

IRAS e-Tax Guide

GST: Partial Exemption and Input Tax Recovery (Eighth Edition)



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1 Aim

Scope of this e-Tax Guide

- 1.1 This e-Tax Guide explains the partial exemption rules and input tax recovery rules¹.

Who should read this e-Tax Guide?

- 1.2 You should read this e-Tax Guide if you are a partially exempt business, that is, you make both taxable supplies and exempt supplies².

2 Overview

- 2.1 The general input tax recovery rule is that input tax is claimable only if it is attributable to the making of taxable supplies. Hence, if you are a partially exempt business, you will not be able to claim all your input tax since input tax attributable to the making of exempt supplies is not claimable.
- 2.2 Nonetheless, it is inevitable to make some exempt supplies in the ordinary course of your taxable business. Strictly, input tax incurred to make such exempt supplies cannot be claimed. To alleviate business costs, the partial exemption rules allow you to claim some input tax incurred in the making of exempt supplies, that would otherwise not be allowed under the general input tax recovery rule.
- 2.3 You are allowed to claim all your input tax, including input tax attributable to the making of exempt supplies, at the end of any prescribed accounting period if:
- (a) you satisfy the **De Minimis Rule** under regulation 28; or
 - (b) you make only **regulation 33 exempt supplies** and you are not a **regulation 34 business**.
- 2.4 If the De Minimis Rule is not satisfied in any prescribed accounting period, you may claim only input tax incurred in the making of taxable supplies. Input tax that cannot be directly identified as incurred in the making of either taxable or exempt supplies is considered as residual in nature ("**residual input tax**") and has to be apportioned. This is known as "**input tax apportionment**".
- 2.5 As the input tax claims are only allowed provisionally at the end of each prescribed accounting period, you are required to perform a **longer period adjustment** (see paragraph 8 for more information) in respect of the input tax that you have claimed during the longer period.

¹ This e-Tax Guide replaces the IRAS's e-Tax Guide on "GST: Partially Exempt Traders And Input Tax Recovery (Fourth Edition)" published on 20 Oct 2011.

² Exempt supplies refer to supplies that fall within the Fourth Schedule to the GST Act.

- 2.6 You are encouraged to use the [Partial Exemption Input Tax Recovery Calculator](#) to determine the amount of input tax claimable. You are not required to submit the calculator to us but you need to maintain it as part of your records.

3 De Minimis Rule (Regulation 28)

- 3.1 If the De Minimis Rule under regulation 28 of the GST (General) Regulations is satisfied, you may claim all your input tax incurred, including input tax incurred in the making of exempt supplies. However, input tax disallowed under regulations 26 and 27 of the GST (General) Regulations is still not claimable.
- 3.2 The De Minimis Rule is satisfied if the total value of all exempt supplies made does not exceed:
- (a) an average of \$40,000 a month; and
 - (b) 5% of the total value of all taxable³ and exempt supplies made in that period.

Example 1

Prescribed accounting period of 1 Apr 2020 to 30 Jun 2020.

Types of supplies	Value of supplies
Standard rated supplies	\$2,080,000
Zero-rated supplies	\$ 300,000
Exempt supplies	\$ 105,000
Total supplies	\$2,485,000

Average value of exempt supplies per month:
 $\$105,000/3 = \$35,000$ per month

Percentage of the exempt supplies over the total supplies:
 $\$105,000/\$2,485,000 \times 100\% = 4.2\%$

Since the value of exempt supplies does not exceed an average of \$40,000 per month and 5% of the total value of supplies, the De Minimis Rule is satisfied and all input tax incurred is claimable, including input tax incurred for the making of exempt supplies.

- 3.3 If the De Minimis Rule is satisfied in any prescribed accounting period, the same test will have to be applied at the end of a longer period (see paragraph 8 for more information) to determine whether all the input tax incurred in the making of exempt supplies in the longer period can be claimed.

³The value of relevant supplies received from your supplier that are subject to customer accounting, imported services and low-value goods that are subject to reverse charge; and supplies of remote services and low-value goods made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should not be taken into account as taxable supplies for the purpose of the De Minimis Rule.

4 Regulation 33 exempt supplies

- 4.1 The exempt supplies listed under regulation 33 of the GST (General) Regulations (henceforth referred to as “**regulation 33 exempt supplies**”) are considered to be necessary and integral to the making of taxable supplies. Hence, the input tax incurred in the making of such exempt supplies is treated as input tax attributable to the making of taxable supplies, subject to regulations 34 and 35. The regulation 33 exempt supplies are listed below:

Regulation 33 exempt supply	Example
(a) The deposit of money	Current or fixed deposit accounts placed with a financial institution in Singapore
(b) The exchange of currency (whether effected by the exchange of currency, bank notes or coin, by crediting or debiting accounts, or otherwise) other than the supply of a note or a coin as a collector's item, investment article or item of numismatic interest	Exchange of payment received for a supply of goods in a foreign currency into Singapore dollar
(c) The issue, allotment or transfer of ownership of a debt security by the business that makes the first issue of such security	First issue of bonds
(d) The issue, allotment or transfer of ownership of an equity security by the business that makes the first issue of such security	Issue of shares through an initial public offering (“IPO”)
(e) The provision by a taxable business of any loan, advance or credit to its employee	Provision of car loan, housing loan or study loan to employees
(f) The assignment of a trade receivable	Factoring receivables
(g) The issue of a unit under any unit trust or business trust	Issue of a unit under a real estate investment trust
(h) The hedging of interest rate risk arising from: (i) The making of regulations 33(a) or (c) supplies; or (ii) Any loan obtained for the making of taxable supplies or supplies made outside Singapore that would have been	<p>Entering into interest rate swap transactions to mitigate the impact of interest rate fluctuations arising from issue of bonds on floating rate to raise funds for the company</p> <p>Entering into interest rate swap transactions to reduce interest rate risk arising from the variable interest payable on a loan obtained</p>

