

# **IRAS e-Tax Guide**

## **GST : Zero-Rating Of Tools Or Machine Used In Manufacturing Of Goods For Export To Overseas Customer**



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## Table of Contents

	Page
1 Aim .....	1
2 At a glance.....	1
3 Background.....	1
4 Zero-rating of tools or machines and related services to overseas customers.....	2
5 Tool or machine used by a related company to manufacture goods for overseas customers .....	4
6 Import of tool or machine belonging to an overseas customer .....	5
7 Record Keeping .....	6
8 Repayment of tax and penalties .....	6
9 Contact information.....	6

# **GST: Zero-Rating of Tools or Machine Used in Manufacturing of Goods for Export to Overseas Customer**

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## **1 Aim**

1.1 This e-Tax Guide<sup>1</sup> explains the qualifying conditions under which you can –

- a) Zero-rate a local supply of tools or machines to an overseas customer; and
- b) Recover GST (or use your import GST suspension scheme status) for the import of tools or machines belonging to your overseas customer,

where the tools or machines are used in the manufacture of goods in Singapore.

## **2 At a glance**

2.1 Under section 21A of the GST Act and Regulation 106 of the GST (General) Regulations, if certain conditions are satisfied, you can zero-rate your local supply of a prescribed tool or machine that is retained in Singapore to manufacture goods. Zero-rating may also apply to services rendered directly in connection with the tool or machine, to an overseas customer.

2.2 The zero-rating relief for the supply of prescribed tools applies from 1 July 2007, while zero-rating for the supply of machines applies from 1 January 2009.

2.3 You can also recover GST (or use your import GST suspension scheme status) when you import tools or machines belonging to an overseas customer as an agent under section 33A of the GST Act, if the tools or machines will be returned to the customer or disposed of or destroyed locally at the end of the manufacturing process.

2.4 Please refer to the subsequent sections of this guide for more details.

## **3 Background**

3.1 Depending on your business model, you may supply tools or machine for use in the manufacturing process separately from the supply of finished goods. For example, if you are a foundry in the semiconductor industry, you may be contracted to supply the mask and the wafers separately from the finished goods so as to protect your customer's intellectual property. Tools that are often supplied separately by

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<sup>1</sup> This e-Tax guide replaces the IRAS's e-Tax guide on "Zero-rating of Tools or Machine Used in Manufacturing of Goods for Export to Overseas Customers" published on 19 July 2007.

## **GST: Zero-Rating of Tools or Machine Used in Manufacturing of Goods for Export to Overseas Customer**

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manufacturers include mould, die or mask reticles needed in the manufacturing process.

- 3.2 If you supply a tool or machine that is retained to subsequently manufacture finished goods in Singapore, you are making a local supply of the tool or machine. Under normal rules, you will have to charge and account for GST at the prevailing rate on your supply of the tool or machine. GST is also chargeable for prototypes of the tool or machine that you develop for your customers prior to the final versions, where the prototypes are disposed of or destroyed in Singapore. In addition, you will also have to charge and account for GST on your supply of related services, such as repair or modification services<sup>2</sup> for the tool or machine located in Singapore.
- 3.3 As your overseas customers are unlikely to be registered for GST, the GST incurred on such purchases of tools or machines and related services results in irrecoverable GST costs for them.
- 3.4 To relieve the GST costs faced by overseas customers and enhance the international competitiveness of local manufacturers, zero-rating relief has been granted to the supply of tools or machines and related services to overseas customers, subject to certain conditions.

### **4 Zero-rating of tools or machines and related services to overseas customers**

- 4.1 You may zero-rate the following local supplies you make to an overseas customer who is not registered for GST in Singapore<sup>3</sup>:
- (i) Supply of a “prescribed tool or machine” (see paragraph 4.3) retained to manufacture goods in Singapore, including the development of prototypes of the tool or machine; and
  - (ii) Supply of services rendered directly in connection with the prescribed tool or machine located in Singapore, such as modification and repair of the tool or machine
- 4.2 The above zero-rating will apply if **all** the following conditions are satisfied:
- (a) You have been contracted by the overseas customer to make or purchase the tool or machine;

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<sup>2</sup> Modification services – services rendered to modify the tool or machine according to your customer’s specifications.

<sup>3</sup> If the customer is registered for GST in Singapore, you should charge GST on the supply. The customer would be entitled to claim the GST incurred as input tax, subject to the normal input tax conditions.

