

# **IRAS e-Tax Guide**

**GST: Fringe Benefits (2<sup>nd</sup> Edition)**



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## **1 Aim**

- 1.1 This guide explains the GST treatment for goods and services provided by you (a GST-registered person) to your employees as fringe benefits. Specifically, it explains when you are allowed to claim the GST incurred on fringe benefits and whether you are required to account for GST when these benefits are given free to your employees.

## **2 At a Glance**

- 2.1 Fringe benefits refer to non-wage benefits provided by employers to their employees. These benefits are given to employees as part of their overall remuneration packages and can take the form of either goods or services.
- 2.2 You can claim input tax incurred on fringe benefits provided that the fringe benefits are incurred for the purpose of your business. All fringe benefits contain elements of personal consumption on which GST should be levied. As such, the Comptroller will consider them as incurred for the purpose of your business only if they have a close nexus to your business activities. In addition, the benefits must not be disallowed under regulations 26 and 27 of the GST (General) Regulations.
- 2.3 If you have been allowed the input tax claim, you may need to account for output tax when you give away business goods as gifts to your employees or let your employees temporarily use the goods for their personal use, even if no consideration is charged.
- 2.4 For services provided free to your employees, you are not required to account for output tax.

### 3 Input Tax Recovery

3.1 You are entitled to claim input tax for the GST charged on goods and services if you satisfy all the following conditions:

- (i) You are GST-registered;
- (ii) The goods or services must have been supplied to you. For imported goods, the goods must have been imported by you;
- (iii) The goods or services are used or to be used for the purpose of your business;
- (iv) The goods or services must be used for the making of taxable supplies (i.e. standard-rated or zero-rated supplies) or out-of-scope supplies which would be taxable supplies if made in Singapore; and
- (v) It must not be disallowed under regulations 26 and 27 of the GST (General) Regulations

#### Goods or services “supplied to you”

3.2 To claim input tax for the GST incurred on goods or services, the supply must be contractually made to you. Where the tax invoice issued by the supplier is addressed to you, the Comptroller will, prima facie, treat the supply as contractually made to you.

3.3 Where the tax invoice is addressed to your employee, you may claim the GST incurred as your input tax provided that your employee is acting as your agent in receiving the supply of goods or services.

#### *Administrative concession*

3.4 Where the supply of fringe benefits is clearly contracted in your employee’s name, such as for mobile phone plans, memberships with a professional body and educational courses, your employee is unlikely to be acting as your agent when he receives the supply of goods or services. Nonetheless, as an administrative concession, the Comptroller will allow you to claim input tax for the expenses provided that:

- (i) Your employee is reimbursed; and
- (ii) The expenses are recognised as business expenses in your accounts.

3.5 If you reimburse your employee partially, you can only claim the GST in proportion to the reimbursed amount. For example, your employee incurred \$64.20 (including GST) on mobile phone expenses to make both business and personal calls. You reimbursed your employee \$21.40 (including GST) for the business portion. Applying the concession and provided that you meet all other input tax claim

conditions, you may claim the GST that is proportionate to the amount that you reimbursed your employee i.e. \$1.40.

- 3.6 If you have difficulties determining the business and private portions of the expenses, you may claim input tax as follows:
- (a) For full reimbursements, based on  $\frac{4}{7}$ <sup>1</sup> of the GST incurred on the mobile phone expenses.
  - (b) For partial reimbursements, based on  $\frac{7}{107}$  of the amount reimbursed or  $\frac{4}{7}$  of the GST incurred on the mobile phone expenses, whichever is the lower.

#### *Allowances*

- 3.7 An allowance usually consists of a pre-determined amount to cover an estimated expense, and will be paid to your employee regardless of whether he incurs the expense. For example, your employee is given a flat \$10 meal allowance if he works beyond his normal working hours and regardless of whether he actually spends the allowance for his meal or how much he spends. Even if your employee provides you with the receipt or invoice for his meal, the GST incurred is not claimable.

#### “For the purpose of business”

- 3.8 To satisfy the condition of “for the purpose of business”, the provision of fringe benefits must have a close nexus to your business activities (“Close Nexus Test”). The fact that the business may benefit from the provision of the fringe benefits such as improved staff morale or motivation is not enough to give rise to a close nexus between the fringe benefits and the business.
- 3.9 IRAS will generally regard this Close Nexus Test as satisfied if the provision of the fringe benefit meets any of the following 6 indicators:
- 1) Is necessary for the proper operation of your business
  - 2) Directly maintains or promotes the efficiency of your business operations
  - 3) Primarily promotes staff interaction
  - 4) Encourages the upgrading of your employee’s skills and knowledge relevant to your business
  - 5) Is given in recognition of the contribution of your employee towards your business
  - 6) Promotes corporate identity

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<sup>1</sup>  $\frac{4}{7}$  is an estimation of the number of days that an employee spends at work in a week.

- 3.10 Further explanation of these indicators is provided in paragraphs 7.5 to 7.16. Paragraphs 8.2 to 8.29 explain the Comptroller's position on some common fringe benefits, in particular, why the fringe benefit can or cannot be considered as incurred for the purpose of business.
- 3.11 GST incurred on goods and services is also not claimable where the goods and services acquired are given only to specific persons (i.e. the fringe benefits are not given to other employees). The Comptroller will generally regard such fringe benefits as incurred for the personal consumption of the specific employee and hence, they will not satisfy the condition of "for the purpose of business". Specific persons are:
- (i) the sole-proprietor of a GST-registered sole-proprietorship;
  - (ii) the partners of a GST-registered partnership;
  - (iii) the directors of a GST-registered company; and
  - (iv) persons connected to the GST-registered sole proprietor, partnership or company, as the case may be.
- 3.12 However, the Comptroller recognises that some businesses only allow specific persons to attend courses. Hence, the Comptroller will allow the input tax incurred on such courses provided that the courses are relevant to the business. An example would be tax courses attended by the partners of a tax consultancy firm.
- 3.13 For other fringe benefits, the input tax incurred is claimable only if similar fringe benefits are also provided to staff. For example, input tax incurred on refreshments at board of directors' meeting is claimable if refreshments are also provided at staff meetings.

Used for the "making of taxable supplies"

- 3.14 If your business makes partly exempt and partly taxable supplies, such expenses are generally considered as residual in nature and you would have to apportion the input tax incurred. For more information, please refer to the e-Tax guide "GST: Partial Exemption and Input Tax Recovery".

Goods or services disallowed under regulations 26 and 27 of the GST (General) Regulations

- 3.15 Under regulations 26 and 27 of the GST (General) Regulations, you are not allowed to claim input tax credit for GST incurred on the following:
- (i) Benefits provided to the family members or relatives of your staff;

- (ii) Costs and running expenses incurred on private registered motor cars (including cost incurred for the purchase and running expenses like petrol, maintenance, parking fees);
  - (iii) Club subscription fees (including transfer fees) charged by sports and recreation clubs;
  - (iv) Expenses incurred on company cars of which the COE has been renewed or extended on or after 1 Apr 1998;
  - (v) Expenses incurred on rental cars hired for use on or after 1 Jul 1999;
  - (vi) Medical expenses incurred for your staff unless they are obligatory under the Work Injury Compensation Act or under any collective agreement within the meaning of the Industrial Relations Act;
  - (vii) Medical and accident insurance premiums incurred for your staff unless the insurance or payment of compensation is obligatory under the Work Injury Compensation Act or under any collective agreement within the meaning of the Industrial Relations Act; and
  - (viii) Any transaction involving betting, sweepstakes, lotteries, fruit machines or games of chance;
- 3.16 The definitions of “club subscription fee”, “medical and accident insurance premium”, “medical expenses”, “family benefits” and “motor car”<sup>2</sup> are stated in regulation 25 of the GST (General) Regulations.
- 3.17 For input tax that is disallowed under regulations 26 and 27, the GST incurred will be a deductible expense under Income Tax if the expense is allowable under the normal rules of deduction for Income Tax.

