

# Goods and Services Tax (GST)

## Updates on GST treatment for the supply of carbon credits

This alert provides a summary of the recent updates on the GST treatment for the supply of carbon credits.

### Definition of carbon credit

Generally, carbon credits are issued or verified by government registries, or independent standards or registries such as Verra, Gold Standard, Climate Action Reserve and American Carbon Registry. Each verified carbon credit would be issued with a unique serial number.

A carbon credit refers to:

- ▶ A certificate representing an amount of greenhouse gas emissions reduction or removal, generated from any project or programme, and includes a certificate representing the avoidance of an amount of such emissions.

Or

- ▶ A right to emit any greenhouse gas.

Or

- ▶ A means to satisfy any tax or regulatory obligation arising from the emission of any greenhouse gas.

This includes a carbon credit issued by the National Environment Agency (NEA) for businesses to meet their carbon tax obligations in Singapore.

## GST rules prior to 23 November 2022

### Supply of carbon credits

The issuance of carbon credits by the NEA is an excluded transaction for which GST is not chargeable. However, the issuance, transfer or sale of any other carbon credit (or any digital representation of the carbon credit<sup>1</sup>) in return for a consideration is a taxable supply of services prior to 23 November 2022. The supply is standard-rated if it is made to a local person, but would qualify for zero-rating under section 21(3)(j) of the GST Act if it is made to a person belonging outside Singapore.

### Purchase of carbon credits

Prior to 23 November 2022, the purchase of carbon credits from overseas exchanges or overseas suppliers constitutes a supply of taxable services, and hence falls within the scope of imported digital services. Businesses in Singapore were required to assess whether such purchase is subject to GST under the reverse charge. Similarly, overseas businesses are required to assess whether they are liable to register for GST under the overseas vendor registration regime if they supply carbon credits to non-GST registered customers in Singapore.

### Claiming GST incurred on the purchase of carbon credits

GST incurred on the purchase of carbon credits (including any GST paid on related service fees incurred in the course of the purchase) is claimable under the following circumstances:

- ▶ If the carbon credits are resold before 23 November 2022, the GST incurred is treated as directly attributable to the taxable supply of carbon credits and is therefore claimable in full.
- ▶ If the carbon credits are meant for one's own business use to offset carbon emissions for compliance purposes or to voluntarily reduce the carbon footprint of the business, the GST incurred is claimable as 'residual input tax' and subject to the other conditions for claiming input tax. Specifically, GST-registered businesses who are partially exempt will be required to apportion the residual input tax according to their input tax recovery formula.

## GST rules with effect from 23 November 2022

### Supply of carbon credits

The issuance, transfer or sale of any carbon credit (or any digital representation of a carbon credit<sup>1</sup>), including those issued by the NEA, is treated as neither a supply of goods nor a supply of services (i.e., an excluded transaction). GST is not chargeable on the consideration received for the issuance, transfer or sale of the carbon credit.

### Purchase of carbon credits

As the issuance, transfer or sale of any carbon credit is an excluded transaction and will not be regarded as a supply, carbon credits purchased from overseas exchanges or overseas suppliers will fall outside the scope of imported services and are not subject to GST.

### Claiming GST incurred on the purchase of carbon credits

GST incurred on the purchase of carbon credits (including any GST paid on related service fees incurred in the course of the purchase) is claimable under the following circumstances:

- ▶ If the carbon credits are held for resale on or after 23 November 2022, the GST incurred is treated as directly attributable to the excluded transaction and hence not claimable.

In order not to disadvantage businesses that have already incurred GST on the purchase of carbon credits before 23 November 2022 with the intention to make taxable supplies, a ministerial remission under section 89(2) of the GST Act has been granted to allow full input tax incurred on such carbon credits purchased before 23 November 2022 but are only sold on or after 23 November 2022.

- ▶ If the carbon credits are meant for one's own business use to offset carbon emissions, the treatment of the GST incurred remain unchanged. The GST incurred is still regarded as 'residual input tax' and should be apportioned based on the input tax recovery formula of the GST registered businesses.

### Supply of carbon credit related services

There is no change to the GST treatment on the supply of carbon credit-related services, for example, carbon exchange services, brokering services and legal services. Such carbon credit-related services are subject to GST at the prevailing standard rate unless the services qualify for zero-rating under section 21(3) of the GST Act.

<sup>1</sup> A digital representation of a carbon credit includes a digital image of a carbon credit created using blockchain technology.

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