Tax Excellence Decoded

GST Administration: Get it Right

Soothe the throbbing GST Headaches Effectively

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Accredited Tax Advisor (GST) Richard Mackender, GST Partner at Deloitte Singapore, shared insights on good processes and controls for effective GST.

As world shifts towards greater tax transparency, it is increasingly important for businesses to actively manage their global tax affairs and to ensure that they are tax compliant. In fact, it is no longer just about being compliant; a "model" taxpayer in the eyes of tax authorities, is one that possesses good governance and processes, pays its fair share of taxes in the respective jurisdictions, and is transparent.

Peeling through the layers of change and shedding light on the impact and implications arising from the developments in Goods and Services Tax (GST), the recent *Tax Excellence Decoded* session by the Singapore Institute of Accredited Tax Professionals (SIATP) kicked off with an overview of various delivery models used to organise global tax affairs and ended with valuable pointers on GST administration in Singapore. (SIATP).

Organising the global tax affairs

Different multinational corporations (MNCs) organise their global tax affairs differently. Broadly, there are three delivery models typically adopted by MNCs in dealing with their global tax compliance requirements: a decentralised model, a coordinated model and a centralised model.

Under the centralised model, tax controversies and tax planning are typically managed by headquarters and tax compliance is consolidated and handled by centralised service centres. Under the decentralised model, which is typical of many companies in Asia Pacific, local offices manage their own tax affairs and the headquarters have limited oversight of the groups' global tax matters. The coordinated model is a hybrid between the centralised and decentralised models, with compliance handled locally but subject to a level of regional or global coordination.

Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Lead, Deloitte Singapore, shared that interestingly, MNCs in the Asia-Pacific region are increasingly moving their GST compliance function from the traditional local decentralised model towards a centralised model.

Leveraging technology

To manage this migration, MNCs are turning to technology tools to improve their GST compliance processes to achieve process efficiency, data accuracy and global visibility. In choosing the right technology tools to manage the GST compliance process, organisations need to determine the right fit when designing their own tax technology architecture.

Considerations include the ease and compatibility between the technology tool and the existing accounting systems to generate accurate and timely information, the regularity of updates, and the level of technical support required vis-a-vis the level provided by the service provider. What is certain is that Excel spreadsheets are no longer sufficient to manage today's complex GST compliance.

Overall, organisations should be looking to leverage technology in order to automate compliance and achieve the necessary levels of control, thus freeing up the tax and finance teams to focus on other value-adding business activities.

GST administration in Singapore

As a tax, GST is set to play a bigger role as the world economy continues to restructure. For example within the region, Malaysia has just implemented GST in April 2015 and India is looking to implement GST in the near future. It is therefore prudent for businesses to put in sufficient resources to ensure that they are GST compliant, not just locally, but across all of the jurisdictions where they operate.

In Singapore, it is the Inland Revenue Authority of Singapore (IRAS)'s view that taxpayers, on the whole, are generally voluntarily compliant and that most cases of non-compliance arise from insufficient understanding of tax matters or in more extreme cases, negligence. On this note, IRAS has put in place various GST compliance programmes and tools, such as the GST Assisted Compliance Assurance Programme (ACAP) and the GST Assisted Self-help Kit (ASK), to improve taxpayers' ability to meet their GST obligations.

GST ACAP is a compliance initiative where a business may, on a voluntary basis, conduct a holistic risk-based review to endorse the effectiveness of its internal controls. The purpose of an ACAP review is not to identify every error in a business's GST returns, but to identify and strengthen the weaknesses in the business's internal controls and processes to achieve better GST compliance overall.

If the business meets the ACAP requirements and successfully obtains the ACAP merit (or premium) status, it will enjoy various benefits for three (or five) years. These benefits include the stepping down of IRAS' compliance activities (unless unexplained anomalies are noted), accelerated GST refunds, faster issuance of rulings and resolution of issues raised, auto-renewal of GST schemes (such as the Major Exporter Scheme), and full waiver of penalties. A business that is awarded the ACAP status will be required to carry out annual self-reviews for the duration of the ACAP status.

While the ACAP status comes with many benefits, businesses should consider carefully before embarking on an ACAP review as it is a resource-intensive exercise covering four major milestones. Firstly, the business is required to conduct a pre-readiness check to evaluate its suitability for ACAP. If the business is found suitable, it will be required to gather key information (such as financials) and to document its process flows. Secondly, the business will need to identify and test its internal controls. Thirdly, the business is required to quantify and rectify any GST errors identified during the control review and to prepare an ACAP report to be submitted to IRAS. Finally, IRAS will assess and award (or decline to award) the ACAP status. A typical ACAP review may take up to 15 months to complete.

It is important to note that while ACAP is a voluntary compliance initiative and is typically initiated by the taxpayer, IRAS may at times invite certain taxpayers to carry out an ACAP review.

The GST ASK review, on the other hand, is a self-assessment package designed to help GST-registered businesses to effectively manage their GST compliance. A certified ASK may be required for the purposes of the application and renewal of certain GST schemes such as the Major Exporter Scheme.

An ASK review is smaller in scope and less resource-intensive than an ACAP review. A typical ASK review may take only eight weeks to complete (as compared to 15 months for an ACAP review).

The ASK review focuses on three key aspects. The first aspect centres around putting in place good GST practices, in terms of people, record-keeping, systems and internal controls, to ensure GST compliance. For example, a business may provide annual GST training for all employees dealing with GST, or ensure that the preparation and review of GST returns are carried out by two different people.

The second aspect involves self-assessment by businesses using the pre-filing checklists, which contain a series of questions and answers based on key processes in GST declarations. It is recommended that businesses complete these checklists every time before filing a GST return.

