

GST 2020 Changes

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Welcome / Agenda

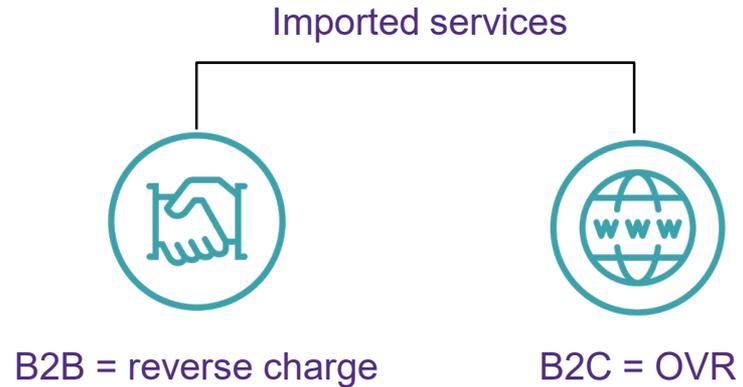
Agenda

- 1 Imported services - the reverse charge
- 2 Businesses supplying to Singapore consumers (B2C)
- 3 Anticipated change of GST rate
- 4 Q&A

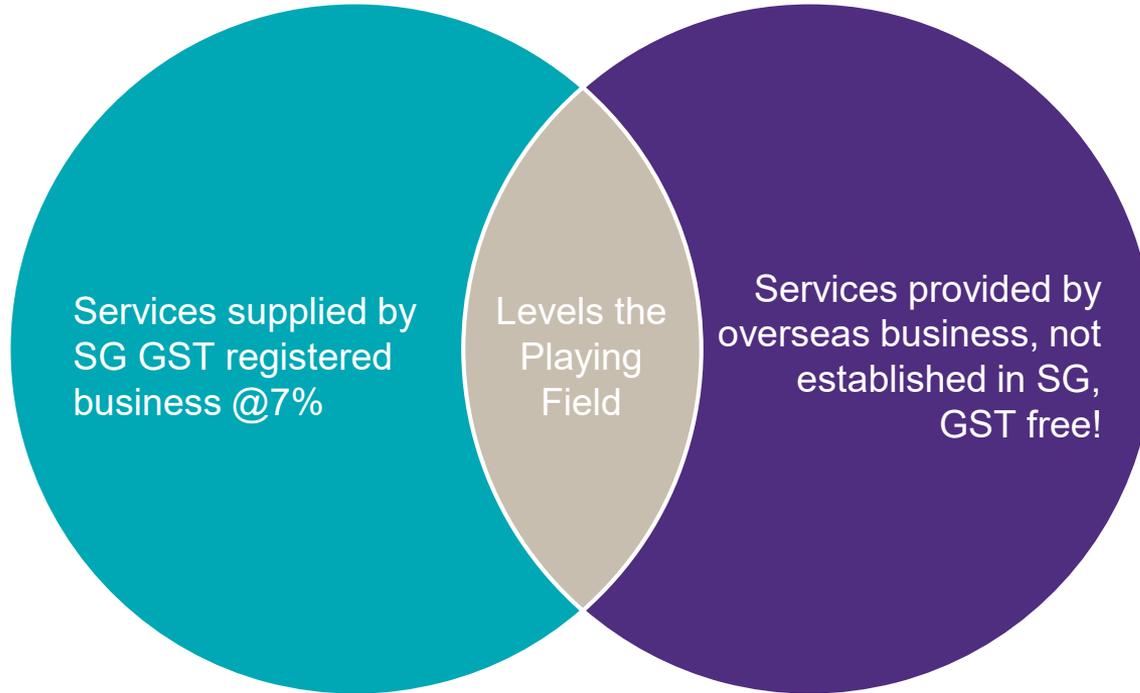
Imported Services The Reverse Charge

Imported Services-the changes

- The changes are effective from:
1 January 2020
- Reverse charge regime for Business-to-Business (“B2B”) supplies of imported **services**; and
- Overseas vendor registration regime for Business-to-Consumer (“B2C”) supplies of imported **digital services**
- Draft E- Guides and draft legislation



Why introduce the reverse charge?



Who will be affected by the reverse charge?



Who will be affected by the reverse charge? Cont.



Companies

Partnerships

Sole Proprietors

Charities and Voluntary Welfare Organisations

Who will be affected by the reverse charge?

Cont.

You will be affected by the reverse charge if:

**GST
registered
business** ▶

You are a GST registered business or GST group that is partially exempt and not entitled to full credit for input tax

You are a GST registered charity or voluntary organisation that receives non business income

**Non GST
registered
business** ▶

The total value of your imported services exceeds \$1m in a 12 month period

Why is the reverse charge being introduced?