Regulation 33 exempt supply	Example
taxable supplies if made in Singapore	to buy a plant for manufacturing goods
<p>(ha) The hedging of currency risk arising from:</p> <p>(i) The making of regulations 33(a), (c), (d) or (g) supplies, taxable supplies or supplies made outside Singapore that would have been taxable supplies if made in Singapore; or</p> <p>(ii) Any loan obtained for the making of taxable supplies or supplies made outside Singapore that would have been taxable supplies if made in Singapore</p>	<p>Entering into currency forward contracts to mitigate foreign currency exposure arising from sales made in foreign currency on credit terms</p>
<p>(hb) The hedging of any utility price risk, freight price risk, or commodity price risk arising from the making of taxable supplies or supplies made outside Singapore that would have been taxable supplies if made in Singapore</p>	<p>Purchasing futures contracts to hedge against price fluctuations in oil which is a major business expense of a shipping company</p> <p>Entering into forward contracts to hedge against price fluctuations of metals which are sold outside Singapore</p> <p>Entering into freight forward agreements to hedge against unfavourable freight costs which will be incurred in the sale and delivery of bunker oil</p> <p>Entering into contract for differences with a counter-party to hedge against changes in the price of electricity which is onward sold to customers</p>
<p>(i) The receipt of interest on a bond by a bondholder, arising from the provision of credit by the bondholder to the issuer of the bond (whether or not the bond was originally issued by the bondholder)</p>	<p>Interest income received from bonds</p> <p>The gain from the discount realised at maturity for zero coupon or deeply discounted bonds</p>

Regulation 33 exempt supply	Example
(j) The receipt of interest in respect of the provision of credit for any trade receivable	Interest charged to customers who purchase goods or services on credit terms
(k) The issue or transfer of Islamic debt securities under an Islamic debt securities arrangement	Issue of sukuk under a Ijara Wa Iqtina arrangement
(l) The provision of financing under an Islamic debt securities arrangement for which the provider of the financing derives an effective return	Provision of financing by sukukholder to the issuer of sukuk under a Ijara Wa Iqtina arrangement

- 4.2 Since the input tax incurred in the making of regulation 33 exempt supplies is treated as being incurred in the making of taxable supplies, you will be allowed to claim all your input tax incurred in the making of exempt supplies, if you make only regulation 33 exempt supplies (in addition to taxable supplies). This is so even if you fail the De Minimis Rule.
- 4.3 However, you will not be allowed to claim input tax incurred in the making of regulation 33 exempt supplies if:
- (a) you are a regulation 34 business; or
 - (b) you make non-regulation 33 exempt supplies and the value of the non-regulation 33 exempt supplies does not satisfy the Regulation 35 Test.

5 Regulation 34 businesses

- 5.1 Regulation 33 is not applicable to partially exempt businesses carrying on the business of, or any business similar to, any of the following listed below (henceforth referred to as “**regulation 34 businesses**”):
- (a) A full bank, wholesale bank or offshore bank licensed under the Banking Act
 - (b) A merchant bank or financial institution approved under section 28 of the Monetary Authority of Singapore Act
 - (c) A life insurance, a general or life reinsurance company/society registered under the Insurance Act, or a reinsurance broker
 - (d) A finance company licensed under the Finance Companies Act
 - (e) A moneylender required to be licensed under the Moneylenders Act, or a currency trader
 - (f) A person required to be licensed under the Payment Services Act to carry on a business of providing either or both of the following payment services:
 - (i) cross-border money transfer service; (ii) money-changing service
 - (g) A pawnbroker licensed under the Pawnbrokers Act
 - (h) A debt factor
 - (i) A credit card, charge card or other payment card company

- (j) A unit trust (excluding any real estate investment trust ("REIT"), REIT's special purpose vehicle ("SPV"), business trust or business trust's SPV)
- (k) A trader of digital payment tokens

5.2 Regulation 34 disallows businesses making predominantly exempt supplies from claiming input tax attributable to the making of regulation 33 exempt supplies.

6 Regulation 35 Test

6.1 If you are not a regulation 34 business but you make non-regulation 33 exempt supplies, you can claim the input tax incurred in the making of regulation 33 exempt supplies only if the test in regulation 35 of the GST (General) Regulations (henceforth referred to as "**Regulation 35 Test**") is satisfied.

6.2 The Regulation 35 Test is satisfied if the value of the non-regulation 33 exempt supplies made by you does not exceed 5% of the total value of all your taxable⁴ and exempt supplies (regulation 33 and non-regulation 33 exempt supplies) made in that period.

6.3 If the Regulation 35 Test is satisfied in any prescribed accounting period, the same test will have to be applied at the end of a longer period (see paragraph 8.6 for more information), to determine whether input tax incurred in the making of regulation 33 exempt supplies can be claimed in the longer period.

7 Input tax apportionment

7.1 If you fail the De Minimis Rule:

- (a) Input tax directly attributable to the making of taxable supplies will be claimable;
- (b) Input tax directly attributable to the making of regulation 33 exempt supplies will be claimable if you are not a regulation 34 business and you satisfy the Regulation 35 Test. Otherwise, input tax attributable to the making of such exempt supplies is not claimable;
- (c) Input tax directly attributable to the making of non-regulation 33 exempt supplies is not claimable;
- (d) Residual input tax must be apportioned in the following manner:

⁴ The value of relevant supplies received from your supplier that are subject to customer accounting, imported services and low-value goods that are subject to reverse charge; and supplies of remote services and low-value goods made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should not be taken into account as taxable supplies for the purpose of the Regulation 35 Test.

- (i) You are a non-regulation 34 business and you satisfy the Regulation 35 Test:

$$\begin{aligned} & \text{Recoverable residual input tax} \\ &= \text{Total residual input tax} \times \frac{\text{Value of taxable supplies}^{N1} + \text{Value of regulation 33 exempt supplies}}{\text{Value of total supplies}^{N1, N2}} \end{aligned}$$

- (ii) You are a non-regulation 34 business but you do not satisfy the Regulation 35 Test:

$$\begin{aligned} & \text{Recoverable residual input tax} \\ &= \text{Total residual input tax} \times \frac{\text{Value of taxable supplies}^{N1}}{\text{Value of total supplies}^{N1, N3}} \end{aligned}$$

Notes

^{N1} The value of relevant supplies received from your supplier that are subject to customer accounting imported services and low-value goods that are subject to reverse charge; and supplies of remote services and low-value goods made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should be excluded from the numerator and denominator of the apportionment formula.

^{N2} You may deduct exempt supplies that can be treated as incidental exempt supplies under regulation 29(3) of the GST (General) Regulations from the value of total supplies. Paragraph 9 explains when an exempt supply can be treated as an incidental exempt supply. You should not deduct regulation 33 exempt supplies from the denominator since such supplies would already be added to the numerator.

^{N3} You may deduct exempt supplies that can be treated as incidental exempt supplies under regulation 29(3) from the value of total supplies. Subject to the conditions stated in paragraph 9, you can only treat an exempt supply as an incidental exempt supply if your core business is that of making taxable supplies, and the exempt supply is inevitably made in the course of carrying out your taxable business activities. See paragraph 9.1(a) for examples.

- 7.2 When computing the recoverable residual input tax in paragraph 7.1(d) above, the ratio of value of taxable supplies (and regulation 33 exempt supplies, if applicable) over the value of total supplies must be rounded off to the nearest whole number.

