

Tax alert

Issue 3 | February 2023

Updates on GST claims for motor cars and related expenses

In this issue, we discuss the recent relaxation of GST claims on the purchase of motor cars and related expenses from 1 January 2023.

With the advent of technology and the gig economy, the modes for business operations have inevitably evolved. Platforms facilitating the transport of passengers and goods such as Grab, Gojek and TADA have largely taken over traditional taxi operators. More individuals are also joining the gig economy and offering chauffeur service.

The goods and services tax (GST) legislations are reviewed periodically to keep up with changes in the economy and business landscape. One such revision relates to GST claims on the purchase of motor cars and their related running expenses. Before 1 January 2023, GST incurred on the purchase and running expenses of a motor car was not claimable by businesses — with a few exceptions, such as for taxi operators and driving schools.

With the easing of taxi operation license restrictions, platforms connecting drivers and passengers can now offer taxi operating services. They may buy motor cars for lease to drivers. Alternatively, drivers may buy their own motor cars to provide chauffeur service.

Since both the platforms and drivers are providing services which attract standard-rate GST when provided to local passengers, GST incurred on both the motor cars purchased, which is by no means small, as well as related running expenses should be claimable.

From 1 January 2023, the GST legislation has been amended to allow GST claims on both the purchase and related running expenses of a motor car for businesses which offer chauffeur service or cars for lease or hire. Individuals or groups who wish to claim GST will need to meet the qualifying conditions, such as registering under the Business Names Registration Act 2014 and maintaining a fleet of at least

three chauffeured private-hire cars and three chauffeurs (including the owner), to demonstrate that they run a service business. Such transport services are not confined to passengers but also extend to goods such as food and baggage.

GST on related motor car running expenses

Businesses such as hotels offer chauffeur service to their guests for a fee. Prior to 1 January 2023, the GST incurred by these businesses was not claimable. Such a position was untenable as the GST incurred should be borne by the consumers and not by businesses which provide such services to them.



This may otherwise lead to a cascading tax effect where unclaimable GST is eventually passed on from businesses to consumers in the form of higher fees. Consumers would end up paying more than the 8% GST levied (rate to be increased to 9% come 1 January 2024).

The Inland Revenue Authority of Singapore (IRAS) has received this feedback favourably. From 1 April 2022, an administrative concession was granted to allow businesses to claim GST incurred on the purchase of point-to-point passenger transport service (payer-trip) in a chauffeured private-hire car such as an airport transfer shuttle. To claim the GST incurred, the usual conditions such as maintenance of tax invoices or simplified tax invoices with GST charged must be met. For instance, businesses should maintain a tax invoice or a simplified tax invoice (for amount no more than S\$1,000 including GST) from the GST-registered limousine service provider showing that GST has been charged on the service.

The GST legislation has now been amended to allow this claim with effect from 1 January 2023, replacing the administrative concession.

From 1 January 2023, you are also allowed to claim GST on the cost and running expenses of a motor car where it is used by a third party (not your employees or a connected person such as your related companies), provided you meet the usual conditions for claiming input tax such as the maintenance of tax invoices issued in your company's name and the incurring of expenses for the making of taxable supplies.

Examples of such costs and running expenses include GST



incurred on parking fees charged to you when your customers park their motor cars while visiting your business premises and repair costs of your customer's motor car damaged due to faulty lighting in your car park.

Recovery of motor car and related expenses from related entities

Prior to 1 January 2023, you could claim GST on the portion of expenses recovered from your related companies by means of an IRAS administrative concession when you purchased a group motor car insurance policy for your company and your related companies and recovered the expenses in full or in part from your related companies. This concession did not apply if you were providing management services to your related companies and your management fees were based on a cost-plus pricing model. Your cost would usually include operating expenses such as rent, utilities, salaries and motor car insurance charges. In this scenario, GST on the motor car insurance was not claimable.

With effect from 1 January 2023, the GST legislation has been amended to replace the administrative concession.

Our comments

The relaxation of GST claims on the purchase and related running expenses of a motor car, including parking charges, is a welcome change after many years of appeal to the IRAS. This has aptly addressed businesses' concerns about rising business costs and cascading tax effects.

If you are running a hotel or restaurant and offer complimentary parking to guests or customers, the GST incurred by you on your car park can now be claimed. Similarly, if you own shopping malls and offer complimentary parking to shoppers, GST incurred on the car park is now part and parcel of your operating expenses and can be claimed.

How we can help

As a committed tax advisor to our clients, we can advise you on how the relaxation of the abovementioned GST claims affects your business, in particular if you have not been claiming GST on motor car-related expenses where neither you, your related companies nor your employees own the motor cars. We can also advise you on documentation needed to substantiate your GST claims.

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