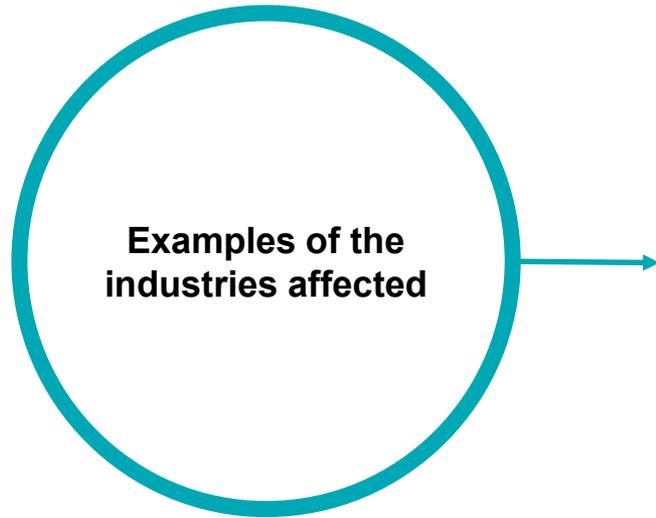
Local GST registered suppliers of services have to account for GST at 7% on most B2B supplies of services.

Imported services are currently free from Singapore GST.

This creates a distortion of competition when the services are bought by businesses that are not entitled to full recovery of input tax. The reverse charge levels the playing field

Who will be affected by the reverse charge

Cont.



Examples of the types of services that will be subject to the reverse charge

Marketing



Accounting



IT



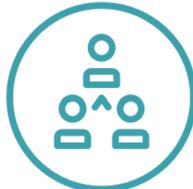
Legal



HR



Management Services



Royalties/Licences



Consultancy



The effect of the reverse charge for GST registered businesses

GST registered recipient receives imported services and is not entitled to full input tax recovery

Deemed output tax	Net	GST@7%	
Legal services from UK	\$5,000.00	\$350.00	
Management services from USA	\$25,000.00	\$1,750.00	
IP from Switzerland	\$15,000.00	\$1,050.00	
Total	\$45,000.00	\$3,150.00	Declared in Box 6

The effect of the reverse charge for GST registered businesses

Cont.

GST registered recipient receives imported services and entitled to 50% recovery of input tax

Deemed input tax	GST@7%	50% recovery	
Legal services from UK	\$350.00	\$175.00	
Management services from USA	\$1,750.00	\$875.00	
IP from Switzerland	\$1,050.00	\$525.00	
Total	\$3,150.00	\$1,575.00	Recovered in box 7

The effect of the reverse charge for businesses not registered for GST but importing services

Non registered recipient receives imported services and is not entitled to full input tax recovery

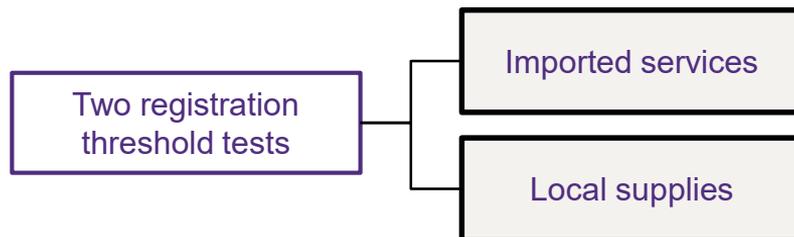
Imported Services	Net	
Legal services from UK	\$125,000	
Management services from USA	\$400,000	
<u>IP from Switzerland</u>	<u>\$500,000</u>	
Total in 12 months	\$1,025,000	Register for GST

The effect of the reverse charge for businesses not registered for GST but importing services

Cont.

Once registered for GST, other income to be taken into account too

Sales	GST liability	Inclusion in GST return
Standard rated local supplies of goods	\$250,000.00	YES
Zero rated export supplies	\$550,000.00	YES
Outside the scope supplies of goods	\$5,000,000.00	NO

