

# GST on Imported Services under Reverse Charge (RC)

24 October 2019

**Speaker:**

Jeremy O'Neill

Indirect Tax Manger



# Welcome

# Agenda

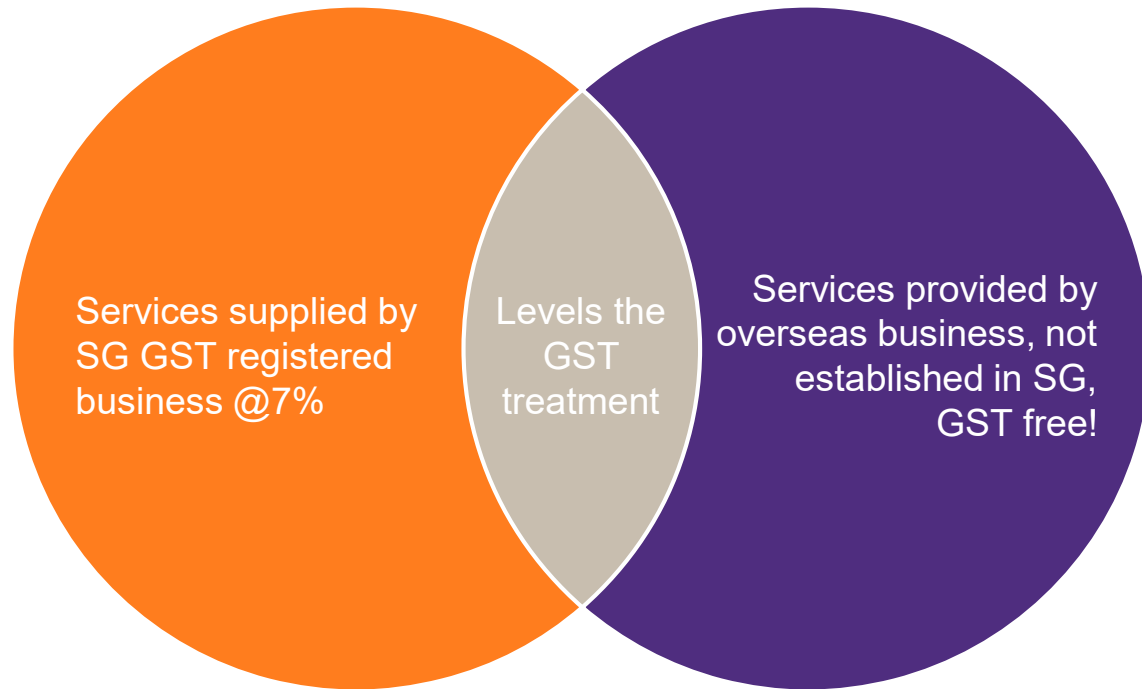
- 1 Overview of reverse charge
- 2 Who will be affected?
- 3 Scope of imported services
- 4 Value and time of supply
- 5 Impact of reverse charge
- 6 Administrative elections and reporting requirements
- 7 Preparing for reverse charge
- 8 Q&A

# Overview of reverse charge

# What is the RC?

- The reverse charge is a mechanism that transfers the liability to account for GST on the supply of services by overseas vendors to the local business
- The local business will be required to “deem” output tax on the imported service and recover this as input tax, subject to usual input tax recovery rules
- Singapore has implemented a simplistic version when compared to the other indirect tax jurisdictions (e.g. UK and other EU member states)

