INLAND REVENUE AUTHORITY OF SINGAPORE

Frequently Asked Questions for GST registered Charities and Voluntary Welfare Organisations

1. As a charity or voluntary welfare organisation ("VWO"), you usually provide free or subsidised goods or services that are funded by grants, donations or sponsorships.

2. Being GST registered, it is important for you to know whether your activities are business in nature giving rise to taxable supplies or are non-business activities. This is because it affects your accounting of output tax[1] and claiming of your input tax[2]. As you are regarded as carrying on both business and non-business activities for GST purposes, you will not be able to claim the GST incurred on your purchases in full.

3. Generally, the provision of goods and services in return for a fee constitutes taxable supplies and the fees you charge will attract GST. This is regardless of whether you provide the goods and services as part of your main business activity.

4. You will also need to consider whether sponsorships, donations or grants (collectively referred to as "funding") that you receive attract GST. If the funding is made by the giver without any requirement for you to provide goods or services in return, the funding will not attract GST. Such funding will be regarded as "non-business receipts", which will reduce your input tax claimable.

5. We have collated a list of frequently asked questions (FAQs) to help you understand the GST rules and avoid errors commonly made by charities and VWOs.

6. To help you determine whether you have applied the GST rules correctly, you may use the "Self-Review Checklist for Charities and VWOs" to do a self-assessment. You are encouraged to review your GST returns and <u>complete the checklist once every 3 years</u>. If you discover any errors, please disclose them to IRAS early to enjoy reduced penalties.

[1] Output tax is the GST that you charge to your customers for goods and services that you sell.
[2] Input tax is the GST that you incur on your business purchases.

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Accounting of Output tax

1. As a VWO, I provide subsidised services to the needy. Do I have to account for GST on the subsidised fees that I charge?

Ans: Yes, you are required to account for GST on the subsidised fees charged to your customers.

2. I recover from my employees a portion of the fees incurred for organising staff welfare activities. Do I have to account for output tax on the fees that I receive from my employees?

Ans: Yes, GST is to be accounted for all supplies made in the course or furtherance of your business including any recoveries received from your employees.

3. I charge rental to third parties who wish to use the facilities / space at my business premises. Do I need to charge GST?

Ans: Yes, you should charge GST on rental for the use of your business premises.

4. How should I treat the grants that I received from a government agency?

Ans: Generally, government agencies provide grants to you with the objective of providing financial assistance for your free and subsidised activities benefiting those in need. The grants are generally not given in return for direct benefits to the government agency. In such cases, you need not account for output tax on such grants.

Instead, the grants are regarded as non-business receipts and has to be included in the denominator of your input tax apportionment formula. You would not be able to claim input tax in full for activities funded by grants. See FAQ 13 for details.

5. Do I have to account for output tax on cash and non-monetary sponsorship received?

Ans: If you provide direct benefits to your sponsor in return for the sponsorship, you have to account for output tax.

<u>Example 1: Cash sponsorship</u>

For example, the sponsor provides cash sponsorship for your fund-raising event and you in turn advertise the sponsor's product. You are to account for output tax on your advertising services at the open market value (OMV). The difference between the sponsored amount and the OMV of your supply of advertising services will be taken to be a donation for which no GST needs to be charged.

However, if you do not know the OMV of the services you are providing, you may account for output tax on the full sponsored amount.

Example 2: Non-monetary sponsorship in the form of goods or services

If the sponsor provides you the prizes for the games at the event instead of cash in return for your agreement to advertise the sponsor's products, you are to account for output tax on the advertising services. The sponsor is in turn required to account for output tax on the prizes provided if it is GST registered.

Conversely, if the sponsorship is made on a voluntary basis such that you need not provide any direct benefits to the sponsor, the sponsorship would be considered as a pure donation where no GST needs to be accounted.

Cash sponsorships received without any direct benefits provided to the sponsor and any donations (including differences between the sponsored amount and the OMV of your supply in example 1) would be treated as non-Business receipts and included in the input tax apportionment formula in FAQ 13. You would not be able to claim the GST incurred in full.

