

## Technical Group Discussion

### Lifting the Veil of Confusion on Reimbursements and Disbursements

31 July 2012, Tuesday

**T**he Singapore

Institute of Accredited Tax Professionals recently organised yet another fully subscribed technical discussion. In the discussion, facilitated by Mr Richard Mackender, Accredited Tax Advisor (GST) and GST Partner of Deloitte & Touche LLP, he shed light on the differences between reimbursements and disbursements.



*Accredited Tax Advisor (GST) Mr Richard Mackender dispelled the confusion between reimbursements and disbursements.*

Richard kicked off the session by giving an overview on the recovery of expenses. He explained that a recovery of expenses could be treated as either a disbursement or reimbursement for GST purposes. Although these terms are often used inter-changeably from an accounting perspective, they are fundamentally different from a GST perspective.

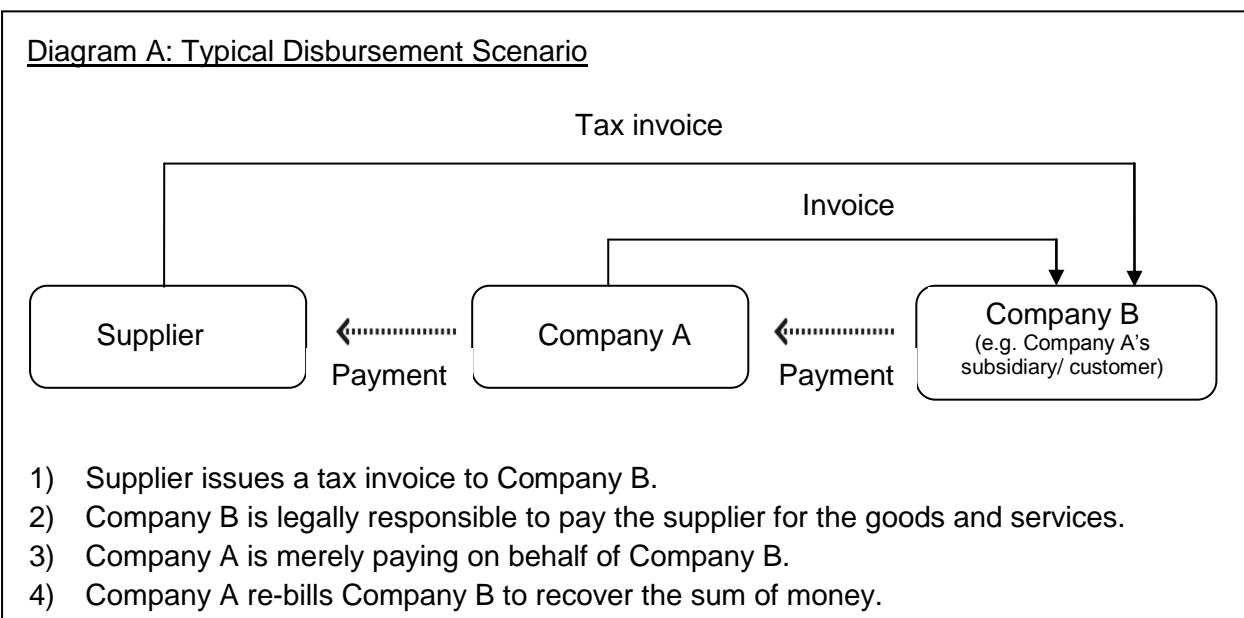
#### **Disbursements vs Reimbursements**

A disbursement is not treated as a supply while a reimbursement is treated as an onward supply of goods and services. Therefore, they have different reporting implications as summarised in the table below:

Description	GST reporting implications for Disbursements	GST reporting implications for Reimbursements
Original purchase	<ul style="list-style-type: none"> <li>- Not a purchase and should not be included in the GST return.</li> <li>- No entitlement to input tax (if any) incurred on the purchase.</li> </ul>	<ul style="list-style-type: none"> <li>- Report it as a taxable purchase in the GST return, if applicable.</li> <li>- Entitled to claim the input tax (if any) incurred on the purchase.</li> </ul>
Recovery of expense	<ul style="list-style-type: none"> <li>- Treated as an out-of-scope supply.</li> <li>- Not to be included in the GST return.</li> </ul>	To be reported in the GST return either as standard-rated, zero-rated, out-of-scope or exempt supplies, as the case may be.

