the expenses (e.g. medical expenses incurred during a hospital stay) and the hospital forwards the claim directly to the insurance company, would that be treated as a supply made by hospital to the insurance company?

A A distinction should be made between motor car policies and medical/health policies (see Q15)

Unlike motor car insurance policy where insurance company may have to contract for services from an authorised motor workshop to reinstate the motor car to its original condition as required under the insurance contract, the insurance company does not have any obligation to contract for or provide any medical services to the insured under medical/health policies.

Hence, any payment made by the insurance company to the hospital should be regarded as a payment arrangement and not as consideration for a supply of services to the insurance company. The insurance company should not claim input tax based on tax invoices received from the hospital. Instead, the insurance company should claim deemed input tax on the Cash Payment if the qualifying conditions in paragraph 3.2 are satisfied.

12 Q What happens if an insurance company makes a Cash Payment and subsequently finds out that the claimant has made a fraudulent claim and manages to recover the Cash Payment from the claimant?

- A The insurance company would have to reduce its input tax claims by the relevant tax fraction of the whole or part of the amount recovered in the period of recovery. The rationale being this Cash Payment was not borne wholly by the insurance company. Refer to paragraph 3.12.
- 13 Q The insurance company issues a cheque for the Cash Payment and claims deemed input tax on it. If the cheque is still not presented to the bank by the insured after 6 months, the insurance company will post the payment into a suspense account. Meanwhile, it will still try to contact the insured so as to send him the payment. If the payment is still not made after 6 years, the insurance company will reverse the payment.
- Is the insurance company required to adjust its earlier deemed input tax claim?
- A The insurance company will be required to adjust its earlier deemed input tax claim by reducing its input tax claims in the period it treats the payment as no longer being made. Refer to paragraph 3.7.

#### Input Tax on Motor Car Expenses

- 14 Q When may an insurance company start claiming GST on motor car expenses?
- A Input tax claims on motor car-related expenses can be claimed if the insurance coverage starts on or after 1 Jan 2007 (including renewals of policies after this date).
- 15 Q If the insurance company pays for the expenses (e.g. motor car repairs) directly to the supplier (e.g. workshop) instead of to the claimant, should the insurance company deem input tax as incurred on these expenses?
- A A distinction has to be made between Cash Payment made to the policyholder, and expenses incurred by the insurance company to reinstate the motor car to its original condition as provided for under the insurance contract.
- If the insurance company contracted directly (whether written or implied) with the workshop to repair the policyholder's motor car, the supply of repair services is made to the insurance company. Thus, it would be able to claim input tax (subject to the normal input tax recovery rules) if GST is charged by the GST registered workshop.
- On the other hand, a non-GST registered workshop would not be able to charge any GST on its supply of repair services to the

insurance company. Since the insurance company does not incur any GST in this instance, there is no question of claiming input tax credit.

To determine whether there is a contractual relationship between the insurance company and the workshop, please refer to the factors considered in paragraph 4.9.

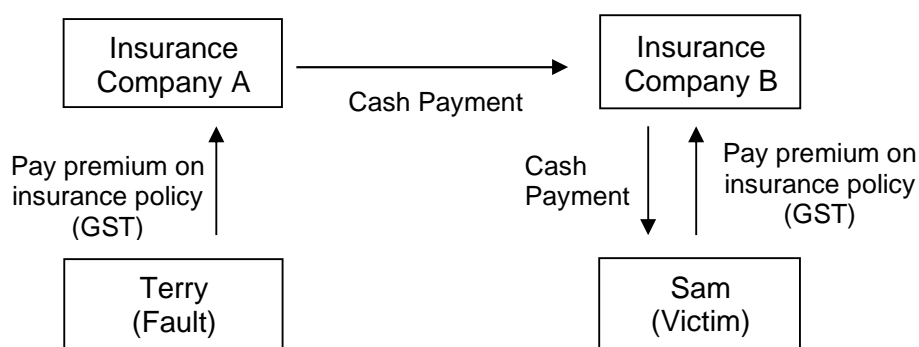
### Third Party Claims

- 16 Q If an insurance company makes a payment in respect of a third party claim, can the insurance company claim deemed input tax? Is the claim contingent on the GST registration status of the policyholder or the third party who made the claim?