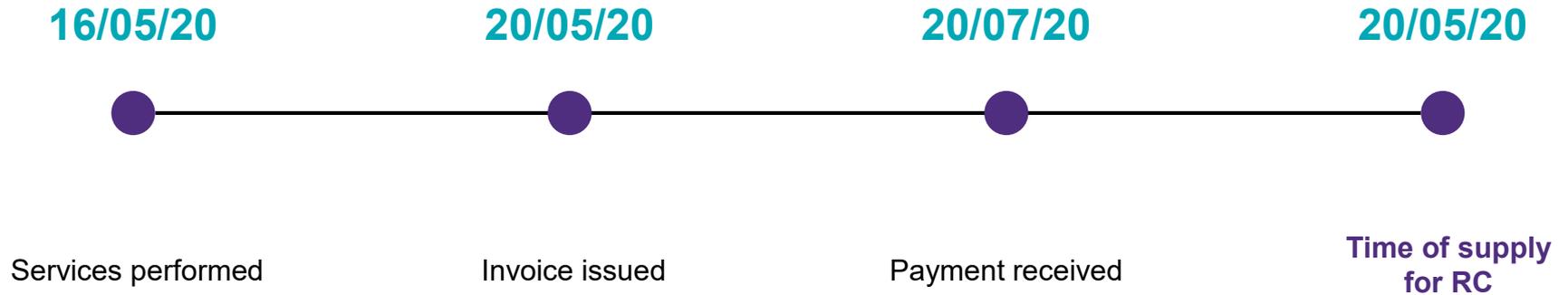


Time to account for GST under the reverse charge

Time of supply for transactions on or after 1 Jan 2020

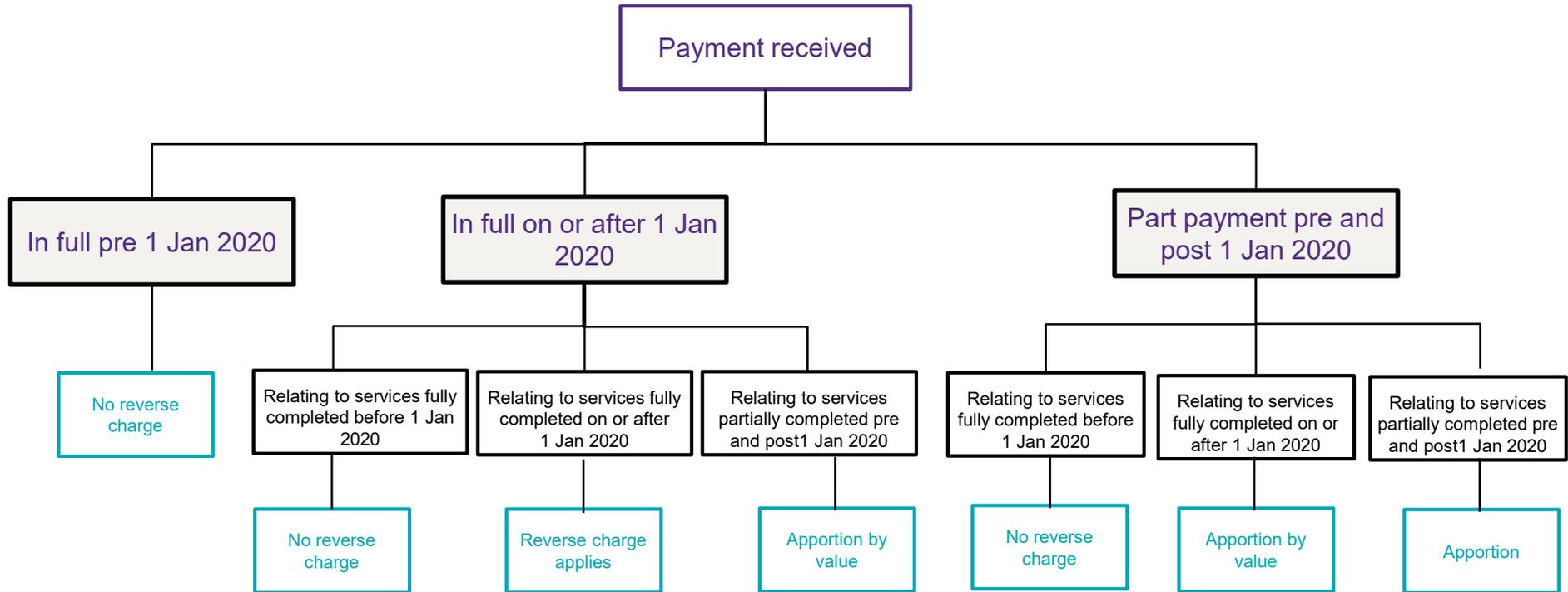
- The general time of supply rule for reverse charge is the earlier of the following :
 - a) When invoice in respect of the supply is issued; and
 - b) When payment in respect of the supply is made.

Time to account for GST under the reverse charge Cont.



Time to account for GST under the reverse charge

Cont. Rules for the transition



Time to account for GST under the reverse charge alleviating measure

As a practical alleviating measure, businesses are allowed to account for GST on their imported services based on the posting date of the imported services in their business accounts if the method is consistently applied for all GST returns. E.g.



