

Technical Group Discussion

Remove the Haze in Reimbursements and Disbursements

28 August 2013, Wednesday



Participants all ready to absorb the new analysis and tests from the new e-tax guide.

Following the release of the new GST e-tax guide on reimbursements and disbursements by the Inland Revenue Authority of Singapore (IRAS), Accredited Tax Advisor (GST) Richard MacKender, Partner at Deloitte Singapore, returned after two fully-booked sessions last year, in a technical presentation organised by the Singapore Institute of Accredited Tax Professionals, to dispel any confusion participants may have regarding IRAS new approach on the GST treatment on reimbursement and disbursement.

Richard kicked off the session by laying the foundation of the basic principles of Goods and Services Tax (GST) and the application of tax on domestic transactions from Section 8(1), importation of goods into Singapore from Section 8(4) and services received from abroad from Section 14 of the GST Act and distinguished a disbursement from a reimbursement prior to analysing the new e-tax guide with case studies.

Determining GST liability for the Supply of Goods vs Services

A “supply”, as defined in Section 10(2) of GST Act, includes all forms of supply (whether goods or services), but not anything done otherwise than for a consideration. Consideration can be non-monetary such as product sponsorship in return for advertisement. In the absence of “consideration”, a transaction could be treated as a “deemed supply”.

In determining GST liability for the supply of goods, the location when goods are supplied is key. On the other hand, GST liability for the supply of services is determined by the belonging status of the supplier. The tables below show the details. As for situations where the customer is an individual and services are received by him for non-business purchases, the assessment is based on the usual place of residence.

Services supplied to overseas customers do not automatically qualify for zero-rating. Services qualify only when the relevant conditions are satisfied under Section 21(3)(a) to (y) of the GST

Act. Wrong application of zero-rating may result in a penalty of up to 200% of the tax underdeclared and even include jail (especially for fraudulent cases).

Place of supply of goods tracks the movement of the goods

Starting location	Ending location	Place of supply	GST liability
Singapore	Singapore	Made in Singapore	Local delivery of goods in Singapore is subject to GST at 7%
Singapore	Japan	Made in Singapore	Export of goods from Singapore qualifies for zero-rating
China	Japan	Made outside Singapore	Drop-shipment of goods outside Singapore is out-of-scope
Thailand	Singapore (you are the importer of record)	Made outside Singapore (from the perspective of the Thailand supplier)	Goods imported into Singapore subject to GST at 7%
Thailand	Singapore (your customer is the importer of record)	Made outside Singapore (from the perspective of the Thailand supplier)	Goods imported into Singapore subject to GST at 7%

Place of supply of services looks at the belonging status of the supplier

Business / fixed establishment of the supplier	Belonging status of the supplier	Place of supply	GST liability
Only in Singapore	Singapore	Made in Singapore	Services is subject to GST at 7% unless qualify for zero-rating
Only outside Singapore	Outside Singapore	Made outside Singapore	Services out-of-scope
Establishment in Singapore most directly concerned with supply	Singapore	Made in Singapore	Services is subject to GST at 7% unless qualify for zero-rating
Establishment outside Singapore most directly concerned with supply	Outside Singapore	Made outside Singapore	Services out-of-scope

New Treatment of Reimbursement and Disbursement from 31 May 2013

Reimbursement refers to the recovery of an expense that a company incurs as a principal from another party and is a supply, while disbursement refers to the recovery of a payment made on behalf of another party by the company as an agent.

IRAS has noted that companies were not clear when they should treat something as a reimbursement. Thus they have sought to make the analysis more straightforward and the focus now is on determining whether the company incurring the expenses did so as a principal or an agent.

The company is acting as a principal in procuring goods and services if it contracts with the supplier in its own name or capacity. Where the contractual relation is unclear, there are other indicators such as contractual liability; assumption of responsibilities and risks; legal obligations to make payment; alteration to the nature and value of supplies; identities of parties and transactions involved and ownership of goods. The presence of these indicators is a sign that the company is considered to be acting as the principal.

When differentiating reimbursement and disbursement, one must note that the invoice should follow the contractual obligations or service supplied.

GST Reporting Implications

The GST reporting implications for reimbursement and disbursement remain unchanged as summarised in the table below.

Description	GST reporting implications for Disbursements	GST reporting implications for Reimbursements
Recovery of expense	Out-of-scope supply, not to be included in the GST return.	To be reported in the GST return either as standard-rated, zero-rated, out-of-scope or exempt supplies, as the case may be.
Original purchase	<ul style="list-style-type: none">- Not a purchase and should not be included in the GST return.- Not entitled to input tax (if any) incurred on the purchase.	<ul style="list-style-type: none">- Report as a taxable purchase in the GST return, if applicable.- Entitled to claim input tax (if any) incurred on the purchase.