- 7.3 Appendix 1 provides a diagrammatic flowchart explaining the treatment for input tax apportionment and Appendix 2 provides a working example on claiming of input tax.

8 Longer period adjustment

Rationale for longer period adjustment

- 8.1 The average monthly value of exempt supplies and proportion of taxable and exempt supplies are used to determine whether the De Minimis Rule is satisfied in each prescribed accounting period. The proportion of taxable and exempt supplies is also used to apportion the residual input tax in each prescribed accounting period.
- 8.2 In reality, the values of exempt supplies or proportions of taxable and exempt supplies vary across prescribed accounting periods. To ensure fair and reasonable apportionment of input tax, these periodic variations are taken into consideration over a longer period. Therefore, any input tax claimed in each prescribed accounting period is only provisionally allowed and an adjustment is required to be made to the input tax claimed over a longer period. This is known as the “longer period adjustment”.

Determining your longer period

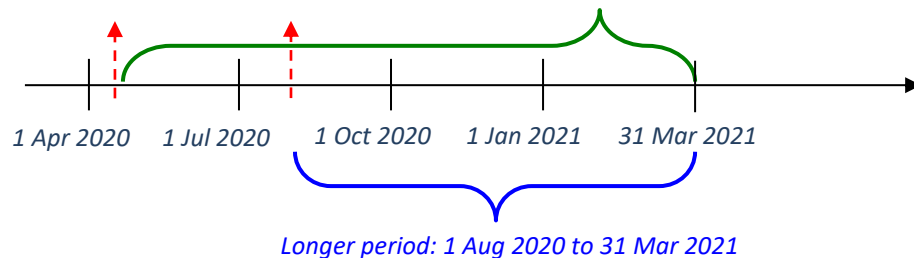
- 8.3 There are different rules for determining the longer period for the registration period and for the tax year. The registration period refers to the period commencing on the date of GST registration and ending on the day before the first tax year begins.
- 8.4 The tax year refers to a 12-month period commencing on 1 Apr, 1 May or 1 Jun, depending on the prescribed accounting periods allocated to you. The tax years can be:

Prescribed accounting periods	Tax year
Jan-Mar, Apr-Jun, Jul-Sep, Oct-Dec	1 Apr to 31 Mar of the next year
Feb-Apr, May-Jul, Aug-Oct, Nov-Jan	1 May to 30 Apr of the next year
Mar-May, Jun-Aug, Sep-Nov, Dec-Feb	1 Jun to 31 May of the next year

- 8.5 If you made exempt supplies during the registration period, the longer period begins on the first day the exempt supplies were made and ends on the last day of the registration period.

Scenario 1 GST-registered on 15 Apr 2020 and first made exempt supplies on 1 Aug 2020
(Assumption: First tax year is from 1 Apr 2021 to 31 Mar 2022)

GST-registered on 15 Apr 2020 First made exempt supplies on 1 Aug 2020 Registration period: 15 Apr 2020 to 31 Mar 2021



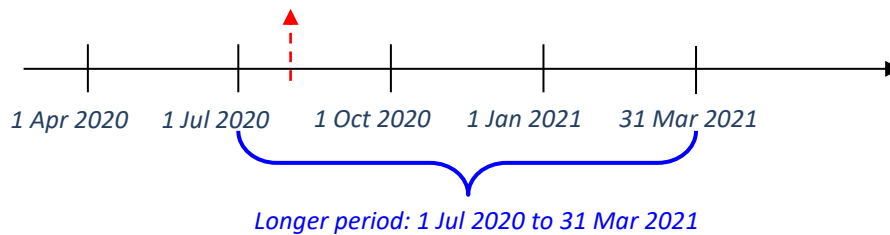
8.6 If you made exempt supplies during the tax year, the longer period will coincide with the tax year, except in the following circumstances:

- (a) If no exempt supplies were made during the immediately preceding tax year or registration period, the longer period will begin on the 1st day of the 1st prescribed accounting period in which exempt supplies were made and end on the last day of that tax year. However, if exempt supplies were only made in the last accounting period of that tax year, no longer period is applicable.

Scenario 2

GST-registered on 1 Oct 2018 and first made exempt supplies on 15 Jul 2020
(Assumption: Tax year is from 1 Apr 2020 to 31 Mar 2021)

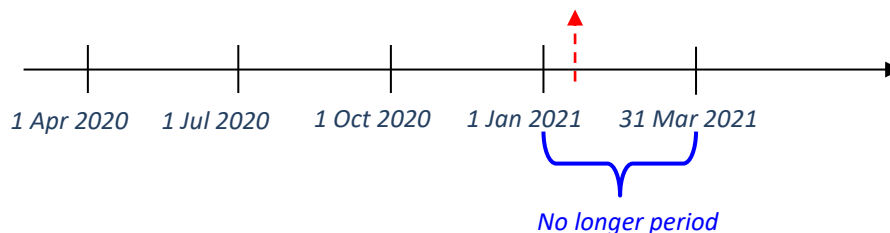
First made exempt supplies on 15 Jul 2020



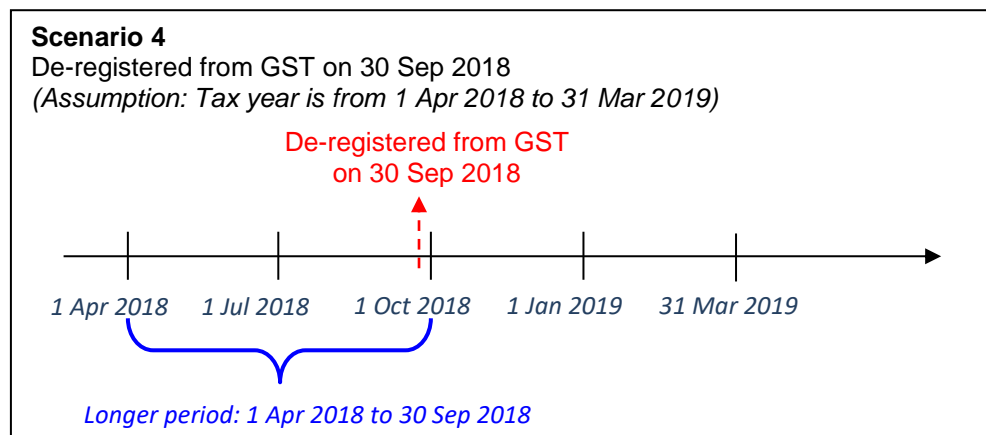
Scenario 3

GST-registered on 1 Oct 2018 and first made exempt supplies on 15 Jan 2021
(Assumption: Tax year is from 1 Apr 2020 to 31 Mar 2021)

First made exempt supplies on 15 Jan 2021



- (b) If you ceased GST registration during a longer period, the longer period will end on the day you ceased to be GST-registered.