#### **4 Accounting for Output Tax (From 1 Oct 2012)**

- 4.1 You may be required to account for output tax<sup>3</sup> on fringe benefits provided to your employees if you have claimed input tax for the GST incurred on acquiring the fringe benefits.

##### Provision of free services to employees

- 4.2 For services provided free to your employees, you are not required to account for output tax as no supply is treated as being made by you. For example, a carpet cleaning company that provides free carpet cleaning

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<sup>2</sup> Regardless of the number plate or usage, for example a research and development car or demonstration car, a motor car is disallowed if it does not fall under the list of exceptions in regulation 25.

<sup>3</sup> The deeming provisions are under paragraphs 5(1), 5(2) and 5(3) of the Second Schedule to the GST Act.



service to the homes of its employees need not account for output tax on the cleaning service.

#### Business goods given free to employees

- 4.3 Where you give your business goods away to your employees as gifts (“Gift Rule”), you are deemed to have made a supply to your employees. You are required to account for output tax on the goods except when:
- (i) The cost of each gift is not more than \$200<sup>4</sup>; or
  - (ii) No input tax has been allowed on the purchase of the good.
- 4.4 For business goods given free to employees, if you choose not to claim input tax credit for the GST incurred on the goods, you do not need to account for output tax when you subsequently give the goods to your employees even if the cost of the goods is more than \$200. You also do not need to account for output tax if no GST was incurred on the purchase of the goods (e.g. goods were purchased from a non-GST registered business).
- 4.5 If GST has been suspended on the supply or import of the goods, for example, the goods were imported under MES, the GST suspended is treated as input tax allowed to you and you are required to account for output tax on the deemed supply.

#### Business goods for the temporary use of your employees

- 4.6 If you let your employees use your business goods free of charge for their private purposes, you are deemed to be making a supply of services to your employees and will be required to account for output tax if you have been allowed input tax credit on the goods. GST suspended on the supply or import of the goods is treated as input tax allowed to you.
- 4.7 If you choose not to claim input tax credit for the GST incurred on the goods, you do not need to account for output tax when you let your employees use the goods.
- 4.8 Business goods for the temporary use of your employees will not be regarded as provided for their private use if there is a close nexus between the provision and your business activities and hence, you need not account for output tax. Paragraphs 7.5 to 7.16 elaborate on the indicators you may use to determine whether there is a close nexus to your business activities.

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<sup>4</sup> The \$200 excludes GST.

### Example – Deemed supply of services for business goods used by employees

- 4.9 A carpet cleaning company allows its employees to use its carpet cleaning equipment free of charge for their homes. For accommodation and household benefits, there is generally no close nexus to the company's business activities<sup>5</sup>. Therefore, the use of the company's cleaning equipment is a deemed supply of services and the company is required to account for output tax if credit for input tax has been allowed to it previously. The value of the supply is the full cost<sup>6</sup> to the company for providing the services.

## **5 Accounting for Output Tax (Before 1 Oct 2012)**

- 5.1 If you allowed your business goods to be used by your employees for their private purposes or you gave these goods away to your employees, free of charge, you are deemed to have made a supply to your employees. You are required to account for output tax if you were entitled to claim input tax credit for the goods under sections 19 and 20 of the GST Act. This requirement to account for output tax applies even if you:
- (i) did not claim input tax credit for the GST incurred on the goods; or
  - (ii) did not pay GST on the goods imported as the tax is suspended under specific GST schemes or import reliefs (for example, goods imported under the Major Exporter Scheme and the GST (Import Relief) Order).
- 5.2 However, for business goods given free to employees, you are not required to account for output tax if the cost of the gift given free to your employee *was not more than \$200 and the gift did not form a series or succession of gifts* given to the same employee. A "series or succession of gifts" is considered to be given when three or more gifts are given to the same employee within a period of three months.
- 5.3 In determining whether there was a "*series or succession of gifts*", you should take into consideration the gifts purchased without GST (e.g. purchased from non-GST registered persons). Hence, if the total number of gifts (including those purchased without GST) given to your employee was three or more, it will be considered as a "*series or succession of gifts*". However, you need not account for output tax on the gifts purchased from non-GST registered persons.
- 5.4 If you have the standard prescribed accounting of three months, the three-month period refers to the months covered by your prescribed accounting period. For example, for prescribed accounting periods ending in Apr, the three months' time frame is from 1 Feb to 30 Apr.

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<sup>5</sup> Except for situations elaborated in paragraph 7.

<sup>6</sup> Refer to paragraph 6 for a method to calculate "full cost".

- 5.5 Accordingly, if you have a prescribed accounting period of six months, the three-month period refers to the months covered by the prescribed accounting period. For example, for prescribed accounting periods ending in Jun, the three months' time frame refers to 1 Jan to 31 Mar and 1 Apr to 30 Jun.
- 5.6 If you have a prescribed accounting period of one month, the three-month period refers to:
- (i) 1 Jan to 31 Mar
  - (ii) 1 Apr to 30 Jun
  - (iii) 1 Jul to 30 Sep
  - (iv) 1 Oct to 31 Dec

5.7 Illustration

This illustration shows whether output tax should be accounted when a gift or a series of gifts is given to an employee.

Company XYZ buys the following types of gifts:

A - \$20 (7% GST \$1.40); B - \$201 (7% GST \$14.07); C - \$30 (No GST - purchased from a non-GST registered trader)

The table shows the various combinations of the above gifts which an employee may receive during a three-month period and the output tax that should be accounted for each combination:

Combination of gifts	Series of gift?	Cost of gift >\$200?	Output tax (\$)
A	No	No	N.A.
B	No	Yes	14.07
C	No	No	N.A.
A + A	No	No	N.A.
A + B	No	Yes	14.07
A + C	No	No	N.A.
A + A + A	Yes	-	1.40 + 1.40 + 1.40 = 4.20
A + B + C	Yes	-	1.40 + 14.07 = 15.47
A + C + C	Yes	-	1.40
C + C + C	Yes	-	N.A.

## 6 Taxable Value of Fringe Benefits

- 6.1 When you provide fringe benefits to your employees at a subsidised or discounted price, the value of supply on which output tax is to be accounted for ("taxable value") should be the subsidised price or discounted price. Paragraphs 6.2 to 6.7 below explain what should be the taxable value when you provide certain fringe benefits to your employees free of charge.

### Business goods given free to employees

- 6.2 When goods<sup>7</sup> (new or used) are given free to your employees:
- (i) the value of supply on which output tax is accountable would be the amount that you would pay if you were to purchase identical goods, taking into account the age and condition of the goods which are given free; or
  - (ii) if the value of (i) cannot be determined, the value of supply will be the amount that you would pay if you were to purchase similar goods, taking into account the age and condition of the goods which are given free; or
  - (iii) if both (i) and (ii) cannot be determined, then the value of supply would be the cost of producing the goods at the time they are given free.

