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IRAS e-Tax Guide

GST: Guide for the Insurance Industry
(Fifth Edition)

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1 Aim

1.1 This guide explains the GST principles applicable to the insurance industry[1]. Specifically, it highlights the GST treatment of insurance products, fees, charges, and commissions for insurance companies, reinsurance companies, and insurance intermediaries, such as agents and brokers.

1.2 The guide also clarifies the distinction between life business and life policy.

2 At a glance

2.1 Generally, the provision of an insurance contract by a GST-registered insurance company in Singapore is a taxable supply of services. GST is charged on the insurance premiums at the standard rate[2].

2.2 Where the insurance services qualify for zero-rating as an international service (see paragraph 3.3) or exemption from GST (see paragraph 3.1), no GST is charged on the insurance premiums.

2.3 The terms “life business” and “general business” are used in the Insurance Act to indicate the nature of business that insurance companies are allowed to operate depending on the nature of the license issued. These terms are not synonymous with and should not be confused with the terms “life policy” and “general policy”.

2.4 Insurance companies that are in the life business may issue life policies and long-term health and accident policies. For GST purposes, only premiums arising from life insurance contracts are exempt from GST. Therefore, not all policies issued by life insurance companies are exempt from GST.

2.5 From 1 Jan 2020, a GST-registered insurance company who procures services from overseas suppliers (“imported services”) and is either not entitled to full input tax credit or belong to GST groups that are not entitled to full input tax credit, may be subject to reverse charge. This means that the insurance company has to account for GST on all imported services as if it is the supplier, except for certain services which are specifically excluded from the scope of reverse charge. It will also be entitled to claim the corresponding GST as its input tax, subject to the normal input tax recovery rules. For more information, please refer to the e-Tax guide “GST: Taxing imported services by way of reverse charge”.

[1] This e-Tax guide replaces the IRAS’ e-Tax guide “GST: The Insurance Industry (Fourth Edition)” published on 01 Oct 2012.
[2] GST should be charged at the prevailing rate, which is currently at 7%.

3 Insurance Companies

3.1 Life Insurance

3.1.1 The provision or transfer of ownership, of a life insurance contract is exempt from GST under paragraph 1(l) of Part I of the Fourth Schedule to the GST Act. This exemption is not extended to brokerage services and services of arranging for sale of life policies[3].

3.1.2 For GST purposes, a life insurance contract refers to a contract for the provision of a life policy within the meaning of the Insurance Act. Examples of policies that fall within the definition of “life policy” include endowment policies, investment-linked policies and whole life policies.

3.1.3 Policy and administration fees, which are incidental to the provision of a life policy contract, may also be exempt.

3.1.4 As long-term personal accident or medical insurance policies (which may be issued by a life insurance company) do not fall within the description of ‘life policy’ in the Insurance Act, such insurance policies do not qualify for exemption from GST.

3.1.5 Currently, all non-life riders (e.g. medical or personal accident riders) attached to individual life policies are treated as being incidental in nature to the main life policy. Hence, premiums paid on an individual life insurance policy, including a personal accident, health or other general rider attached to the main policy are wholly exempt from GST.

3.1.6 On the other hand, for a group life policy with medical and personal accident rider issued by an insurance company, only the premiums for the life component is exempt.

3.1.7 Life policies supplied under a contract with a person belonging outside Singapore and directly benefiting a person belonging outside Singapore can be zero-rated under Section 21(3)(j) of the GST Act. For “offshore” life insurance business, “offshore” life insurance provided to persons belonging outside Singapore can be zero-rated. However, as an administrative concession[4], such insurance policies provided by “offshore” life insurance business eligible for classification as “onshore” based on guidelines set by the Monetary Authority of Singapore (“MAS”) may be treated as exempt (and not zero-rated) for GST purposes.

[3] For more information on GST principles applicable to insurance intermediaries, such as agents and brokers, please refer to paragraph 5.

[4] Based on MAS guidelines, offshore life business is eligible for classification as onshore life business provided it does not exceed S$5 million. Hence, this administrative concession is given to ease compliance so that the offshore life business does not need to distinguish between zero-rated and exempt supplies.

3.2 General Insurance

3.2.1 The provision of general insurance contracts is a taxable supply of services. The GST-registered insurance company is required to charge and account for GST at the prevailing GST rate on the general insurance premiums unless the supply qualifies as an international service[5] and can be zero-rated.

3.2.2 Examples of general policies are motor, fire, personal accident, medical and health, workmen's compensation, professional indemnity, fidelity guarantee insurance etc.

3.3 Zero-rating of Insurance Services

3.3.1 As highlighted in paragraph 2.2, the provision of direct insurance services can be zero-rated if it falls within the description of international services listed under Section 21(3) of the GST Act.

3.3.2 Generally, the provision of insurance services can be zero-rated if the policyholder belongs outside Singapore and is outside Singapore at the time the service is performed[6]. However, for certain general insurance policies[7], the belonging status of the insured may be relevant to determine if zero-rating can apply.

3.3.3 On the other hand, some insurance policies can be zero-rated even though the policyholder belongs in Singapore. Such policies include those that relate to international transportation, export of goods, land or goods outside Singapore.

3.3.4 The zero-rating provisions relevant to the insurance industry are listed below:

(A) Where policyholder may belong in or outside Singapore

- **Section 21(3)(c)** [8] – Direct insurance relating to **international** transportation of goods and passengers from:
  a) From a place outside Singapore to another place outside Singapore;
  b) From a place in Singapore to a place outside Singapore or
  c) From a place outside Singapore to a place in Singapore.