Performing longer period adjustment

- 8.7 If you fail the De Minimis Rule in any prescribed accounting period, you can make a second determination at the end of the longer period. If you satisfy the De Minimis Rule at the end of the longer period, you are allowed to claim back the exempt input tax not claimed previously.
- 8.8 Similarly, if you pass the De Minimis Rule in any prescribed accounting period, you will have to make a second determination at the end of the longer period. If you do not satisfy the De Minimis Rule at the end of the longer period, you will have to adjust for the input tax claimed previously. However, if you still satisfy the De Minimis Rule at the end of the longer period, no adjustment is required.

<i>De Minimis Rule</i>		Longer period adjustment required?
Prescribed accounting periods	Longer period	
Satisfied	Satisfied	No
Satisfied	Not satisfied	Yes
Not satisfied	Satisfied	Yes
Not satisfied	Not satisfied	Yes

- 8.9 The longer period adjustment requires you to determine how much input tax is claimable in the longer period by using the same input tax apportionment method as explained in paragraph 7 above.
- 8.10 The difference in the amount computed for the longer period and the amount already claimed in each prescribed accounting period in that longer period (whether an over-claim or under-claim) should be adjusted for accordingly in Box 7 "Input tax and refunds claimed" of the first GST F5 return after the longer period. Refer to Appendix 3 for an illustration of a longer period adjustment.

9 Incidental exempt supply under regulation 29(3)

9.1 You can treat an exempt supply as an incidental exempt supply if you satisfy the following conditions:

(a) You are in the business of making predominantly taxable supplies⁵.

Prima facie, the Comptroller will consider this condition as satisfied if the sum of all your non-regulation 33 exempt supplies does not exceed 5% of your total supplies⁶ over a longer period.

If you typically make predominantly taxable supplies but do not satisfy the 5% threshold due to exceptionally high value of exempt supplies inevitably made in the course of your taxable activities, the exempt supplies can still be regarded as incidental exempt supplies.

The following are examples where the exempt supplies can be regarded as incidental even if the 5% threshold is not satisfied:

- Sale of shares due to corporate restructuring or divestment strategy
- Sale of shares due to error trades made by securities and brokerage firms on behalf of their clients
- Sale of REIT units by REIT managers who received the units as part of their remuneration

(b) The making of the exempt supply does not amount to a separate business. In order for the making of the exempt supply not to be considered as a separate business, the following conditions must be satisfied:

(i) The exempt supply occurs infrequently **or** ceases when the main taxable activities of your business cease

Generally, a supply is considered as occurring infrequently if there are not more than 4 occurrences of the same nature of supply over a longer period. The same nature of supply refers to all supplies arising from the same exempt business activity carried on by you, including exempt supplies that qualify for zero-rating. For example, in the case of interest income from inter-company loans, this refers to the total number of new and outstanding interest-bearing loans provided to both local and overseas persons over a longer period.

⁵ This includes regulation 34 businesses that make predominantly taxable supplies e.g. zero-rated supplies of insurance services.

⁶ The value of relevant supplies received from your supplier that are subject to customer accounting, imported services and low-value goods that are subject to reverse charge; and supplies of remote services and low-value goods made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should not be taken into account as total supplies for the purpose of computing this 5% threshold.

(ii) Minimal resources are incurred to make the exempt supply

Minimal resources are used if the supply occurs passively with no specific monitoring, **or** only a few staff or minimal manhours are dedicated to make the supply. Generally, a headcount or manhours of not more than 1% of the total number of staff or manhours is considered minimal.

- 9.2 Other examples of exempt supplies that may be treated as incidental exempt supplies by businesses that make predominantly taxable supplies include:
- (a) Interest income from automated cash pooling activities⁷;
 - (b) Interest income from infrequent provision of inter-company loans where there is no dedicated staff to provide the loans⁸; and
 - (c) One-off disposal of shares where there are minimal resources incurred in the disposal⁹.
- 9.3 You can self-assess whether you satisfy the conditions and/or whether your exempt supplies fall within the examples stated above. There is no need to seek approval from the Comptroller before you treat an exempt supply as incidental. You need to write to the Comptroller to treat an exempt supply as incidental only if your scenarios fall outside the specified conditions and examples.
- 9.4 Whether an exempt supply can be treated as an incidental exempt supply is only for purposes of residual input tax recovery. You should not include input tax directly attributable to the making of your taxable supplies or exempt supplies as your residual input tax. Please refer to the e-Tax Guide “GST: Guide on Attribution of Input Tax” for information on when input tax may be considered as “directly attributable” to a supply.

10 Reverse charge

- 10.1 From 1 Jan 2020, if you are a GST-registered person who procures services from overseas suppliers (“imported services”), you may be subject to reverse charge if you are not entitled to full input tax credit or if you belong to a GST group that is not entitled to full input tax credit. The application of reverse charge will mean that you have to account for GST on the imported services as if you are the supplier, except for certain services which are specifically excluded from the scope of the reverse charge. You will also be entitled to claim the corresponding GST as your input tax, subject to the normal input tax recovery rules.
- 10.2 GST-registered persons with fluctuating exempt supplies may be liable to apply reverse charge in one accounting period but not so in the next

⁷ Refer to an illustration on cash pooling arrangement in Appendix 5.

⁸ Refer to the illustrations on inter-company loans in Appendix 6.

⁹ Refer to more illustrations on sale of shares in Appendix 7.

accounting period. For administrative ease, they may elect to apply reverse charge only at the end of the longer period, instead of each accounting period.

- 10.3 From 1 Jan 2023, the application of reverse charge would be extended to the purchase of imported low-value goods (“LVG”), unless the LVG procured is directly attributable to taxable supplies¹⁰. 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.
- 10.4 Please refer to our e-Tax Guide “GST: Reverse Charge” for more details on the above.

11 Effective Date of the Revised e-Tax Guide (Seventh Edition)

- 11.1 The revisions made in the Seventh Edition of the e-Tax Guide as highlighted in item 6 of Paragraph 14 will apply with effect from 18 Jun 2021.
- 11.2 If prior to 18 Jun 2021, you did not count exempt supplies that qualify for zero-rating towards the number of occurrences (i.e. not more than 4) when assessing whether a supply is occurring infrequently under paragraph 9(b)(i), you need not make any adjustments for the past prescribed accounting periods.
- 11.3 Instead, you will be required to count such supplies towards the number of occurrences starting from your next tax year as follows: -

Prescribed accounting periods	Effective from Tax Year
Jan-Mar, Apr-Jun, Jul-Sep, Oct-Dec	1 Apr 21 to 31 Mar 22
Feb-Apr, May-Jul, Aug-Oct, Nov-Jan	1 May 21 to 30 Apr 22
Mar-May, Jun-Aug, Sep-Nov, Dec-Feb	1 Jun 21 to 31 May 22

12 Frequently asked questions

- Q1 Can the hedging of currency risk on dividends received in foreign currency qualify under regulation 33(h)?
- A1 No. The receipt of dividends is not a taxable supply. Only hedging of currency risk arising from the making of taxable supplies is allowed under regulation 33(ha)(i).