### Catering of food or beverages and accommodation to employees

- 6.3 The value of supply shall be taken to be nil, hence, you need not account for any output tax when you provide the following items free to your employees:
- (i) Catering of food or beverages<sup>8</sup>;
  - (ii) Accommodation in a hotel, inn, boarding house or similar establishment<sup>9</sup>.

### Business goods used by employees for private purposes

- 6.4 The value of supply on which output tax is to be accounted for should be the full cost to you in letting your employee use the goods for free.
- 6.5 If you let your employee use your business asset<sup>10</sup> for free, to work out the cost in letting your employee use the asset, you are to:
- (i) take the amount that the item reduces in value during the year (yearly depreciation);
  - (ii) work out how much of the year the item is used privately; and
  - (iii) apply that figure to the yearly depreciation figure.

$$\text{i.e. Output tax} = \frac{\text{Private use}}{\text{Total use}} \times [\text{Amount of depreciation} + \text{any other cost}] \times 7\%$$

- 6.6 No deeming is required if your business asset is fully depreciated at the time when you let your employees use the goods for free.

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<sup>7</sup> Refers to goods owned by you.

<sup>8</sup> Paragraph 10(a) of the Third Schedule to the GST Act.

<sup>9</sup> Paragraph 10(b) of the Third Schedule to the GST Act.

<sup>10</sup> Refers to goods owned or leased by you.

### Example – GST on the private usage of goods

- 6.7 Company ABC purchases a motorcycle to be used for its deliveries for \$10,900 and records its depreciation as \$1,090 a year for 10 years. Company ABC lets an employee use it on weekends in the 1st year. Hence, the output tax that Company ABC has to account for on the private usage of the motorcycle by its employees is:

$$\text{Output tax} = \underbrace{104/365 \times \$1090}_{\$310.58} \times 7\% = \$21.74$$

(\$310.58 is the cost to Company ABC in providing the services)

## **7 Close Nexus Test**

- 7.1 You can claim the GST incurred on the provision of fringe benefits as your input tax only if it is for the purpose of your business. The provision of a fringe benefit will be considered as incurred for the purpose of your business if it has a close nexus to your business activities (“the Close Nexus Test”).
- 7.2 If you have met the Close Nexus Test and claimed input tax on goods that you let your employees temporarily use for free, you need not account for output tax if the usage has a close nexus to your business activities.
- 7.3 If you have met the Close Nexus Test and claimed input tax on goods that you give away as gifts, you will still need to account for output tax if the cost of each gift to your employee is more than \$200. The Gift Rule applies even for goods that are given away for business purposes.
- 7.4 The Comptroller will consider that there is a close nexus between the provision of the fringe benefit and your business as long as any of the following indicators are met:

### Indicator 1: Necessary for the proper operation of your business

- 7.5 To determine whether a fringe benefit is necessary to your business operation, you should take into account factors such as the nature of your business, industry practice, commercial requirements and regulatory requirements which may necessitate the provision of the fringe benefit.
- 7.6 An example is protective clothing which enables your employee to perform his job duties safely. Another example is dormitories provided to house foreign workers in the construction industry, so as to meet regulatory requirements and ensure the quick and efficient allocation of labour.

Indicator 2: Directly maintains or increases the efficiency of business operations

- 7.7 If the provision of the fringe benefit allows your employee to better utilise his time and effort in carrying out his job duties which in turn contributes to the efficiency of your business operation, it will be considered as having a close nexus to your business activities.
- 7.8 An example is the provision of meals in the course of a business meeting which allows the meeting to be carried on without the disruption of a lunch break.

Indicator 3: Primarily promotes staff interaction

- 7.9 Fringe benefits incurred at corporate events or activities that primarily promote staff interaction which in turn improve the working relationship between employees and encourage future cooperation will be considered as having a close nexus to your business activities.
- 7.10 Examples are goods and services provided to employees at organised company events such as corporate dinner and dance, company outings and team-bonding activities.

Indicator 4: Encourages the upgrading of employee's skills and knowledge relevant to your business

- 7.11 Although the upgrading of skills and knowledge confer personal benefits on your employee, if these skills and knowledge are relevant to your business such as they enable your employee to better perform his job duties, progress further or to perform other job functions in your firm, the Comptroller will regard the expenses incurred as having a close nexus to your business activities. You would need to consider the job scope/duties of your employee or his career progression to determine whether there is a close nexus between the expense and your business activities.
- 7.12 Examples are training programmes for employees to improve their skills and knowledge, and the incurring of professional membership fees.

Indicator 5: Given in recognition of employee's contributions towards the business

- 7.13 Goods or services given to your employees specifically to reward their past contributions have a stronger link to your business operations than those provided merely to motivate the employee.
- 7.14 Awards given for meeting certain targets set by your firm, providing excellent service and taking zero medical leave will be considered as given in recognition of your employee's contributions. They also include long service awards as these awards are intended to acknowledge your employee's long-term contribution to your business.

#### Indicator 6: Promotes corporate identity

- 7.15 A corporate identity is the overall image of your business in the minds of your customers, investors and employees. If your key intention in providing the fringe benefit is to promote the image of your business, there would be a close nexus to your business operations.
- 7.16 An example is the provision of uniforms to promote the corporate image. Gifts to your employees such as pens and notebooks that are embossed with your business logo also promote your brand and identify your staff as employees of the company.

### **8 Common Fringe Benefits**

- 8.1 The following paragraphs cover the Comptroller's position on common fringe benefits and examples of situations where the fringe benefits satisfy the Close Nexus Test. For fringe benefits that are not covered in this guide, you should apply the indicators to your situation and determine whether on balance, the fringe benefits have a close nexus to your business activities.

#### Accommodation and related household expenses

- 8.2 **General Rule:** Such expenses do not have a close nexus to your business operations. Accommodation is a domestic expense incurred to satisfy your employee's personal needs. Similarly, household expenses like utilities and property maintenance are primarily for your employee's personal consumption.

##### Example 1:

Company A recruits an employee from a neighbouring country on an expatriate assignment to oversee the development of a new product line in Singapore. As part of his remuneration package, the employee is provided with accommodation at a serviced apartment. Company A incurs GST on the lease of furniture and fittings and accommodation-related services such as housekeeping. These expenses are primarily incurred for the employee's personal consumption and do not have a close nexus to Company A's business activities.

- 8.3 **Exceptions:** Where it is necessary to provide accommodation to ensure minimal disruptions to your business operations, the provision of the accommodation can be regarded as having a close nexus to your business activities. You would have to examine factors such as the purpose of the benefit, the nature of your business, regulatory requirements (if any) and the commercial needs of your business to determine whether such expenses have a close nexus to your business activities.

