

GST Changes in Budget 2018 - GST rate hike and introduction of GST on imported services



GST rate hike from 7% to 9%, sometime in the period from 2021 to 2025

Generally, the GST rate increase should not impact GST-registered businesses who can claim GST incurred in full since it has a flow-through effect. However, they should take note of transition issues such as contractual and business arrangements straddling the date of the rate change. For instance, relevant clauses should be included in long-term contracts signed prior to rate change to ensure that the GST cost would be passed to the buyers. For supplies that straddle the rate change, particular attention has to be paid to the payment date or goods delivered/services performed date to determine if the correct rate is applied.

Businesses have at least a three-year lead to prepare for the GST rate hike.

GST on Imported Services

Currently, the supply of services by a supplier belonging outside Singapore is not subject to GST even though the services are consumed in Singapore.

To level the GST treatment for all services consumed in Singapore, GST will be imposed on imported services effective from **1 January 2020**. The imposition of GST will be implemented through:

- **Reverse charge regime** for Business-to-Business (B2B) supplies of imported services; and
- **Overseas vendor registration regime** for Business-to-Consumer (B2C) supplies of imported digital services.

***B2B** refers to supplies made to GST-registered persons. **B2C** supplies refer to supplies made to non-GST registered persons, which include individuals and businesses not registered for GST.*

Reverse charge regime for B2B supplies **Who will be affected?**

This will affect all GST-registered persons who are not entitled to full input tax claims, GST-registered charities and voluntary welfare organisations that receive non-business receipts (referred to as "GST-registered persons"), and non-GST registered persons. They are collectively referred to as "RC businesses".

GST-registered persons

Financial institutions such as banks and commercial/residential mixed developers are required to account for GST on all services procured from overseas suppliers as though it is the supplier of the services.

Other GST-registered businesses will also be required to apply reverse charge if it is not entitled to full input tax claims unless these services are excluded, as elaborated below.

Non GST-registered persons

Non GST-registered persons will be liable for GST registration if they procure services that exceed S\$1 million in a 12-month period and would not be entitled to full input tax credit if it is GST-registered. The 12-month period refers to either the retrospective basis for the calendar year or prospective basis for the next 12 months.

GST registration from the making of imported services

Under the consultation guide issued by IRAS, even if the non GST-registered person makes a "one-off" import of services exceeding S\$1 million, it would still be liable for GST registration under the retrospective basis if it would not be entitled to full input tax credit.

For example, if the total value of imported services is S\$1.2 million for the year ended 31 December 2019, and the non GST-registered person expects insignificant amounts of imported services for the following year, it would be required to register for GST under the retrospective basis.

Services excluded from the scope of reverse charge

- i. Exempt supplies;
- ii. Services that qualify for zero-rating;
- iii. Services that are directly attributable to taxable supplies (not applicable to RC businesses that are prescribed a fixed or special input tax recovery formula unless otherwise allowed by the IRAS such as the banks);
- iv. Salaries, wages and interest components of cost allocations, including the mark-up in accordance with transfer pricing policy, in inter-branch and intra-GST group transactions.

Value of supply of imported services

Consideration	Value of supply
Wholly in money	If the RC business pays S\$1,000 to the overseas supplier, this will be the consideration and value of supply. GST to be accounted for will be 7% of the value of supply i.e. \$7.
Not in money or not wholly in money	Open market value (OMV). GST to be accounted for will be 7% of the OMV.

Intra-GST group and inter-branch transactions

As head office and its branches are regarded as a single legal entity, any supply made between them are disregarded for GST purposes.

For the purposes of reverse charge, inter-branch or intra-GST group businesses will be regarded as separate persons. Reverse charge will apply on the following circumstances:

- i. A local branch or head office procuring services from an overseas branch or head office;
- ii. A local member of a GST group procuring services from an overseas member within the same GST group.