An exception is applied to non-monetary sponsorships where you do not provide any benefits in return. Such non-monetary sponsorships need not be treated as non-business receipts and are excluded from the input tax apportionment formula.

6. Do I have to account for output tax on gifts given away free to employees during a lucky draw at an annual dinner and dance function of the company?

Ans: If the value of the gift costs $200 or more, you have to account for deemed output tax on the gift if you have claimed the GST incurred on the purchase of the gift.

For example, if you give away a television that cost $600 as part of the lucky draw prize, you need to account for output tax based on the prevailing GST rate [e.g. output tax of $54 (i.e. 9% x $600)] if you have claimed the GST incurred on the purchase of the television. If you did not claim any input tax on the purchase, you need not account for output tax.

7. How do I account for output tax on goods sold through a charity auction?

Ans: The final selling price of goods sold through charity auctions are usually above the open market value (OMV) of the items. In such cases, you are allowed to account for output tax on the OMV of the goods auctioned at the prevailing rate; the difference between the final selling price (GST inclusive) and market price (GST inclusive) would be regarded as donation. The donation would be treated as a non-business receipt and included in your input tax apportionment formula.

If you do not know the open market price of the auctioned item, you are to account for output tax on the full selling price of the auctioned item.

8. When do I have to account for the GST on my supplies?

Ans: Based on the time of supply rules, you are required to account for GST at the earlier of the 2 events:

(a) When payment in respect of the supply (including part payment or deposits) is received; and
(b) When invoice in respect of the supply is issued.

9. How do I treat sales of charity coupons that can be redeemed for goods and services at a charity event?

Ans: Sales of charity coupons that entitle the buyers to redeem goods and services on the day of the charity event attract GST. As the coupons provide the buyers with the rights to receive goods and services at the event, you have to account for GST at the prevailing tax fraction (e.g. 9/109) on the gross sales of the coupons regardless of whether the buyers ultimately redeem the coupons.

10. Do I have to issue tax invoices for sales that are subject to GST?

Ans: Yes, you must issue tax invoices or simplified tax invoices[3] for sales made to GST-registered customers. For sales made to non-GST registered customers, serially numbered receipts can be issued instead. For more details, please refer to the e-Tax "GST: General Guide for Businesses".

Claiming of input tax

11. What are the conditions for claiming input tax?

Ans: You can claim GST incurred on your business purchases (including imports) as your input tax provided that the GST is incurred for the purpose of making taxable supplies in the course or furtherance of your business. Refer to FAQ13 for details.

All input tax claims must be supported by relevant tax invoices addressed to you or GST payment permits showing you as the importer. You should claim input tax based on the actual GST amount shown on the suppliers' tax invoices or the GST payment permits for imports.

Avoid the common errors:

(a) Claiming input tax more than once on the same tax invoice.
(b) Claiming input tax based on invoices issued by suppliers who are not GST registered.
(c) Claiming input tax based on invoices addressed to a third party, such as a related company.
(d) Claiming input tax by applying the GST rate (e.g. 9%) on all purchases made, instead of the actual GST amount incurred, reflected on tax invoices received.

12. Can I claim the input tax incurred on all my purchases?

Ans: No. GST incurred is not allowed on the expenses that are specifically disallowed under regulation 26 and 27 of the GST General Regulations. Please refer to the IRAS webpage "'Conditions for Claiming Input Tax' for more information.

[3] A simplified tax invoice can only be issued for sales not exceeding $1,000.

Input tax Apportionment

13. I charge subsidised fees for my supply of goods and services. Can I claim input tax in full?

Ans: When you provide goods and services in return for subsidised fees, you would usually receive non-business receipts such as grants, sponsorships or donations to fund your operations. Hence, you are treated as carrying both business and non-business activities and input tax is not claimable in full.

For example, to fully cover the cost of providing your services, you may need to charge $150 for your services. However, as the services are partially funded by grants, you instead charge a subsidised fee of $80 that is subject to GST at the prevailing GST rate (e.g. GST is $7.20 [9% x $80]).

