

## Tax Treatment on Donations with Benefits made on or after 19 March 2021



On 19 March 2021, the Inland Revenue Authority of Singapore (IRAS) published an e-Tax Guide on “Tax Treatment on Donations with Benefits (Donations made on or after 19 March 2021)”. This e-Tax Guide sets out the concessionary tax treatment for cash donations made on or after 19 March 2021, with certain benefits received in return and is relevant for Institutions of Public Character (IPCs) or a registered charity [hereinafter “Charity”].

The IRAS currently grants a 2.5 times tax deduction<sup>1</sup> (known hereafter as “deduction”) on donations made to IPCs. However, where the donor receives a benefit in return for the donation made to a Charity:

- i. The deduction is granted only on the difference between the donation and the value of benefit; and
- ii. Goods and Services Tax (GST) has to be accounted for by the recipient of the donation (i.e. the Charity).

For the avoidance of doubt, the IRAS has made clear

that mere acknowledgment by the Charity for donations made *would not confer a benefit, provided all the following conditions are satisfied:*

The acknowledgement is a display of the donor’s logo and/ or name on the Charity’s collaterals;

- i. Accompanied with the words such as “with compliments from”/ “in acknowledgement of”/ “special thanks to”/ “with appreciation to”, or the equivalent;
- ii. There are no comparative or qualitative descriptions, slogans, locations, contact details, or a description (including displays or visual depictions) of donor’s products or services; and
- iii. There are no links or tags to donor’s website and social media platform.

Notwithstanding the above, the IRAS reserves the right of determination based on the facts and circumstances on the case.

<sup>1</sup>Up to 31 December 2023. This will revert to 2 times tax deduction thereafter, unless there are further updates to the existing tax legislation.

## Administrative concession on benefits deemed to have no commercial value

To support philanthropic giving and to ease compliance, the IRAS has (since 2006) applied an administrative concession i.e. to allow the donor a full tax deduction and to waive the requirement for the recipient to account for GST, where such donations with benefits received in return in connection with a fundraising activity are deemed to have no commercial value<sup>2</sup>. The specified list (intended to be exhaustive) as prescribed by the IRAS is listed as follows:

- a) Charity gala dinner<sup>3</sup>
- b) Charity show<sup>3</sup>
- c) Golf tournament<sup>3</sup>
- d) Not-intended-for-resale complimentary tickets; and
- e) Souvenir or gift that is not commercially available for sale in the market<sup>4</sup>

## Lucky draws

Prior to 19 March 2021, where a lucky draw is held as part of a fundraising event or a standalone lucky draw, no tax deduction would be allowed to the donor and GST had to be accounted for by the recipient on the gross donation received.

Based on feedback that lucky draws included as part of fundraising events are typically small scale with modest prizes, the IRAS has extended the current administrative concession to lucky draws held as part of fund raising events – specifically charity gala dinner, charity show or golf tournament **from 19 March 2021**:

- a) Where the top prize does not exceed S\$2,000. However, there may be a deemed supply of goods given free as lucky draw prizes and the Charity will need to account for GST on the market value of the prizes when the following are met:
  - i. The gift costs more than S\$200 (exclusive of GST); and
  - ii. Input tax had been claimed on the purchase or import of the gifts.

- b) Where the top prize exceeds S\$2,000, the administrative concession would not apply. In this case, the donor would not be entitled to tax deduction and GST must be accounted for by the donation recipients on the lucky draw activity and this is taken to be the market value of all the lucky draw prizes<sup>5</sup>. The main fundraising event will continue to qualify for GST concessionary treatment if it falls into the categories as prescribed by the IRAS, i.e., the recipient will not need to account for GST on the main event.

The administrative concession will continue not to apply to standalone lucky draws that are not held as part of a fundraising event, on the basis that they are considered as an outright sale. In this regard, no tax deduction is allowed on the donation. Additionally, GST should be accounted for by the recipient on the gross donations received. Where the payouts are in the form of cash, the recipient may account for GST on the gross donations received less the cash payouts.

## Other benefits

Where the benefit received falls outside the specified list e.g. advertising space, goods offered at charity auction and sales of artefacts, the IRAS' administrative concession would not apply i.e. the tax deduction will be granted after netting off the market value of the benefits<sup>6</sup> and GST will have to be accounted for on the open market value of the benefits.