- 8.4 An example is a construction business that incurred GST on the provision of dormitories<sup>11</sup> to its foreign workers. The Comptroller will consider that the provision of the dormitories is necessary for the proper operation of the business (Indicator 1) since housing employees together would facilitate quick and efficient allocation of labour to meet the demands of its construction business. Employers are also required to provide accommodation with basic facilities to fulfil obligations under the Employment of Foreign Manpower (Work Passes) Regulations. Similarly, dormitory-related expenses incurred by a shipyard business for its foreign workers would also be considered necessary for the proper operation of the business.
- 8.5 Another example is accommodation provided to the flight crew of an airline company:

Example 2:

Company B is an airline company that provides hotel accommodation to its flight crew during layovers. Due to the quick turnaround time required for airlines and mandatory rest periods, accommodation for its flight crew is necessary for the smooth operation of the business (Indicator 1). In addition, the flight crew is generally not able to exercise a choice in selecting their accommodation. In this instance, the provision of the hotel accommodation has a close nexus to its business activities.

- 8.6 For accommodation expenses that you incur for corporate activities such as hotels and chalets during company retreats, these expenses have a close nexus to your business activities as they primarily promote interaction between your employees (Indicator 3).

**8.7 Administrative Concession**

As an administrative concession, the Comptroller will allow you to claim input tax incurred on temporary accommodation (e.g. hotel room, serviced apartment) provided to your foreign employees who relocate to or come to Singapore for business activities, such as meetings and projects. Generally, the provision of accommodation not exceeding a period of 30 days is regarded as “temporary accommodation”.

If your foreign employee relocates to Singapore or comes to Singapore on short business trips with his or her family members, any costs incurred to house the family members, even on temporary basis, are blocked as family benefits under regulation 26 of the GST (General) Regulations. However, if your foreign employee is entitled under your company’s policy to a specific type of accommodation (e.g. a hotel suite) for his individual stay, input tax will be allowed in full even if the accommodation is used to house both the employee and his or her family members so long as no additional cost is incurred to

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<sup>11</sup> While workers’ dormitories are residential properties, GST is chargeable on the furniture and fittings, utilities and other services provided with the dormitories.



accommodate the latter. For example, if costs are incurred to provide additional beds in the hotel suite for the family members, input tax on such additional costs will be disallowed.

**Example 3:**

Company C successfully recruits a foreign employee to oversee its new manufacturing plant in Singapore. Company C puts up the foreign employee, his spouse and two children at a hotel suite for a week while the condominium rented for them is undergoing final touches of renovation. Company C incurs hotel charges of \$5,350 (GST-inclusive) in total including charges of \$350 (GST-inclusive) for an extra bed for one of the children.

Under the company's policy, foreign employees employed for managerial positions are entitled to stay in a five-star hotel room suite or equivalent. As an administrative concession, Company C is allowed to claim GST on the hotel charges of \$5,000. The GST incurred on the \$350 for the extra bed is disallowed as a family benefit under regulation 26.

**Transport and related expenses**

- 8.8 **General Rule:** Transport expenses such as the hiring of chartered buses and taxis incurred to transport your employees from their homes to work and vice versa do not have a close nexus to your business activities. Employees have a personal responsibility to ensure that they arrive at work on time and can choose the most suitable mode of transport to and from their workplace and home.
- 8.9 **Exceptions:** Transport expenses incurred to fetch foreign workers to and from their dormitories and your work place are considered necessary to ensure minimal disruptions to business operations (Indicator 1).
- 8.10 Transport expenses incurred for corporate activities are also considered as having a close nexus to your business activities as they primarily promote staff interaction (Indicator 3). For example, when you charter a bus for a team-bonding activity.
- 8.11 Transport expenses incurred due to limited public transport available to your employees also have a close nexus to your business activities. For example, where your work place is located in a remote<sup>12</sup> area that is not easily accessible by public transport (e.g. remote industrial areas, shipyards, and offshore islands) or where your business circumstance requires your employees to work graveyard shifts. The provision of transport under such circumstances will be regarded as either necessary

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<sup>12</sup> Generally, a work place is considered remote if it is located:

- (a) more than 1km walking distance from the nearest MRT station and bus stop; or
- (b) more than 1km walking distance from the nearest MRT station but within 1km walking distance from the nearest bus stop that has no more than 2 buses serving it.

(Indicator 1) or will ensure the efficiency (Indicator 2) of your business operations.

#### 8.12 **Administrative Concession**

As an administrative concession, the Comptroller will allow you to claim input tax incurred on the following:

- (i) Transport expenses incurred when your employee works beyond his official working hours (due to exigencies of work);
- (ii) Transport expenses incurred by your employee to travel from home to the airport when he has to leave Singapore for business trips and from the airport to home upon his return;
- (iii) Transport expenses incurred by your employee to travel from home to external venues for work-related purposes. For example, travelling to meet clients at their premises, to attend work-related trainings, seminars, workshops or courses;
- (iv) Transport expenses incurred to fetch your employees to and from your work place and external venues for meals, where your work place is located in a remote area; and
- (v) Transport expenses incurred by foreign employees who come to Singapore temporarily for business activities, such as meetings and projects. Generally, a period not exceeding 30 days is regarded as “temporarily”.

##### Example 4:

Company D is a manufacturing company located at Tuas. Due to its remote location, it incurs GST on the provision of shuttle buses to transport employees between designated drop-off points and the company.

The provision of shuttle buses is considered to be for business purposes as there is a lack of transport alternatives given its remote location. It is both necessary for the proper operation of Company D's business (Indicator 1) and promotes the efficiency (Indicator 2) of its operations.

#### Professional membership fees, education and training expenses

- 8.13 **General Rule:** Professional membership fees, fees for graduate/post graduate courses and training expenses have a close nexus to the business activities if they are relevant to your employee's job or career progression in your business. The course, training or qualification enables your employee to better perform his job duties or to progress further in your business (Indicator 4).

Example 5:

Employee A works as an accountant at Company E. He is a member of the Institute of Singapore Chartered Accountants (ISCA) and receives an invoice billed in his name for his annual membership fee. As the membership is relevant to his job, there is a close nexus to Company E's business activities.

Meals

- 8.14 **General Rule:** Food and Beverages ("F&B") is primarily to serve your employee's need for sustenance and is not regarded to have a close nexus to your business activities. Your employee is able to exercise a choice in what and where he wishes to eat. Hence, the Comptroller will not regard the provision of F&B as incurred for the purpose of business.
- 8.15 **Exceptions:** Meals provided at business meetings are considered to have a close nexus to your business since the provision of meals ensures that the meetings can continue with minimal disruption for business efficiency (Indicator 2). F&B provided at company functions or events are also considered as having a close nexus as they primarily promote staff interaction (Indicator 3).
- 8.16 **Administrative Concession**

As an administrative concession, the Comptroller will also allow you to claim input tax incurred on the following:

- (i) F&B provided in any staff cafeteria/canteen or at the employer's premises (e.g. company's pantry and food deliveries catered for employees);
- (ii) F&B provided to employees when your employee works beyond his official working hours ("overtime meals"), including meals taken outside the employer's premises; and
- (iii) F&B expenses incurred by your employee at the airport when he leaves Singapore for business trips and upon his return.

Example 6:

Company F holds an annual staff retreat at a hotel and provides meals for its employees. The meals that it caters for its employees are for the purpose of business as they are provided at a company event that primarily promotes staff interaction (Indicator 3).

