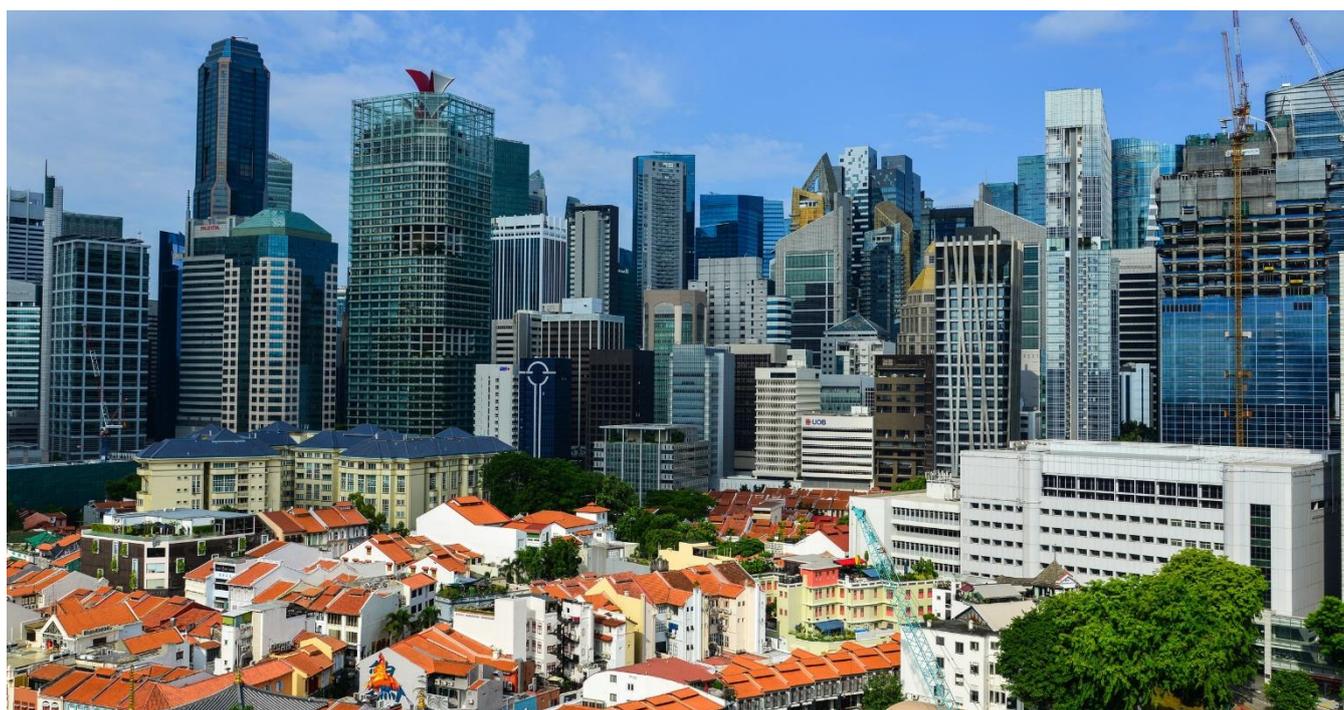


## GST Updates



In this issue, we update and discuss the salient changes to the recently updated IRAS GST e-Tax Guide on *Clarification on 'Directly in Connection With' and 'Directly Benefit'*.

### Relevance of 'Directly in Connection With' and 'Directly Benefit'

Zero-rating applies for services that fall within the definition of international services under section 21(3) of the GST Act. International services are regarded as being consumed outside of Singapore. Thus, for services that are directly in connection (referred to as "DIC") with land or goods, they qualify as international services if the land or goods are located outside of Singapore.

For services that are not DIC with land or goods, zero-rating generally applies if they are supplied to overseas persons and directly benefit (referred to as "DB") overseas persons.

### Directly in connection

The Inland Revenue Authority of Singapore (IRAS)

has clarified that goods or land must *exist* at the time that the services are performed. This means that the supply of a right to buy goods is regarded as DIC with goods but the granting of a right to a patent is not DIC with goods as the goods did not exist at the time when the patent is granted. Conversely, if goods already exist, for example, a recipe or trade secret to produce these goods, the granting of a right to the recipe or trade secret may be regarded as DIC with goods.

The IRAS has also clarified that if the supply has a few types of service elements, the entire supply would be DIC with goods or land if the primary service element is regarded as DIC with land or goods. The value of supply can entirely be zero-rated or standard-rated, depending on the location of the land or goods.

