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GST Update on Carbon Credits
- ***Music to one's ears, eh, whose ears?***

IRAS has updated the GST treatment for the supply of carbon credit with effect from 23 November 2022. The definition of carbon credit includes the issuance, transfer or sale of any carbon credit or digital representation of carbon credit, including carbon credits issued by the National Environment Agency (NEA).

But first… what is a carbon credit and how does it work?

The carbon credit is introduced with the intention to control carbon emissions from the businesses and to ensure that carbon emissions do not exceed the maximum acceptable level of the country. Hence, a carbon credit is generally purchased by companies to gain permission to generate carbon emissions and is usually purchased from the government.

Prior to 23 November 2022…

1. Only the issuance of carbon credits by the NEA is not GST chargeable (i.e. an excluded transaction outside the scope of Singapore GST).

Where carbon credits are issued, transferred or sold in return for a consideration, there is a taxable supply of service and the supply will be standard-rated if it is made to a local person and zero-rated if the supply is made to an overseas person belonging outside Singapore (i.e. pursuant to section 21(3)(j) of the GST Act).

2. Carbon credits purchased from an overseas person or overseas exchanges will fall within the scope of imported digital services. Hence, the purchase of carbon credits may be subject to GST under the reverse charge or overseas vendor registration regime.

3. The business can claim GST incurred on the carbon credits purchased which are resold by the business. This is on the basis that the input tax incurred were directly attributable to the taxable supply of carbon credits.

With effect from 23 November 2022…

1. The issuance of, transfer or sale of any carbon credit or digital representation of a carbon credit (including those issued by the NEA) will be treated as an excluded transaction (i.e. GST is not chargeable on the consideration received).

2. Carbon credits purchased from an overseas person or overseas exchange fall outside the scope of imported services and are not subject to GST.

3. Input tax incurred on carbon credits held for resale or purchased on or after 23 November 2022 is directly attributable to an excluded transaction and cannot be claimed.

But fret not! A Ministerial remission has been granted to allow businesses who have incurred GST on purchases of carbon credits prior to 23 November 2022 to claim input tax in full if the businesses had purchased the carbon credits before 23 November 2022 with the intention to make taxable supplies.

What has not changed?

1. Supply of services relating to carbon credits (e.g. carbon exchange services, brokering services) remains standard-rated unless it qualifies for zero-rating.

2. Input tax remains claimable (albeit residual in nature) on expenses incurred where carbon credits are purchased for your own business use to offset carbon emissions.

BUT...

What if you are purchasing carbon credit for the purposes of trading it for a profit after 23 November 2022? For example, THE carbon credit exchange? A trading desk whose primary objective is to identify trading opportunities (including the trading of carbon credit).

The IRAS has on their website stated that the GST incurred for the purchase of such carbon credit would not be claimable since it is directly attributable to the excluded transaction

Note: *We will reserve our comments to this rationale of not allowing input tax because it is directly attributable to an excluded transaction. The last we checked, there are four other items that are included in GST (Excluded Transactions) Order and another list of supplies under the GST (Non-Taxable Government Supplies) Order. We are not sure whether the IRAS has adopted the same position of disallowing the input tax for the above, and if not, why is only the GST incurred on carbon credit disallowed?*

While we don't expect the GST cost (e.g. brokering services, legal services, exchange fees) to be significant, it is important to set up a process to prevent the GST incurred flowing through your accounts payable process as though it is a valid input tax claim and if it gets through the accounts payable process, what can you do to detect it before the filing of the quarterly GST return.

The cost of rectifying a process that was not set up properly during the initial stage would definitely be much higher than the GST that the company has erroneously claimed.

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