Example 7:

Company G's employees are reimbursed for their meals if they work overtime and are obliged to have meals nearby. As an administrative

concession, the Comptroller will allow the business to claim the input tax incurred on the F&B.
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### Clothing, accessories and personal grooming expenses

- 8.17 **General rule:** The Comptroller will not regard such expenses as having a close nexus to your business activities. Instead, clothing, accessories and personal grooming expenses such as spectacles, cosmetics, perfumes, and hair styling services which form part of your employee's 'everyday' wardrobe are regarded as incurred for the personal consumption of your employees.
- 8.18 **Exceptions:** Uniforms<sup>13</sup> and protective clothing have a close nexus to your business activities. Protective clothing ensures your employee's safety in performing his duties at work and hence is considered as necessary for the proper operation of your business (Indicator 1). Uniforms project a collective image of your company, promote corporate identity and serve as a branding tool (Indicator 6). In addition, your employee generally would not have a choice in the selection of uniforms or protective clothing.
- 8.19 If you are in the business of selling the products worn by your employees, the clothing, accessories and grooming products would promote corporate identity (Indicator 6). For example, for a clothing retailer, available-for-sale apparel given to employees to wear during work-related events or at work promotes the brand image.
- 8.20 If your business requires your employees to look attractive or project a uniform image when serving customers, the grooming expenses incurred on these employees can be considered necessary for your business (Indicator 1). Examples are grooming expenses incurred for air stewards/stewardesses.

### Medical expenses, health and wellness programmes

- 8.21 **General Rule:** Medical expenses are primarily incurred for the personal benefit of your employees. Such expenses have no close nexus to your business operations unless it is necessary as a regulatory requirement under the Work Injury Compensation Act (WICA) or under a collective agreement made under the Industrial Relations Act.
- 8.22 Similarly, maintaining health is a personal responsibility and health and wellness programmes are for the personal benefit of your employees. These programmes will not be regarded as having a close nexus to your business activities.

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<sup>13</sup> Uniforms should have a feature that identifies an employee as belonging to your company. For example, clothes embossed with the company logo. Another example would be garments specially designed and manufactured in corporate colours for employees' wear.

- 8.23 **Exceptions:** An exception is health or wellness activities organised as corporate events that primarily promote staff interaction (Indicator 3).

Example 8:

Company H arranges with several vendors to provide a variety of free exercise classes for its employees. Employees are able to sign up on an individual basis according to their interests and the exercise classes take place on a regular basis. The lessons are held during lunch or after office hours or the weekends. These lessons are for the personal well-being of its employees and are not regarded as having a close nexus to Company H's business activities.

Example 9:

Every year, Company I sets aside a day where staff can participate in several free health and fitness activities such as aerobic workouts, yoga, abseiling etc. Company I engages several vendors to carry out the activities. Though the activities are also for the personal well-being of its employees, the primary purpose for such one-off/ad-hoc activities which take place during official working hours is to promote staff interaction and thus the expenses have a close nexus to business activities.

Flexible benefits

- 8.24 Employees given a flexible benefits budget can choose their desired benefits from a range of goods or services. The provision of such benefits is not regarded as having a close nexus to your business activities as these benefits are incurred for your employee's personal consumption.

Gifts

- 8.25 **General Rule:** For gifts to employees, the Comptroller will generally regard that they do not have a close nexus to your business activities.
- 8.26 **Exceptions:** Awards or prizes given in recognition of your employee's work efforts and contributions (Indicator 5) are considered to have close nexus to your business activities. For example, prizes or awards given for innovative suggestions or work solutions, for attaining performance goals, for providing good customer service, for long service, for taking zero/low medical leave and upon retirement.
- 8.27 Gifts given during company events such as those given away to employees during dinner and dance, family day and company retreats are also considered as having close nexus to your business as they primarily promote staff interaction (Indicator 3).

## 8.28 Administrative Concession

As an administrative concession, the Comptroller will also allow you to claim input tax incurred on the following:

- (i) Gifts for special occasions, such as:

Gifts for your employee's birthday, gifts to welcome your employee to your company, gifts given when he or she leaves your company and get-well gifts when your employee is hospitalised.

Gifts for the wedding of the employee, birth of his/her child and gifts given on the bereavement of your employee or the immediate family members of your employee<sup>14</sup>.

To enjoy the concession, the gifts must be intended for your employee and not his/her family members;

- (ii) Gifts for festive season such as Chinese New Year, Hari Raya, Deepavali and Christmas;

- 8.29 If input tax has been allowed on the gift, you are required to account for output tax if the cost of each gift to your employee is more than \$200.

## 9 Flowchart and Table

- 9.1 For an overview of whether you can claim the GST incurred in providing fringe benefits, you may refer to Annex A.

- 9.2 If you have claimed input tax under Annex A, you may refer to Annex B to determine whether you need to account for output tax. Annex B is also applicable if you have claimed input tax on business assets that you subsequently allow your employee to use for free. For example, when you allow your employees to use your company delivery van during the weekends for their personal errands, output tax is accountable on the personal use.

- 9.3 The table in Annex C shows common fringe benefits and the general position on input tax claims and accounting for output tax. The table has been prepared based on the following assumptions:

- (i) The fringe benefits are provided free to your employees;

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<sup>14</sup> You are allowed to claim input tax in full for gifts to celebrate the birth of your employee's child (these include gifts for the child as well as the mother), your employee's wedding and the bereavement of your employee or his/her immediate family members even though these gifts benefit both your employee and his/her immediate family members. Immediate family members comprise spouse, children, parents and parents-in-law, grandparents, great grandparents and siblings.

- (ii) The fringe benefits are not given solely to the sole-proprietor, partners, directors or persons connected to the aforementioned persons; and
- (iii) The supply is contractually made to you (i.e. the tax invoice is addressed to you), your employee is acting as your agent in receiving the supply of goods or services, or the administrative concession in paragraphs 3.4 to 3.6 applies.

## 10 Effective Date of Revised e-Tax Guide<sup>15</sup>

- 10.1 The revised GST treatment in the first edition of the Guide, as well as the administrative concessions added to and other changes made to this edition of the Guide, will apply with effect from 16 May 2016. For the revisions made in this edition, businesses may choose to file their additional input tax claims in their next GST return or file a GST F7. For example, if you have not claimed input tax incurred on 16 May 2016 on temporary accommodation for your foreign employee (see paragraph 8.7), you may do so in your next GST F5 return or file a GST F7 for the period (e.g. the prescribed accounting period ended 30 Jun 2016) in which the input tax was incurred.
- 10.2 Before 16 May 2016, you may have claimed input tax on the provision of fringe benefits to your employees based on previous versions of the e-Tax Guide, “GST: Fringe Benefits”. No input tax needs to be repaid. However, you are still required to account for output tax if the fringe benefits are goods that have either been:
- (i) Given as gifts to employees under the Gift Rule; or
  - (ii) Used temporarily by your employees for their private purposes.
- 10.3 No output tax is required to be accounted for on free services provided to your employees, free food or beverage catered for employees or the provision of free accommodation in a hotel, inn, boarding house or similar establishment.

## 11 Frequently Asked Questions

**Q1 I incur GST on packages purchased from a theme park for a family day event. Each employee gets a package free of charge but has to pay 50% of the cost for packages for their family members. Can I claim the GST incurred?**

**A1** You may claim in full the GST incurred on the packages given free to your employees. For the 50% of the cost recovered on packages taken up by your employees’ family members, you are required to account for output tax. Correspondingly, you can claim 50% of the GST incurred on

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<sup>15</sup> This refers to the first edition of the Guide which was published on 16 May 2016.

these packages. The remaining 50% is considered as family benefits and blocked under regulation 26 of the GST (General) Regulations.