Time to account for GST under the reverse charge alleviating measure

Cont.

- GST-registered persons with fluctuating exempt supplies may be liable to apply the reverse charge in one accounting period but not so in the next accounting period
- For administrative ease, these businesses may elect to apply the reverse charge only at the end of the longer period, instead of each accounting period
- The election must be made in the GST F5 return for the first accounting period of each tax year in which the GST-registered person imports services that are subject to reverse charge

Value of the reverse charge



Consideration paid wholly in money:

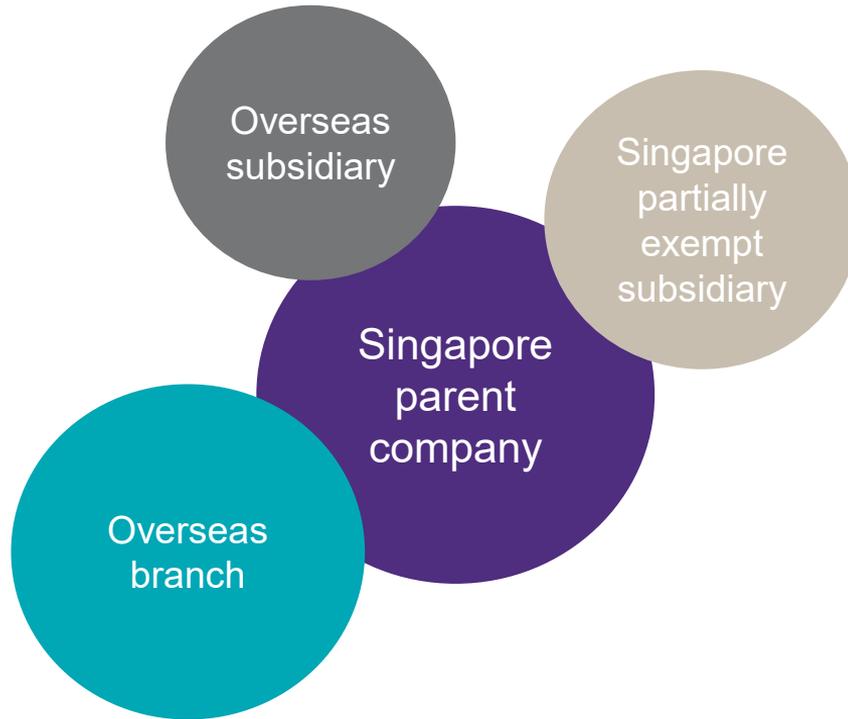
- Value of supply = Money consideration
- GST = Money consideration x 7%



Consideration not consisting or not wholly consisting of money:

- Value of supply = Open market value
- GST = Open market value x 7%

Anti-avoidance measures for GST groups



- Supplies usually disregarded within a GST group
- Supplies usually disregarded between head office and branch
- For RC groups and branches will be treated as individual entities
- One partially exempt entity in a GST group causes entire group to be caught within the reverse charge rules.

What can you do to be ready?

- 1 Ensure that you can identify your imported services at the correct time
- 2 Ensure that you monitor the value of these services as they may tip you over the GST registration threshold
- 3 Review your business to establish whether you are partly exempt and consider applying for the annual adjustment
- 4 Review your business to establish whether you make a mixture of business and non business supplies

What can you do to be ready?

- 5 Set up new tax codings for the imported services, deemed output tax and deemed input tax
- 6 Ensure the figures flow through correctly to your GST returns
- 7 Train your staff
- 8 If you import services below the registration threshold, consider if you wish to opt for voluntary registration

Businesses supplying to Singapore consumers (B2C)

Highlight - What are the changes?

The upcoming changes, being implemented on 1 January 2020, are likely to impact businesses making supplies to customers in Singapore

Services

The proposed changes affect supplies of digital services to private consumers and has been labelled the “Netflix tax”.

Goods

No changes. IRAS has announced that they will continue to monitor the Low Value Consignment Relief (LVCR) of S\$400



What is driving these changes?

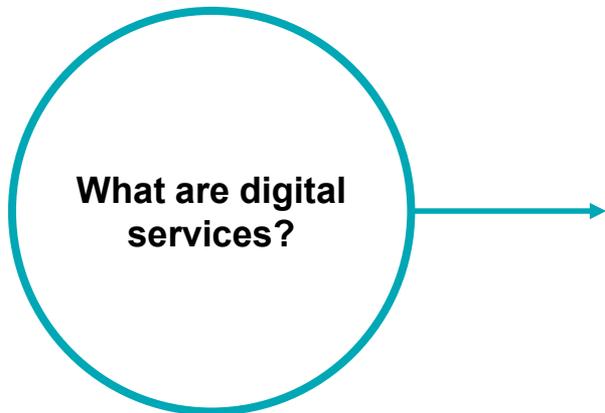
The changes are aimed at trying to reduce the volume of non-taxation on digital services thus “levelling the playing field” for local businesses

Digital services – who is affected?

