



Douse The GST Hotspots

Unravelling GST Knots and Avoiding GST Errors

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Over the years, the goods and services tax (GST) has steadily crept up as the second largest contributor of Singapore's tax revenue. As one of the nation's key revenue pillars, GST will inevitably attract the tax authority's scrutiny, particularly in the area of GST compliance. Coupled with the changes to business models and new international trends for indirect tax, it is vital for companies to be aware and stay on top of GST developments to minimise risks and avoid adverse impact on their businesses.

Against this backdrop, Accredited Tax Advisor (Income Tax & GST) Ms Gan Hwee Leng, Indirect Tax Partner, KPMG in Singapore, provided a timely update on key GST developments in Singapore and shared her insights on the potential GST hotspots at a recent *Tax Excellence Decoded* (TED) session by the [Singapore Institute of Accredited Tax Professionals \(SIATP\)](#).

Recent GST Developments

GST RATE HIKE

Budget 2018 announced an increase in the GST rate from the current 7% to 9%. The proposed increase will take place sometime between years 2021 to 2025, depending on the state of Singapore's economy, the increase in Singapore's expenditures and the buoyancy of existing taxes.

While businesses are unlikely to be enthusiastic about the impending GST hike, the early announcement would allow businesses time to plan ahead in anticipation of the potential transitional challenges. Business executives need to critically evaluate their companies' readiness and question their companies' existing business processes – Are my company's accounting and invoicing systems robust enough to seamlessly handle the rate hike? How should my company negotiate long-term contracts that may straddle both GST rates?

GST ON IMPORTED SERVICES

Currently, a supply of services (other than an exempt supply) by a supplier who belongs in Singapore is subject to GST while the same supply by a supplier who belongs outside Singapore is not. To ensure that the same GST treatment will apply irrespective of whether the taxable service consumed in Singapore is procured locally or from overseas, a reverse charge mechanism and an overseas vendor registration (OVR) regime will be implemented on 1 January 2020 to tax business-to-business (B2B) imported services and business-to-consumer (B2C) imported digital services respectively.

- **Reverse Charge**

Under reverse charge, a GST-registered recipient of imported services must account for GST on the value of his imported services (as if he was the supplier). He may then claim the GST accounted for on the imported services as his input tax (subject to normal input tax recovery rules). This is applicable to all imported services, unless they are exempt, zero-rated, or fully attributable to taxable supplies.

Reverse charge will affect all GST-registered persons who are not entitled to full input tax credits, or who belong to a GST group that is not entitled to full input tax credits. Such partially exempt businesses subject to reverse charge would typically include banks, insurance companies, developers of mixed-use properties and charities.

Non-GST registered persons who procure imported services exceeding S\$1 million in a 12-month period (and who would not be entitled to full input tax credit if they are GST-registered) would be liable for GST registration, and accordingly be subject to reverse charge.

GST Hotspots

ZERO-RATING OF INTERNATIONAL SERVICES

It is a common misconception that all services provided to overseas customers can be zero-rated. Instead, services can only be zero-rated if they fall within the description of international services under Section 21(3) of the GST Act.

Under certain zero-rating provisions (for example, sections 21(3)(j) and (k) of the GST Act), the belonging status of the customer (whether the customer belongs to a country outside Singapore) must first be determined for zero-rating to apply for services that are not directly in connection with land or goods. Generally, the customer's belonging status depends on the location of his business establishment or fixed establishment, the location of the specific establishment which most directly uses the service, or his usual place of residence.

- **Overseas Vendor Registration**

Under the OVR regime, overseas suppliers with annual global turnover exceeding S\$1 million and making supplies of digital services (including digital products, subscription-based and licensed content, as well as support services via electronics means) to customers in Singapore exceeding S\$100,000 are required to register for GST, under a simplified registration regime. Once registered, these overseas suppliers are required to charge and account for GST on supplies of digital services made to non-GST registered customers in Singapore.