**Q2 My company gives away goods as door gifts and lucky draw prizes during Dinner and Dance. Each door gift costs \$50 while the cost of the goods given away as lucky draw prizes range from \$30 to \$1,000. I have claimed input tax on the purchase of these goods. Do I have to account for output tax on the gifts?**

You do not have to account for output tax on the door gift since the cost of each gift is less than \$200. For the lucky draw prizes, you will have to account for output tax on each prize that costs more than \$200.

**Q3 Can I claim the GST charged on medical examinations incurred for the purpose of renewing my employees' work permits?**

A2 No. The input tax on such examinations is blocked as medical expenses under regulation 26 of the GST (General) Regulations.

## 12 Contact Information

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

Goods & Services Tax Division  
Inland Revenue Authority of Singapore  
55 Newton Road  
Singapore 307987

Tel: 1800 356 8633  
Fax: (+65) 6351 3553  
Email: [gst@iras.gov.sg](mailto:gst@iras.gov.sg)

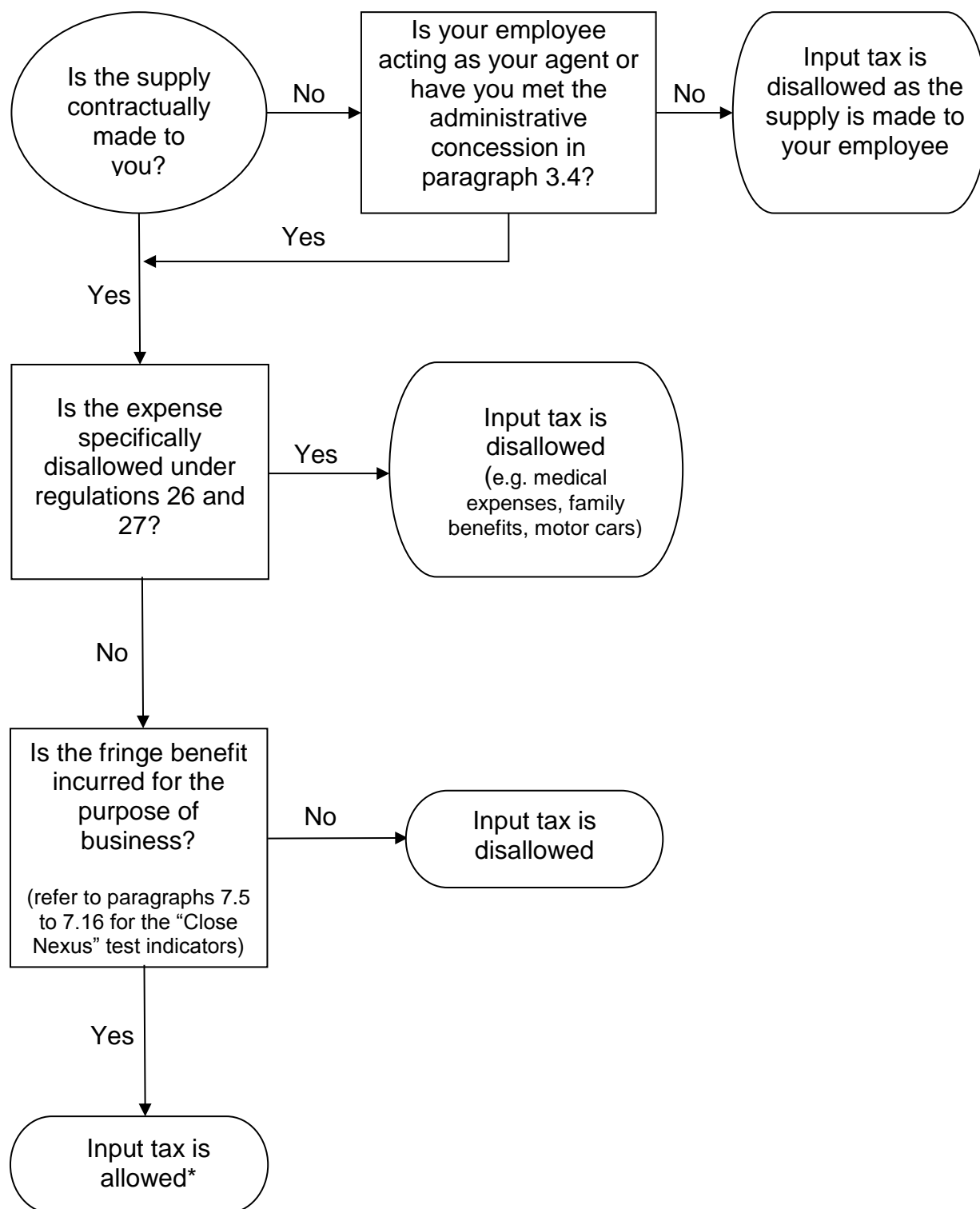
## 13 Updates and Amendments

	Date of Amendment	Amendments made
1.	6 Jan 2017	<p>(i) Removed paragraph 1.2</p> <p>(ii) Editorial amendments made to paragraphs 2.3, 4.4, 4.6, 4.7, 4.8, 7.1, 7.2, 8.10, 8.11, 8.23, 8.27 and 9.3 as well as Examples 6, 8 and 9</p> <p>(iii) Revised paragraph 3.9 to rephrase Indicator 3 from “incurred for corporate activities” to “primarily promotes staff interaction” with consequential amendments made to paragraph 7.9.</p>



