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Implications of GST Changes in Singapore 2018 Budget



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Singapore has been considering how to tax online commerce and has introduced GST on imported digital services in the 2018 Budget. What does this mean for overseas suppliers and what steps should they be taking to prepare for this tax?

Significant changes to Singapore's Goods and Services Tax ("GST") system were announced by Finance Minister Heng in the recent 2018 Budget. None of the prospective changes were surprising, as the government had been undertaking a variety of consultations and had been indicating the prospective changes, in light of the evolving ways in which the world does business along with local economic factors.

GST Rate Increase

The announced increase in GST to 9 percent, sometime on or after January 1, 2021, obviously captured the public's attention. Singapore has maintained a relatively low standard rate of GST at 7 percent for many years. However, the government is seeking to raise revenues to meet the needs of the country for up

to the next 30 years. Singapore is keen to maintain an attractive and competitive environment for businesses: the government is therefore unlikely to raise direct taxes and increasingly likely to raise indirect taxes or consumption taxes to meet its future revenue requirements.

Businesses should be given plenty of time to prepare for the change, which may include the need to re-program commercial and accounting systems, taking account of any transitional provisions. The effect of the proposed increase will fall most heavily on consumers who are not entitled to compensating GST vouchers and businesses that are not able fully to recover GST on their costs. Subject to any anti-avoidance provisions, it might become attractive to make prepayments for significant purchases.

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Two Measures to Impose GST on Services from Overseas Suppliers

Singapore will introduce two measures from January 1, 2020 to impose GST on services bought from overseas suppliers. Both measures are widely applied by other countries that operate GST/VAT systems and are in accordance with OECD guidelines. The implementation has been anticipated for some time and was confirmed in the recent Budget. The Inland Revenue Authority of Singapore has drafted two helpful guides which set out how the provisions are intended to operate, but the necessary changes to the legislation have yet to be implemented and public consultation is ongoing at the time of writing.

The aim of both measures is to help create a level playing field to ensure that suppliers in Singapore are not at a disadvantage when competing with suppliers based overseas—i.e., GST should be payable by the consumer in either case.

The first measure is the “reverse charge” which will require businesses registered for GST to pay GST at the Singapore rate on services bought from overseas suppliers.

The second is “overseas vendor registration” which will require overseas businesses that provide services to non-GST registered consumers, including individuals, to register for and to pay GST in Singapore.

Under the current proposal both measures are subject to relatively high thresholds so that small businesses should not be unduly affected. More detail on the proposed changes can be found below.

Reverse Charge

This is referred to as a business-to-business (“B2B”) measure, but actually applies only to businesses that are registered for GST. The GST registered business must pay GST to the tax authorities on the value of the services it imports, but can treat this payment as input tax and recover the GST in the same way as if it had been charged locally. In practice, if the recipient business can recover all its input tax it is not required to apply the reverse charge. The provisions are therefore primarily applicable to GST registered entities that are unable to recover all the GST they incur. These businesses are then referred to as an “RC Business.”

If a business that is not registered for GST imports services, or expects to import services, to a value more than S\$1 million (approx. \$758,000) in a 12-month period, it is required to register for GST and to apply the reverse charge. Such business must then apply the normal GST rules to all its activities.

The reverse charge also applies to services supplied between branches of the same legal entity and to services provided between companies in a GST group; in each case where the recipient of the service is established in Singapore and the supplier is overseas.

The reverse charge does not apply to services that would be exempt or zero-rated if they were provided by a supplier based in Singapore. Note at this point that the provisions which restrict zero rating to services which directly benefit a person outside Singapore will be amended to allow zero rating for services to an overseas person where the services are for the direct benefit of an overseas person or for a person registered for GST in Singapore. The application of

the reverse charge will then tax the services when charged (back) to the GST registered person in Singapore.

The reverse charge should be applied in accordance with the normal time of supply rules and be recognized at the earlier of the date of payment or the invoice date. However, businesses can use the date the invoice is posted to their accounts if this is applied consistently.

In addition, businesses that may be able to recover all their input tax but must perform longer period adjustments, typically those businesses that have exempt income and fluctuating levels of input tax recovery but do not apply fixed percentages, can choose to apply the reverse charge at the end of their longer period return.