¹⁰ This exclusion is only applicable to businesses that are not prescribed a fixed input recovery rate or special input tax recovery formula to be applied on all input tax claims. Please refer to our e-Tax Guide “GST: Reverse Charge” for more details.

- Q2 Can an anticipatory hedge for commodity price risk qualify under regulation 33(h)?
- A2 The hedge must first be done to mitigate the commodity price risk arising from the making of taxable supplies or supplies made outside Singapore that would have been taxable supplies if made in Singapore. If the hedge is based on a reasonable forecast of future sales and the hedging is conducted within the company's risk management framework, the hedging may qualify under regulation 33(hb).
- Q3 Does the issue of units under regulation 33(g) include units sold by fund managers?
- A3 No. Regulation 33(g) only applies to unit trusts and business trusts. It does not apply to fund managers. Fund managers are merely transferring the ownership of units to the unit holders. They are not issuing units.
- Q4 If a business is granted a special input tax recovery formula, how does it apply the input tax recovery rules?
- A4 Businesses that have been granted approval by the Comptroller to use the special input tax recovery formula should continue to apply the formula. However, businesses may write in to the Comptroller to revoke the special input tax recovery formula with supporting reasons.
- Q5 Can the hedging of currency risk in respect of the distribution to be made by a trust to its unit holders qualify under regulation 33(ha)(i)?
- A5 If the distribution by a unit trust or business trust to its unit holders is payable in a foreign currency and the trust hedges the currency risk arising from the distribution, the hedging of currency risk in respect of the distribution by the trust to the unit holders can be treated as arising from the issuance of units by the trust, which are exempt supplies under regulation 33(g). Hence, the hedging of such currency risk can qualify under regulation 33(ha)(i).
- Q6 Can the hedging of a loan obtained by a GST-registered person for making zero-rated financial services qualify under regulation 33(h)(ii) and 33(ha)(ii)?
- A6 If a GST-registered person obtains a loan and onward lends the money to an overseas person in return for interest income (which is a zero-rated supply), the hedging of interest rate risk or currency risk arising from the loan obtained can qualify under regulations 33(h)(ii) and 33(ha)(ii).
- Q7 Can a business deduct incidental exempt supplies under regulation 29(3) when apportioning its residual input tax during each prescribed accounting period?

- A7 Yes, businesses can deduct exempt supplies which satisfy the incidental tests stated in paragraph 9 to arrive at the amount of recoverable residual input tax (RIT) for each prescribed accounting period.

However, as whether an exempt supply is an incidental exempt supply can be better determined over the longer period, businesses instead may want to consider whether an exempt supply is incidental for the purpose of calculating recoverable RIT only at the end of the longer period.

If the incidental tests are applied each prescribed accounting period, the number of occurrences to determine whether the supplies are considered as occurring infrequently (see paragraph 9.1(b)(i)) would have to be pro-rated accordingly. The incidental tests would have to be applied again at the end of the longer period to determine whether the same exempt supplies would qualify as incidental exempt supplies in the longer period. No penalty will be imposed on any adjustment made as part of the longer period adjustments.

13 Contact information

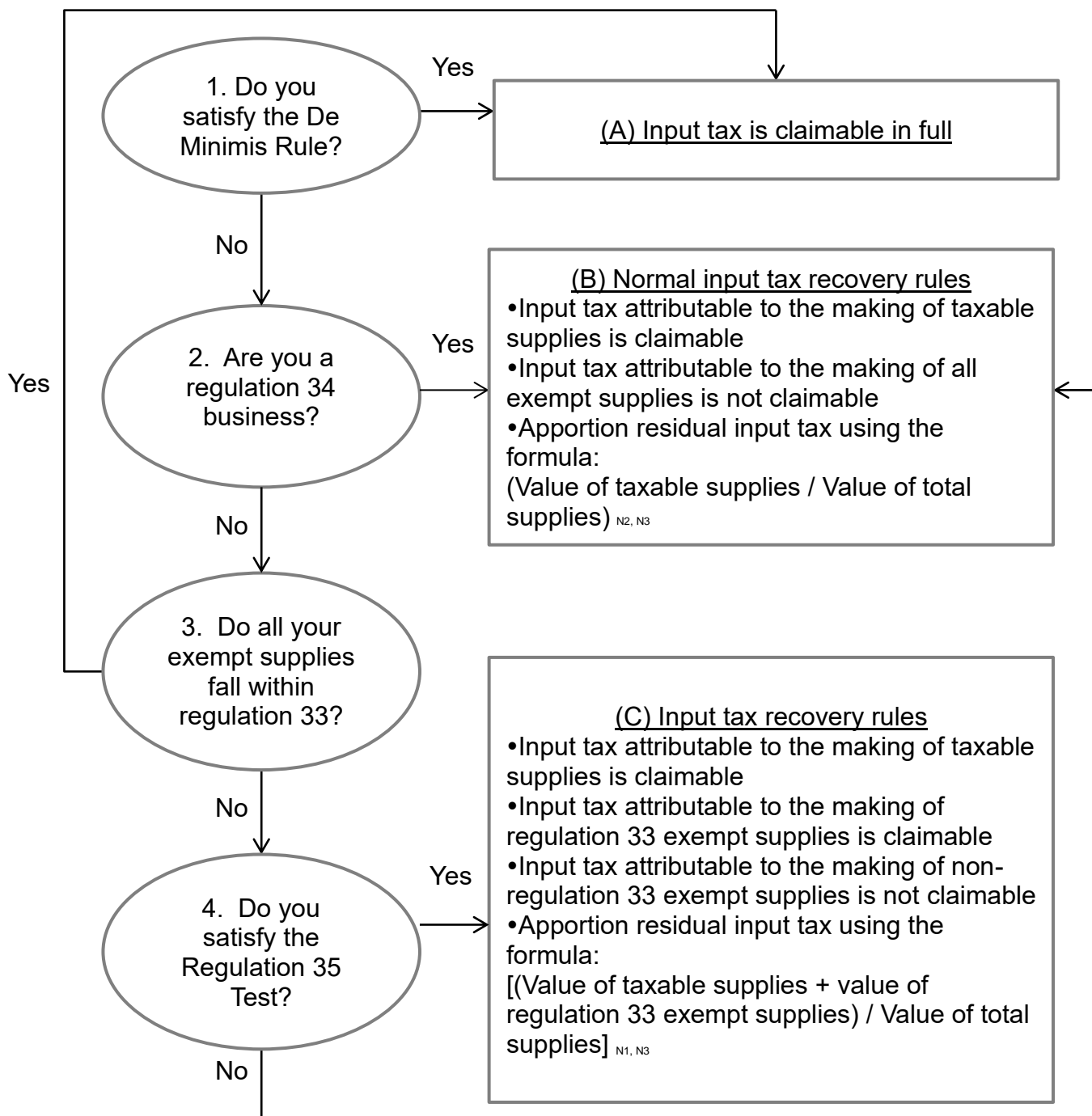
- 13.1 For enquiries on this e-Tax Guide, please contact the Goods and Services Tax Division at www.iras.gov.sg (select “Contact Us”)