## **GST: Zero-Rating of Tools or Machine Used in Manufacturing of Goods for Export to Overseas Customer**

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- (b) The tool or machine is used by you or an “approved person” (see paragraph 5 for the definition of an “approved person”), to manufacture goods (hereafter referred to as “manufactured goods”) for the overseas customer.;
- (c) The tool or machine must not be used, consumed or made available in Singapore to any person other than yourself, the approved person or the overseas customer;
- (d) Your supply of the tool or machine, or prototypes, is separate from your supply of the manufactured goods<sup>4</sup>;
- (e) More than 50% of the manufactured goods are exported out of Singapore<sup>5</sup> and you must hold relevant export documents to show this.

Alternatively, if you are an approved contract manufacturer under the Approved Contract Manufacturer and Trader Scheme (ACMT CM) and you deliver the manufactured goods locally to another ACMT person, condition (e) is considered to be satisfied. This is provided that all the requirements of the ACMT scheme are met in respect of the local delivery of the manufactured goods and you maintain the documents required under the ACMT scheme;

- (f) The tool or machine must be either –
  - (i) exported out of Singapore; or
  - (ii) disposed of or destroyed,

when it is no longer needed for your manufacture of goods for the overseas customer; and

- (g) Where the tool or machine, or its prototypes, are subsequently disposed of or destroyed in Singapore based on your overseas customer’s instructions or due to spoilage, you must maintain relevant documentation in relation to the disposal or destruction (see paragraph 7.2).

4.3 For the purpose of the above paragraphs, a “tool” includes any mould, jig, pattern, template, die, punch or similar tool. A “prescribed tool or machine” means any tool or machine which is –

- (a) integral to the manufacture of the goods; and

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<sup>4</sup> This would usually mean that your supply of the tool or machine (or their prototypes) and your supply of the manufactured goods are separately charged to the overseas customer.

<sup>5</sup> Where goods have not been manufactured or exported at the time of supply of tool or machine, you must have documentation (e.g. contract with overseas customer) to prove that the tool or machine will be used to manufacture goods for export.

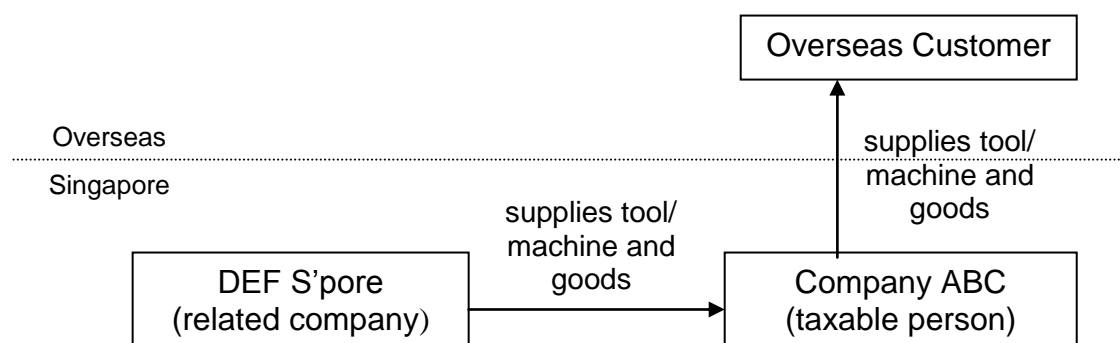
## **GST: Zero-Rating of Tools or Machine Used in Manufacturing of Goods for Export to Overseas Customer**

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- (a) highly customized or specialized in nature for the sole purpose of manufacturing of particular goods for the overseas customer.

### **5 Tool or machine used by a related company to manufacture goods for overseas customers**

- 5.1 An “approved person” referred to in paragraph 4.2(b) means your related company which supplies the tool or machine and manufactured goods to you for your onward supply to the overseas customer. The following diagram illustrates this business arrangement:

