Pricked by GST

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Recently, Facebook celebrated its 10th anniversary with a special "Look Back" video for its users. Similarly, did you know that the Singapore Goods and Services Tax (GST) just turned 20 earlier this month? The Singapore Institute of Accredited Tax Professionals (SIATP), through its GST Committee, thought it apt to bring readers on a quick armchair tour of the GST regime, highlighting the interesting intricacies and some of the not-so-obvious potholes of the tax issues.

GST

GST is a broad-based tax on domestic consumption and is also known as Value Added Tax (VAT) in other countries. The tax is paid when money is spent on goods or services, including imports. It is a multi-stage tax which is collected at every stage of the production and distribution chain.

There are four categories of GST in Singapore, namely:

1. **Standard-rated supplies** are local sales of goods and services and they are subjected to 7% GST.

2. **Zero-rated supplies** are sales of exported goods and international services and they are not subjected to GST (that is, 0% GST).

3. **Exempt supplies** are sale and lease of residential properties, importation and local supply of investment precious metals and the provision of most financial services. These are exempted from GST charges.

4. **Out of scope supplies** are the sales of goods and services outside the scope of Singapore GST. For example, the sales where goods are delivered from a place outside Singapore (such as Japan) to another place outside Singapore (such as Indonesia).

It all Starts with GST Registration

As GST is a self-assessment tax, businesses are required to continually assess the need to be registered for GST.

A business is liable to register for GST when its taxable turnover has exceeded S$1 million in a 12-month period or is expected to exceed S$1 million in the next 12 months.

A common misconception is that the business is only required to assess its need for compulsory registration at the end of its financial year. However, this is not necessarily true. A business is required to **continually assess** its need for compulsory registration on a rolling 12-month basis. This means a business will need to check at the end of every March, June, September and December (regardless of its financial year-end) to look back at the past (and future) four quarters to determine if its taxable turnover is more than S$1 million.

Tax Complications Galore

GST is transaction-based with its own set of rules and more often than not, impacts the day-to-day selling and buying activities of a business.

As Accredited Tax Advisor (GST) Koh Soo How, a member of the SIATP's GST Committee, and Tax Partner at PwC illustrated, "One common example is the recharge of expenses (even at cost). Many GST-registered businesses may be unaware that the recharges of expenses (even at cost) to an overseas entity may be subject to GST. And even when they realise that they need to account for GST on such recharges, they may incorrectly apply 0% GST on the recharges to the overseas person because the invoice is billed to an overseas billing address. The business needs to consider who the “real recipient” of the services is. For example, if the services are consumed by the overseas entity’s employee or received by a customer who is physically in Singapore, the recharge will be liable to 7% GST. As such, the tests for zero-rating of services go beyond the overseas billing address”.

Another commonly misunderstood area is that GST is only applicable to transactions that are recorded in the accounting system, and non-monetary transactions such as goods given free as gifts thus do not attract GST. This is not the case as the GST legislation regards gifts as a “deemed” supply, and businesses providing these complimentary goods must account for and pay 7% GST to the Inland Revenue Authority of Singapore (IRAS) based on the open market value of the goods unless the cost of the gifts or goods is not more than $200, or businesses did not claim input tax on the purchase/import of the goods.

A third common error is the reporting of exempt supplies. Businesses tend to overlook and wrongly include the value of unrealised exchange gains or losses in the GST Form F5. Businesses only need to report the absolute value of the net realised gain or loss in the GST return.

In summary, businesses need to be mindful of the proper accounting of GST as there may be penalties levied by IRAS when these are uncovered during IRAS’ audits.

Voluntary Compliance

To aid GST-registered companies, various programmes and initiatives have been implemented over the years and businesses are encouraged to tap into these to manage their compliance risk. Businesses may wish to participate in one of the initiatives designed by IRAS to facilitate voluntary compliance such as the Assisted Compliance Assurance Programme (ACAP) or the Assisted Self-Help Kit (ASK)

Of the two, ACAP is a more extensive programme as businesses will be required to undertake a holistic review of the robustness and effectiveness of their internal control system that impacts GST compliance. ACAP is thus most suitable for businesses that have already established an effective control framework and incorporated GST risk management to enhance their GST compliance capability.

ASK, on the other hand, is a self-assessment compliance package to help businesses review the correctness of GST submission and discover past GST errors early so as to qualify for IRAS’ Voluntary Disclosure Programme.

While both initiatives are available to GST-registered businesses on a voluntary basis and require either Accredited Tax Advisors or Accredited Tax Practitioners to sign-off, businesses stand to gain various benefits when they tap into these programmes. For example, businesses may enjoy a full waiver of penalty on past GST errors depending on circumstances. In addition, businesses that have obtained ACAP status will enjoy the following during the three or five-year period of its ACAP status:

- ✓ Step down of IRAS-GST compliance activities unless significant anomalies are noted in the declarations;
- ✓ Expeditious GST refunds (if applicable);
- ✓ Dedicated officer to handle GST rulings and resolve your GST issues expeditiously;
- ✓ Faster issuance of rulings and resolution of your GST issues raised with IRAS, and
- ✓ Auto-renewal of applicable GST schemes.

Businesses which have participated in either ACAP or ASK can now sleep soundly at night knowing that they are fully compliant and have processes in place to mitigate risks of non-compliance.

SIATP's Board Member and Accredited Tax Advisor (GST) Low Weng Keong, who heads SIATP's GST Committee, summed it all up, "At first glance, GST looks relatively simple as a "pay as you use" tax but other than in the simplest of businesses, this isn't so. Businesses should seek professional advice on whether or not registration is required because errors can arise from even this seemingly simple matter. Registration requires businesses to invest in sufficient resources such as manpower and systems to ensure that they are compliant with GST legislation. This is to ensure that the GST returns are in order and that the correct amount of GST is accounted for and supported by the correct documents. The consequences of incorrect or non-compliance can result in additional costs which will ultimately mean less profits for the business."