  Policies that qualify for zero-rating under Section 21(3)(c) include:

  a) Marine/Aviation Cargo Insurance
  b) Marine/Aviation Hull Insurance

[5] Under Section 21(3) of the GST Act.
[6] For life policies, the insured is not regarded as a direct beneficiary for the purpose of zero-rating under Section 21(3)(j).
[7] Examples include directors' liability insurance where the director's personal liability is also covered.
[8] Section 21(3)(c) allows the zero-rating of services (other than the letting on hire of any means of transport) comprising the insuring or the arranging of the insurance or the arranging of the transport of passengers or goods to which any provision of paragraphs (a) and (b) applies.

Only applicable for insurance purchased in respect of commercial vessels/aircraft involved in the international transportation of goods or passengers[9]. Hull insurance for pleasure crafts, barges, boats, etc. not involved in international transportation will not qualify for zero-rating and is subject to GST.

c) Travel Insurance
Only if the insurance contract is identifiable with international journeys involving the carriage of passengers to and from outside Singapore.

<u>Policies that do not qualify for zero-rating under Section 21(3)(c) include</u>:

a) Insurance policies taken up by policyholders for the purpose of overseas employment or study or
b) Health insurance policy with overseas medical coverage

As the above policies do not directly relate to the export of goods, land or goods outside Singapore or international travel, the premiums are standard-rated if supplied to a local policyholder[10]. The location of coverage is not relevant in determining whether the policy can be zero-rated.

- **Section 21(3)(e)** – Insurance services supplied directly in connection with land or any improvement thereto situated outside Singapore.

  For example: Insurance premiums charged for fire insurance in respect of a property in Vietnam or insurance premiums charged for property risk insurance in respect of a property in Malaysia

- **Section 21(3)(f)** – Insurance services supplied directly in connection with goods situated outside Singapore when the services are performed.

- **Section 21(3)(h)** – Insurance (not reinsurance) upon or against any risks incurred in the making of advance or the granting of credit directly relating to:
  a) the export of goods (not services) outside Singapore or
  b) the supply of goods which involves the removal of goods from a place outside Singapore to another place outside Singapore.

  For example: Export credit insurance

(B) <u>Where policyholder must belong outside Singapore for zero-rating</u>

- **Section 21(3)(g)** – Insurance services supplied directly in connection[11] with goods for export outside Singapore, where the risk cover is supplied

[9] With effect from 1 July 2010, hull insurance for cruise liners used only for cruises to nowhere can be zero-rated under Section 21(3)(c).
[10] See "Belonging status of your customer (an individual)" in paragraph 3.3.4(B).
[11] Refer to e-tax Guide 'Clarification on "Directly in Connection With" and "Directly Benefit"'.

to a person not belonging in Singapore at the time the services are performed.

- **Section 21(3)(j)** – Insurance services supplied:
  a) under a contract with a person who belongs outside Singapore;
  b) which directly benefit[12]:
     i) a person who belongs outside Singapore and who is not in Singapore when the services are performed; or
     ii) a GST-registered person in Singapore[13]; and
  c) not directly in connection with any land or goods in Singapore.

  For example: Health policy provided to policyholder who is an overseas individual

  Belonging status of your customer (an individual)

  For the purpose of Section 21(3)(j), an individual belongs in Singapore if his usual place of residence is in Singapore during the period the insurance services are supplied.

  Administratively, the Comptroller of GST regards the residential address of an individual as his "usual place of residence". Hence, if your customer provides a Singapore residential address, he shall be regarded as belonging in Singapore for GST purposes.

  However, if the individual stays overseas to study or work and he has more than one residential address, the Comptroller is prepared to accept that the individual belongs overseas if all of the following conditions are satisfied:
  a) He is absent from Singapore for a continuous period of at least one year. It does not matter that he spends his holidays in Singapore during that one year. During that year, his temporary return to Singapore for vacation or other reasonable purposes is acceptable;
  b) He stays at a fixed place in the overseas country and
  c) Where he is working in the overseas country, his overseas assignment must not be incidental to his employment in Singapore.

  For example: student insurance policy providing insurance coverage of more than a year while the student stays overseas

  Policies that do not qualify for zero-rating under Section 21(3)(j) include:

  Insurance policies taken up by local policyholders to insure against losses to their shareholdings in overseas companies or loans provided to overseas persons.

[12] Refer to e-Tax Guide on "GST: Clarification on 'Directly in Connection With' and 'Directly Benefit'".
[13] Prior to 1 Jan 2020, a supply of services must "directly benefit" a person belonging outside Singapore in order to qualify for zero-rating under section 21(3)(j), With effect from 1 Jan 2020, you may also zero-rate your services that "directly benefit" a GST-registered person in Singapore. Refer to e-Tax guide on "GST: Taxing imported services by way of reverse charge".

3.4 Time of Supply for Premiums

3.4.1 Where premiums are paid in a **lump sum,** output tax will be accounted for based on the earlier of the following:
a) When an invoice is issued or
b) When payment is received.

The issuance of any type of invoice will be an event that triggers the time of supply. This includes a tax invoice as well as any document that serves as a bill for payment for supplies made by a GST-registered supplier. An example of such document would be a debit note.

3.4.2 In general, documents, such as sales order, pro-forma invoice, statement of accounts and letter/statement of claims are not considered invoices for GST time of supply purposes. This is because these documents are often not billing for payments and would therefore not be treated as invoices based on normal commercial practices. For more details, please refer to the e-Tax Guide on “GST: Time of Supply Rules”.

3.4.3 Where premiums are in **instalments**, the time of supply is the earlier of:
a) The date when each instalment payment becomes due or
b) The date of payment.

3.5 Estimation of Output Tax for Premiums Collected on Behalf of the Insurance Company

3.5.1 An insurance intermediary may collect premiums on behalf of the insurance company from the policyholder. For GST purposes, premiums collected by the insurance intermediary are considered as received by the insurance company. If the tax invoice has not been issued earlier, the collection of premiums by the insurance intermediary on behalf of the insurance company would trigger the time of supply.