When Reimbursement is not a Taxable Supply

In general, reimbursement of taxable purchases is a taxable supply. However, this does not apply when recovering for compensation or regulatory penalties such as fines for illegal parking by a car rental company from its customer; recovery of debt collection fees charged by the debt collector from debtor who defaulted on payment for goods supplied, or recovery of compensation (repair costs) paid to landlord by the main tenant for damage caused by sub-tenant.

When Reimbursement is a Taxable Supply

Different GST treatments apply when the recovery of expenses is ancillary or forms part of a primary supply; or when the recovery of expense in itself is the supply.

Recovery of Expenses that are Ancillary or Form Inputs to a Primary Supply

When a company incurs expenses in the course of providing a main supply, the GST treatment for the recovery of those expenses will follow that of the primary supply, whether standard-rated or zero-rated.

Examples of this could include transportation and accommodation charges incurred in the course of providing consultancy services; legal and auditing fees incurred for providing

management services; handling charges incurred for providing transportation services, and freight charges incurred for supplying freight services.

Separate Recovery of Expenses at Cost

Where the recovery is the only supply, the treatment of the recovery will follow the liability of the goods or services originally procured. A holding company may, for example, procure international courier services for its worldwide related companies. The courier company provides the services directly to the various subsidiaries but bills the holding company which then recovers the courier expenses at cost from the respective corporations based on their usage. The holding company is thus able to treat the international courier service as zero-rated, as stated in Section 21(3)(a) of the GST Act.

However, if the holding company is providing management services and part of the management services comprises courier costs, then this would be a case of an input to a primary supply.

Separate Recovery of Expenses with a Mark-up

Where the expense is recovered plus a separate mark-up, companies may separate the original cost and mark-up and apply GST treatment for the original cost based on the nature of the original supply. The GST treatment for the mark-up which may be reflected as a separate administrative fee would be a separate supply of a service.

For example, Company R pays for expenses including air tickets, accommodation, local transportation, food and entertainment incurred in Singapore by its overseas related company Q's staff who is in Singapore for business. R subsequently recovers the individual expenses from Q with a 5% mark-up.

Air tickets, an international transport service, are billed at zero-rated. Accommodation, transportation, food and entertainment, being good and services supplied in Singapore, are billed with GST.

The 5% mark-up as an administrative fee for assisting Q which is located outside Singapore, could be zero-rated. One thing to note is that if the company seeks to eliminate the complication of segregating the various components and determine the GST treatment and possible GST loss, having a service agreement would help to demonstrate that the costs to be recharged are part of a primary supply of services which therefore changes the treatment of reimbursement.

Separate Recovery of Expenses which are Originally Exempt Supplies

Such recoveries must fall within the Schedule 4 of the GST Act, that is the sale and lease of residential properties, financial services and supply of investment precious metals.

Concession on Claiming Input Tax on Disallowed Expenses which are Subsequently Recovered

To assist companies, IRAS has put in place a concession so that a company may claim the "blocked" input tax in full if the company proceeds to recover expenses in full from a related company or claims in part with the respective portion of expenses recovered; if the recovery is not ancillary to any primary supply made to the related company, and if the related company is GST registered.

To enjoy the concession, the company must:

- Maintain relevant supporting documents that show expenses incurred as a principal;
- Be able to segregate the GST incurred on the expenses billed relating to its own employees and employees of related company;
- Ensure to only claim GST on the portion of expense recovered from related company, and

- Inform related company that it will be the party to claim the GST incurred on the expense and clearly denote on the invoice to the related company that GST chargeable is not claimable as input tax.

IRAS has a further concession for staff secondments. A secondment of staff to related companies is treated as outside the scope of GST when these conditions are fulfilled:

- No secondment fees or mark-up charges are levied by the Seconding Company;
- Both the Seconding Company and the Recipient Company are related within the meaning of Section 6 of the Company Act;
- Staff is seconded to one company only at any one time;
- Recipient Company exercises exclusive control over the allocation and performance of the duties of the staff during the period of secondment;
- Seconding Company is not allowed to claim input tax directly relating to the secondment of staff

In summary, the respective GST reporting implications on reimbursement and disbursement remain unchanged. What has changed is the analysis and the need to determine one's role as either principal or agent in the transactional relationship.

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

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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



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With over 15 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.

Starting from being part of Deloitte UK's London VAT team in 1997 and subsequently moving to Singapore in 2003, Richard's forte is in advising large corporations on GST issues. Richard covers a wide spread of businesses in Singapore, but has a particular focus on the manufacturing, financial services and oil and gas sectors.

Besides being responsible for indirect tax compliance within Deloitte's Asia Pacific Compliance Centre, Richard is also a regular speaker on indirect tax matters as well as a contributing author for CCH's Goods and Services Tax Guide. Furthermore, he has also co-authored a number of GST books under the CCH umbrella.

This technical event commentary is written by SIATP's Assistant Manager, Michelle Yap.