# Why introduce the RC?



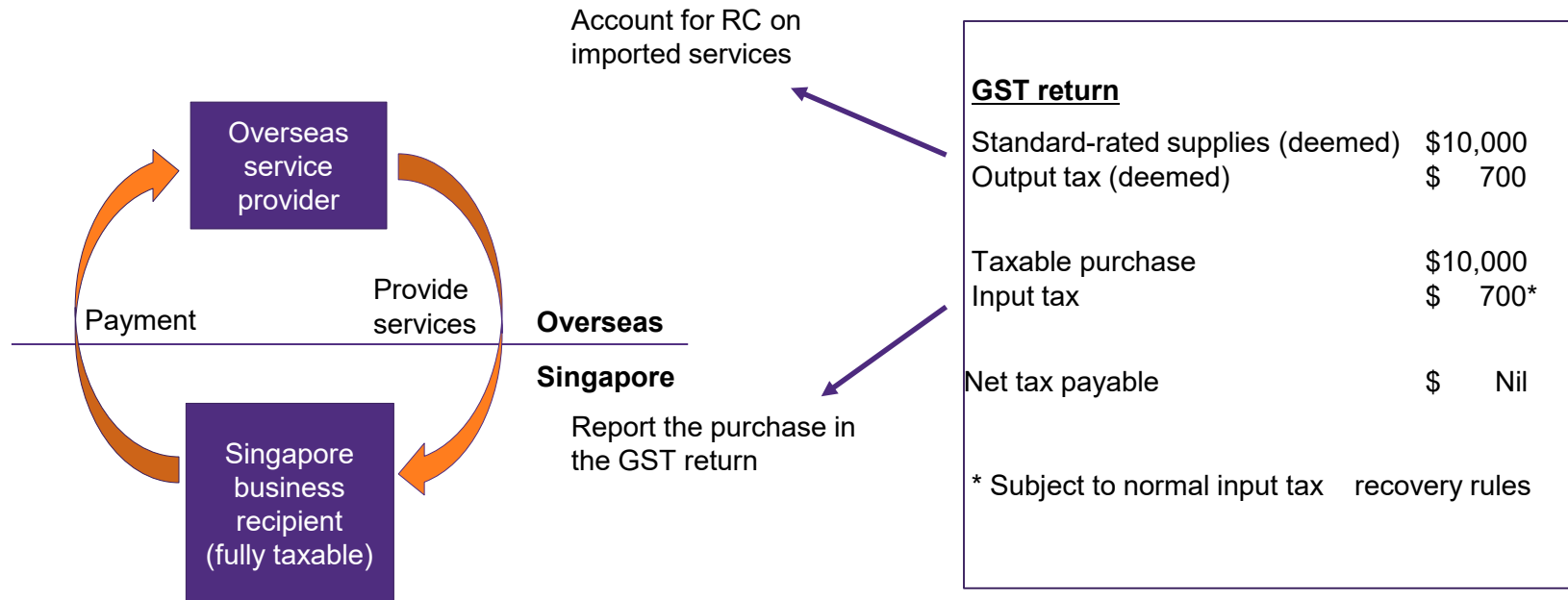
## Why is the reverse charge being introduced?

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

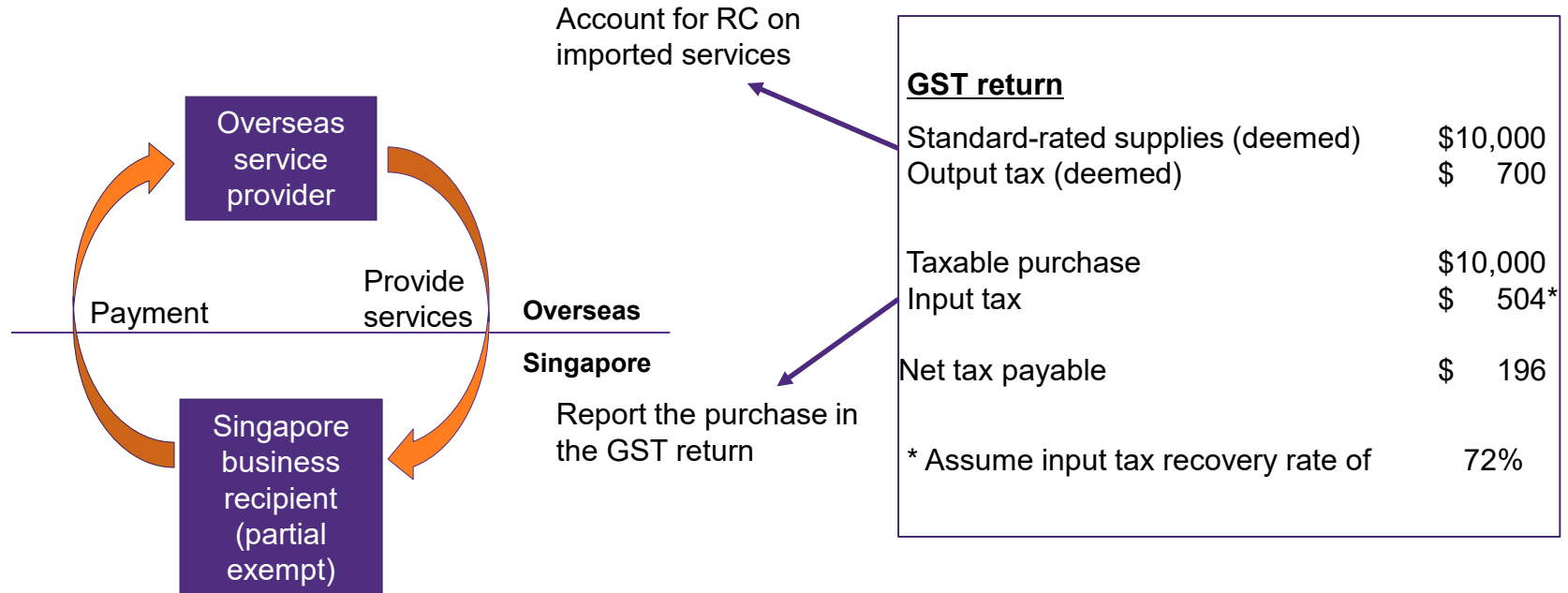
Imported services are currently free from Singapore GST.