General input tax claiming rules

You are required to attribute the GST incurred to the various activities (e.g. free, subsidised and fully taxable activities) and adopt the following method to claim the input tax:

a) Input tax incurred on wholly taxable activities is claimable in full (e.g. fund raising event where your charges for goods and services are not at subsidised rates);
b) Input tax on free activities is not claimable (e.g. provision of free services); and
c) Input tax on subsidised activities (referred to as residual input tax) is to be apportioned using the following formula:

$$\text{Claimable Input tax} = \text{Residual input tax} \times \frac{\text{Taxable Supplies + Regulation 33 exempt supplies}}{\text{Taxable Supplies + Non-business Receipts + Exempt supplies}}$$

*** Non-business receipts include grants, donations, cash sponsorships received for which you do not provide any benefits in return and are not required to account output tax.**

Note: *However, if you find it difficult to attribute input tax to the various activities, you are allowed to apply the apportionment formula in (c) to all your allowable input tax. Please refer to Annex A for a working example.*

14. Do I have to compute my input tax apportionment ratio every quarter?

Ans: For administrative convenience, we allow you to use the preceding financial year (FY)'s input tax recovery rate to make input tax claims for the GST returns filed in the current FY. **This a provisional rate and a year-end adjustment* is required.**

The preceding FY's recovery rate is computed based on the total supplies reported in the F5 returns of the preceding FY and the non-business receipts as reflected in your finalised financial statement of the preceding FY. This recovery rate can be applied to your total allowable input tax if you are unable to attribute your input tax to the various activities in FAQ 13, or to your residual input tax if you are able to do the attribution.

For example, you can claim input tax in your GST returns filed for the FY ended 31 Mar 2022 (e.g. 1 Apr 2021 - 31 Mar 2022) using the input tax recovery rate computed based on the FY ended 31 Mar 2021 figures (i.e. 1 Apr 2020 - 31 Mar 2021). As this is a provisional rate, you will need to make a year-end adjustment. At the end of FY ended 31 Mar 2022, you will compute your actual input tax recovery rate for FY ended 31 Mar 2022 using actual figures from 1 Apr 2021 to 31 Mar 2022. The difference between the input tax provisionally claimed and the actual input tax claimable should be adjusted in the next GST return filed in Jun 2022.

You will need to refresh the input tax recovery rate to claim input tax in the GST returns filed in FY ended 31 Mar 2023 using FY ended 31 Mar 2022 figures.

Please refer to Annex B for a worked example of how year-end adjustment is made.

** An exception to the year-end adjustment requirement is applied to charities*[4]

Charities that use the preceding FY's input tax recovery rate to make input tax claims for GST returns filed in the current FY need not perform the year-end adjustment.

In the above example, charities will not need to adjust the input tax claim for FY ended 31 Mar 2022 in the Jun 2022 GST return, but will still be required to refresh the input tax recovery rate for the GST returns filed in FY ended 31 Mar 2023 using FY ended 31 Mar 2022 figures.

However, once charities decide to use the annual rate method to claim input tax, they are not allowed to opt out.

15. What is reverse charge and is it applicable to VWO or Charity?

Ans: With effect from 1 Jan 2020, GST registered persons have to apply reverse charge (RC) on imported services[5] if they are not entitled to full input tax recovery.

From 1 Jan 2023, reverse charge will also apply to purchases of imported low-value goods ('LVG'), unless the LVG procured is directly attributable to taxable supplies. The requirement to perform reverse charge applies to all purchases of LVG (except those directly attributable to taxable supplies) and includes LVG purchased from local and overseas suppliers, electronic marketplaces or redeliverers, regardless of whether they are GST-registered or not.

If you are a VWO or charity subject to input tax apportionment in FAQ 13, reverse charge will apply to you if you procure imported services and/or LVG.

Under the RC rules, you have to account for GST on imported services and/or LVG (other than those specifically excluded from the scope of RC) as if you were the supplier.

You may claim the GST on such imported services and/or LVG subject to your usual input tax apportionment formula.

[4] These are organisations registered with the Commissioner of Charities as Charities under the Charities Act.
[5] Imported services refer to services that you purchase from overseas vendors.

