Goods and Services Tax – What You Should Know about the Self Assessment System
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In its pledge to foster a sustainable business environment with the ease of compliance, the Inland Revenue Authority of Singapore (IRAS) has set the establishment of a simple tax system as one of its strategic pillars to ensure compliance by all taxpayers. The belief is that a simple tax system makes it easier for taxpayers to comply.

The Goods and Services Tax (GST) is a major contributor to tax revenue in Singapore, and accounted for 24% of the IRAS's tax collections in the last financial year. Ensuring that the 81,000 GST-registered businesses comply with their tax obligations is thus a high priority for the IRAS. The tax operates under a self assessment regime which means is that the GST return that is filed by the business every quarter (or month) is final and constitutes the assessment upon the submission of the return. If the GST position is one that is payable to the IRAS, the GST-registered person has to immediately make a payment to the IRAS as the due date to make payment of the tax liability is the same as the due date to file the GST return. To ensure compliance, the IRAS takes a risk-based approach in its audits and would take strong compliance actions against businesses that are errant in their tax obligations.

- The merits of the self assessment regime may be summarised as follows: It enables the IRAS to collect the GST upfront as the GST returns that are submitted are considered to be final and payment for the GST amount needs to be made to the IRAS immediately. The GST registered business on a whole, should spend less time dealing with the IRAS since the GST returns need not be agreed with the IRAS before the tax is paid.

- Consequently, IRAS is able to allocate its resources to conduct targeted audits on businesses that are perceived to be of higher risk.

While it appears that the GST registered businesses lose out on the cash flow costs of having to pay the tax to the IRAS based on the issue of a tax invoice (assuming it is the earlier event) or to Singapore Customs on the importation of goods, the GST legislation does provide relief to help businesses improve their cash flow and simplify the manner in which they meet their tax obligations. Examples are as follows.

<u>Major Exporter Scheme (MES)</u>

Businesses that mainly import and export goods do not have any GST output tax to offset the import GST paid to Singapore Customs. The MES allows such businesses to import non-dutiable goods without having to pay import GST to the Singapore Customs. The import GST is suspended at the time of importation.

<u>Import Goods Deferment Scheme (IGDS)</u>

It is in principle, similar to the MES, except that the mechanism of tracking and reporting is different from the MES scheme. Businesses under the IGDS need not be engaged primarily in exports but the GST return would need to be filed on a monthly basis in order to enjoy the deferment of the import GST. Furthermore, in order to ensure that businesses under the IGDS are in compliance with the GST rules, the businesses have to conduct a review of its GST compliance based on the guidelines provided in the Assisted Self-Help Kit designed by the IRAS.

<u>Filing GST Returns on a Monthly Basis</u>

Businesses that are normally in a GST refund position may opt to file the GST returns on a monthly basis so as to receive the GST refunds earlier from the IRAS. However, additional administration costs need to be considered since there is now a higher frequency of filing the GST returns.

GST Group Registration

Companies who are under common control and engage in inter-company billings may consider GST group registration. Transactions between members of the same GST group are disregarded for GST purposes and hence it will avoid the situation of having one company to account for the GST on the transaction and the other company seeking a GST refund claim from the IRAS.

Bad Debts Relief

Businesses who have written off its debts are reminded to seek a bad debts relief on the GST amount that is written off together with the debts. All GST-registered businesses are effectively collecting agents on behalf of the IRAS and hence a relief is provided to mitigate the cost of the bad debt on the GST amount.

GIRO arrangement

Last but not least, if the businesses are in a payable position, fret not. There is a 15-day grace period if the business arranges to pay the GST via GIRO. The GST payable will only be deducted 15 days after the deadline to submit the GST return.

For the self assessment regime to work there must be a strong system of audits and penalties for non filers or delinquent taxpayers. The IRAS believes that taxpayers generally fall in the following compliance groups:

- Group 1 – The majority of the taxpayers will voluntarily comply with the GST rules. Taxpayers in this group actively seek information and clarification to keep them updated with changes and developments and ensure they comply with the law.

- Group 2 – This is the group that is unaware or negligent and not giving sufficient attention to GST. While they may think that they are generally compliant with the GST rules, they may not be paying due regard to their responsibilities which causes this group to make errors in their GST returns.

- Group 3 – There will be a handful of taxpayers who intentionally cheat on GST. This is the errant group that the IRAS would target to prevent non-compliance through severe penalties.

Resources are then allocated to each group to enable the IRAS to promote voluntary compliance with the law. The following efforts and initiatives in recent years seem to suggest that they are focusing to assist businesses that are within groups 1 and 2 while keeping a close eye on group 3.

2007

IRAS introduced the Compliance Assurance Programme (CAP) for large businesses with S$1 billion taxable supplies. The businesses that are subject to the CAP are by selection as it focuses on control and processes to capture information accurately for GST reporting and the prevention of GST errors.

2009

The IRAS announced for the first time that the following industries are targeted for GST audits in 2009 and 2010:

- electronics wholesale traders,
- small and medium manufacturers,
- motor traders; and
- marine fuel traders

At the same time, the IRAS also introduced the Voluntary Disclosure Programme (VDP) whereby lower penalties will apply if the errors are disclosed voluntarily and on a timely basis. The VDP is available to income tax (including withholding tax) and GST.

2010

The IRAS introduced the GST Assisted Self-Help Kit (ASK). The ASK is a comprehensive self-assessment compliance package to help businesses review and improve its GST reporting and prevent errors. This has been made compulsory for the recently introduced Import GST Deferment Scheme and is expected to be expanded to cover other schemes such as the MES.

2011

The IRAS introduced the Assisted Compliance Assurance Programme (ACAP) in April 2011. The ACAP is a new GST compliance initiative that sets out the IRAS's expectations of a company's framework for good GST governance and risk management. As an incentive for businesses to participate in the programme, the IRAS has proposed to co-fund 50 per cent (capped at $50,000) of the company's costs of engaging a qualified adviser or CPA firm with accredited tax professionals with the SIATP to assist the company in its ACAP review. There will also be a full waiver of penalties for non-fraud errors that arise from, and voluntarily disclosed in the ACAP review.

While it is not expected that the IRAS will publicly announce the strategies and techniques it uses to audit and investigate the businesses that are grouped as non-compliant, it is not difficult to understand the amount of resources that the IRAS would devote to improve and encourage good compliant behaviours. The IRAS has not hesitated to bring deliberate cheats to court and will continue to do so to send a strong message to the errant and potential cheats.

Conclusion

Although one expects to spend less time to deal with the IRAS in a self-assessment regime (unless you are selected for audit), it is important that efforts are made by companies to ensure that they are in good compliance with the GST law. Accredited tax professionals can offer assistance to clients or employers belonging in the compliance groups 1 and 2 to assess the level of compliance (or non-compliance) and take advantage of the VDP and perhaps, the ACAP, to have full waiver of penalties for past errors. For companies in the errant group 3, accredited tax professionals, with specialised expertise, can help promote the message of good compliance behaviours. Expecting not be selected by the IRAS for audit or investigation is not good tax planning.

For a strong foundation in GST, SIATP encourages accredited tax professionals to sign up for the various public seminars organised by the IRAS or the Big Four, such as PricewaterhouseCoopers' public seminar on the Essentials of GST.