



GST News Perspective \Rightarrow everything

Greetings from your Indirect Tax team at Deloitte Singapore. We are pleased to update you on the following Singapore GST developments:

[Revised e-Tax guide on Fringe Benefits](#)

IRAS has revised its e-Tax guide on Fringe Benefits with effect from 16 May 2016. The guide sets out a new test for input tax claims, which now require a much closer link between the cost and the business reason it is incurred. The guide also includes additional clarifications to help taxpayers determine whether such claims are incurred for business or private purposes.

Background

Taxpayers are entitled to claim input tax incurred on the provision of fringe benefits if the fringe benefits provided are for business purposes. Where the fringe benefits provided are for the employee's personal needs or consumption, the input tax incurred is not claimable.

If taxpayers allow employees to use business assets free of charge for private purposes, the use will be a deemed supply of services and output tax will need to be accounted for if input tax credit on the goods has been allowed. However, there is no requirement to account for output tax if the use of the business assets is for business purposes.

New 'Close Nexus' test to determine business purpose

The guide indicates a change in the way to determine when a fringe benefit has been provided for business purposes. The new test to be met is that a fringe benefit will be for the purpose of the business if the provision of the benefit has a close nexus to the taxpayer's business activities.

Specifically, IRAS has taken the position that a close nexus exists between the provision of the fringe benefits and the business if the provision meets one or more of the following indicators:

- **Indicator 1:** Necessary for the proper operation of the business
Taxpayers should consider factors such as the nature of the business, industry practice, commercial requirements and regulatory requirements to determine whether a fringe benefit is necessary to the business operation.
- **Indicator 2:** Directly maintains or increases the efficiency of business operations
There is a close nexus if the fringe benefit enables employees to better utilise their time to carry out their job responsibilities and increases the efficiency of business operations.
- **Indicator 3:** Incurred for corporate activities
Fringe benefits incurred for corporate activities have a close nexus to the business as these activities promote interaction and improve working relationships between employees.
- **Indicator 4:** Encourages the upgrading of employee's skills and knowledge relevant to the business

Skills and knowledge that are relevant to the business will be considered as having a close nexus with the business activities if these skills allow the employee to enhance work performance or perform other job functions.

- **Indicator 5:** Given in recognition of employee’s contributions towards the business Long service awards or awards given for meeting business targets are intended to acknowledge the employee’s contributions and therefore have a close nexus to the business.
- **Indicator 6:** Promotes corporate identity
Fringe benefits provided for the purpose of promoting the image of the business will have a close nexus to the business operations.

Summary of the main changes

A summary of the main revised GST treatments for common fringe benefits is provided in the table below.

| | Before 16 May 2016 | On or after 16 May 2016 |
|---|--|--|
| Accommodation and related household expenses | <ul style="list-style-type: none"> • Input tax incurred on residential accommodation (furniture and fittings), utilities charges, telecom charges, maintenance services, cleaning services, etc. is claimable. • Output tax accountable on deemed supply of services relating to furniture and fittings and utilities charges. | <ul style="list-style-type: none"> • Input tax incurred is generally not claimable except where the expenses are necessary for the proper operation of the business or to enhance business operations or corporate activities. • No requirement to account for output tax as no input tax credit has been allowed. |
| Transport and related expenses | <ul style="list-style-type: none"> • Input tax incurred on transport and chauffeured services is generally claimable. | <ul style="list-style-type: none"> • Input tax incurred on transport expenses relating to chartered buses for transportation of |

| | | |
|---------------------------|--|--|
| | | <p>employees from homes to work or vice versa is not claimable.</p> <ul style="list-style-type: none"> • Input tax incurred on certain transport expenses such as transport provided due to remote work place, working overtime, corporate activities, etc. is claimable. |
| Income tax returns | <ul style="list-style-type: none"> • Input tax incurred on preparation of employee's income tax return is claimable if the benefit is provided for in the employment letter or contract as part of the contractual obligations to the employee. | <ul style="list-style-type: none"> • Input tax incurred on preparation of employee's income tax return is not claimable. |

For more information, you can follow this hyperlink "[Fringe Benefits](#)".

Conclusion

With the publication of the revised e-Tax guide and the new test, input tax incurred on certain fringe benefits is no longer claimable, although the change will mean that there are less scenarios where deemed output tax is required, so the overall impact may not be significant. The changes take effect from 16 May 2016 and the revised guide makes it clear that taxpayers will not need to review their past returns to repay any input tax claimed based on the old rules prior to 16 May 2016. Going forward, taxpayers will need to revisit their processes to ensure that they are compliant with the new test and in some cases may need to seek clarification with IRAS.

How Deloitte can help

For a more in-depth discussion on the changes and their impact on your business, please join us on our upcoming Breakfast Briefing in the coming weeks (details to follow). In the meantime, if you would like to learn more about how the changes impact your business, please contact

any of the GST team leaders listed below or get in touch with your usual contact in Deloitte and one of our team members will follow up with you.

Contacts

For more information on the above or if you need assistance on other GST matters, please contact the below or your usual GST contact in Deloitte Singapore.

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