3.5.2 The insurance intermediary should then inform the insurance company on the collection of premiums, as the insurance company is required to account for GST on insurance premiums collected on insurance contracts that do not qualify for exemption or zero-rating.

3.5.3 However, the insurance company may face difficulties in capturing the exact amount of output tax in a prescribed accounting period if the insurance intermediary does not inform the insurance company on time. In view of such difficulties, the insurance company may apply to the Comptroller of GST in writing for estimation of output tax under Regulation 60 of the GST (General) Regulations.

3.5.4 Upon approval, the insurance company will be allowed to estimate whole or a portion of the output tax payable in an accounting period based on a formula allowed by the Comptroller. The estimated output tax for the previous accounting period will be adjusted in the next accounting period when the tax invoices for premiums received are issued.

3.5.5 Example: Insurance Company A collected $90,000 in premiums for the period Jul to Sep 2016. Company A's backlog in issuing tax invoices is one month and it estimates the output tax due to the Comptroller for the last month of the next quarter (Oct to Dec 2016) with the following formula:

Estimated output tax for Dec 2016

= Monthly average of actual premiums for previous quarter (i.e. Jul to Sep 2016) multiplied by 1 month of backlog multiplied by prevailing GST rate[14] (i.e. 7%)

= ($90,000/3) X 1 month X 7%

= $2,100

Assuming Company A collected S$75,000 in premiums for Oct to Nov 2016, GST amount is $5,250.

Company A should declare in its GST return:
In Box 1: $75,000 +$30,000 (estimated) = $105,000 (Value of standard-rated supplies)
In Box 6: $5,250 + $2,100 (estimated as above) = $7,350.

In the next quarter, Company A would have known the exact amount of premiums and GST collected for Dec 2016 (assuming $40,000 and GST amount: $2,800) and is required to make adjustments in the next quarter (January to Mar 2017).

The Company is required to deduct from Box 1 ($30,000) and Box 6 ($2,100) and add the exact amount of premiums and GST collected to Box 1 ($40,000) and 6 ($2,800).

Company A will have to compute the amount of estimated output tax for the month of Mar 2017 based on the monthly average of actual premiums for Oct to Dec 2016.

3.6 <u>Specific Issues Affecting Insurance Companies</u>

3.6.1 **Cash Payments**

GST-registered insurance companies are allowed a credit for input tax deemed incurred on the Cash Payments when the conditions listed in paragraph 3.2 of the e-Tax guide "GST Guide on Insurance: Cash Payments and Input Tax on Motor Car Expenses" are satisfied.

[14] GST rate was increased from 5% to 7% in Jul 2007.

3.6.2 Input Tax on Motor Car Expenses

The insurance company is allowed to claim input tax incurred on goods or services purchased for the purpose of its business of making taxable supplies. A GST-registered insurance company is allowed to claim input tax incurred on motor car expenses if all conditions listed in paragraph 4.4 of the e-Tax guide “GST Guide on Insurance: Cash Payments and Input Tax on Motor Car Expenses” are satisfied.

3.6.3 Premium Refunds

Insurance companies may make refunds to policyholders under certain conditions. Some insurance companies may use the refunds to offset premiums payable.

Generally, the insurance company should not reduce the value of insurance services previously supplied and corresponding output tax when a refund is made upon the occurrence of an insured event, or an event other than the insured event, e.g. no claims being made, or termination of the policy plan after a specified minimum number of years etc.

However, the refunds can be treated as discounts against the insurance premiums if the payment of the refund is connected with the renewal of the insurance contract, and the refund is offset against the premium. GST on the subsequent premium may be accounted on the <u>net</u> premium payable.

3.6.4 Investment-Linked Policies (ILP)

Life insurance companies may offer ILP with a combination of protection and investment elements. Premiums received from the policyholder are typically invested in professionally-managed investment-linked funds (ILFs), in return for units allocated to the policyholder.

Generally, the insurance company charges fees, such as fund management fees, surrender fees and redemption fees, to defray its costs of administering the ILP. Such fees and charges are separately disclosed and typically settled via a reduction in units of ILFs allocated to the policyholder.

For GST purposes, we are prepared to treat an ILP as a single supply of life policy and exempt the premiums from GST for the ILP on the following basis:

a) The main purpose of the policyholder is to purchase a life insurance policy and not merely an investment product;
b) The investment element is always provided together as a package with the life insurance contract[15] and
c) The ILP falls within the definition of a ‘life policy’ in the Insurance Act.

[15] The investment element can be considered as an enhancement to the life protection element of the policy as it allows for the potential of higher returns to increase the cash value of the policy, as opposed to leaving the investment decisions to the insurance company in traditional life policies.

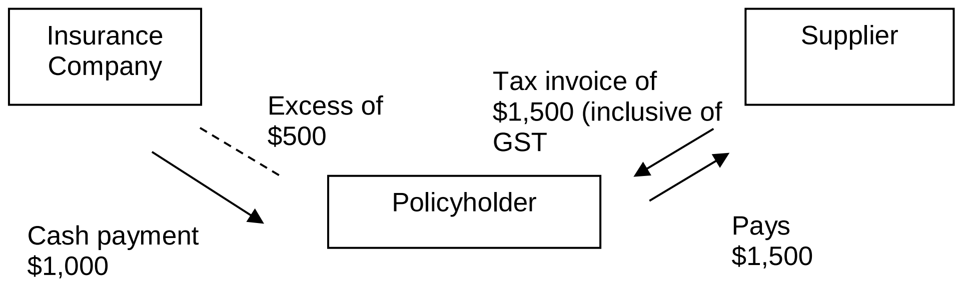
Similarly, fees and charges in relation with an ILP will be treated as additional consideration for an exempt supply arising from the provision of a life insurance contract, under paragraph 1(l) of Part I of the Fourth Schedule to the GST Act.