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 GST treatment

# Reverse Charge – fully taxable business



# Reverse Charge – partial exempt business





# Who will be affected?

# Who will be affected?

The reverse charge affects both GST-registered and non-registered businesses:

## GST-registered business

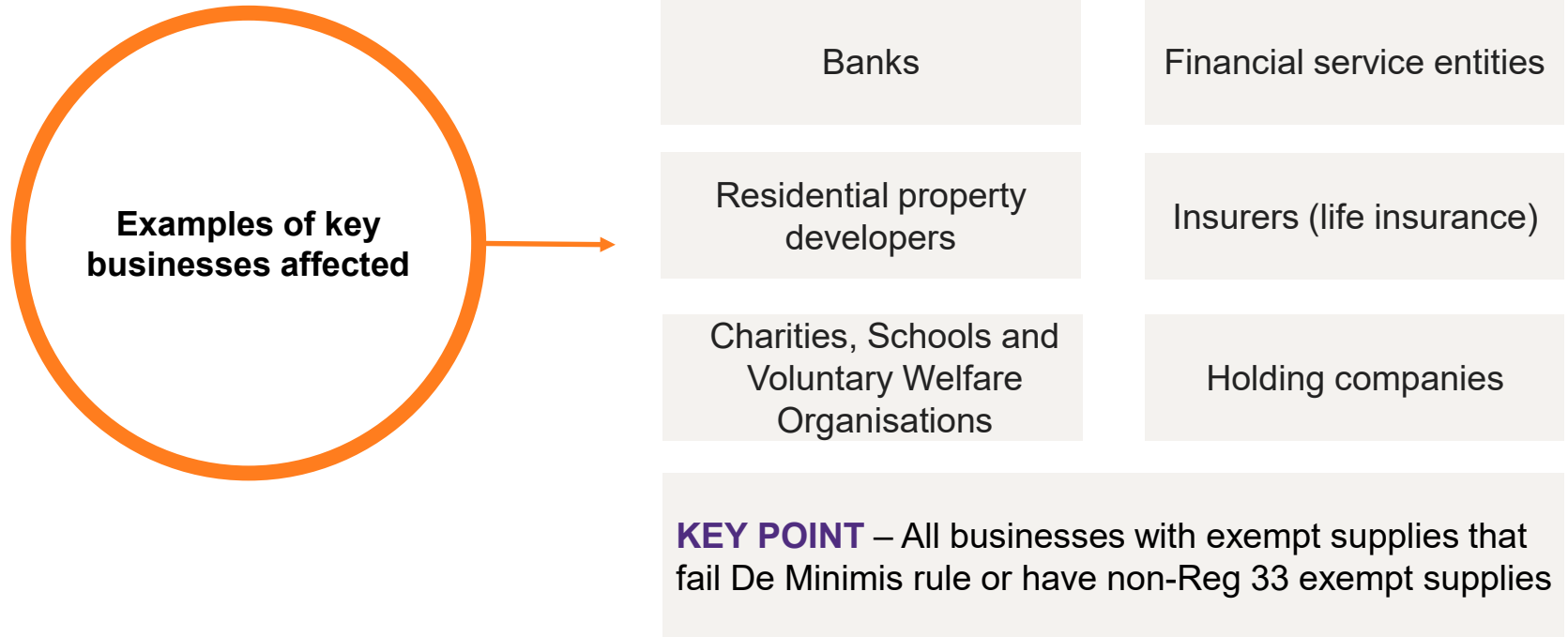
1. Not entitled to full credit for input tax (i.e. you make exempt supplies or receive non-business income) **OR**
2. Member of a GST group that is not entitled to full credit for input tax **OR**
3. A fully taxable business that elects to apply the RC (\*election 1)