The new rules for the taxation of digital services will affect the following:

- 1 Overseas businesses supplying digital services to consumers in Singapore
- 2 Local businesses supplying digital services (clarification on place of supply)
- 3 Electronic marketplace operators supplying digital services
- 4 Consumers in Singapore buying digital services from overseas suppliers and electronic marketplaces

Digital services – what are they?



Downloadable digital content (e.g. mobile applications, e-books and movies)

Subscription-based media (e.g. news, magazines, streaming of TV shows and music, and online gaming)

Software programs (e.g. downloading of software, drivers, website filters and firewalls)

Electronic data management (e.g. website hosting, online data warehousing, file-sharing and cloud storage services)

Support services, performed via electronic means, to arrange or facilitate a transaction, which may not be digital in nature (e.g. commission, listing fees and service charges)

“services which are delivered over the internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure in the absence of information technology”

**We have reproduced IRAS's detailed list at the end of this pack*

Digital services – status of the customer?

Is the customer in business or a private consumer?

- Default position = a private consumer (i.e. 7% GST applicable)
- Onus is on the customer to provide the supplier with sufficient evidence that they are in business
 - The best and most simplest form of evidence is for the customer to provide their local GST/VAT registration number
 - GST/VAT registration numbers should be validated and retained by the supplier for audit trail purposes

If the customer provides sufficient evidence, the overseas supplier does not need to charge local GST (i.e. the supply is unaffected by this change)

Digital services – where is the private consumer located?

Determining where the private consumer is located

- Generally, the residential address of an individual may be regarded as his usual place of residence
- IRAS are planning to implement an administrative concession, permitting businesses to use **TWO** pieces of non-contradictory evidence to determine the location of the customer (*this clarifies and expands the evidence sufficient to determine the location of the customer for local suppliers*):
 - 1) Payment proxy (e.g. credit card country code)
 - 2) Residence proxy (e.g. billing/home address)
 - 3) Access proxy (e.g. country code of sim card, IP address of computer, location of fixed landline)
 - 4) IRAS may also accept other commercially available

Digital services – time of supply

The usual rules for the time of supply will apply. The time of supply is triggered by the earlier of:

- i. When the payment is received and
- ii. Issuance of invoice

Example:



- The time of supply is triggered by the invoice being issued on the 12 March 2020
- The GST on the digital service should be charged and accounted for in the quarter ended 31 March 2020.

Digital services – transitional rules

Specials rules will apply to transactions that straddle the implementation date of 1 January 2020.

- **Discrete supplies** - the time of supply will be determined by the earlier of:
 - i. Performance of services (e.g. download of app) and
 - ii. Full payment received
- **Continuous supplies** (e.g. online video subscription service) – an apportionment calculation should be completed



- 3/12 of the digital service is pre implementation and thus outside the scope of GST
- 9/12 of the digital service provided will be subject to GST at 7%

Overseas businesses – impact of the changes

- What impact will these changes have on overseas suppliers?

Overseas supplier - Current

		Location of Customer	
		Singapore	Outside Singapore
Status of customer	Business (GST registered)	Outside scope	Outside scope
	Private consumer	Outside scope	Outside scope

Overseas supplier - New

		Location of Customer	
		Singapore	Outside Singapore
Status of customer	Business (GST registered)	Outside scope ¹	Outside scope
	Private consumer	7% GST	Outside scope

1. Business customer required to account for GST under reverse charge

GST registration requirement?

Overseas businesses - registration requirements

- IRAS are proposing a two-tiered registration threshold
 - Global revenue **S\$1million** and
 - Value of digital services supplies to consumers in Singapore **S\$100k**
- Registration threshold tests
 - Retrospective basis: global revenue and value of digital services made to non-GST registered customer in Singapore in last calendar year (i.e. 1 January – 31 December) exceeded S\$1million and S\$100k respectively
 - Prospective basis: expecting global revenue and value of digital services made to non-GST registered customer in Singapore to exceed these limits in the next 12 months

S\$1m

in global revenue

S\$100k

in digital sales to consumers in Singapore

TIP

Requirement to monitor 2019 digital sales revenue

Overseas businesses - registration notification

Under the retrospective basis

- within **30 days** of the end of the relevant calendar year (e.g. calendar year to 31 Dec 2019 – notify by 30 January 2020)
- Registration will be effective from end of the month following the month in which the 30 day falls (e.g. 1 March 2020 for example above)