3.6.5 **Insurance Excess**

There are some situations where the policyholder is not fully-insured and is required to bear an amount of excess in the event of loss.

The following section describes the scenarios when the recovery of insurance excess is treated as a supply and the corresponding GST treatment:

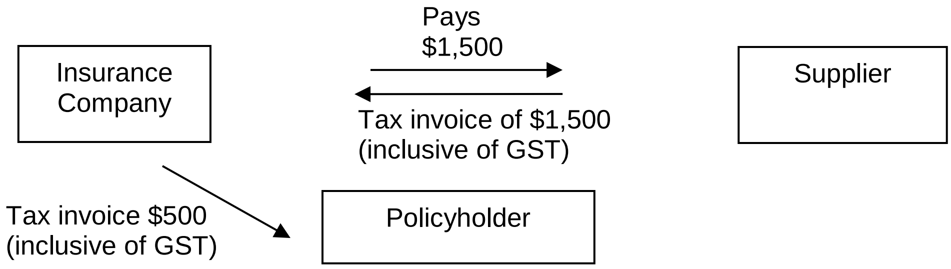
<u>Scenario 1: Supplier bills the insured</u>



When the supplier bills the policyholder for vehicle repair services, the insured cannot claim the GST incurred if he is a non- GST registered person. Assuming the insurance company will bear the amount of expenses exceeding $500, the policyholder will recover $1,000 from the insurance company. In this case, the insurance company is treated as making a Cash Payment indemnifying the insured according to the insurance contract[16].

[16] See section 3.2 of the e-Tax Guide "GST Guide on Insurance: Cash Payments and Input Tax on Motor Car Expenses" on conditions of claiming deemed input tax for Cash Payment.

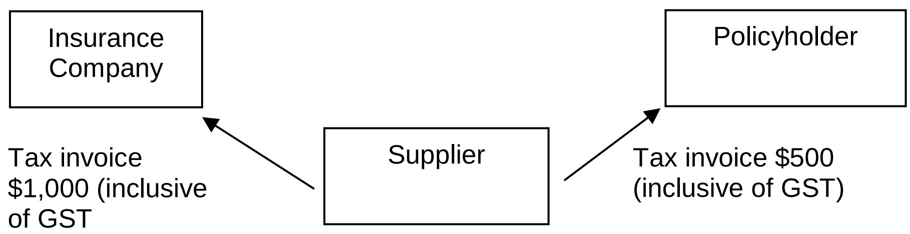
Scenario 2: Supplier bills insurance company



If the insurance company contracted for the supply of 3rd party services to fulfill its obligations under the insurance contract to the policyholder, the 3rd party would bill the insurance company for the full value of services rendered. The insurance company will recover the excess from the policyholder. The recovery of excess by the insurance company is treated as a taxable supply of service and hence GST is chargeable on the recovery of excess from the policyholder.

Whether the recovery of excess $500 should be treated as inclusive of GST or exclusive of GST depends on terms and conditions of the insurance contract between the policyholder and insurance company[17].

Scenario 3: Supplier issues two invoices (where 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)



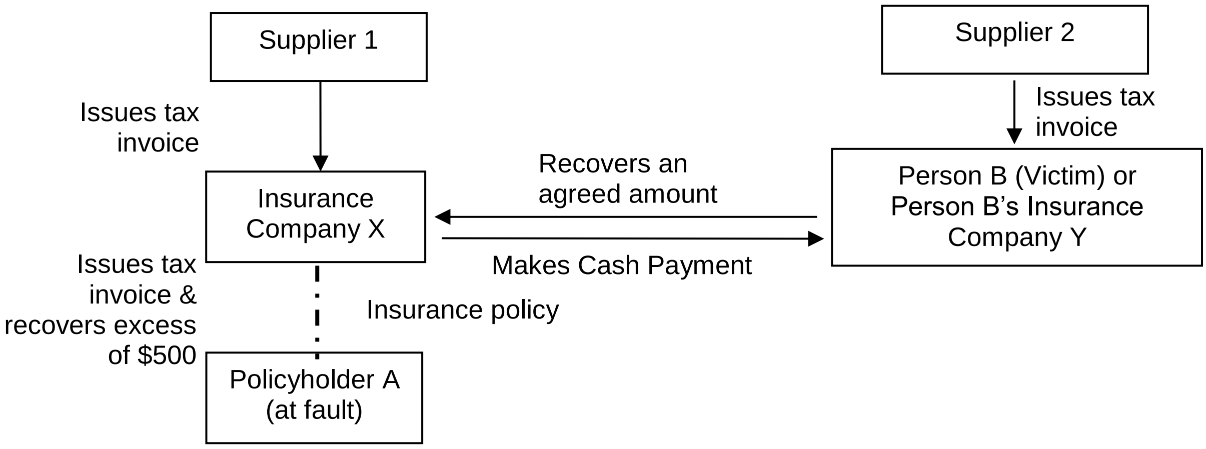
Feedback from the industry highlighted that it is a common market practice for the supplier to split their bills between the insured and the insurance company. In order not to disrupt this business practice, the supplier is allowed to continue this practice to split the bill and issue 2 tax invoices to the policyholder and the insurance company respectively.

When the supplier splits its bill, both bills should attract GST, as there is a taxable supply of services provided to both the insurance company and the policyholder. Whatever the excess amount the supplier collects from the policyholder, the amount should be treated as inclusive of GST.