		<p>(iv) Revised/Inserted:</p> <ul style="list-style-type: none"> <li>• Paragraph 3.6 – to provide a proxy to apportion expenses of mobile phone used for both private and business purposes</li> <li>• Paragraphs 3.12 and 3.13 – to elaborate on the treatment of fringe benefits given only to specific persons</li> <li>• Paragraphs 8.7, 8.9, 8.12(iv), 8.12(v), 8.16(iii) and 8.20 to provide for new administration concessions and exceptions. New Example 3 inserted to illustrate the application of the concession in paragraph 8.7.</li> <li>• Footnote 12 – to clarify what is regarded as “remote”</li> <li>• Paragraph 8.28 – to clarify that gifts given on bereavement to family members refer to the immediate family members of the employee</li> <li>• Footnote 14 - to clarify the position on gifts that benefit both the employee and his/her family and what is “immediate family members”</li> <li>• Footnote 16 – to clarify the GST to be claimed on taxi expenses</li> </ul> <p>(v) Inserted a section on Frequently Asked Questions</p> <p>(vi) Revised Annex C for editorial amendments as well as:</p> <ul style="list-style-type: none"> <li>• To include the exceptions and administrative concessions mentioned in (iv)</li> <li>• To insert the treatment for lease of car park, relocation expenses, preparation of employee’s IR8A/IR8S and credit card subscription fees</li> </ul> <p>(vii) Revised paragraph 10.1 to explain the application of the revised treatment in this guide</p>
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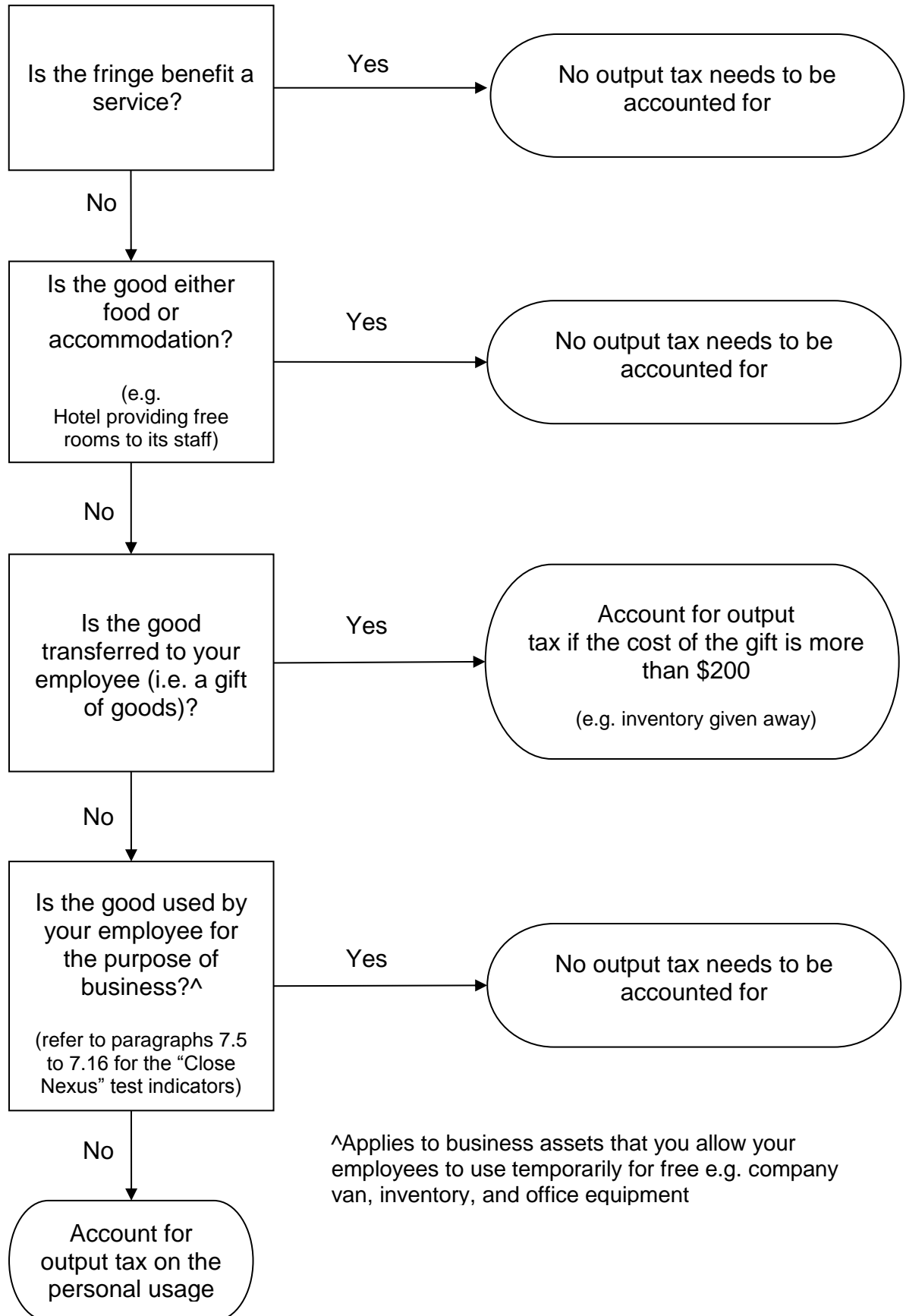
## Annex A – Flowchart for Input Tax Claims



\*Output tax may be required to be accounted for.  
Please continue to Annex B

## Annex B – Flowchart on Accounting for Output Tax

*This flowchart is only applicable if you have claimed input tax*



## Annex C – Table on Fringe Benefits

### Accommodation and related household expenses

Transaction	Input Tax Claimable?	Account for Output Tax?
Construction of property to house employees	<p>Generally no, unless the following exceptions or administrative concession apply.</p> <p>Exceptions are where the expenses are:</p> <p>a) Necessary for the proper operation of the business;</p> <p>b) To maintain or enhance business operations; or</p> <p>c) To primarily promote staff interaction.</p> <p>Administrative concession is where the expense relates to:</p> <p>a) Temporary accommodation (a period not exceeding 30 days) provided to foreign employees who are relocated to Singapore or come to Singapore for business activities.</p> <p>For more information, please refer to paragraphs 8.2 to 8.7.</p>	No.
Provision of non-residential property to house employees.  E.g. hotels, chalets and boarding houses		No.
Provision of furnished residential property to house employees – Premises are owned or rented by employer and put to use by employees  E.g. workers' dormitories and serviced apartments		No.
Utilities charges		No.
Maintenance and repair services		No.
Cleaning and laundry services		No.
Fax, cable, telecom and internet charges		No.
Home insurance		No.
Acquisition of home appliances, furniture and fittings and groceries for employee's accommodation	No, as these are considered as incurred for the private consumption of the employee	No, since input tax is not allowable and should not be claimed in the first place.
Mobile phone services	<p>No.</p> <p>However, input tax can be recovered on business calls. If your employee makes both business and personal calls, only the business portion is allowed.</p>	No.

## **Transport and related expenses**

<b>Transaction</b>	<b>Input Tax Claimable?</b>	<b>Account for Output Tax?</b>
Chartered Buses/ Taxi <sup>16</sup> / Driver or Chauffeur Services or Other arranged transport services for:		
a) Working overtime	Yes.	No.
b) Travel between home and airport on business trips	Yes.	No.
c) Travel between home and external venues relevant to your business	Yes.	No.
d) Where there are transport constraints	Yes.	No.
e) Travel for corporate activities	Yes.	No.
f) Fetching foreign workers to and fro their dormitories and your work place/ work sites	Yes.	No.
g) Fetching employees to and fro your work place and external venues for meals, where your work place is located in a remote area	Yes.	No.
h) Transport for foreign employees who come to Singapore temporarily (a period not exceeding 30 days) for business activities	Yes.	No.
i) Travel between your office and external venues relevant to your business	Yes, not a fringe benefit.	No.
j) All other circumstances	Generally no.	
	For more information, please refer to paragraphs 8.8 to 8.12.	

<sup>16</sup> For transport via taxi, you should only be claiming the GST on fees such as booking fees and administrative fees for credit card payments as taxi fares are unlikely to be subject to GST.