It is important for tax professionals to ensure that the correct tax treatment for the various types of recovery of expenses is applied as filing an incorrect return may result in the imposition of penalties. Where a taxpayer is convicted of filing a GST return with no reasonable excuse/through negligence or with wilful intent to evade tax, the taxpayer may be fined and/or imprisoned.

Richard further illustrated the difference in the contractual relationship between disbursements and reimbursements by using the following diagrams:



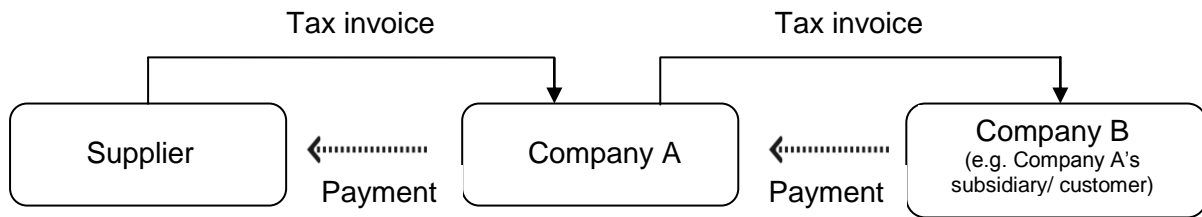
In the above, Company A has to satisfy all of the following conditions in order for the recovery of expenses to qualify as a disbursement:

- Company B is responsible for paying the supplier (the supplier's invoice will be the prima facie evidence);
- Company B is aware that the goods or services are provided by that supplier;
- Company B authorises Company A to make the payment on its behalf;
- Company B is the recipient of the goods or services;
- The payment is separately itemised when Company A invoices Company B;
- Company A recovers only the exact amount paid to the supplier; and
- The goods or services paid for are clearly additional to the supplies Company A makes to Company B.

Moving onto reimbursements, Richard provided the following pointers:

- Tax invoices for purchases made should be addressed to Company A so that Company A can claim the input tax incurred, subject to normal tax recovery rules.
- The recovery of expenses merely forms a basis of charge. Subsequent recharges by Company A to Company B can be with or without a mark up.
- The GST treatment of the reimbursement should follow that of the main service rendered by Company A to Company B.

### Diagram B: Typical Reimbursement Scenario



- 1) Supplier issues a tax invoice to Company A.
- 2) Company A is legally responsible to pay the supplier for the goods and services.
- 3) Company A re-bills Company B for the goods and services.

### **Key Takeaways from the Case Studies**

Putting all the above together, Richard gave an insightful analysis on how to determine whether a recovery of expenses is disbursement or reimbursement through several case studies.

In the first case, a service provider incurs travel expenses such as airfare and hotel accommodation when its employees attend meetings overseas during the course of rendering services to its client. The invoices for the airfare and accommodation are billed to the service provider. The service provider subsequently recovers these out-of-pocket expenses from its client based on the exact amount of travel expenses.

Richard explained that recovery of such out-of-pocket expenses should be treated as reimbursements as these expenses do not meet all the qualifying conditions (please refer to the conditions stated below Diagram A of page 2) to be treated as disbursements. The service provider is legally responsible to pay the bills for the travel expenses and the service provider is the direct recipient of the air travel and accommodation. The airfare and accommodation paid by the client are part of the services that the service provider had rendered to the client. As such, the recharge of these expenses should be treated as an onward supply of services to the client and the service provider should report the recovery of these expenses as reimbursements in its GST return accordingly.

In a separate illustration, the service provider pays for certain expenses on behalf of its client first and recovers the exact amount of expenses from its client. The invoices are billed to the client and the service provider has listed these expenses as separate line items in its invoice to the client. Examples of such arrangements include stamp duty paid by a lawyer and statutory filing fees paid by a corporate secretary.

Recovery of such expenses satisfy all the qualifying conditions (as stated below Diagram A of page 2) and should therefore be treated as disbursements.