E.g. Terry is involved in a car accident with Sam and Terry is at fault. Sam successfully sues Terry for compensation/damages. Assuming Terry is covered for third party liabilities under his insurance contract, his insurance company A, will make the payment to Sam. In this scenario, can insurance company A claim input tax on the payment made for third party claims?

- A Since the Cash Payment is made under the insurance contract between insurance company A and Terry, even though the payment was made to Sam, insurance company A will be allowed to claim deemed input tax if Terry is not GST registered. The GST registration status of Sam is irrelevant.

- 17 Q In addition to Q16, if Sam makes a claim from insurance company B first and insurance company B subsequently sues Terry successfully and recovers money from Terry's insurance company A (to discharge the third party liability of Terry), can both insurance company A and B make input tax claim on the Cash Payments?



- A Insurance company A can make a claim of deemed input tax on the Cash Payment to insurance company B for the same reasons as answered in Q16.

Insurance company B can make a claim of deemed input tax on the Cash Payment to Sam. However, insurance company B will also have to reduce its input tax claims by the relevant tax fraction of the amount recovered from insurance company A. The rationale being, this Cash Payment is not borne wholly by insurance company B (in a way it is passed on to insurance company A).

Others

- 18 Q If the policyholder takes up a legal suit against the insurance company and wins, and the court requires the insurance company to bear the legal expenses of the policyholder, would the insurance company be able to claim deemed input tax on the reimbursement of legal expenses?
- A No. This is not part of the Cash Payment under the insurance policy. Hence, the insurance company is not allowed to claim any deemed input tax on the reimbursement of legal expenses.
- 19 Q Does the insurance company need to reduce its deemed input tax claims if the policyholder is found to have made a false declaration of his registration status?
- A Yes. The insurance company is expected to exercise due diligence to ensure that the conditions for claiming deemed input tax are met before making a claim. The GST registration status of its policyholders can be verified using the "Register of GST-Registered Businesses" found on the IRAS website at <http://www.iras.gov.sg>.
- 20 Q For disputed claims for which the parties finally agree on an ex-gratia payment, would this be considered as a Cash Payment made pursuant to the insurance policy?
- A As an ex-gratia payment is a payment made outside the terms of the insurance contract, it will not qualify as a Cash Payment and hence the insurance company is not allowed to claim any deemed input tax on such payment.

## **6 Contact Information**

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](mailto:gst@iras.gov.sg)

## **7 Updates and Amendments**

	<b>Date of amendment</b>	<b>Amendments made</b>
1	3 Apr 2017	(i) Amended the directions to the Register of GST-registered Businesses on the IRAS website. (ii) Revised A11 of paragraph 5 to clarify the GST treatment for input tax on medical expenses incurred by insurance companies.
2	15 April 2021	(i) Amended paragraph 3.2 to add in the new requirement to maintain a declaration form. (ii) Included Appendix 1 to provide for template of the declaration form



### Declaration of Entitlement to Claim Input Tax on Insurance Policy by GST-Registered Policyholders

To: \_\_\_\_\_ (Name of insurer)

Date \_\_\_\_\_

As a GST-registered person at the effective date of the insurance policy, I hereby confirm the following:

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| 1) Am I blocked, by virtue of <a href="#">Regulation 26 and 27</a> of the Goods and Services Tax (General) Regulations*, from claiming the GST incurred on the insurance premiums? | <input type="checkbox"/> | <input type="checkbox"/> |

\* The blocked input tax claims under [Regulation 26 and 27](#) would include (but not limited to) the following:

- a) Medical and accident insurance premiums incurred for your staff, unless the insurance or payment of compensation is mandatory under the Work Injury Compensation Act ("[WICA](#)") or under any collective agreement within the meaning of the [Industrial Relations Act](#); and
- b) Motor car insurance premiums.

Please click on the links provided above if more information is required on the particular legislation(s) concerned.

Name of GST-registered person:	
Name & Signature of Authorised Person:	
Designation of Authorised Person:	
Email address and contact number of Authorised Person:	