[17] For both the examples under Scenarios 2 and 3, it is assumed that the policyholder only bears excess of $500 inclusive of GST. If the excess is inclusive of GST, GST is computed by using the tax fraction [i.e. GST rate / (100% + GST rate)] multiplied by the excess recovered. If it is exclusive, GST is computed using the prevailing GST rate multiplied by the excess recovered.

3.6.6 Recovery of Third Party Claims

Where a third party (i.e. Policyholder A) causes the damage, the insurance company of the victim (i.e. Company Y) usually recovers the full amount or part of the repair cost[18] from the third party or the insurance company of the third party. Company Y is not regarded as making any supply to the third party or his insurance company X when it recovers the cost. This is because the payment is regarded as a form of compensation from the third party or his insurance company.



3.6.7 Recovery of Medical Expenses from Agents / Policyholders

The insurance company may require potential policyholders to undergo medical check-ups to ascertain their risk profile and the premiums required to underwrite the policies. The insurance company would generally bear the medical costs of the compulsory medical check-ups undergone by the policyholders.

However, the insurance company may recover the cost of medical check-ups from the agent or policyholder in certain situations.

In general, the recovery of expenses is treated as a taxable supply of services where GST is chargeable. However, where one party breaches his contractual obligations and causes the other party to incur a loss, the recovery of expenses is not a supply and is not subject to GST. The GST treatment for the scenarios in which the insurance company may recover medical expenses from the policyholder or insurance agent is shown below:

Scenario	Taxable?	Reason
(a) The insurance company unilaterally cancels the insurance policy even though the insurance agent did not breach any of the	Yes	The recovery of expenses from the insurance agent did not result from a breach of terms of contract by the

[18] Assumption: Both cars belonging to the victim and the party at fault are damaged. Hence, there are two suppliers (repair workshops) involved.

terms in the agency agreement and recovers medical expenses from the insurance agent.		insurance agent. Rather, it is the unilateral decision of the insurance company to cancel the policy.
(b) The insurance company cancels the insurance policy due to fraud or misrepresentation by the policyholder and recovers medical expenses from the insurance agent.	Yes	The recovery of expenses from the insurance agent did not result from a breach of terms of contract by the insurance agent.
(c) The insurance agent breaches any of his obligations under the agency agreement with the insurance company, resulting in a loss to the insurance company and the latter recovers the medical expenses from the agent.	No	The recovery of expenses from the agent resulted from a breach of the terms under the agency agreement.
(d) The potential policyholder failed to pay the first premium or first installment of premium within the grace period stated in letter of acceptance and the insurance company recovers the medical expenses from the insurance agent.	Yes	The recovery of expenses from the insurance agent did not result from a breach of terms of contract by the insurance agent. Rather, it is the unilateral decision of the policyholder not to pay the premiums.
(e) The policyholder decides not to take up the policy within the free look period after signing the policy and the insurance company recovers the cost of medical checkups from the policyholder.	Yes	The policyholder did not breach any terms of the insurance contract as he has the right to cancel the policy within the free look period.

4 Reinsurance Companies

4.1 The provision of general reinsurance or life reinsurance contract is an exempt supply of financial service under the Fourth Schedule to the GST Act. Hence, premiums arising from such reinsurance contracts placed locally are exempt from GST.

4.2 The premiums of a reinsurance contract would qualify for zero-rating under Section 21(3)(j) if it is a supply made ‘under a contract with’ a person belonging outside Singapore, and which ‘directly benefits’ (i) a person belonging outside Singapore, and who is outside Singapore when the service is performed; or (ii) a GST-registered person in Singapore with effect from 1 Jan 2020. Hence, reinsurance premiums received from cedants belonging outside Singapore can be zero-rated.

4.3 It should be noted that reinsurance cover is not treated as supplied directly in connection with goods or land. Hence, the only zero-rating provision for reinsurance cover is Section 21(3)(j). It is not necessary to ascertain if reinsurance coverage would qualify for zero-rating under other provisions such as Sections 21(3)(e), (f), (g) and (h).

5 Insurance Intermediaries

5.1 <u>Commissions and Fees Received for Arranging Direct General/ Life[19] Insurance</u>

5.1.1 Insurance companies may engage insurance intermediaries, such as agents, brokers[20] and financial advisers[21] to solicit, sell and arrange for insurance contracts with policyholders.

5.1.2 Generally, the commissions and fees (including profit commission, overriding commission or other product-related payments) charged by a GST-registered insurance intermediary for introducing and arranging direct general or life insurance policies ("introductory services") is subject to GST at the standard-rate if the recipient of the services (the insurance company or policyholder depending on who the insurance intermediary has a contract with) belongs in Singapore and at 0% if the recipient belongs outside Singapore.

5.1.3 An insurance business is treated as belonging in Singapore when:

a) It has a business establishment or some fixed establishment in Singapore and nowhere else;
b) It is legally constituted in Singapore (e.g. company incorporated in Singapore) and has no business or fixed establishment in any other country or
c) It has establishments both in Singapore and outside of Singapore but services are most directly used or to be used by the establishment in Singapore.

5.2 <u>Overseas Insurance Companies with Branches in Singapore</u>

5.2.1 In Singapore, MAS requires overseas insurance companies to set up local branches in order to conduct insurance business in Singapore[22]. Only the

[19] As mentioned in paragraph 3.1.1, brokerage and commission arising from the arranging for the sale of life policies is not exempt from GST.
[20] The GST-registered agent/broker refers to an agent/broker who carries on a business and is registered independently for GST purposes. An agent employed under a contract of employment with the insurance company is an employee and is not required to register for GST.
[21] Financial advisers are licensed under the Financial Advisers Act.
[22] According to the Insurance Act, "insurance business in Singapore" means the business of assuming risk or undertaking liability in Singapore under policies, and of —
(a) receiving proposals for policies in Singapore;
(b) issuing policies in Singapore or
(c) collecting or receiving premiums on policies in Singapore.

local branch that is registered with the MAS can carry on an insurance business in Singapore. Its overseas head office or other overseas branches, are not allowed to solicit insurance business in Singapore. Hence, the local branch is regarded as carrying on the business of the overseas insurance company in Singapore and therefore belongs in Singapore for GST purposes.