Local or overseas operators of electronic marketplaces may also be regarded as the suppliers of the digital services under certain conditions. In such cases, the operators are required to register, charge and account for GST on supplies of digital services made on behalf of the overseas suppliers listed on their platforms to non-GST registered customers in Singapore.

To determine the establishment that most directly uses the services provided, the supplier may ascertain the flow of benefits through the contracts, invoices, correspondences or other documents with the customer.

As the onus is on the supplier to verify the belonging status of his customer to adopt the correct GST treatment, zero-rating should not be applied unless the customer can prove that he belongs outside Singapore. Some ways that suppliers can adopt to determine a customer's belonging status include obtaining a written declaration from the customer or checking if the customer has a Singapore address.

REIMBURSEMENTS AND DISBURSEMENTS

The difference between reimbursements and disbursements hinges on the principal-agent concept. For the purposes of GST, reimbursements refer to the recovery of an expense that you incurred as a principal, while disbursements refer to the recovery of a payment made on behalf of another person as an agent.

It is important to determine whether a recovery of expenses is a reimbursement or disbursement as they have different GST treatments. A reimbursement may be subject to GST if it is consideration for a supply of goods or services, while a disbursement does not constitute a supply and is therefore not subject to GST.



Accredited Tax Advisor (Income Tax & GST) Gan Hwee Leng brought GST fundamentals to life to aid easy comprehension.

• Reimbursements Amounting to A Supply

Where the recovery of expenses is ancillary to (or form inputs to the primary supply) to the customer, the GST treatment will generally follow that of the primary supply of goods or services. This is unless the expenses are subject to specific exclusion under the GST legislation, such as in the case of hotel accommodation and entertainment expenses. As these expenses are specifically excluded from zero-rating relief provided under section 21(3) of the GST Act, such recoveries will have to be standard-rated and taxed at the prevailing rate of 7%.

Conversely, where the recovery of expenses is separate from the primary supply of goods or services (such that they are not provided to enhance or facilitate a primary supply), such reimbursement will be treated as a separate recovery of expenses and the GST treatment will depend on whether the expenses are recovered at cost or with a mark-up. Generally, the GST treatment on the cost recovery will follow that of the goods or services originally procured, and the GST treatment for the mark-up will be based on the separate supply of service.

REPAYMENT OF INPUT TAX

As input tax is claimed according to the date of the tax invoice or import permit, companies may not have paid their suppliers at the point of claiming input tax. It should be noted that companies are now required to repay the Comptroller of GST the input tax previously claimed if payment has not been made to the supplier within 12 months from the due date of payment. Notwithstanding this, companies may still claim the input tax repaid to the Comptroller if payment is subsequently made to the suppliers within five years (from the end of the prescribed accounting period during which the input tax was first claimed).

GST NOT ACCOUNTED FOR ON LOCAL SALES OF BUSINESS ASSETS

Companies tend to overlook charging GST when they sell or trade-in their business assets, such as motor vehicles, used office furniture, computers, and non-residential properties. Although companies are not allowed to claim input tax at the point of purchase (such as motor vehicles), they are still required to charge GST when they sell such business assets.

INCORRECT OR LACK OF DOCUMENTS FOR ZERO-RATED SUPPLIES OF GOODS

Companies must ensure they maintain the relevant export documents to substantiate the zero-rating of exports. As the tax authorities are very particular on this area, companies risk being subjected to GST at 7% (despite not collecting GST from their customer) should they fail to maintain adequate export documents.

With so much going on in the GST landscape, it is timely for businesses to review their strategies and processes to stay on top of all the new requirements and developments. As a start, businesses could also look to available tools like the [Assisted Self-Help Kit \(ASK\)](#) and the [Assisted Compliance Assurance Programme \(ACAP\)](#), which are designed to aid businesses in reviewing their GST submissions and proactively self-manage their GST risks.

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GST tips and best practices were being shared to aid tax professionals in their processes and procedures right to minimise GST risks.

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