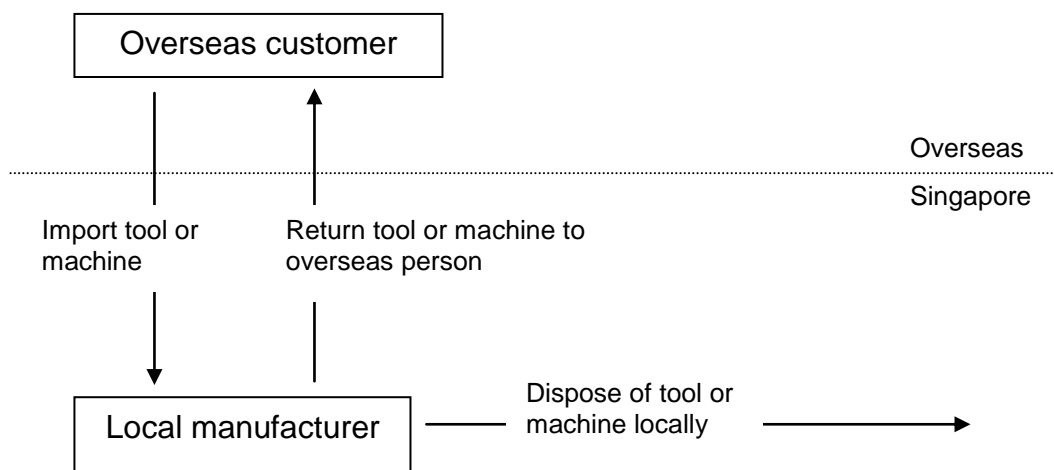


- 5.2 You (Company ABC) are effectively the seller of the goods manufactured by your related company, DEF S'pore. You enter into a manufacturing agreement with the overseas customer to supply the tool or machine and manufactured goods to the overseas customer. You then sub-contract the performance of the manufacturing activities to DEF S'pore. In this case, DEF S'pore will supply the tool or machine and manufactured goods to you and you in turn onward supply the tool or machine and manufactured goods to the overseas customer.
- 5.3 In the above arrangement, if DEF S'pore is GST-registered, it should charge GST on its local supply of the tool or machine to you. However, you can zero-rate your supply of the tool or machine to the overseas customer if the following conditions, in addition to the conditions set out under paragraph 4, are also satisfied:
- (a) You and the local manufacturer (i.e. DEF S'pore) are related companies within the meaning of section 6 of the Companies Act;
  - (b) You act as a sales office of the local manufacturer and handle the sale of the tool or machine and manufactured goods to the overseas customer; and
  - (c) You and the local manufacturer have joint accountability of the tool or machine.

## **GST: Zero-Rating of Tools or Machine Used in Manufacturing of Goods for Export to Overseas Customer**

### **6 Import of tool or machine belonging to an overseas customer**

- 6.1 The diagram below illustrates a situation where the overseas customer's own tool or machine is imported into Singapore for use in manufacturing. The tool or machine will be disposed of or destroyed locally or returned to the overseas customer by the local manufacturer at the end of the production cycle.



- 6.2 In this case, you as the local manufacturer may import the tool or machine on behalf of the overseas customer under section 33A of the GST Act<sup>6</sup>. This means that if you have an import GST scheme status such as the Major Exporter Scheme (MES)<sup>7</sup> or Approved Contract Manufacturer and Trader (ACMT) Scheme, you can import the tool or machine with GST suspended. If you do not have an import GST scheme status, you may recover the GST you incur on the importation of tool or machine on behalf of the overseas customer by claiming it as your input tax in your GST return that corresponds to the date of import.
- 6.3 As a section 33A agent, you are responsible for the GST accounting of the tool or machine. If the tool or machine (or its prototypes) is subsequently disposed of or destroyed locally for a consideration, you need to treat it as your standard-rated supply based on the consideration received and account for GST accordingly on behalf of the overseas customer. However, if the tool or machine is subsequently exported back to the overseas customer or disposed of or destroyed at no consideration, there is no need for you to account for the tool or machine in your GST return. Nevertheless, you have to keep the necessary documentation as explained below.

<sup>6</sup> Section 33A of the GST Act (read together with Regulation 42A) allows repayment of GST paid on importation to an overseas person through a claim of input tax by a local agent who imports the goods, subject to certain requirements

<sup>7</sup> For more information on the Major Exporter Scheme, please refer to the IRAS e-Tax Guide "GST: Major Exporter Scheme"



## **GST: Zero-Rating of Tools or Machine Used in Manufacturing of Goods for Export to Overseas Customer**

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- 6.4 You also have to adhere to other conditions which are explained in the e-Tax Guide “GST: Guide on Imports”.

### **7 Record Keeping**

- 7.1 You are required to keep the relevant export documents to support that the tools or machines and manufactured goods are exported out of Singapore. Please refer to the e-Tax Guide “A Guide on Exports” for information on export documents.
- 7.2 Where the tool or machine or its prototypes are disposed of or destroyed in Singapore based to your customer’s instruction or due to spoilage, you must maintain relevant documentary evidence in relation to the disposal or destruction. Examples of such evidence include written instructions from your customer, documentation of the scrap, invoice from the waste management vendor, photographs of the destroyed tool or machine, etc.

### **8 Repayment of tax and penalties**

- 8.1 Where you have zero-rated your supply of a tool or machine and you subsequently discover that you have failed to comply with or satisfy all the conditions set out in paragraphs 4 or 5.3, you must pay the GST that should have been charged on the value of your supply.
- 8.2 In such an instance, you are required to include the GST omitted as output tax in your GST F5 return that corresponds to the prescribed accounting period in which you realise the non-compliance. You do not need to submit a Disclosure of Errors on GST Return (GST F7) form. In addition, you may be liable to penalties for the tax omission.

### **9 Contact information**

For enquiries on this e-Tax Guide, please contact:

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