5.2.2 **Singapore policies**

Only the licensed local branch can market and sell insurance policies covering domestic risk ("Singapore policies") to residents in Singapore[23]. Commissions received for providing introductory services in respect of Singapore policies is standard-rated[24], unless the Singapore policies qualify for zero-rating as described in paragraph 5.2.6 below[25].

5.2.3 **Offshore policies**

In Singapore, both the licensed local branch and the overseas insurance company can sell policies that relate to risks outside Singapore ("offshore policies"). Hence, when the insurance intermediary provides introductory services for offshore policies, it is required to establish whether its introductory services are provided to the local branch or the overseas insurance company. Information, such as which insurance entity records the insurance premiums in its accounting books or which entity is responsible for paying the commission for the introductory service rendered can help to determine this fact.

5.2.4 If the introductory services in respect of offshore policies are provided to the local branch, the GST-registered insurance intermediary should account for GST on its commission and fees. However, if the insurance intermediary's introductory service for offshore policies is provided to an overseas insurance company[26], the commission charged will qualify for zero-rating under Section 21(3)(j) of the GST Act.

5.2.5 It should be noted that commissions and fees charged for services provided by the insurance intermediary are not treated as supplied directly in connection with any land or goods.

5.2.6 Where the insurance intermediary's brokerage services supplied involve the arranging of insurance policies relating to international transportation of

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[23] The local branches can only sell MAS-approved products to local policyholders and they have to record such insurance premiums (regardless of whether the policies are underwritten by the overseas establishment or the local branches) in their books. For definitions of 'residents in Singapore', please refer to the Insurance Act.

[24] This is so even if you do not liaise with the local branch in your day-to-day operations.

[25] For insurance intermediaries that have sought MAS's approval to solicit Singapore insurance business for unlicensed overseas insurance companies, such introductory services can be zero-rated if all the conditions under Section 21(3)(j) are satisfied. This is so even if the policyholder may be a local person. However, if your introductory services are provided to the local policyholder and the policyholder pays you a fee, the fee will be subject to GST at the standard rate.

[26] The contract for introductory services must not be with the local branch for zero-rating to apply.

goods or passengers, it will qualify for zero-rating under Section 21(3)(c) of the GST Act. Generally, commission charged for the arranging of the following policies can be zero-rated:

a) Marine cargo /marine hull insurance
b) Aviation cargo, aviation hull insurance
c) Travel insurance (which is identifiable with journeys involving carriage of passengers to and from outside Singapore).

5.2.7 In the event that the insurance company cannot zero-rate the premiums of the above policies, the insurance intermediary's commission will similarly not qualify for zero-rating.

Other non-monetary commission

5.2.8 The GST-registered insurance intermediary may receive services or goods as commission. These are non-monetary consideration received for services provided by the insurance intermediary. Hence, if the insurance intermediary is GST-registered, he is also required to account for GST based on the open market value of the goods or services received.

Lucky draws

5.2.9 Instead of commission, the GST-registered insurance intermediary may receive a chance to participate in a lucky draw organized by the insurance company in return for meeting sales targets. He is not required to account for GST on the value of lucky draw chance received.

5.2.10 If the insurance intermediary wins a prize through the lucky draw, the prize is not regarded as a consideration for the services rendered by him[27]. Hence, the GST-registered insurance intermediary is not required to account for GST on goods or services received as prizes through lucky draws.

5.2.11 On the other hand, the GST-registered insurance company is deemed to be making a supply of goods if the goods are given away as lucky draw prizes. Hence, it is required to account for GST based on the open market value of the goods unless[28]:

- The cost of the gift is $200 or less; or
- It had not claimed GST on the purchase or import of the goods.

5.3 Brokerage/Commission for Reinsurance Contracts

5.3.1 In inward reinsurance, reinsurance commission (including overriding commission and profit commission) payable to the GST-registered cedant is exempt from GST if the reinsurance company belongs in Singapore and zero-rated if the reinsurance company belongs outside Singapore.

[27] For GST purposes, there is no direct nexus between the lucky draw prize received and the services rendered by the insurance intermediary.

[28] Prior to 1 Oct 2012, if the cost of the goods given free to the insurance intermediary is not more than $200 and the goods do not form a series or succession of gifts given to the same insurance intermediary, no supply is treated as being made by the GST-registered insurance company.

5.3.2 In outward reinsurance, the reinsurance commission payable to the reinsurance company by the retrocessionaire is exempt from GST if the retrocessionaire belongs in Singapore and zero-rated if the retrocessionaire belongs outside Singapore.

5.3.3 If a GST-registered insurance intermediary arranges for the provision of reinsurance contract, the commission charged by him is exempt from GST if the recipient of his services belongs in Singapore and zero-rated if the recipient belongs outside Singapore.

5.4 <u>Time of Supply for Commissions and Fees</u>

5.4.1 For commissions and fees, the insurance intermediary should account for output tax based on the earlier of the following:

a) When an invoice [29] is issued by the GST-registered insurance intermediary or the insurance company under self-billing arrangement or
b) When payment is received.

5.4.2 If payment is received before an invoice is issued, a tax invoice has to be issued within 30 days to the GST-registered insurance company from the date the payment is received. This is because GST-registered customers require a tax invoice to support their input tax claims.