The third aspect requires businesses to perform an annual review of its past GST returns (usually one GST return in the most recent financial year). If a business identifies an error, the error should be quantified and submitted to IRAS. If the error is recurrent in nature, the business should review its past GST returns up to a period of five years, consolidate and quantify the annual amount of the recurring errors for each of the past financial years. It is recommended that businesses inform IRAS that they have completed a self-review under the ASK even if no errors were discovered.

GST best practices

In addition to adopting ACAP or ASK, businesses may also align themselves to GST best practices to ensure better GST compliance.

- **Major business transactions**

As GST is a transaction-based tax, it is important that all personnel dealing with GST within the organisation understand the major business transactions (including intercompany transactions and recovery of expenses) within the business.

The organisation should ascertain that the correct GST treatment is accorded to each transaction, and should not assume that the GST treatment for two transactions under the same category is identical. For example, intercompany services may be zero-rated, but they may also be standard-rated. The same goes for international services.

It is a good practice to check major business transactions against the organisation's GST mapping and ensure that these transactions fit into the organisation's controls and processes. Businesses are also recommended to review samples of transactions on a regular basis.

- **Business transaction flows**

Organisations should document all business transaction flows including the applicable GST treatment and ensure completeness of GST mapping.

One common source of GST errors arises from the disconnect between the sales and finance functions. If the sales team carries out a new transaction, but details of the transaction are not communicated to finance to update the organisation's GST mapping and to report the transaction in the GST return, there may be serious GST repercussions. New transactions involving discounts, trade-offs, net-offs, settlements and incentive programmes are especially prone to GST errors.

- **GST claims**

Businesses should ensure that all input tax claims are substantiated by proper documents (such as valid tax invoices or valid simplified tax invoices from GST-registered suppliers). For the importation of goods into Singapore, all input tax claims should be supported by valid import permits.

- **Use of GST specialists**

Organisations are encouraged to use a GST specialist who understands the GST filing process and rules to review their GST compliance processes. As GST errors are usually recurrent in nature, the GST specialist can help to ensure that GST treatments are correct from the get-go. Regular GST reviews will also make voluntary disclosure an option for the organisation and this will mean less fines or penalties from IRAS when there are errors.

- **GST training**

It is critical for organisations to carry out regular GST training. GST training should not be confined to the few individuals preparing and filing the GST returns. Instead, GST training should be provided to all personnel who may leave a footprint on the organisation's GST compliance process. This may well include the data entry executives entering transactions into the accounting system, the sales team carrying out the transactions, and the logistics team doing imports and exports.

In addition to regular GST training, it is also recommended that organisations facilitate discussion and encourage communication on GST issues. This will help to minimise recurring GST errors as GST issues may be discussed and sorted out at the on-set.

- **Other noticeable areas**

Accurate GST accounting is essential to a robust GST compliance process. One common GST error arises from fixed assets disposals where finance is not updated on the disposals on a real time basis. To mitigate this risk, organisations need to ensure that controls and processes are in place to ensure all important data are communicated to finance on a timely basis.

Separately, it is important for organisations to ensure that valid tax invoices are issued for all standard-rated supplies made to GST-registered customers, and that proper documents are maintained to support zero-rated supplies and out-of-scope supplies as well as proper documents maintained in respect of purchases.

Voluntary Disclosure Programme (VDP)

To encourage taxpayers to disclose errors or omissions and to come forward voluntarily in a timely manner, IRAS has reduced the penalty for disclosures under its VDP. A business which discovers errors in its GST returns may, subject to conditions, make use of the VDP to correct its mistakes for a waiver of penalty (if the voluntary disclosure was made within a grace period of one year from the statutory filing date) or reduced penalty of 5% for GST (if the voluntary disclosure was made after the grace period).

The one-year grace period may be extended under the ACAP or ASK. For VDP under ACAP and subject to conditions, penalties on past GST errors may also be fully waived regardless of the time period to which the errors relate.

The keys to good GST administration lie in harnessing technology for effective and efficient management coupled with good internal controls and processes. Organisations should take some time to evaluate the feasibility of the GST-compliance programmes and tools available (such as the ACAP and ASK) to improve their internal controls and processes. In addition, organisations should also as much as possible align themselves to GST best practices, and disclose any errors or omissions in a timely manner. It is time – time to get the house in order and get it right today.

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About SIATP's Technical Discussions

SIATP's technical discussions have continually been very well received by accredited tax professionals. Unlike the run-of-mill Continuing Professional Educational courses which typically cover tax fundamentals, SIATP's interactive technical discussions are designed to cover tax issues that do not have clear-cut solutions or situations that may have different interpretations. Over time, these discussions contribute in boosting the overall tax standards in Singapore.

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About Mr Richard Mackender

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Richard has more than 17 years of Indirect Tax experience serving both local and multinational companies in Asia Pacific and the UK and leads the Singapore Indirect Tax practice. Starting from being part of Deloitte UK's London VAT team in 1997 and subsequently moving to Singapore in 2003, Richard's forte is in advising large corporations on GST issues. Richard covers a wide spread of businesses in Singapore, with particular focus on the key drivers of Singapore's economy such as financial services, energy, resources and technology, media and telecommunications.

Besides being responsible for indirect tax compliance within Deloitte's Asia Pacific Compliance Centre, Richard is also a regular speaker, a contributing author for CCH's Goods and Services Tax Guide and co-authored a number of GST books under the CCH umbrella. Richard is a law graduate from the University of Wales (UK) and trained as a barrister.

This technical event commentary is written by SIATP's Tax Manager, Felix Wong. Felix has over seven years of experience in corporate and international tax. Previously from PwC Singapore, he now leads various tax initiatives in Singapore's first dedicated professional body for tax specialists to enhance Singapore's position as a centre of excellence.