<sup>2</sup>For donations made before 19 March 2021, incidental benefits are deemed to have no commercial value and therefore qualify for the IRAS administrative concession, if the benefit is given in acknowledgement of the donation and has no resale value.

<sup>3</sup>From 19 March 2021, these would include any incidental benefits such as a goodie bags, refreshments, meals, lucky draws, carpark coupons, live entertainment, acknowledgements etc. that are given as part and parcel of a fundraising event and are not intended for resale (i.e. indicated as "not-for-sale", not in a form or packaging that is typically sold commercially; or informed by the Charity to the donor that the item is not intended for resale).

<sup>4</sup>The souvenir or gift e.g. plaques, commemorative books (a) is specially made for a particular fundraising event and not available for sale in the market; (b) bears the logo of the recipient of the donation or; (c) carries the fundraising message.

<sup>5</sup>The market value of all lucky draw prizes is used as a proxy for value of the lucky draw service provided by the Charity. Hence, the recipients of the donations will have to account for GST on the market value of all lucky draw prizes, regardless of the nature of the goods (include residential property or cash) or services given out.

<sup>6</sup>Where relevant, the market value / price of a benefit may be determined using the following methods (in order of priority): (i) Retail price of the benefit; (ii) Retail price of a comparable benefit (iii) Opinion of experts, e.g. via a valuation report; (iv) Cost to the recipient for providing the benefit.

## At a Glance

For your ease of reference, the tax treatment on donation with benefits before and on or after 19 March 2021 are summarised as follows:

| Benefits Received by Donor in return for Donations made   | Before 19 March 2021  | On or After 19 March 2021   |
|---|---|---|
| <p><b>Charity gala dinner</b><br/><b>Charity show</b><br/><b>Golf tournament</b></p>  | <p>Administrative concession applies (including tickets to attend events and for golf tournament, the golf game for the donor).</p>   | <p>Administrative concession continues to apply and extends to any incidental benefits (per footnote 3). This includes lucky draws held as part of the stipulated fundraising event, subject to conditions.</p> |
| <p><b>Not-intended-for-resale complimentary tickets</b><br/><b>Souvenir or gift that is not commercially available for sale in the market</b></p> | <p>Administrative concession applies.</p>   |   |
| <p><b>All other donation benefits</b></p>   | <p>Administrative concession would not apply.</p> <p>Deduction amounts, where available, may only be granted up to the difference between the donated amount and the price or market value of the benefit.</p> <p>GST would need to be accounted for by the recipient of the donation on the price or open market value of the benefit.</p> <p>However, where Charities deem that the benefits have no actual commercial value, they may consider writing in to the IRAS to seek applicability for the administrative concession on a case-by-case basis.</p> |   |
| <p><b>Outright sale of goods and services</b></p>   | <p>Administrative concession would not apply.</p> <p>Deduction would not be granted to the donor and prevailing GST legislations apply for the recipient of the donation.</p>   |   |





## Our thoughts

The extension of the administrative concession to certain lucky draws and the clarification on the prescribed list of benefits (including incidental) related to prescribed fundraising activities by the IRAS is aligned with the Government's efforts to support philanthropic giving and to ease compliance efforts for the Charities, which could in turn channel such efforts to their core charity work and serve the community.

While complying with the updated GST requirement may cause administrative inconveniences to the Charities, this is to ensure that the principle of paying GST on local consumption is not compromised.

For donors, there is nonetheless greater certainty as to what constitutes a donation acknowledgment vis a vis an advertisement based on the IRAS' guidelines for the purposes of determining the tax deduction.

In the spirit of encouraging philanthropy in the current age of digitalisation, we believe more can be done by the IRAS in allowing links or tags to donor's websites

and social media platforms, where donations may be virtually run by donors on their digital platforms.

## How we can help

As the tax changes/ clarifications provided by the IRAS would impact Charities, KPMG in Singapore would be pleased to render the following assistance:

- i. Making an application to the IRAS to seek administrative concession treatment on donation benefits that may not have commercial value that are outside of the prescribed list;
- ii. Fulfilment of the necessary GST obligations under the new rules; and
- iii. Valuation assistance, where required

KPMG in Singapore also has extensive experience in working with charities on reviews of its governance (including tax), compliance and internal controls framework. As a committed advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.



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