The reverse charge is based on the value of the supply. Thus, in a typical example if S\$100 is paid for a service, tax of S\$7 has to be recognized, both as output tax and as input tax. Where the payment made does not accurately reflect the true value of the service, for example between connected persons or where there may be an element of barter, the open market value of the service must be determined and tax based on that value. There will also be provisions to tax services between connected parties where payment, or issue of an invoice, does not determine a tax point by setting a date 12 months after the basic tax point for the service—subject to certain exceptions.

In some circumstances the value on which the reverse charge is based is not the full value of the supply. This can occur where GST has previously been incurred in the supply chain or where salaries and interest costs, together with any appropriate mark-up, are included in inter-branch charges for transfer pricing purposes. Note, however, that normally transfer pricing adjustments will attract the reverse charge in the same way as the service to which they relate.

Transitional provisions will be implemented both to establish the extent to which services crossing January 1, 2020 are subject to the reverse charge and when registration for GST is required for an otherwise unregistered business.

Overseas Vendor Registration and Taxation of Digital Services

Singapore, along with many countries in the world, has been considering how to tax online commerce directly and is one of the early movers in this regard.

To level the playing field and stop distortion of competition, overseas vendor registration is a business to consumer (“B2C”) measure that requires overseas vendors to register for, to charge and to pay GST on certain sales made to consumers based in Singapore who are not registered for GST.

The rules will apply to significant supplies of digital services: essentially those services that are provided by electronic means with minimal human intervention and would be impossible without IT infrastructure—sometimes also referred to as “digital goods.” Examples include downloaded music, books and films; subscriptions to publications; software programs; electronic data management; and electronic support services such as commission and services charges made in support of a non-digital transaction.

Where non-digital services are provided in a combined supply with a principal supply of digital services, GST may be paid on the combined supply.

The measure does not apply to telecommunication services, as suppliers of such services should have a base in Singapore and be registered for GST because of formal licensing requirements.

Operators of electronic marketplaces, both those established in Singapore and overseas, may be regarded as the supplier if they are selling digital services on behalf of an overseas supplier. In such case the marketplace operator will have to register for and to pay GST in Singapore in respect of B2C supplies, rather than the overseas vendor.

The rules will only apply to vendors who have a global annual turnover of more than S\$1 million and expect B2C sales in Singapore to exceed S\$100,000. For electronic marketplaces this refers to their gross turnover, including those sales of the vendors which they have facilitated, as they are treated as making the supplies which they arrange.

Non-business consumers will be regarded as belonging in Singapore where they have their usual place of residence in Singapore. If this cannot easily be established the vendor should use two of the following three proxies to establish if they belong in Singapore:

- their credit card issuer or bank location; and
- their home or billing address; or
- their IP address, landline or mobile SIM country.

If the above are not sufficient permission should be obtained to use other alternatives.

For business customers it is necessary to establish whether the business establishment or fixed establishment which has received the service is in Singapore or, where there is no such establishment, whether the place of incorporation or legal constitution is in Singapore, to determine if GST should be charged.

Overseas vendor registration requires the overseas vendor to register for GST and to account for output tax on services provided to consumers in Singapore who are not registered for GST. If the consumer is registered for GST the vendor should not charge GST and the reverse charge rules should be applied by the consumer; if GST is charged incorrectly the consumer is not able to deduct this as input tax, and must seek repayment from the vendor.

The overseas vendor registration allows for a simplified registration and reporting system and conse-

quently does not allow for input tax deduction by the overseas vendor: it is only a mechanism to collect payment of output tax. Voluntary registration will be allowed where the turnover limits are not exceeded.

Transitional provisions will be implemented to ensure the appropriate payment of GST for services which span the effective date—i.e., January 1, 2020.

Planning Points

- **Managing your costs:** subject to any anti-avoidance legislation that may be introduced, businesses that are not able fully to recover GST on their costs should consider advance purchasing or prepayment of large items of expenditure, both prior to the introduction of the reverse charge and prior to the GST rate increase.
- **Are you ready?** Businesses should review their commercial, operating and accounting systems to establish the extent of work that will need to be undertaken to cater for the forthcoming changes.
- **Don't be complacent:** foreign businesses should assess whether they will fall within the scope of the forthcoming regime. Many businesses will find they have a taxable presence in Singapore, at least for GST, for the first time.

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