14 Updates and Amendments

	Date of amendment	Amendments made
1	4 Mar 2016	<ul style="list-style-type: none">Amended paragraph 7.1(d), inserted paragraph 9 and Appendices 5 to 7 on incidental exempt suppliesEditorial changes
2	8 Aug 2016	<ul style="list-style-type: none">Editorial changes
3	23 Aug 2018	<ul style="list-style-type: none">Inserted paragraph 2.6 on Partial Exemption Input Tax Recovery Calculator
4	24 Sep 2019	<ul style="list-style-type: none">Inserted footnotes on the value of taxable supplies and total supplies for various partial exemption computation (this update is in line with the implementation of the reverse charge and overseas vendor registration regime from 1 Jan 2020)Inserted paragraph 10 on reverse charge

		<ul style="list-style-type: none"> • Editorial changes
5	1 Apr 2020	<ul style="list-style-type: none"> • Amended paragraph 5.1 that Regulation 34 businesses will include persons required to be licensed under the Payment Services Act and traders of digital payment tokens
6	18 Jun 2021	<ul style="list-style-type: none"> • Amended paragraph 9.1(b)(i) to provide clarification on the supplies to be included in the number of occurrences. Specifically, the e-Tax Guide is updated to clarify that all supplies arising from the same exempt business activity carried on by a taxpayer, including exempt supplies that qualify for zero-rating should be counted when evaluating whether the condition of “not more than 4 occurrences of the same nature of supply over a longer period” is met. • Inserted paragraph 11 to explain the effective date of the above revision
7	15 Aug 2022	<ul style="list-style-type: none"> • Amended paragraph 10 to include the changes made to reverse charge with effect from 1 Jan 2023. Also made consequential amendments to paragraph 7.1, footnotes 3, 4, 6 and 10; and Appendix 1 and 2. • Inserted Appendix 4 to provide an illustration of longer period adjustments involving time-barred periods.

Appendix 1 – Input tax apportionment flowchart



^{N1} You may deduct exempt supplies that can be treated as incidental exempt supplies under regulation 29(3) from the value of total supplies. You should not deduct regulation 33 exempt supplies from the denominator since such supplies would already be added to the numerator.

^{N2} You may deduct exempt supplies that can be treated as incidental exempt supplies under regulation 29(3) from the value of total supplies. Subject to the conditions stated in paragraph 9, you can only treat an exempt supply as an incidental exempt supply if your core business is that of making taxable supplies, and the exempt supply is inevitably made in the course of carrying out your taxable business activities.

^{N3} The value of relevant supplies received from your supplier that are subject to customer accounting, imported services and low-value goods that are subject to reverse charge; and supplies of remote services and low-value goods made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should be excluded from the numerator and denominator of the apportionment formula.

Appendix 2 – Input tax apportionment example

Company XYZ is in the business of selling chemical products. The supplies and input tax incurred by Company XYZ in the prescribed accounting period 1 Apr 2020 to 30 Jun 2020 are shown below:

Taxable supplies:

Sales of chemical products to overseas customers	\$1,000,000
Supplies that are subject to reverse charge	\$3,000

Exempt Supplies:

Foreign exchange gain/loss on sales (<i>regulation 33</i>)	\$10,000
Hedging of foreign exchange gain/loss (<i>regulation 33</i>)	\$5,000
Sale of shares (through fund manager) (<i>non-regulation 33</i>)	<u>\$50,000</u>

Total supplies in GST F5 **\$1,068,000**

Total supplies¹¹ for the purposes of De Minimis Rule, Regulation 35 Test and input tax apportionment computation **\$1,065,000**

<u>GST incurred (input tax):</u>	<u>Purchase</u>	<u>GST</u>
Purchase of chemical products	\$800,000	\$56,000
Broker fees for hedging transactions	\$100	\$7
Fund management fees	\$2,000	\$140
Overheads procured from local suppliers (e.g. rental and utilities)	\$7,000	\$490
IT services procured from overseas suppliers	\$3,000	\$210

Total GST incurred **\$56,847**

Does trader satisfy the De Minimis Rule?

$\$65,000 / \$1,065,000 = 6.10\%$

No. Value of exempt supplies is more than 5% of the value of total supplies.

Does trader satisfy the Regulation 35 Test?

$\$50,000 / \$1,065,000 = 4.69\%$

Yes. Non-regulation 33 exempt supplies is less than 5% of value of total supplies

Input tax apportionment [using formula in paragraph 7.1(d)(i)]

Input tax on taxable supplies	\$56,000	(Claimable)
Input tax on regulation 33 exempt supplies	\$7	(Claimable)
Input tax on non-regulation 33 exempt supplies	\$140	(Not claimable)

¹¹ The value of supplies subject to reverse charge is excluded for purposes of applying the De Minimis Rule and input tax apportionment computation.

$$\begin{aligned}\text{Residual input tax claimable} &= \$700 \times \frac{\$1,000,000 + (\$10,000 + \$5,000)}{\$1,065,000} \\ &= \$700 \times 95\% \text{ (rounded off to nearest 1\%)} \\ &= \$665\end{aligned}$$

$$\text{Total input tax claimable} = \$56,000 + \$7 + \$665 = \$56,672$$

Appendix 3 – Longer period adjustment illustration

The following is an illustration of the longer period adjustment for prescribed accounting periods and longer periods beginning after 1 Apr 2020:

	1 Apr to 30 Jun 2020	1 Jul to 30 Sep 2020	1 Oct to 31 Dec 2020	1 Jan to 31 Mar 2021	Total
Value of taxable supplies ¹² (A)	\$1,000,000	\$1,500,000	\$900,000	\$1,200,000	\$4,600,000
Value of exempt supplies ¹³ (B)	\$100,000	\$59,000	\$40,000	\$520,000	\$719,000
Total supplies ¹⁰ (C) = (A) + (B)	\$1,100,000	\$1,559,000	\$940,000	\$1,720,000	\$5,319,000
Average monthly exempt supplies = (B) ÷ 3	\$33,333	\$19,667	\$13,333	\$173,333	\$59,917
% of exempt supplies over total supplies = (B) ÷ (C)	9.1%	3.8%	4.3%	30.2%	13.5%
De Minimis Rule satisfied?	No	Yes	Yes	No	No
Residual input tax incurred (before apportionment)	\$12,374.05	\$10,112.76	\$7,894.31	\$14,355.62	\$44,736.74
Residual input tax provisionally allowed (after apportionment)	\$11,260.39	\$10,112.76	\$7,894.31	\$10,048.93	\$39,316.39
Recoverable residual input tax for the tax year	$\$44,736.74 \times 86\%^{14}$ $= \mathbf{\$38,473.60}$				
Input tax over/(under) claimed	$\$39,316.39 - \$38,473.60$ $= \mathbf{\$842.79}$				

In the above example, the re-computed recoverable input tax for the tax year from 1 Apr 2020 to 31 Mar 2021 is \$38,473.60, which is less than the total amount of \$39,316.39 already claimed in the four accounting periods. Therefore, there is an over-claim of input tax of \$842.79 over the tax year.

¹² The value of relevant supplies received from your supplier that are subject to customer accounting, imported services and low-value goods that are subject to reverse charge; and supplies of remote services and low-value goods made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should not be taken into account as total taxable supplies and total supplies for the purpose of the computation.

¹³ It is assumed that the exempt supplies herein consist of both regulation 33 and non-regulation 33 exempt supplies and apportionment is required for all these exempt supplies.

¹⁴ The percentage of 86.48% ($\$4,600,000/\$5,319,000 \times 100$) is rounded off to the nearest whole number, i.e. 86%.

The input tax over-claimed is to be adjusted in Box 7 "Input tax and refunds claimed" of the GST F5 return for the next prescribed accounting period ending 30 Jun 2021, by deducting the amount of \$842.79 from the recoverable input tax of that period.

Appendix 4 – Longer period adjustment involving time-barred periods

For longer period adjustments involving periods which are time-barred¹⁵, the longer period adjustment for the entire tax year must still be made if the prescribed accounting period after the longer period is not time-barred.

The following is an illustration of the longer period adjustment for prescribed accounting periods and longer periods beginning after 1 Apr 2015. On 1 May 2021, the partially exempt business discovered that it has not been apportioning its residual input tax and did not perform the longer period adjustment for its past accounting periods and would like to correct its errors in May 2021:

	1 Apr to 30 Jun 2015	1 Jul to 30 Sep 2015	1 Oct to 31 Dec 2015	1 Jan to 31 Mar 2016	Total
Value of taxable supplies ¹⁶ (A)	\$1,000,000	\$1,500,000	\$900,000	\$1,200,000	\$4,600,000
Value of exempt supplies ¹⁷ (B)	\$100,000	\$59,000	\$40,000	\$520,000	\$719,000
Total supplies ¹⁰ (C) = (A) + (B)	\$1,100,000	\$1,559,000	\$940,000	\$1,720,000	\$5,319,000
Average monthly exempt supplies = (B) ÷ 3	\$33,333	\$19,667	\$13,333	\$173,333	\$59,917
% of exempt supplies over total supplies = (B) ÷ (C)	9.1%	3.8%	4.3%	30.2%	13.5%
De Minimis Rule satisfied?	No	Yes	Yes	No	No
Residual input tax (RIT) incurred	\$12,374.05	\$10,112.76	\$7,894.31	\$14,355.62	\$44,736.74
Residual Input tax claimed (D)	\$12,374.05	\$10,112.76	\$7,894.31	\$14,355.62	\$44,736.74

¹⁵ Time-barred periods refer to periods that are more than 5 years from the end of the relevant GST accounting period.

¹⁶ The value of relevant supplies received from your supplier that are subject to customer accounting, imported services and low-value goods that are subject to reverse charge; and supplies of remote services and low-value goods made on behalf of underlying suppliers through your marketplace under the Overseas Vendor Registration regime should not be taken into account as total taxable supplies and total supplies for the purpose of the computation.

¹⁷ It is assumed that the exempt supplies herein consist of both regulation 33 and non-regulation 33 exempt supplies and apportionment is required for all these exempt supplies.

RIT that the business ought to have claimed¹⁸ (E)	\$11,260.39	\$10,112.76	\$7,894.31	\$10,048.93	\$39,316.39
Residual input tax overclaimed each quarter = (D) – (E)	\$1,113.66	\$0	\$0	\$4,306.69	\$5,420.35
Recoverable residual input tax for the tax year	$\$44,736.74 \times 86\%^{19}$ $= \textbf{\$38,473.60}$				
Input tax over/(under) claimed (due to longer period adjustment)	$\$39,316.39 - \$38,473.60$ $= \textbf{\$842.79}$				

In the above example, the input tax over-claimed of \$842.79 in the tax year (arising from the longer period adjustment) must be adjusted via filing of a GST F7 return for the accounting period ending 30 Jun 2016, i.e., the amount of \$842.79 must be deducted from the recoverable input tax for that period²⁰. This is so since the affected accounting period is not time-barred as at May 2021.

However, adjustments need not be made for the affected accounting period ended 30 Jun 2015, 30 Sep 2015, 31 Dec 2015 and 31 Mar 2016 as these periods are time-barred. Conversely, if any one of these accounting periods are not time-barred, businesses will need to file GST F7 to adjust for the residual input tax overclaimed for the respective period²¹.

IRAS may impose penalties for errors uncovered in the course of our audit. Businesses are encouraged to come forward and disclose the errors on a timely basis under IRAS' Voluntary Disclosure Programme to avail themselves of reduced penalties.

¹⁸ This is the provisional residual input tax that the partially exempt business should have claimed (before performing the longer period adjustment at the end of the tax year) if the residual input tax was correctly apportioned during the accounting period.

¹⁹ The percentage of 86.48% ($\$4,600,000/\$5,319,000 \times 100$) is rounded off to the nearest whole number, i.e. 86%.

²⁰ The input tax over-claimed is to be adjusted in Box 7 "Input tax and refunds claimed".