Completing your GST return for imported services from 1 Jan 2020

If you import services, you need to take note of the following when you complete your GST return:

Boxes in GST return	What to report
Box 1: Total Standard-rated supplies	The value of imported services (from 1 Jan 2020) and LVG (from 1 Jan 2023) ('RC supplies') and your taxable supplies of goods or services
Box 6: Output tax due	Value of output tax to be accounted on the value of imported services and LVG and other taxable supplies
Box 7: Input Tax and refunds claimed	Value of input tax claimable on the value of imported services and LVG and local purchases. This is after applying the input tax apportionment in FAQ13.
Box 14: Value of imported services and low-value goods subject to GST under reverse charge	Value of imported services and LVG subject to RC

To compute the amount of input tax claimable using the formula in FAQ13, you have to **exclude the value of imported services and LVG subject to reverse charge (RC supplies**, to arrive at the value of taxable supplies in the numerator and the denominator of the apportionment formula.

You will also have to exclude the value of relevant supplies received from your supplier that are subject to customer accounting and remote services and low-value goods supplied by you as an electronic marketplace operator on behalf of suppliers listed on your platform under the OVR regime, if applicable.

Please refer to the GST e-Tax Guides 'GST: Reverse Charge' and 'GST: Guide for Charities and Non-profit Organisations' for more details.

Note: Reverse charge will not apply to you if you do not purchase services from overseas suppliers and LVG.

16. Annex A – Input Tax Apportionment Formula

If you find it difficult to directly attribute your input tax to the various activities, you are allowed to treat all your allowable input tax[6] as residual input tax and claim input tax based on the following formula.

$$\text{Claimable Input tax} = \text{Residual input tax} \times \frac{\text{Taxable Supplies} + \text{Regulation 33 exempt supplies}}{\text{Taxable Supplies} + \text{Non-Business Receipts} + \text{Exempt supplies*}}$$

* The value of exempt supplies includes the Regulation 33 exempt supplies.

This is on the condition that you make only regulation 33[7] exempt supplies, e.g., interest from deposits placed with local banks.

<u>For example, the following are the Supplies and Non-Business Receipt in one quarter:</u>

Total Input tax[2] = $10,000

Taxable Supplies[8] = $800,000

Reg 33 Exempt supplies = $20,000

Non-Business Receipts [Grants $300,000 and Donation $25,000] = $325,000

You would compute the claimable input tax as follow:

$$\text{Claimable Input tax} = \frac{800{,}000 + 20{,}000}{800{,}000 + 325{,}000 + 20{,}000} \times \$10{,}000$$

$$= 0.7160^{*} \times \$10{,}000$$

$$= 7{,}160.00$$

* If you are computing the rate as a percentage, you have to correct it to 2 decimal places.

<u>The claimable input tax for the quarter is $7,160.00</u>

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[6]Total input tax excludes input tax specifically disallowed under Regulations 26 & 27 of the GST (General) Regulations (see No. 12 above).

[7] Regulation 33 exempt supplies are considered to be necessary and integral to the making of taxable supplies (e.g. interest from deposits, realised exchange gain / loss).

[8] Value of taxable supplies is to exclude the value of relevant supplies received from your supplier that are subject to customer accounting, value of imported services and LVG subject to reverse charge (RC supplies) and value of remote services and low-value goods supplied by you as an electronic marketplace operator on behalf of suppliers listed on your platform under the OVR regime, as applicable.

17. Annex B – Examples of performing Year-end tax Adjustments

This example illustrates the simplified approach to claim input tax provisionally, and how to adjust the provisional input tax claims after the end of the financial year.

You have claimed the input tax in your quarterly GST returns for the financial year ("FY") ended 31 Mar 2022 (i.e. 1 Apr 2021 – 31 Mar 2022) using the preceding year's input tax recovery rate for the FY ended 31 Mar 2021 (assume your financial year-end is 31 Mar).

Step 1: Compute the provisional input tax recovery rate to apply in the GST returns filed for 1 Apr 2021 – 31 Mar 2022

Based on the annual financial statements for year ended 31 Mar 2021 and the GST returns declared for periods covering 1 Apr 2020 - 31 Mar 2021, the following actual figures were recorded.