Under the prospective basis

1. Triggered **23 October 2019** (e.g. based on forecasts for next 12 months)
 - Notify by **1 November 2019**
 - Registration will be effective **1 January 2020**
2. Triggered on or after 23 October 2019
 - Notify within **30 days** of forecasts (e.g. Forecasts dated 12 December 2019 – notify by 11 January 2020)
 - Later of 1 January 2020 and 30 days after forecast (e.g. effective 12 January 2020)

Overseas businesses – registration scheme

Features of the overseas registration scheme include:

- A "simplified pay-only regime" (similar to EU's MOSS), benefits include:
 - reducing the extra-territorial compliance burden of the overseas suppliers (no requirement to appoint a local agent)
 - Simplified GST filing returns (only required to report the value of supplies made and the GST collected in the quarter)
- GST returns must be submitted within one month from the end of each accounting period
- No additional invoicing and price display requirements placed on the overseas businesses
- Errors can be corrected in your next GST return, instead of requesting to make adjustments to previously submitted returns
- Records must still be kept for minimum of 5 years

Digital services – local vs overseas comparison

- Once the status and location of the customer has been identified we can determine whether GST should be charged. A summary table is below:

Overseas supplier - new

		Location of Customer	
		Singapore	Outside Singapore
Status of customer	Business (GST registered)	Outside scope ¹	Outside scope
	Private consumer	7% GST	Outside scope

1. Business customer required to account for GST under reverse charge

Local supplier

		Location of Customer	
		Singapore	Oustide Singapore
Status of customer	Business (GST registered)	7% GST	0% GST
	Private consumer	7% GST	0% GST

Level playing field

Digital services – marketplaces

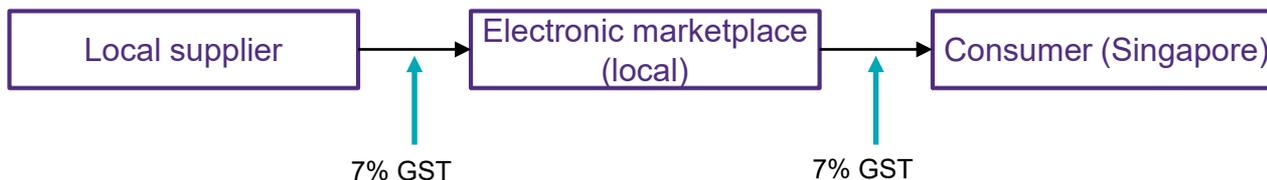
- What is a marketplace? E.g. App/iTunes store / Google play / Stream
- Is the business acting as agent or principle?
- IRAS will consider the operator of an electronic marketplace to be the supplier of the digital services if any of the following are met:
 1. The electronic marketplace authorises the charge to the recipient
 2. The electronic marketplace authorises the delivery of the supply to the recipient
 3. The electronic marketplace sets the terms and conditions under which the supply is made
 4. The documentation provided to the recipient identifies the supply as made by the marketplace and not the supplier or
 5. The electronic marketplace and the supplier contractually agree that the marketplace is liable for GST
- An electronic marketplace may only be regarded as an agent if **all** 5 conditions are satisfied



Digital services – accounting for GST via marketplaces?

When a local supplier makes supplies of digital services through a marketplace, the marketplace may still elect to account for GST on their behalf. In such cases, the following GST treatments would apply (i.e. there is a deemed supply from the local supplier to the marketplace):