Through the above case studies, it is clearly demonstrated that the difference in the contractual relationship will determine if a recovery of expense should be categorised as disbursement and reimbursement for tax purposes. The party to which the invoice is billed serves as an important indicator of the contractual relationship.

## **Secondment of staff**

The secondment of staff is considered to be a supply of services for GST purposes and the recovery of staff costs is generally subject to GST.

However, as an administrative concession, the secondment of staff will not be considered as a supply of services and as such, not subject to GST when staff costs are recovered if all the following conditions are satisfied:

- No secondment fees or mark-up charges are levied by the seconding company (i.e. no mark-up, handling charges or administrative fees).
- Both the seconding company and the recipient company are related within the meaning of Section 6 of the Company Act. Section 6 of the Company Act can be found [here](#).
- Staff is seconded to one company only at any one time.
- Since 17 June 2005, IRAS has also imposed an additional condition that the recipient company has to exercise exclusive control over the allocation and performance of duties of the staff during the period of secondment.

As such, the seconding company is thus not allowed to claim input tax directly relating to the secondment of staff. The recovery of staff costs will be treated as an out-of-scope supply and the seconding company does not need to include the said costs in the GST return.

## **Updates on the IRAS Draft e-Tax Guide**

Earlier this year, the IRAS released a draft [GST e-tax guide on Reimbursement and Disbursement of Expenses](#) to tax professionals only for consultation purposes. As the professional body for tax specialists, SIATP provided its [response](#) gathered from inputs received from numerous accredited tax professionals.

It appears from the draft e-tax guide that the current conditions to qualify for disbursement may be superseded by a separate set of indicators. Primarily, not all indicators may be required to be present in future.

The new indicators are based on the underlying principal-agent relationship to differentiate between a disbursement and reimbursement. IRAS has also provided various examples, specifically on how to treat a “recovery of expenses” where it is ancillary to a primary supply and where it is not ancillary to a primary supply.

Participants were cautioned that the current draft should not be relied on until the e-tax guide is formally published, as the content of the e-tax guide may change due to ongoing consultations.

## **Good GST Compliance Practices**

Richard rounded up his presentation with a list of good practices that taxpayers should keep in mind when dealing with recovery of expenses:

- 1) Identify all scenarios for the recovery of expenses.
- 2) Give due consideration on whether the recovery of expenses can qualify as disbursements.
- 3) Apply the correct GST treatment for reimbursements.

- 4) Monitor GST updates and recent GST developments (for example, checking the IRAS website on a regular basis).
- 5) Attend GST training regularly.

The session ended with a presentation of token of appreciation by SIATP Board Member, Mr Yee Fook Hong, to Richard.

A big thank you to Richard for sharing his valuable tax knowledge!

### **About SIATP's Technical Discussions**

SIATP's technical discussions have continually been very well received by accredited tax professionals. Unlike the run-of-mill Continuing Professional Educational courses which typically cover tax fundamentals, SIATP's interactive technical discussions are designed to cover tax issues that do not have clear-cut solutions or situations that may have different interpretations. Over time, these discussions contribute in boosting the overall tax standards in Singapore.

### **About Mr Richard Mackender**



With over 14 years of GST experience, Richard has acquired an in-depth experience in indirect tax, not only from a Singapore GST perspective, but also with regard to the wider Asia Pacific VAT/GST issues.

Richard's forte is in advising large corporations on GST issues. He regularly works on M&A transactions, providing input on the indirect tax issues arising from transferring businesses, or on the GST issues for a sale of shares, as well as leading the indirect tax element of the due-diligence process. He is also a regular speaker on indirect tax matters as well as a contributing author for CCH's Goods and Services Tax Guide.

T: 6216 3270

E: rimackender@deloitte.com

*This technical event commentary is written by SIATP's Tax Manager, Ms Lee Shin Huay. An Accredited Tax Practitioner (Income Tax), Shin Huay has over six years of experience in corporate and individual tax. Previously from Deloitte & Touche LLP, she now leads various initiatives of Singapore's first dedicated professional body for tax specialists to enhance Singapore's position as a centre of tax excellence.*