5.4.3 **When payment is regarded as received**

For GST-registered insurance intermediaries that are required to pay the gross premiums collected from policyholders (without deducting commissions) to the insurance companies, they should account for output tax on the commissions in the prescribed accounting period when the commissions are received from the insurance companies, if no tax invoice has been issued previously. A tax invoice should then be issued to the insurance companies within 30 days from the receipt of commissions.

For GST-registered insurance intermediaries that are allowed to deduct their commissions directly from the premiums collected before remitting the net amount to the insurance companies, they are required to account for output tax on the commissions once premiums have been collected from the policyholders. A tax invoice should be issued to the insurance company within 30 days from the receipt of premiums if it was not issued earlier.

[29] Prior to 1 January 2011, the issuance of a tax invoice, and not any other type of invoice is an event that will trigger the time of supply. With effect from 1 January 2011, the issuance of any type of invoice will be an event that triggers the time of supply. This includes a tax invoice and any document that serves as a bill for payment for supplies made by a GST-registered supplier. An example would be a debit note. In general, documents, such as sales order, pro-forma invoice, statement of accounts and letter/statement of claims are not considered as invoices for GST time of supply purposes. This is because these documents are often not billing for payments and would therefore not be treated as invoices based on normal commercial practices.

This is because the payment of premiums by the policyholder to the insurance intermediary is deemed as received by the insurance company. The insurance company is regarded as having accepted the insurance business and the service provided by the insurance intermediary is complete once the latter receives the premiums. Hence, the insurance intermediary would be entitled to the commission once premiums are received from the policyholder.

6 Tax Invoice[30]

6.1 It should be noted that insurance premiums and commissions are consideration for separate supplies of services. The premium is due to the insurance company for its supply of insurance services to the policyholder. On the other hand, commission is consideration due to the insurance intermediary for its supply of services (of arranging direct insurance) to the insurance company.

6.2 GST on insurance premiums is based on the value of the premiums while GST on commissions is based on the value of commissions. The calculation of GST should not be based on the net value of the premium and commission.

6.3 There should be separate tax invoices issued by the GST-registered insurance company to the policyholder for the premiums[31] and the GST-registered insurance intermediary to the insurance company for the commission charged.

6.4 The insurance intermediary may raise a debit note to the policyholder for the collection of the insurance premium on behalf of the insurance company. As it is the insurance company that supplies the insurance services to the policyholder, the insurance company should issue a tax invoice to the policyholder. Therefore, the debit note issued by the insurance intermediary should not be mistaken as a tax invoice for GST purposes.

6.5 The insurance intermediary is advised to attach the tax invoice issued by the insurance company to his own debit note when he bills the policyholder. The insurance intermediary should indicate the following words on his debit note[32] "This is not a Tax Invoice. The insurance company's tax invoice is attached or will be sent to you shortly."

6.6 The insurance company may also choose to issue a receipt instead of a tax invoice to a non-GST registered policyholder for the premium. The receipt must be serially printed and must show the following:

- Insurance company's name and GST registration number

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[30] For details on the particulars required on a tax invoice, refer to "GST: General Guide for Businesses".
[31] Refer to Appendix 1 for a sample of the tax invoice to be issued by the insurance company.
[32] Refer to Appendix 2 for a specimen of the debit note to be issued by the insurance intermediary.

- Date of receipt;
- Total amount payable including total GST; and
- The words "price payable includes GST".

The insurance company must retain a duplicate of the receipts issued.

7 Self-Billing

7.1 It is a common practice for insurance companies to determine the value of an insurance intermediary's commission and other compensation[33]. For administrative ease, the insurance company may wish to adopt self-billing so that the insurance company prepares the tax invoice, on behalf of the insurance intermediary, for services provided by the latter.

7.2 Specifically, self-billing can be used to cover transactions with GST-registered insurance intermediaries, such as cash agents[34] as well as credit agents and brokers[35] with principal accounts.

7.3 Self-billing can only be used after the insurance company has performed a self-review and made a declaration that it is able to satisfy all the conditions indicated on the 'Checklist for Self-Review of Eligibility and Declaration on Use of Self-Billing'.

7.4 GST-registered insurance intermediaries that do not have existing self-billing arrangements with the GST-registered insurance companies they are acting for, should ensure that they issue tax invoices according to rules outlined in paragraph 5.4.3.

[33] Insurance companies would have readily available information, such as agency contracts to determine the final value of commissions payable to the insurance intermediaries.
[34] A cash agent is one who does not have a Principal's Account (i.e. a separate bank account opened and maintained by the agent as trustee for the insurer who is the principal). It receives payment on the insurance premiums made to the insurance company by the policyholder and hands over all premiums collected from the policyholder to the insurance company.
[35] Credit agents and brokers refer to those that operate a Principal's Account and receive payment on the insurance premiums from the policyholders. They deposit the premiums collected into the Principal's Account after deducting the commissions due to them.

8 Summary: GST Treatment of Insurance Products and Brokerage/Commission

8.1 The following table states generally the GST treatment for various types of insurance products and the relevant zero-rating provisions. It is not meant to be exhaustive and the insurance companies should determine the GST treatment for their policies based on the nature of the insurance contracts (and not merely based on the terminology used for their policies).

