Logistics Industry

Audit Results

In 2014 and 2015, IRAS conducted audits on 289 businesses in the logistic industry. 75% of these businesses made GST errors and the total amount of tax and penalties recovered is $7.2 million. Most of the GST errors related to incorrect GST treatment of their diverse services and incorrect input tax claims due to inadequate understanding of the GST rules.

Common GST Mistakes

1. Wrongly zero-rate local transportation services to local customers

GST was not charged on stand-alone local transportation services (i.e. without providing international transportation) supplied to local customers. GST is applicable regardless of whether the transportation services are provided for imported goods or goods for exports.

2. Wrongly zero-rate storage services to local customers

GST was not charged to local customers on storage services provided at warehouses located outside FTZs or designated areas. GST is also applicable to storage services provided at Zero-GST/ Licensed/ Bonded warehouses and Excise Factories.

3. Wrongly zero-rate storage services to overseas customers with no certainty of when the goods will be exported

Storage services supplied to overseas customer can qualify for zero-rating only if the logistics businesses are certain that the goods stored will definitely be exported. If there is no certainty of exports, the storage services cannot be zero-rated and GST has to be accounted for.

In instances where the goods stored are partially exported and there is no certainty of whether the remaining goods will be exported or delivered locally, the storage services to the overseas customer cannot be zero-rated in its entirety. The amount of storage services applicable to goods for export can be zero-rated while GST has to be accounted for on the remaining storage services.

4. Wrongly claimed input tax or used MES on imported goods belonging to another local person

For imported goods belonging to a local person that the logistics businesses help to import, the logistics businesses cannot claim GST incurred on such imports. Neither

can they use their MES status to import such goods without paying GST. Only the GST-registered owner of the goods can claim GST on the imports.

5. Did not comply with GST requirements as a GST agent under section 33(2) or section 33A

Logistics businesses can claim input tax on imported goods belonging to their overseas non-GST registered principals for whom they act as a GST agent under section 33(2) or section 33A. If they are under MES, they can import goods without paying GST for the above imports.

As a GST agent for overseas principals, they have to maintain documents (such as invoice from overseas supplier to the overseas principal) to show that the imported goods belong to the overseas principals. They are also accountable for the subsequent movements of these goods. For exports of these goods, they have to maintain sufficient export documents while for local sales, they have to charge GST on those goods.

If they cannot comply with the import requirements or maintain the documents for the subsequent exports, they cannot claim the import GST on these goods. If goods were imported under MES, they have to repay the import GST previously suspended.

6. Other common mistakes:

- Wrongly claimed input tax on disallowed expenses
- Omit to deem output tax on gifts of goods
- Did not adjust input tax claimed previously on purchases unpaid for a year

Case Stories

Case story 1

Company A provided storage and distribution services to an overseas customer. The goods stored in Singapore were either distributed locally or exported. Sometimes, the overseas customer also instructed Company A to destroy the obsolete goods locally.

IRAS found that Company A had incorrectly zero-rated (i.e. charged GST at 0%) the entire storage and distribution fees to the overseas customer when not all goods were exported. Company A can only zero-rate the portion of storage and distribution services applicable to goods for export. GST is chargeable on the remaining storage and distribution services for goods delivered or destroyed in Singapore.

As Company A's delivery records showed that 60% of the overseas customer's goods were exported, it was allowed to zero-rate only 60% of its storage and distribution fees to the overseas customer.

Case story 2

Company B is a freight forwarding company which imports goods into Singapore for its overseas customers.

Company B had claimed GST on the imported goods as a section 33A agent on the basis that the goods belonged to its overseas customer and would be exported. However, Company B was not able to provide supporting documents (e.g. overseas supplier's invoice to Company B's overseas customer) to show that the goods indeed belonged to the overseas principal. Hence, IRAS disallowed its GST claims on the imported goods.

In addition, IRAS found that Company B had claimed input tax on goods purchased in Singapore (such as machinery and packing materials) by the overseas customer. As these goods were not purchased by Company B and section 33A does not apply to local purchases, these input tax claims had been disallowed.

Case story 3

Company C is granted the Major Exporter Scheme (MES) to import non-dutiable goods with GST suspended. It can use its MES status to import its own goods in the course or furtherance of its business, or import goods belonging to its overseas non-GST registered principal in the capacity of a section 33(2) or section 33A agent.

During audit, IRAS found that Company C had wrongly used its MES status to import goods (such as decorative hardware and sculptures) which belonged to its director. As these imports were for the director's personal use, Company C was not allowed to use its MES on such goods and had to repay the import GST previously suspended.

Case story 4

Company D is granted the Major Exporter Scheme (MES) and provides transportation services to its customers.

IRAS discovered that Company D had used its MES to suspend the import GST on goods belonging to an overseas Company E. However, the import shipping document (i.e. bill of lading) showed that the goods were consigned to another local GST-registered company, Company F. In this arrangement, Company F would be the GST agent under section 33A to import goods belonging to overseas Company E. Company D was merely engaged by Company F to clear the imported goods from the port and transport it to another Free Trade Zone. Company D had zero-rated its services to Company F.

As Company D was not the section 33A agent of overseas Company E, it cannot use its MES to import the goods and had to repay the import GST previously suspended. It also cannot zero-rate the local transportation services provided to the local customer Company F as it did not provide any international transportation for these goods. Consequently, IRAS recovered the GST under-accounted by Company D.