### Directly benefit

Businesses are required to examine the flow of services to determine who directly benefit from their services for the purpose of determining zero-rating. Not all persons who benefit from the services are regarded as direct beneficiaries. For instance, spin-off recipients are not.

The IRAS has provided guidance on different categories of services and who the direct beneficiary may be.

Category of service	Example
a) Services relating to fulfilling the statutory obligation of a person, he is likely to be a direct beneficiary of the services	Services to file the GST return for overseas customer's Singapore subsidiary (DB)
b) Services relating to specific transactions carried out or to be carried out by a person, he is likely to be a direct beneficiary of the services	<ul style="list-style-type: none"> <li>Advisory services on the acquisition of assets by overseas customer's Singapore subsidiary (DB)</li> <li>Stock execution and clearing services for customer (overseas broker)'s clients (DB)</li> </ul>
c) Service provider is accountable to the person (other than contracting party) for service deliverables, that person is likely to be a direct beneficiary of the services	Software customization services; service provider takes instructions from the overseas customer's Singapore subsidiary (DB)
d) Direct contact with the person other than the contractual customer – <i>may or may not be the direct beneficiary</i>	<ul style="list-style-type: none"> <li>Provides post-sales technical services to overseas manufacturer's end customers who purchased the products (DB)</li> <li>Provides marketing services to overseas customer and contacts local person to receive product information in order to provide the services (not DB)</li> </ul>

### Apportionment of value of supplies

As an administrative concession, the Comptroller allows the value of supply to be apportioned when a supply of services is DIC with goods or land located in and outside of Singapore, or directly benefit both local and overseas persons into standard-rated and zero-rated supplies respectively.

Acceptable proxies in apportionment are:

- market prices chargeable;
- costs incurred;

- time spent;
- sales revenue (*New*) and
- number of end-customers (*New*).

Annual fixed proxy is acceptable if there is no material change to the business arrangement. For example, a proxy based on actual time spent in servicing local and overseas direct beneficiaries over the financial year.



## How we can help

The IRAS has provided clearer guidance on the different categories of services that can be regarded as DIC with goods or land and on the application of the directly benefit concept. Where you have been zero-rating your supply of services but the IRAS has clarified that they should be standard-rated, it may be timely to consider making a voluntary disclosure to the IRAS to avoid penalties due to the different GST treatments applied. We will be happy to assist you on the procedures and information required for voluntary disclosures. We welcome any opportunity to discuss on the relevance of apportionment of supplies for locally incorporated businesses that support regional related companies pursuant to a service agreement.

In addition, the new examples published by the IRAS are not exhaustive and there remain areas where the application may be subject to different views. If your supplies of services do not fall squarely within any of the scenarios and you are uncertain on whether your services can be zero-rated, we will be happy to have a discussion on how we can help in your business transactions.



## Contact us

### Chiu Wu Hong

#### Head of Tax

T: +65 6213 2569

E: wchiu@kpmg.com.sg

### Lam Kok Shang

#### Head, Indirect Tax

T: +65 6213 2596

E: kokshanglam@kpmg.com.sg

### Gan Hwee Leng

#### Partner, Indirect Tax

T: +65 6213 2813

E: hweelenggan@kpmg.com.sg

### KPMG

16 Raffles Quay #22-00

Hong Leong Building

Singapore 048581

T: +65 6213 3388

F: +65 6220 9419

E: tax@kpmg.com.sg

### About Tax Alert

KPMG's Tax Alerts highlight the latest tax developments, impending change to laws or regulations, current practices and potential problem areas that may impact your company. As certain issues discussed herein are time sensitive it is advisable to make plans accordingly.

"Tax Alert" is issued exclusively for the information of clients and staff of KPMG Services Pte. Ltd. and should not be used or relied upon as a substitute for detailed advice or a basis for formulating business decisions.

Ranked Tier 1 Firm in Singapore – World Tax and World Transfer Pricing 2018, *International Tax Review*

Asia Tax Firm of the Year – Asia Tax Awards 2017 & 2018, *International Tax Review*

Best Advisor in Real Estate Tax Globally – Real Estate Awards 2017, EuroMoney

For more details of our Tax services, please click [here](#).

[kpmg.com.sg/socialmedia](http://kpmg.com.sg/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG Services Pte. Ltd. (Registration No: 200003956G), a Singapore incorporated company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Singapore.