## Non-GST registered business

1. The total value of your imported services exceeds \$1m in a 12 month period **AND**
2. Not entitled to full credit for input tax if the business was GST registered (i.e. you make exempt supplies or receive non-business income)

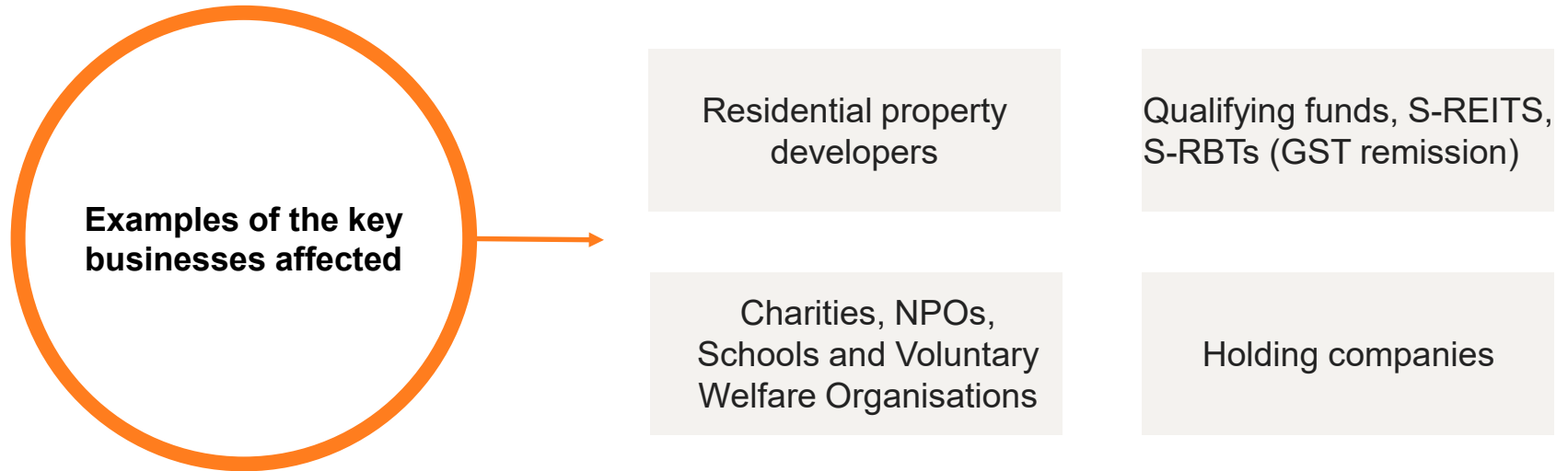
# Who will be affected? (GST-registered)

Common examples of affected businesses are:



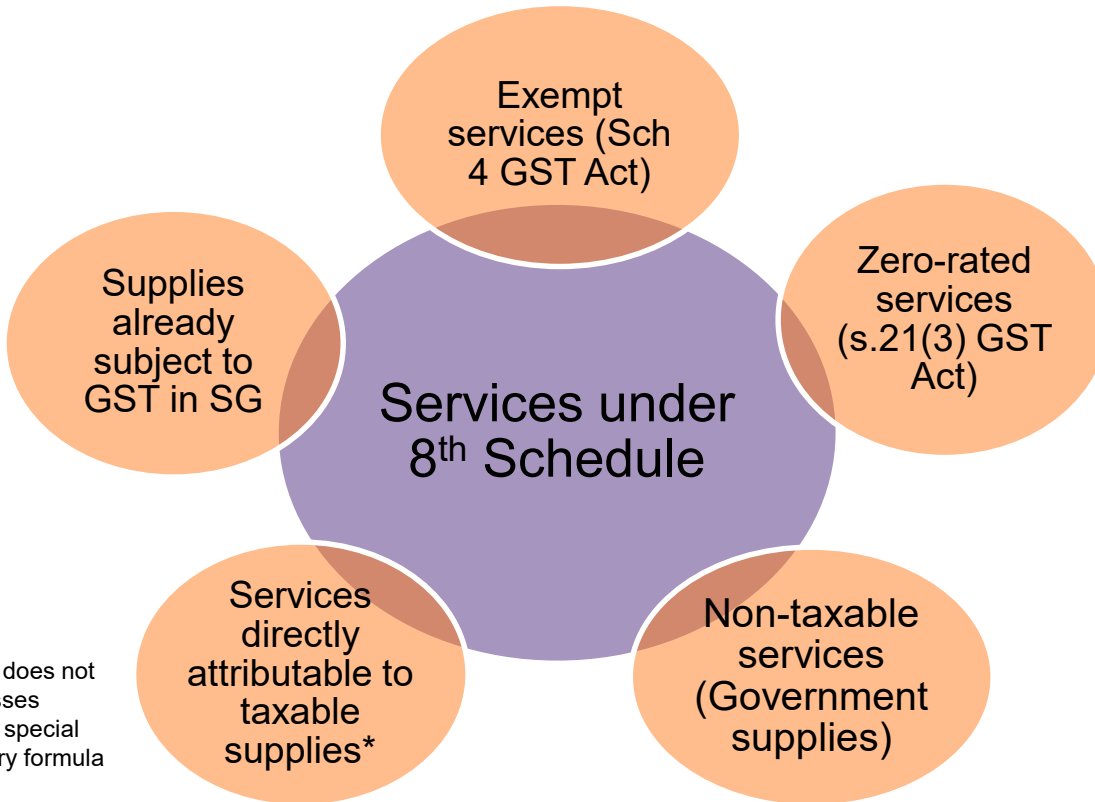
# Who will be affected? (non-GST registered)

Common examples of affected businesses are:



# Scope of imported services

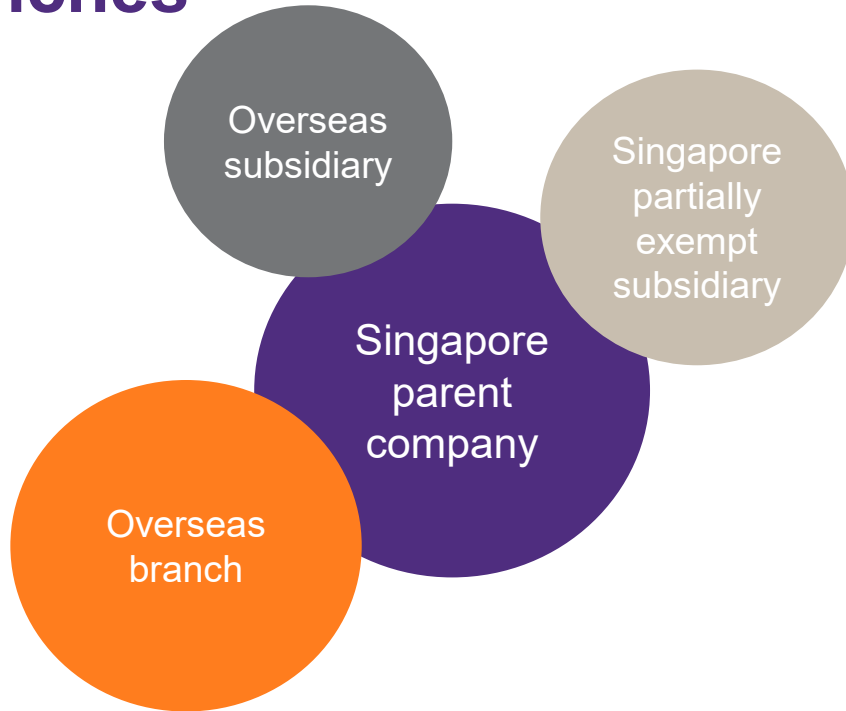
# Scope of imported services



**Admin concession:**  
An RC business can elect to apply RC to all imported services for ease of calculation and reporting (\*election 2)

