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Indirect tax alert

This alert provides insights to the current areas of focus of the IRAS' audits and how to mitigate common compliance risks.

Goods and Services Tax: Areas of audit focus

Background

The Inland Revenue Authority of Singapore (IRAS) conducts regular Goods and Services Tax (GST) audits to ensure compliance with GST obligations and deter non-compliance among businesses. In recent years, the IRAS has focussed its enforcement on several high-risk GST areas.

Generally, a GST audit involves verifying that GST has been properly accounted for and claimed for sales and purchases transactions respectively, and the values are reported accurately and on a timely basis in the businesses' GST returns. Based on the IRAS FY2023/ 2024 annual report, 2,521 GST audits were completed across various industries, resulting in a recovery of S$162mn by the IRAS, including penalties.

Businesses, regardless of size or type (e.g., sole-proprietors, partnerships and corporates), are at higher risk of GST errors and penalties if they lack proper oversight of their GST compliance. Conversely, businesses with strong GST governance can avoid costly GST errors. Key elements of strong GST governance include personnel with sound and adequate GST knowledge, good records keeping, robust internal controls and systems, and regular GST reviews.

Businesses making low-value GST refund claims

As part of IRAS' risk-based compliance approach, the IRAS has embarked on an audit programme focusing on GST-registered businesses that have claimed low-value GST refunds to ensure that they are compliant with the GST rules and their refund claims are legitimate.

During the IRAS' audit, they may visit the business premises to interview key personnel to understand their business operations and activities and review their records. In addition, they may require the businesses to review their GST returns submitted and disclose any errors found.

Common GST errors

The IRAS has noted the following common GST errors during their audits:

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

Penalties associated with GST errors

Businesses who are found to submit an incorrect return may be penalised for up to two times the amount of tax undercharged and liable to a fine and imprisonment term. In addition, businesses may need to expend significant resources to perform quantification and rectification of errors up to a period of five years.

Our recommendations

To avoid costly GST errors and penalties, we recommend that businesses:

- Ensure proper controls are in place to prevent the making of GST errors or detect GST errors made
- Maintain accurate and complete records to support all transactions made for a period of up to five years
- Perform regular reviews to ensure accuracy in GST reporting
- Invest in regular training for relevant personnel to ensure they are equipped with sound and adequate GST knowledge
- Consider undertaking self-initiated GST compliance programmes offered by the IRAS, such as GST Assisted Compliance Assurance Programme (ACAP) and Assisted Self-help Kit (ASK) review to enhance GST compliance

If errors are found, businesses are encouraged to voluntarily disclose the GST errors to enjoy a full waiver or reduced quantum of penalties, subject to meeting conditions.

Contact us

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