<table>
<tr><th rowspan="2">Type Of Insurance Policy</th><th colspan="2">GST treatment for customer belonging</th></tr>
<tr><th>In Singapore</th><th>Outside Singapore</th></tr>
<tr><td colspan="3"><u>Direct Insurance</u></td></tr>
<tr><td colspan="3">Premiums – Life Policies</td></tr>
<tr><td>– Life Policy - Individual[36] (e.g. endowment, whole life)
– Life Policy - Group[37]
– Life Annuity
– Term Life Insurance
– Investment Linked Policy</td><td>EX</td><td>ZR [s21(3)(j)]</td></tr>
<tr><td colspan="3">Premiums - General Insurance Policies</td></tr>
<tr><td>Workmen's Compensation Insurance</td><td>SR</td><td>NA</td></tr>
<tr><td>Motor Insurance in respect of vehicles registered in Singapore</td><td colspan="2">SR</td></tr>
<tr><td>– Aviation/ Marine Hull Insurance[38]
– Aviation/ Marine Cargo Insurance[39]
– Travel Insurance</td><td colspan="2">ZR [s21(3)(c)]</td></tr>
<tr><td>Fire and Theft
– In respect of land/goods in Singapore
– In respect of land/goods outside Singapore</td><td colspan="2">SR
ZR [s21(3)(e), s21(3)(f)]</td></tr>
<tr><td>– Public Liability Insurance
– Medical and Accident Insurance
– Professional Indemnity Insurance
– Mortgagee's Interest Insurance
– Political Risk Insurance</td><td>SR</td><td>ZR [s21(3)(j)][40]</td></tr>
<tr><td colspan="3"><u>Reinsurance</u></td></tr>
<tr><td>Reinsurance Policy</td><td>EX</td><td>ZR [s21(3)(j)]</td></tr>
</table>

[36] Including personal accident or medical rider attached to main policy.
[37] Excluding riders attached to the main policy, riders are standard-rated if customer belongs in Singapore.
[38] Vessel/aircraft must be used for international transportation of goods/passengers.
[39] Cargo must be carried in an international voyage.
[40] Depending on the type of coverage, the insurance services may directly benefit the insured who is not the same person as the policyholder. Where the insurance services are supplied to an overseas policyholder and directly benefit a GST-registered insured in Singapore, such supply may be zero-rated with effect from 1 Jan 2020.

Abbreviation:
SR – Standard-rated EX – Exempt ZR – Zero-rated NA – Not applicable

8.2 The following table states generally the GST treatment for brokerage, commission and other fees received by insurance intermediaries for their services.

Brokerage, commission and other fees charged for arranging the following policies:	GST treatment for customer[41] belonging	
	In Singapore	Outside Singapore
Direct Insurance		
– Aviation/ Marine Hull – Aviation/ Marine Cargo – Travel	ZR [s21(3)(c)]	ZR [s21(3)(c)]
All other life or general insurance products excluding the above	SR	ZR [s21(3)(j)][42]
Reinsurance		
Reinsurance commission	EX	ZR [s21(3)(j)]

9 Contact Information

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

[41] Customer can refer to either the insurance company or the policyholder, depending on who has contracted for the insurance intermediary's services.
[42] Where the arranging services are zero-rated under Section 21(3)(j), the overseas customer must be outside Singapore when the services performed.

10 Updates and Amendments

	Date of amendment	Amendments made
1	14 Nov 2014	(i) Inserted paragraphs 5.1.6 to 5.1.9 (GST treatment on non-monetary consideration received by brokers / agents) and 6.6 (information required on receipt issued). (ii) Revised paragraphs 3.3.2 and 3.3.3 (relevancy of insured for zero-rating of general insurance policies). (iii) Inserted footnotes 4, 6, 7, 20, 21, 25, 26 and 30. (iv) Editorial amendments to paragraphs 2.2 and 3.1.4 and footnotes 10 and 15. Re-formatting of tables under paragraphs 8.1 and 8.2.
2	10 Jun 2016	(i) Inserted paragraphs 5.1.2, 5.2, 5.2.1 to 5.2.4 and footnotes 20 to 25 (belonging status of insurance companies and introductory services provided to overseas insurance companies with branches in Singapore).
3	8 Feb 2017	(i) Revised paragraph 3.4.1 to remove time of supply rules applicable to premiums prior to 1 Jan 2011. (ii) Inserted paragraph 5.1.1 and amended paragraphs 5.1.2, 5.2.1 and footnote 24 to clarify GST treatment of introductory services provided by insurance intermediaries. (iii) Revised paragraphs 5.4.1 to 5.4.3 to remove time of supply rules applicable to commissions and fees prior to 1 Jan 2011, and elaborate time of supply rules for insurance intermediaries. (iv) Revised paragraphs 7.1 to 7.4 and inserted footnote 32 to extend self-billing to cover transactions between GST-registered insurance companies and GST-registered credit insurance intermediaries. (v) Inserted footnote 40 to explain the type of customers that may contract for the insurance intermediary's services. (vi) Editorial changes.
4	23 Sep 2019	(i) Inserted paragraph 2.5 to explain reverse charge (ii) Revised paragraph 3.3.4(B), inserted footnote 13 and revised footnote 40 to reflect the changes to "Directly Benefit" condition with the implementation of reverse charge from 1 Jan 2020. (iii) Editorial changes.

Appendix 1

TAX INVOICE	
Date of issue: 01 Jul 2007	ABC INSURANCE COMPANY
	888 Jalan Ang Teng Singapore 560009 GST registration number: M2-1234567-1 Serial number:
Name of Policyholder	
Address of Policyholder	
Policy Details: Type of Policy: Policy Number: Policy period: <u>Premium (S$)</u> Premium before GST: 1,000 GST @ 7%: 70 Gross Premium: 1,070 Total amount payable: <u>1,070</u>	Name of Broker: Address of Broker:

Appendix 2

Debit Note	
Type of Policy: Policy Number: (Policyholder's Name) (Policyholder's Address) (Policyholder's Address) (Policyholder's Address)	Broker's Name: Broker's Address: Date of Issue: 1 Jul 2007 Period of Insurance:
Description of insurance services supplied: Gross Premium collected on behalf of insurance company ABC: S$ 1,070 This is not a Tax Invoice. The insurance company's tax invoice is attached or will be sent to you shortly.	