Year 1/4/2020 – 31/3/2021
Total Taxable Supplies (F5 returns)[8] = $3,660,000

Total Non-Business Receipts (per financial statement)

- Grants	=	$1,000,000
- Donations	=	$ 440,000
		$1,440,000

- Interest received as per bank statement (Regulation 33 Exempt supplies) = $ 30,000

Assume you will subject your total input tax[9] to apportionment as you find it difficult to perform direct attribution of input tax to the various activities.

Provisional recovery rate to use for 1 Apr 2021 to 31 Mar 2022

$$= \frac{\text{Yearly taxable supplies} + \text{Regulation 33 exempt supplies}}{\text{Yearly taxable supplies} + \text{Yearly non-business receipts} + \text{Total Exempt supplies}}$$

$$= \frac{3{,}660{,}000 + 30{,}000}{3{,}660{,}000 + 1{,}440{,}000 + 30{,}000}$$

$$= 71.90\%$$

[9] Total input tax excludes input tax specifically disallowed under Regulations 26 & 27 of the GST (General) Regulations (see No. 12 above).

Step 2: Use the provisional input tax recovery rate to claim input in GST returns from 1 Apr 2021 to 31 Mar 2022

Quarterly Filing of GST Return	Total input tax[10] incurred ($)	Provisional input tax recovery rate ($)	Provisional claim of input tax ($)
1/4/2021 – 30/6/2021	15,994.44	71.90%	11,500.00
1/7/2021 – 30/9/2021	13,908.21	71.90%	10,000.00
1/10/2021 – 31/12/2021	14,603.62	71.90%	10,500.00
1/01/2022 – 31/03/2022	18,776.08	71.90%	13,500.00
Total:	**63,282.35**		**45,500.00**

Total input tax provisionally claimed in financial year ended 31 Mar 2022 is $45,500.00.

Step 3: Compute the actual input tax recovery rate for 1 Apr 2021 – 31 Mar 2022

After the end of the FY ended 31 Mar 2022, once you have finalised your financial statements for year ended 31 Mar 2022, you need to calculate the actual input tax recovery rate for FY ended 31 Mar 2022 using the apportionment formula.

Based on the annual financial statements for year ended 31 Mar 2022 and the GST returns declared for periods covering 1 Apr 2021 - 31 Mar 2022, the following actual figures were recorded.

Year 1/4/2021 – 31/3/2022
Total Input tax of the year = $63,282.35

Total Taxable Supplies[8] (F5 returns) = $3,500,000

Total Non-Business Receipts (per financial statement)
- Grants = $1,600,000
- Donations = $ 300,000

$1,900,000

- Interest received as per bank statement (Regulation 33 Exempt supplies)
= $ 70,000

Actual yearly input tax recovery rate 1 Apr 2021 to 31 Mar 2022

$$= \frac{\text{Yearly taxable supplies} + \text{Regulation 33 exempt supplies}}{\text{Yearly taxable supplies} + \text{Yearly non-business receipts} + \text{Total Exempt supplies}}$$

$$= \frac{3{,}500{,}000 + 70{,}000}{3{,}500{,}000 + 1{,}900{,}000 + 70{,}000}$$

$$= 65.30\%$$

[10] Total input tax excludes input tax specifically disallowed under Regulations 26 & 27 of the GST (General) Regulations (see No. 12 above).

Actual input tax claimable is $41,323.38 [$63,282.35 x 65.30%].
Total Input tax provisionally claimed in F5 returns (as per Step 2) = $45,500.00

You will compare the actual amount of input tax claimable with the input tax provisionally claimed in your GST returns for the FY ended 31 Mar 2022 to determine the amount of input tax over-claimed or under-claimed.

In this case you have over claimed $4,176.63 ($45,500 - $41,323.38).

The input tax over-claimed or under-claimed needs to be adjusted in the next GST F5 return (for the accounting period ended 30 Jun). If you have already submitted the said F5 return, you are required to file the GST F7 form for this accounting period to make the adjustment.