²¹ For example, if the partially exempt business adjusts these errors in its past GST returns on 1 Mar 2021 (instead of 1 May 2021) and the GST return for the accounting period ended 31 Mar 2016 is not yet time-barred, adjustments will need to be made to this GST return via filing a GST F7 to deduct the residual input tax overclaimed of \$4,306.69.

Appendix 5 – Cash pooling arrangement illustration

JKL participates in an automated cash pooling arrangement together with several other related companies. The cash pooling header account is maintained by its holding company. The interest income that JKL earns from the cash pooling activities comprised 3% of the total supplies of JKL over the longer period ending on 31st Mar 2019. JKL does not make other non-regulation 33 exempt supplies.

GST treatment:

The interest income earned from cash pooling activities can be treated as an incidental exempt supply under regulation 29(3) on the following grounds:

- (a) JKL makes predominantly taxable supplies as its non-regulation 33 exempt supplies do not exceed 5% over the longer period; and
- (b) The cash pooling activity will cease when the taxable activities of JKL cease. JKL also uses minimal resources to make the supply as the cash pooling arrangement is automated (i.e. no staff is involved in the activity). Thus, the cash pooling activity does not amount to a separate business activity.

Appendix 6 – Interest income on inter-company loan illustrations

Scenario 1

ABC, a holding company that provides management services to its local related subsidiaries, also provides ad-hoc inter-company loans to these subsidiaries. ABC provided 2 inter-company loans over the longer period ending on 31st Mar 2019. The non-regulation 33 exempt supplies made by ABC do not exceed 5% of its total supplies over the same period. In addition, the loans are not specifically monitored and only 1 out of the 500 staff it employs in Singapore is involved in the handling of these loans.

GST treatment:

The supply of inter-company loans by ABC can be treated as an incidental exempt supply under regulation 29(3) on the following grounds:

- (a) ABC makes predominantly taxable supplies as its non-regulation 33 exempt supplies do not exceed 5% over the longer period; and
- (b) The provision of inter-company loans does not amount to a separate business activity as the supply occurs infrequently (i.e. not more than 4 interest-bearing loans over the longer period) and ABC uses minimal resources to make the supply (i.e. no specific monitoring is done and the headcount involved in the activity is only 0.2% of the total headcount).

Scenario 2

DEF, a company providing ship repair and maintenance services, also provides inter-company loans to its subsidiaries. DEF provided 2 new loans to its local subsidiaries and had 10 outstanding loans over the longer period ending on 31st Mar 2019. The non-regulation 33 exempt supplies made by DEF do not exceed 5% of its total supplies over the same period. In addition, the loans are not specifically monitored and only 3 out of the 500 staff it employs in Singapore are involved in the handling of these loans.

GST treatment:

The supply of inter-company loans by DEF cannot be treated as an incidental exempt supply. Although DEF makes predominantly taxable supplies (as its non-regulation 33 exempt supplies made do not exceed 5% over the longer period) and uses minimal resources to make the supply (i.e. the headcount involved in the activity is only 0.6% of the total headcount), the supply occurs frequently (i.e. a total of 12 interest-bearing loans over the longer period). Thus, the provision of loans can be said to be a separate business activity of DEF.

Appendix 7 – Sale of shares illustrations

Scenario 1

GHI, a company in the manufacturing business, sold shares of \$50 million in one of its local subsidiaries in the prescribed accounting period ending 31st Dec 2018 as part of its divestment strategy. The sale of shares comprised 6% of the total supplies made by GHI for the longer period ending on 31st Mar 2019. Only 2 out of the 500 staff it employs are involved in the disposal. GHI does not make other non-regulation 33 exempt supplies over the same longer period.

GST treatment:

The sale of shares by GHI can be treated as an incidental exempt supply under regulation 29(3) on the following grounds:

- (a) Although the non-regulation 33 exempt supplies of GHI exceeded 5% of its total supplies over the longer period, GHI is in the core business of making predominantly taxable supplies and the sale of shares is one-off and part and parcel of the divestment strategy of the company. Thus, this qualifies as an exception to the 5% threshold stated in paragraph 9.1(a) above.
- (b) GHI does not undertake disposals of shares on a frequent basis and minimal resources are incurred in the particular disposal of shares (i.e. the headcount involved in the activity is only 0.4% of the total headcount). Thus, the disposal of shares by GHI does not amount to a separate business activity.

Scenario 2

PQR, a company providing testing and assembly services, holds shares in Subsidiary A and Subsidiary B. As part of the group's restructuring exercise, PQR disposes its shareholdings in the two subsidiaries in the prescribed accounting period ending 31st Dec 2018. The sale of shares comprised 6% of the total supplies made by PQR for the longer period ending on 31st Mar 2019. Only 2 out of the 250 staff it employs are involved in the disposal. PQR does not make other non-regulation 33 exempt supplies over the same longer period.

GST treatment:

The sale of shares by PQR can be treated as an incidental exempt supply under regulation 29(3) on the following grounds:

- (a) Although the non-regulation 33 exempt supplies of PQR exceeded 5% of its total supplies over the longer period, PQR is in the core business of making predominantly taxable supplies and the sale of shares is one-off and arises due to the group's restructuring exercise. Thus, this qualifies as an exception to the 5% threshold stated in paragraph 9.1(a) above.
- (b) PQR does not undertake disposals of shares on a frequent basis and the sale of shares in Subsidiary A and Subsidiary B is treated as one occurrence of sale of shares under the group restructuring exercise. In addition, minimal resources are incurred in the particular disposal of shares (i.e. the headcount involved in

the activity is only 0.8% of the total headcount). Thus, the disposal of shares by PQR does not amount to a separate business activity.

Scenario 3

STU, a company in the retail business of perfumes, holds shares in Company XYZ since January 2006. To raise funds for its working capital, STU sold its shareholdings in XYZ to Buyer 1 and Buyer 2 under two separate contracts in the prescribed accounting period ending 31st Dec 2018. Only 1 out of the 100 staff it employs is involved in the disposal. The non-regulation 33 exempt supplies made by STU do not exceed 5% of its total supplies over the longer period ending on 31st Mar 2019.

GST treatment:

The sale of shares by STU can be treated as an incidental exempt supply under regulation 29(3) on the following grounds:

- (a) STU makes predominantly taxable supplies as its non-regulation 33 exempt supplies do not exceed 5% over the longer period; and
- (b) The sale of shares does not amount to a separate business activity as the supply occurs infrequently (i.e. only two occurrences over the longer period) and STU uses minimal resources to make the supply (i.e. the headcount involved in the activity is only 1% of the total headcount).

In the above three scenarios, any input tax on the brokerage and other fees incurred to make the sale of local shares is still not claimable as the input tax is directly attributable to a non-regulation 33 exempt supply.