Motor car purchase, rental of motor car and running expenses (e.g. petrol, parking, repair, maintenance, and insurance)	No. Input tax blocked under regulation 27.	No.
<p>Motor vehicle purchase, rental of motor vehicle and running expenses for vehicles <u>other than motor cars</u> (e.g. vans, lorries, and motorcycles)</p> <p>The vehicles are used for your business activities (e.g. for deliveries of goods to your customers).</p> <p>They are also provided for your employee's personal use free of charge.</p>	Yes.	Yes, you have to account for output tax when you let your employee use the vehicle for personal reasons.
<p>Free parking provided to your employees in a car park used for your business activities (e.g. loading and unloading of goods, parking of your delivery vehicles, parking of vehicles by your customers and suppliers). You have either:</p> <p>a) Constructed the car park; or</p> <p>b) Leased the car park.</p>	<p>a) Yes. Input tax on the construction of car park (including cost of empty land leased or purchased for the construction) is claimable</p> <p>b) Yes. However, where part of the car park is specifically for parking motor cars<sup>17</sup>, input tax attributable to that part will be blocked under regulation 27.</p>	<p>Yes, if the input tax incurred is allowable and you have claimed it, you have to account for output tax on the free parking provided to your employees, unless:</p> <ol style="list-style-type: none"> <li>1. There are transport constraints (refer to paragraph 8.11);</li> <li>2. Parking is provided to employees whose job function requires them to drive, e.g. salespersons; or</li> <li>3. Parking is free for members of the public and there are no reserved lots for employees.</li> </ol>

<sup>17</sup> "Specifically for parking motor cars" does not mean there must be reserved lots for motor cars. As long as the number of lots which may be used for parking motor cars can be reasonably ascertained, input tax on the proportion of GST attributable to the parking of motor cars will be blocked under regulation 27. For example, the number of motor car decals issued to employees can be used as a proxy to arrive at the disallowable portion of the GST incurred.

### **Entrance and subscription fees, education and training expenses**

<b>Transaction</b>	<b>Input Tax Claimable?</b>	<b>Account for Output Tax?</b>
Entrance and subscription fee for recreational / sporting clubs	No. Blocked under regulation 26.	No.
Entrance and subscription fee to professional bodies where the membership is relevant to an employee's job	Yes.	No
Education expenses for courses for employees that enhance their job performance	Yes.	No.
Education expenses for employees' family members	No. Blocked under regulation 26.	No.
Training expenses for courses that enhance employees' performance	Yes.	No.

### **Meals**

<b>Transaction</b>	<b>Input Tax Claimable?</b>	<b>Account for Output Tax?</b>
Food/Beverage provided for employees:		
a) At any staff canteen/cafeteria	Yes.	No.
b) At your office premises (e.g. pantry and food deliveries)	Yes.	No.
c) Working overtime	Yes.	No.
d) At the airport before and after business trips;	Yes.	No.
e) At company functions, events or meetings (e.g. annual dinner & dance, entertaining clients, and business meetings)	Yes.	No.
f) All other circumstances	Generally no.  For more information, please refer to paragraphs 8.14 to 8.16.	No.
Food/Beverage provided for spouse/child/ relative at company functions	No. Blocked under regulation 26.	No.

### **Clothing, accessories and personal grooming expenses**

Transaction	Input Tax Claimable?	Account for Output Tax?
Clothing and accessories (e.g. shoes, belts, bags, and eyewear)	Generally no.	No, unless:
Grooming-related products and services	<p>Exceptions are:</p> <ul style="list-style-type: none"> <li>(a) Uniforms and protective clothing required to be worn for work purposes;</li> <li>(b) You are in the business of selling the products worn by your employees; or</li> <li>(c) Your business requires staff to look attractive or project a uniform image when serving customers.</li> </ul> <p>For more information, please refer to paragraphs 8.17 to 8.20.</p>	<ul style="list-style-type: none"> <li>1. Input tax has been claimed as an exception in the middle column; and</li> <li>2. The cost of the good given away is &gt; \$200</li> </ul>

### **Medical expenses, health and wellness programmes, and insurance**

Transaction	Input Tax Claimable?	Account for Output Tax?
<p>Medical expenses</p> <ul style="list-style-type: none"> <li>a) Maternity health care, natal care, preventive and therapeutic treatment, medical consultation, medical examinations, hospitalisation, dental treatment</li> <li>b) Medicine</li> <li>c) Annual medical exam</li> </ul>	No. Blocked under regulation 26.	No.



<p>Medical expenses required under Work Injury Compensation Act or under a collective agreement made under the Industrial Relations Act:</p> <p>a) Maternity health care, natal care, preventive and therapeutic treatment, medical consultation, medical examinations, hospitalisation, dental treatment</p> <p>b) Medicine (including those billed separately from medical services)</p> <p>c) Annual medical exam</p>	<p>Yes.</p> <p>Necessary for the proper operation of the business as it is a regulatory requirement.</p>	No.
Medical examinations undergone by candidates as part of taxable person's pre-employment assessment process	<p>Yes.</p> <p>The business incurs this expense to assess whether the candidate is suitable for employment.</p>	No.
Health and wellness programmes	<p>Generally no.</p> <p>Exceptions are programmes organised as corporate activities/events that primarily promote staff interaction.</p>	No.
Insurance or the payment of compensation is obligatory under Work Injury Compensation Act	Yes.	No.
Insurance or the payment of compensation is not obligatory under Work Injury Compensation Act:		
a) Medical or accident insurance for employee (employee or company as beneficiary)	No. Blocked under regulation 26.	No.
b) Life insurance policy for employee (employee or company as beneficiary)	Exempt from GST	No.

### **Others**

Transaction	Input Tax Claimable?	Account for Output Tax?
Flexible benefits	<p>No.</p> <p>For more information, please refer to paragraph 8.24.</p>	No.

<p>Gifts:</p> <p>a) Special occasions such as employee's birthday, welcome gift, farewell gift and get-well gift for the employee; wedding of the employee, birth of the employee's child and bereavement of the employee or an immediate family member of the employee.</p> <p>b) Festive seasons such as Chinese New Year, Hari Raya, Deepavali and Christmas</p> <p>c) Awards or prizes given in recognition of your employee's work efforts and contributions</p> <p>d) During company events e.g. dinner and dance, family day, company retreats</p> <p>e) All other circumstances</p>	<p>Yes.</p> <p>Yes.</p> <p>Yes.</p> <p>Yes.</p> <p>Generally no. For more information, please refer to paragraphs 8.25 to 8.29</p>	<p>No, unless:</p> <p>1. Gift is a good (i.e. not a service);</p> <p>2. Input tax has been claimed; and</p> <p>3. The cost of the good is &gt; \$200</p>
<p>Holidays (in-bound) and recreational activities</p> <p>a) For employees</p> <p>b) For employee's family members</p>	<p>Generally no. Exceptions are corporate activities held primarily to promote staff interaction.</p> <p>For family members, the expenses are blocked under regulation 26.</p>	<p>No.</p> <p>No.</p>
<p>Relocation expenses:</p> <p>a) Cost of airfare</p> <p>b) Cost of temporary accommodation (e.g. hotel room, serviced apartment)</p> <p>c) Freight/storage charges to move personal effects</p> <p>d) Settling-in expenses (e.g. first purchase of beddings, kitchen appliances, subscription to broadband Internet access and enrolment for immersion programmes for expatriates).</p>	<p>No GST incurred.</p> <p>Yes, if the accommodation is for a period not exceeding 30 days.</p> <p>No, as it is for the personal benefit of the employee.</p> <p>Yes for immersion programmes as these are considered as similar to orientation programmes that will facilitate the employee to adapt to his work environment and function better.</p>	<p>No.</p> <p>No.</p> <p>No.</p> <p>No.</p>

	No for other settling-in expenses, which are for the personal benefit of the employee.	
Preparation of employee's income tax returns	No, as it is for the personal benefit of the employee.	No.
Preparation of employee's IR8A/IR8S and appendices thereof	Yes, as it is the employer's responsibility and not a fringe benefit.	No.
Credit card subscription (corporate card)	Yes, input tax can be recovered on the portion of subscription fee for corporate purchases.	No.