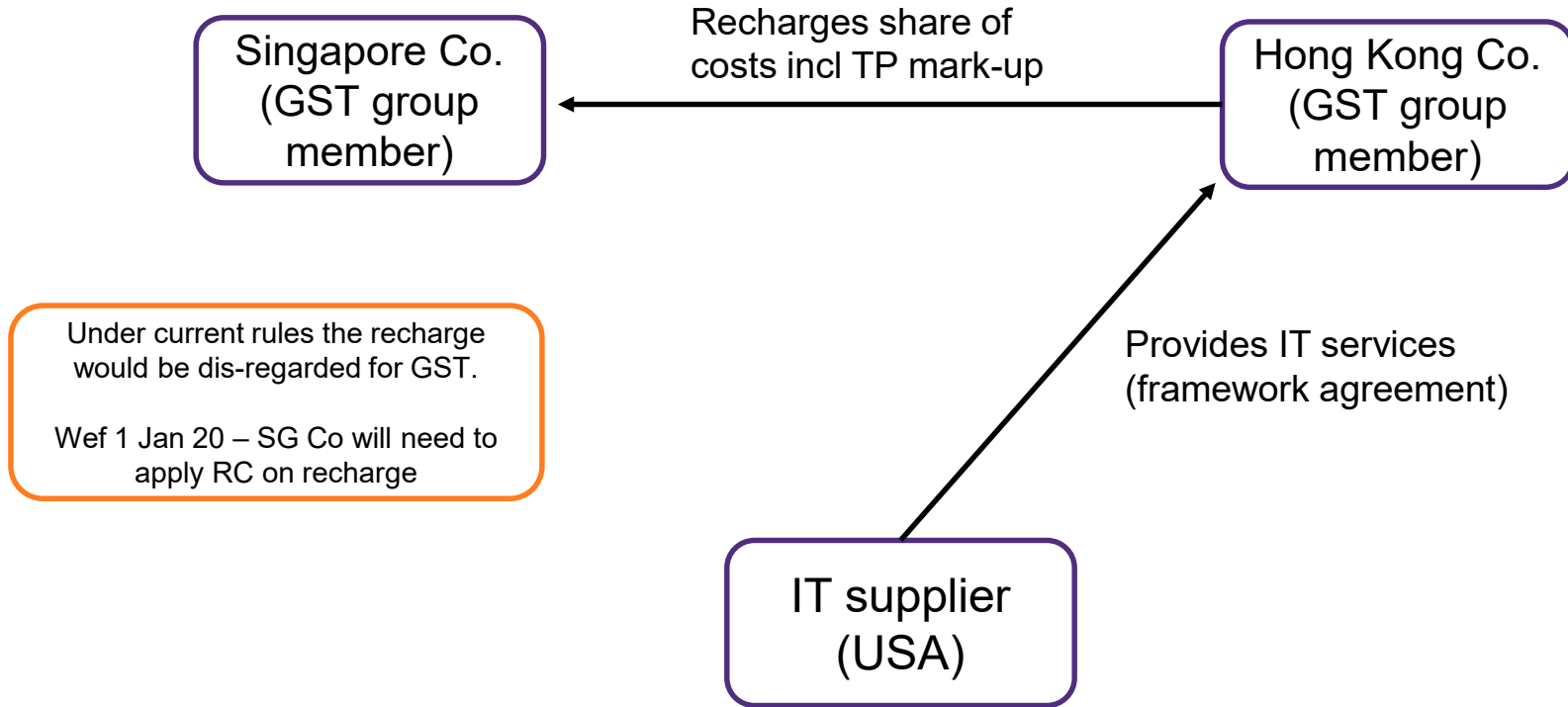
\* This exclusion does not apply to businesses under a FITR or special input tax recovery formula

