TED: GST: Seize or be Seized

Be on Top of GST Risks

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A Singapore parent company (P) signs a contract with a Singapore vendor (V) to implement a new accounting system for itself and its Singapore subsidiary (S). For its convenience, P requests V to raise separate invoices to itself and S for their respective share of expenses. All are GST-registered entities. Who can claim the GST charged by V from the tax authorities? Is it P, S or both?

"Only P can claim the GST on its share of expenses based on the tax invoice issued by V to itself" is the answer as the contract is between P and V. S is not a party to the contract and P does not have a valid tax invoice to claim the GST on the expenses billed to S. While S bears the GST expenses, it cannot claim these expenses (input tax) from the authorities.

If you did not get the answer right, read on and gain greater GST clarity from Accredited Tax Advisors Kor Bing Keong, Partner, and Chew Boon Choo, Director, Ernst & Young Solutions LLP, who shared their knowledge during the recent Singapore Institute of Accredited Tax Professionals' Tax Excellence Decoded session.

Unlike corporate tax, the Goods and Services Tax (GST) is transactional. For companies with voluminous transactions, an erroneous transaction could be repeated and the GST risk could escalate.

Areas of Focus for Taxable Purchase and Input Tax Claims

CONTRACTUAL RECIPIENT OF GOODS AND SERVICES

In claiming input tax, that is, the GST charged by suppliers to the company (the claimant), the claimant must ensure it is the contractual recipient of the goods and services supplied by the supplier. Where there is no written contract between the supplier and the customer, the Inland Revenue Authority of Singapore (IRAS) is generally prepared to accept the tax invoice as prima facie evidence of the contractual arrangement.

To illustrate, in the earlier example, the written contract is between P and V. If V issues the tax invoice to S, S will not be able to claim the input tax.

An alternative arrangement would be for the vendor to issue the tax invoice only to P, which then subsequently invoices S. P then claims the input tax on the tax invoice issued by V, and issues a tax invoice (with output tax) to S to recover S's share of expenses.

A concession has been granted by IRAS on expenses contractually incurred by the employees and reimbursed by the GST-registered employers. While the GST incurred does not satisfy the above input tax condition, IRAS has made a concession to allow GST-registered companies to treat the expenses as contractually incurred by the companies if the companies reimburse the employees and record the expenses as their business expenses in their accounts.

VALID TAX INVOICE

GST-registered companies must also maintain valid tax invoices or simplified tax invoices to support their input tax claim on local purchases/expenses unless specific concession has been granted by IRAS (example, GST incurred on business entertainment expenses). For invoices that are billed in a foreign currency, the SGD equivalent of the amount exclusive of GST, the GST amount and the amount inclusive of GST must be reflected on the tax invoice. GST-registered companies cannot use their in-house exchange rate to claim the input tax.

Accredited Tax Advisors from Ernst & Young Solutions LLP – Kor Bing Keong, Partner, and Chew Boon Choo, Director – highlighted common GST errors, blind spots and more importantly, the best course of action to mitigate GST risks.

DISALLOWED INPUT TAX CLAIMS

Input tax on certain expenses is specifically disallowed under the GST legislation. These include club subscription fees, medical and accident insurance premiums, medical expenses, family benefits and motor car expenses. There are specific definitions and exceptions for each type of the disallowed expenses.

Other errors relating to the reporting of taxable purchase and input tax include:

- duplicate input tax claims;
- failure to perform input tax restriction and longer period adjustment due to partial exemption;
- significant variance between the value of imports under the Major Exporter Scheme (MES) as reported in the GST returns and the value of MES imports as declared to the Singapore Customs.

Areas of Focus for Supplies and Output Tax

AD-HOC SUPPLIES

GST-registered companies have to charge GST (output tax) on their standard-rated supplies. For example, 7% GST applies even if it is a sale of subsidised tickets by a GST-registered company to its staff for attending a corporate Dinner and Dance party.

DEEMED SUPPLIES AND OUTPUT TAX

If a GST-registered company gives away goods (example, hampers for customers during festive seasons, luck draw prizes for company Dinner and Dance), it is required to account for deemed output tax based on the open market value of the goods if the total cost of the goods given to a person on an occasion is more than S$200 (excluding GST) and the GST incurred on the said goods has been claimed as input tax.

GST TREATMENT OF A SUPPLY OF GOODS

The GST treatment of a supply of goods is dependent on the location and movement of the goods and not on the billing address of the customer. Where goods are sold within Singapore, 7% GST applies even if the customer XYZ is based in USA. If the goods sold to XYZ are shipped from Singapore to the USA, the sales are considered zero-rated (that is, GST at 0%) and would be reported in the GST returns.

It should be noted that for goods to be zero-rated, the relevant export documents and the conditions prescribed by IRAS must be met.

GST TREATMENT OF A SUPPLY OF SERVICES

In determining whether a supply of services qualifies for zero-rating, GST-registered businesses must determine the nature of the service supplied and examine whether the zero-rating conditions under Section 21(3) of the GST Act applicable to that type of services are satisfied. Different zero-rating conditions may apply to different types of services.

Accredited Tax Advisors from Ernst & Young Solutions LLP – Kor Bing Keong, Partner, and Chew Boon Choo, Director – answering participants' queries on GST risks during and after the session.

OTHER SUPPLIES AND OUTPUT OF TAX ISSUES

Other errors relating to supplies and output tax include:

- omission of exempt supplies (example, interest income from banks in Singapore, realised exchange rate gains or losses, issuance of shares to Singapore shareholders and late interest payment charged to Singapore customers);
- failure to maintain the relevant export documents to substantiate a zero-rated supply of goods;
- Under-accounting of output tax on "trade in" or "counter supplies" transactions.

GST Audit

IRAS has initiated GST audit on different industries in the past and has also invited companies to take part in self-review programmes such as Assisted Compliance Assurance Programme (ACAP) and Assisted Self-Help Kit (ASK).

It is always prudent to conduct some form of GST review and make voluntary disclosure of errors before one is selected for audit by IRAS.

Managing GST Risks

Besides knowing where GST risks may arise, and the key aspects to focus on where errors are commonly made, it is also important to know how GST risks can be minimised through the following good GST practices.

KNOWLEDGEABLE STAFF

It is key to invest in staff training, and encourage the team to share their knowledge among themselves. For the GST preparer and reviewer, it is critical to also be well versed in the more complex areas of GST, such as disbursements and recovery of expenses, zero-rating of services and reporting of exempt supplies.

SYSTEM CONTROLS

Whichever accounting system a company adopts, it should possess the necessary and correct built-in controls to prevent or detect any possible human error or anomalies, such as a data entry error, duplicate input tax claims or tagging a customer with a wrong GST rate.

Proper record-keeping

It is critical to maintain GST-related records in a systematic manner for easy storage and retrieval. An example is the export of goods. It is the responsibility of the GST-registered company to ensure the prescribed export documents are maintained even if it has outsourced the logistics work to a freight forwarder. Past rulings and communications should be kept in proper order.

Adequate internal controls

There should be adequate internal controls (example, second-level reviews, seek advice from IRAS/tax agents) to manage exceptional transactions/processes such as the disposal of fixed assets, a transfer of business, turnover of staff, etc. Periodic GST reviews will also help to improve the level of GST compliance.

While it may be next to impossible to be GST error-free, it would be wise to be proactive in managing these risks before the authorities come knocking.

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