

How does the latest GST treatment affect carbon trading in Singapore?

An addendum to KPMG in Singapore's Oct 2022 whitepaper on "Understanding the tax costs of carbon trading in Singapore"

Following KPMG in Singapore's [Whitepaper in October 2022](#) noting the taxable goods and services tax (GST) treatment of voluntary carbon trading, it was reported in the media that the Inland Revenue Authority of Singapore (IRAS) has moved to waive the tax from such activities.

The [IRAS has said](#) that from 23 November 2022, the issuance, transfer and sale of carbon credits including the digitised form is to be treated as "neither a supply of goods nor a supply of services, i.e. an excluded transaction" for GST purposes. The IRAS also confirmed that such transactions conducted prior to that date would be subject to GST. This clarifies the GST treatment of carbon trading, cuts costs for businesses and may help to foster Singapore's carbon credit market.

Q&A: Implications of new GST treatment on carbon trading in Singapore

What was the previous rule for GST for carbon credits?

The issuance of carbon credits prior to 23 November 2022 to a local person, except for those issued by the National Environment Authority, was taxable at 7 percent GST. Similarly, the sale of carbon credits after the issuance to a local person was subject to 7 percent GST.

How does the update simplify things for businesses?

With this amendment, both the issuance and sale of carbon credits, including the digitised form, are outside the scope of GST. This simplifies GST compliance and removes related costs as issuers and sellers of carbon credits, including in tokenised form, do not need to charge to GST on these transactions to local buyers.

What are some considerations for businesses resulting from this announcement?

Businesses should consider transactions prior to 23 November 2022 and assess implications such as whether these were subject to GST. If they had not been complying with the former GST rule on carbon credit transactions due to any lack of understanding on this in the nascent market, they should now disclose this to the IRAS. Moving forward, they should update their accounting system to ensure that no GST is charged from the effective date. Such transactions would thus not be reported in the GST returns.

What are the implications for the carbon market ecosystem in Singapore and abroad?

Singapore's waiver of GST on carbon trading is a step in the right direction to anchor the country's position as a carbon services and trading hub. In addition, the GST waiver for transactions in the

voluntary carbon credit market can bring great cost savings. Prior to the new amendment, GST on each transaction represented an additional 7 percent cost – which is a cost that would correspondingly have increased along with the GST hike. Given that these transactions are typically of high value, this amendment can translate to significant cost savings. This in turn will raise strong interest amongst carbon trading players.

The decision should foster the growth of carbon credit trading in Singapore, taking it to greater heights. More trading activities may lead to positive spinoffs for other players in the carbon trading chain. This bodes well for carbon market ecosystem in Singapore, which is still at a nascent stage as compared to those of other countries.

What does this move mean for Singapore's climate action?

The GST move illustrates the importance that Singapore places on developing an international carbon marketplace and services ecosystem to support international decarbonisation efforts. The waiver helps to support the growth of the carbon trading industry, while also supporting organisations on their decarbonisation journeys.

Are there any other tax-related areas that could be addressed to further boost carbon trading in Singapore?

We already see multiple uses of carbon credits across industry sectors. Some multinationals generate and sell carbon credits within their group, others centralise management of carbon emissions in one entity, while a third group uses centrally sourced carbon credits to create new types of green products to sell to customers.

There is some uncertainty regarding how to determine an appropriate arm's length price given the unique economic attributes of such activities. To further enhance the attractiveness of Singapore as a carbon trading hub, the IRAS could consider issuing guidance on the transfer pricing considerations relevant to carbon credits.

KPMG will issue a separate analysis of these scenarios in our next article on this topic.

How can KPMG help?

With the increasing urgency to reduce emissions and reach national net-zero targets by 2050, Singapore's carbon trading market will continue to grow.

The tax teams at KPMG in Singapore are well-positioned to partner with you in your journey towards environmental sustainability by helping you to increase your awareness of the tax landscape for carbon trading, identify opportunities for tax optimisation ensure that you comply with the relevant laws and regulations. In addition, we also represent businesses to seek tax certainty and concession on the treatment where current legislation is unclear.

Please reach out to any of the key contacts listed to discuss further.

Contact us

Mark Addy

Partner
Energy & Natural Resources,
Telecommunications, Media
& Technology, Tax
T: +65 6508 5502
E: markaddy@kpmg.com.sg

Gan Hwee Leng

Principal Consultant
Indirect Tax
T: +65 6213 2813
E: hweelenggan@kpmg.com.sg

KPMG

12 Marina View, #15-01
Asia Square Tower 2
Singapore 018961
T: +65 6213 3388
F: +65 6225 0984

kpmg.com/socialmedia



© 2022 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

KPMG is a global organization of independent professional services firms providing Audit, Tax and Advisory services. KPMG is the brand under which the member firms of KPMG International Limited ("KPMG International") operate and provide professional services. "KPMG" is used to refer to individual member firms within the KPMG organization or to one or more member firms collectively.

© 2022 KPMG Services Pte. Ltd. (Registration No: 200003956G), a Singapore incorporated company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.