Value of Supply

Consideration or OMV (if they are connected persons)

Less:

- Value that will be exempt or zero-rated (a)
- Salaries, wages and interest costs, including the mark-up in accordance with transfer pricing policy (b)*

$$\text{GST} = \text{Balance (value of supply)} \times 7\%$$

**To ease compliance, the RC business can seek the Comptroller's approval to use a proxy to compute (b).*

Transactions straddling implementation date of 1 January 2020

A supply of imported services would be considered as "straddling 1 Jan 2020" if one or two of the following three events occur before 1 January 2020:

- Services performed;
- Invoice issued;
- Payment made.

A transaction straddling 1 January 2020 is subject to reverse charge, to the extent that the services are performed **or** the payment is made on or after 1 January 2020.

Overseas Vendor Registration (OVR) Regime for B2C supplies of digital services

Businesses belonging outside Singapore have to register for GST if they:

- i. have an annual global turnover exceeding S\$1 million; **and**
- ii. make B2C supplies of digital services to Singapore retail customers and non-GST registered businesses exceeding S\$100,000.

These two conditions are distinct from the current GST registration threshold.

Once registered for GST, the overseas business ("GST-registered business") has to charge and account for GST on supplies of digital services made to customers in Singapore. On the other hand, input tax will not be claimable under the OVR regime, which is a simplified registration.

Scope of digital services

Category	Example
Downloadable digital content	Mobile applications, e-Books, movies
Subscription-based media	News, magazines, streaming of TV shows and music
Software programmes	Software, website filters
Electronic data management services	Website hosting and cloud storage
Support services performed via electronic means to arrange or facilitate transactions	Service or booking fee charged to the suppliers or customers

Electronic Marketplaces belonging in and outside Singapore

A local and overseas operator of an electronic marketplace ("electronic marketplace") may be regarded as the supplier of the digital services by the overseas suppliers through its marketplace under the following circumstances:

- i. The electronic marketplace authorises the charge to the recipient;
- ii. The electronic marketplace authorises the delivery of supply to the recipient;
- iii. The electronic marketplace sets the terms and conditions under which the supply is made e.g. setting the terms and conditions of sale;
- iv. The documentation provided to the recipient identifies the supply as made by the electronic marketplace, and not the supplier; or
- v. The electronic marketplace and the supplier contractually agree that the marketplace is liable for GST.

An electronic marketplace may not be regarded as the supplier only if all of the above conditions are not satisfied. Otherwise, the electronic marketplace is required to include the value of these digital services in determining its GST registration liability.

The marketplace operator will be required to charge and account for GST on B2C supplies of digital services made through the marketplace to customers in Singapore, on behalf of the overseas suppliers. This is in addition to the digital services made by the marketplace operator directly to customers in Singapore.

For a marketplace operator belonging outside Singapore, it will be registered under a simplified regime, with reduced registration and reporting requirements.

GST registration under OVR

Retrospective basis – if the overseas suppliers and electronic marketplaces are certain that the global turnover or value of digital services made to Singapore customers will not exceed S\$1 million and S\$100,000 respectively in the next calendar year, it will not be liable for GST registration.

Prospective basis – if the overseas suppliers and electronic marketplaces expect the global turnover or value of digital services made to Singapore customers to exceed S\$1 million and S\$100,000 respectively in the next 12 months, it will be liable for GST registration.





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Determining whether a supply is B2C

By default, the GST-registered business can regard the services as being supplied to a non-GST registered customer. The onus is on the customer to prove that it is GST-registered in Singapore. The customer should provide a GST registration number to prove its status.

Our comments

The introduction of reverse charge on imported services has wide implications on partially-exempt businesses including financial institutions such as banks, life insurance companies and commercial and residential mixed developers as well as voluntary welfare organisations such as hospitals. Apart from these, businesses that are currently not required to be registered as they make exempt supplies or investment holding companies would need to consider their liability to register for GST if they pay overseas suppliers or related entities. These businesses should review their processes and controls to ensure compliance with GST when procuring services from overseas suppliers.

As Singapore transitions into a digital economy, the announcement to tax digital services does not come as a surprise as GST is meant to tax domestic consumption. Perhaps the challenge is imposing on marketplace operators as suppliers of the digital services, especially when they do not consider themselves supplying the digital services. The registration liability as well as compliance with GST rules add to their compliance costs.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the GST changes to your business, particularly how your processes and controls would be affected and the steps to take to ensure compliance.

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