Complete Corporate Services

TAX ALERT

MAY 2025

Our monthly tax newsletter provides timely and relevant updates on key developments in Singapore's tax and regulatory landscape. From legislative changes to updates on compliance requirements, each issue is designed to help businesses stay informed of recent developments.

Scrutiny on Low-Value Refund Claims

On 19 May 2025, the Inland Revenue Authority of Singapore ("IRAS") announced a new area of focus under its Goods & Services Tax ("GST) audit programme, targeting GST-registered businesses that have made low-value GST refund claims. This move reinforces IRAS' risk-based approach, recognising that compliance errors can occur even when refund amounts are small.

IRAS' findings reveal that compliance risks remain present even in lower-value claims, prompting targeted audit reviews on such businesses. The audits typically involve site visits, document reviews, and interviews with key personnel to verify the legitimacy of claims and adherence to GST rules. Common errors identified include:

a. Dormant businesses making input tax claims in the absence of taxable supplies.
b. Input tax claims not supported by tax invoices / import permits addressed to the businesses or simplified tax invoices.
c. Input tax claims made on disallowed expenses such as motor car expenses and medical expenses.
d. Input tax claims made on private expenses (e.g. food & beverages expenses for family, utilities or maintenance fees for residential properties). GST-registered businesses should note that even if you operate your business from home, you are not allowed to claim input tax on expenses related to housing expenses as they are considered personal in nature.
e. Zero-rated supplies on export of goods not supported by proper export documents.

This latest development underscores the importance of maintaining robust GST documentation, internal controls, and governance frameworks, even where refund amounts appear immaterial. Businesses should not assume that low-value claims will escape scrutiny.

Recommended Action

To mitigate risk, GST-registered businesses are strongly encouraged to proactively conduct a thorough review of their past GST filings and input tax claims, particularly those involving small refund amounts. Where discrepancies or potential errors are identified, businesses should consider making a disclosure under IRAS' Voluntary Disclosure Programme ("VDP"). Timely and voluntary correction through the VDP can help businesses benefit from reduced penalties.

Should you require assistance in conducting a comprehensive self-review of your GST filings or need support in preparing disclosures under the VDP, our team is ready to help. We can provide tailored guidance, review your GST records, and help strengthen your GST compliance framework to minimise risks and enhance your governance controls

Novation of Agreement for Internal Group Structuring

On 14 May 2025, IRAS released a summary of an advance ruling addressing whether the novation of certain trading agreements ("Agreements") from Company A to Company B, rising from an internal group restructuring, constitutes a capital and non-taxable transaction under the Section 10(1) of the Singapore Income Tax Act ("SITA").

Key Background Facts

- Company A and Company B are subsidiaries ultimately owned by Company X. Company X is the ultimate holding company of X Group.
- Company A is a subsidiary of the A Group but Company B is not part of the A Group.
- In anticipation of X Group's divestment from A Group, Agreements linked to Business Segment Y must be novated from Company A to Company B in line with regulatory requirements.
- The novation involves Company B issuing a promissory note to Company A at fair market value, with no accompanying transfer of inventories or other business assets.
- Company A had no profit-seeking motive at the time of novation and this novation of the Agreements is the second novation of agreements by Company A.
- Company A will cease operations in Business Segment Y following the novation.

IRAS' Ruling

The novation of the agreements from Company A to Company B shall be treated as a capital transaction, and therefore, any gains arising are not taxable under the provisions of the SITA.

In arriving at this conclusion, IRAS has considered several key factors:

a. Intention of Company A at the time of entering into the Agreements;
b. The circumstances leading to the novation of the Agreements;
c. Frequency of similar transactions by Company A; and
d. Company A will cease to operate Business Segment Y subsequent to the novation of the Agreements.

The IRAS has cautioned taxpayers that the published summary of an advance ruling serves only as a general reference. It is binding solely on the applicant and pertains exclusively to the specific transaction under review. Taxpayers should exercise caution in relying on such summaries, as the Comptroller is not obliged to adopt the same tax treatment for other transactions, even if they appear similar.

As each tax situation is unique, we encourage businesses to consult with us before relying on published advance rulings. What may appear similar on the surface may be treated differently by the authorities. Our team can help you assess your specific arrangements and, where appropriate, support you in applying for an advance ruling from IRAS to obtain greater certainty.

If you require any clarification on the updates shared in this newsletter or would like to discuss how these developments may impact your business, please feel free to reach out to us. Our team is ready to assist you with your tax compliance and advisory needs.

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