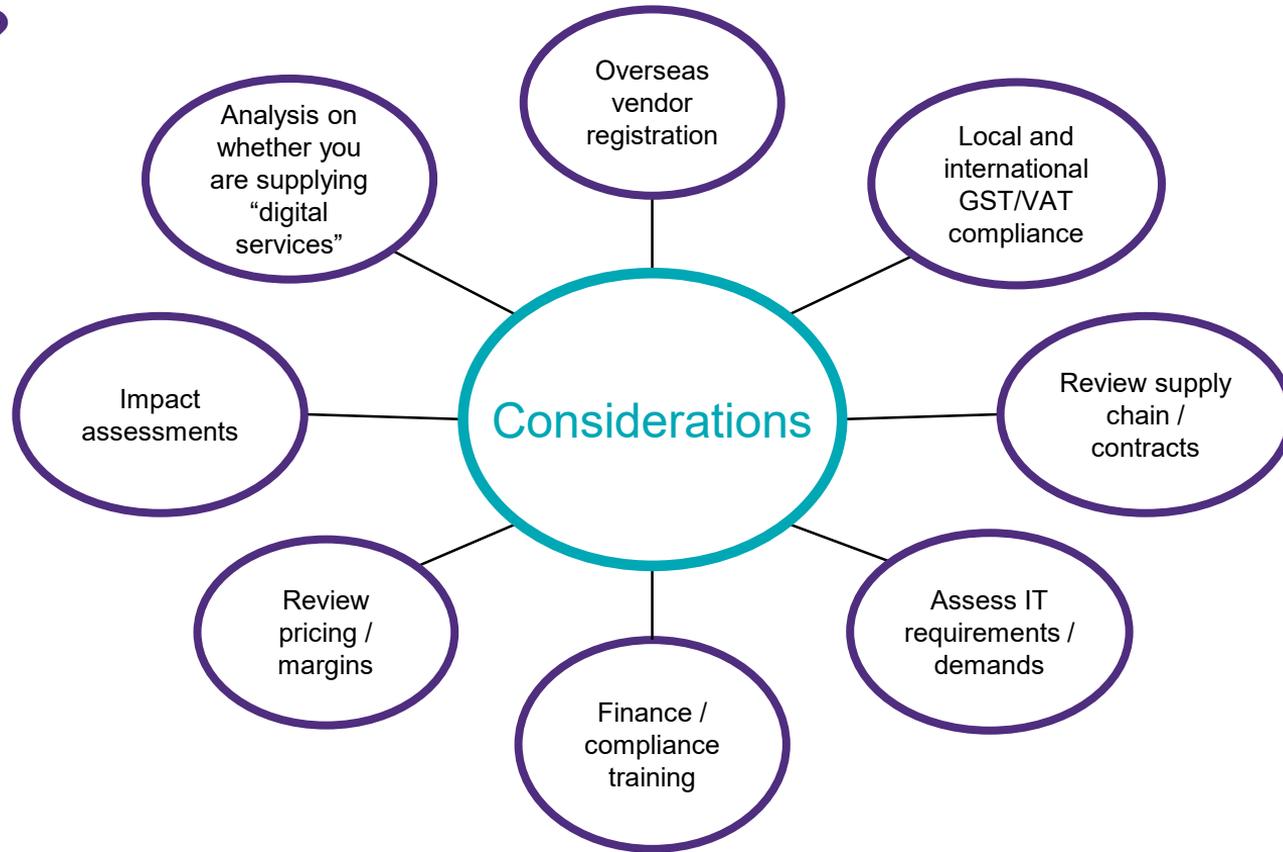
Local electronic marketplace



Overseas electronic marketplace



What should businesses be doing now and how can we help?



Anticipated change of GST rate

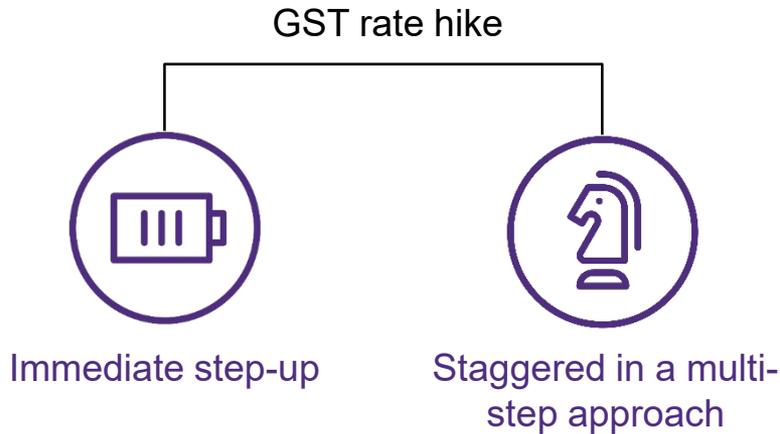
Anticipated change of GST rate

- 1 Singapore's GST rate at 7% remains one of the lowest in the world.
- 2 GST is the second highest tax revenue contributor, trailing behind only corporate income tax
- 3 Difficult for Singapore to make an upward adjustment of the corporate income tax rate
- 4 Per 2018 budget, broadening and increasing the tax base to raise additional revenue to deliver the 30 year plan – increasing the GST rate is in line with the consumption tax trends noted by the OECD

Anticipated change of GST rate

5

GST will increase by 2 percentage points, from 7% to 9% some time between 2021 - 2025



Issues and challenges with the GST rate change

Key Issues



Cashflow and profit



Pricing and invoicing



Contractual issues



Marketing and communication



Systems and procedures



Non-compliance

Cashflow and profit



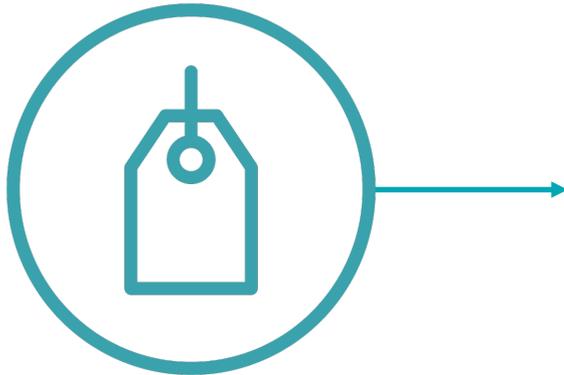
GST rate hike may add pressure to cash flow and could negatively affect sales revenue - review your cash-flow forecast

Do you need to review the management of your debtors?

Can you pass on the increase or will you need to absorb it?

Consider prepayment options subject to any anti-avoidance legislation

Pricing and invoicing



The uncertainty of the start date - while challenging - also creates opportunities for companies if they plan ahead

Fully taxable GST-registered - can recover the GST charged

Partially exempt GST-registered businesses

Non-GST registered businesses - the cost of their purchases would increase

B2C strategy consideration

Contractual terms to consider



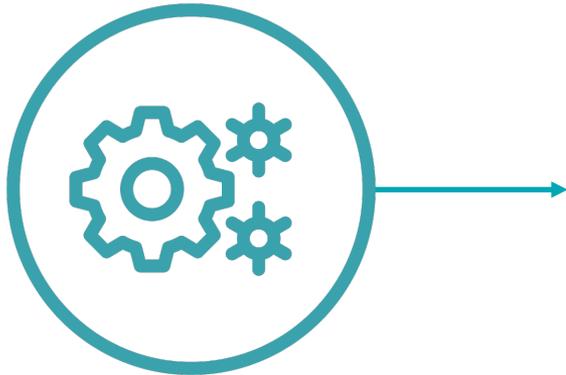
Review your sales and purchase contracts

Do your contracts and pricing agreements have the appropriate clauses to cover the GST increase?

Do any service agreements exist that span the date of the GST rate increase?

Do you need to review insurance cover to reflect the GST inclusive value of insurable assets particularly if you are unable to recover GST input tax?

Systems and procedures



Review your accounting system to establish its tax recoding functionality

Establish the flexibility within your accounting system to deal with transitional provisions and variable rates of GST

Review your invoice / debit and credit note templates to be ready for the changes

Find out whether your accounting software providers will release software updates and when these will be released

Establish a testing program to 'test' any changes to your accounting systems and internally developed spreadsheets, reports and templates

Non-compliance



With a higher GST rate - any non-compliance to the tax regime would also be more costly

Focus on managing GST risks

Prioritize GST compliance

Rumours - to ensure compliance with the new tax regime, tax authorities may prescribe stricter penalties.

Thank you

Questions?

Appendix Digital services – IRAS’s list of Digital services

Service	Remarks/ Examples
Included Digital Services	
Supply of digital products	E.g. supply of mobile applications and e-books
Supply of software programs	E.g. downloading of software, drivers, website filters and firewalls
Supply of images, text and information and making available of databases	E.g. subscription to online newspapers and journals, downloading of licensed images
Supply of music, films and games	
Supply of distance teaching via pre-recorded medium or e-learning	E.g. supply of online courses
Supply of electronic data management services	E.g. website supply, web-hosting, automated and digital maintenance of programmes
Services providing or supporting a business or personal presence on an electronic network	E.g. subscription services for the maintenance of an online professional profile page
Supply of search-engine and automated helpdesk services	E.g. supply of customised search-engine services
Listing services for the right to put goods or services for sale on an online market or auction house	E.g. listing fees for merchants to list their items for sale
Supply of live streaming services where there is no interaction with the content provider	
Advertising services on intangible media platform circulated wholly in Singapore	
Support services performed, via electronic means, for arranging and facilitating the completion of transactions, which may not be digital in nature	E.g. commission fees to intermediaries, service fees to consumers and merchants for sale of products through the electronic marketplace

Excluded Digital Services	
Telecommunication Services	Current zero-rating provisions accorded for cross-border telecommunication services; Unlikely for an overseas entity to provide local telecommunication services without a physical presence in Singapore as formal licensing is required. Cloud-based telephony
	services, for example Voice over Internet Protocol (“VOIP”), audio conferencing and conference bridging, are also excluded.
Advertising services on intangible media platform circulated wholly outside Singapore	Zero-rating permitted for advertising services intended for circulation substantially outside of Singapore
Professional services, even if advice is provided by electronic means	E.g. legal services communicated via e-mail



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