# Anti-avoidance measures - GST groups & branches



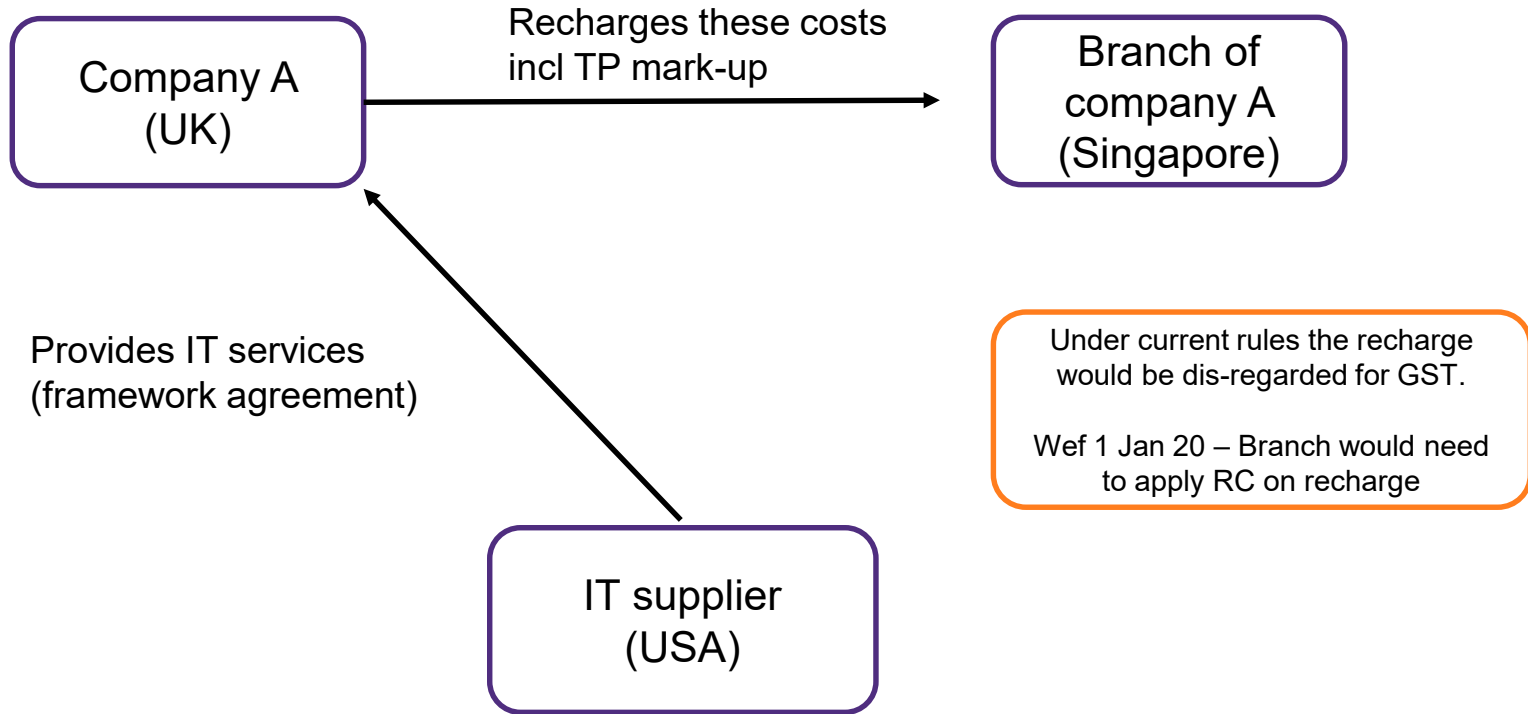
- Supplies usually disregarded within a GST group
- Supplies usually disregarded between head office and branch
- For RC, groups and branches will be treated as individual entities
- One partially exempt entity in a GST group causes entire group to be caught within the reverse charge rules.

# Inter-group transaction





# Inter-branch transaction



# Internal cost recharges

Company A  
(UK)

Branch of  
company A  
(Singapore)

Monthly management service fee

- Total amount \$100,000
  - Other services \$75,000
  - Salary element \$20,000
  - Interest element \$5,000

Wef 1 Jan 20 – if branch can segregate cost component it can use the exclusion for “SWI” under s.17(3B)

# Value and time of supply

# Value of the RC

Supply	Value of supply
Transactions between connected persons (including intra-GST group and inter-branch transactions)	OMV
Intra-GST group and inter-branch transactions	Consideration (or OMV) – Salary and wages, and interest cost components; plus proportionate mark-up
Transaction that has been taxed previously	Consideration (or OMV) – value of supply that has been taxed previously
Transaction subject to withholding tax (WHT)	Consideration paid for supply (without deducting/adding WHT)
TP adjustment made to RC supply	Value of TP adjustment that gives rise to the change in value of the supply
Foreign currency denominated invoice	Use same acceptable exchange rate to compute the output tax and input tax



# Time to account for RC

The general time of supply rule for reverse charge follows the standard rule.  
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.

16/05/20

20/05/20

20/07/20



Services performed

Invoice issued

Payment received



Time of supply  
for RC

20/05/20

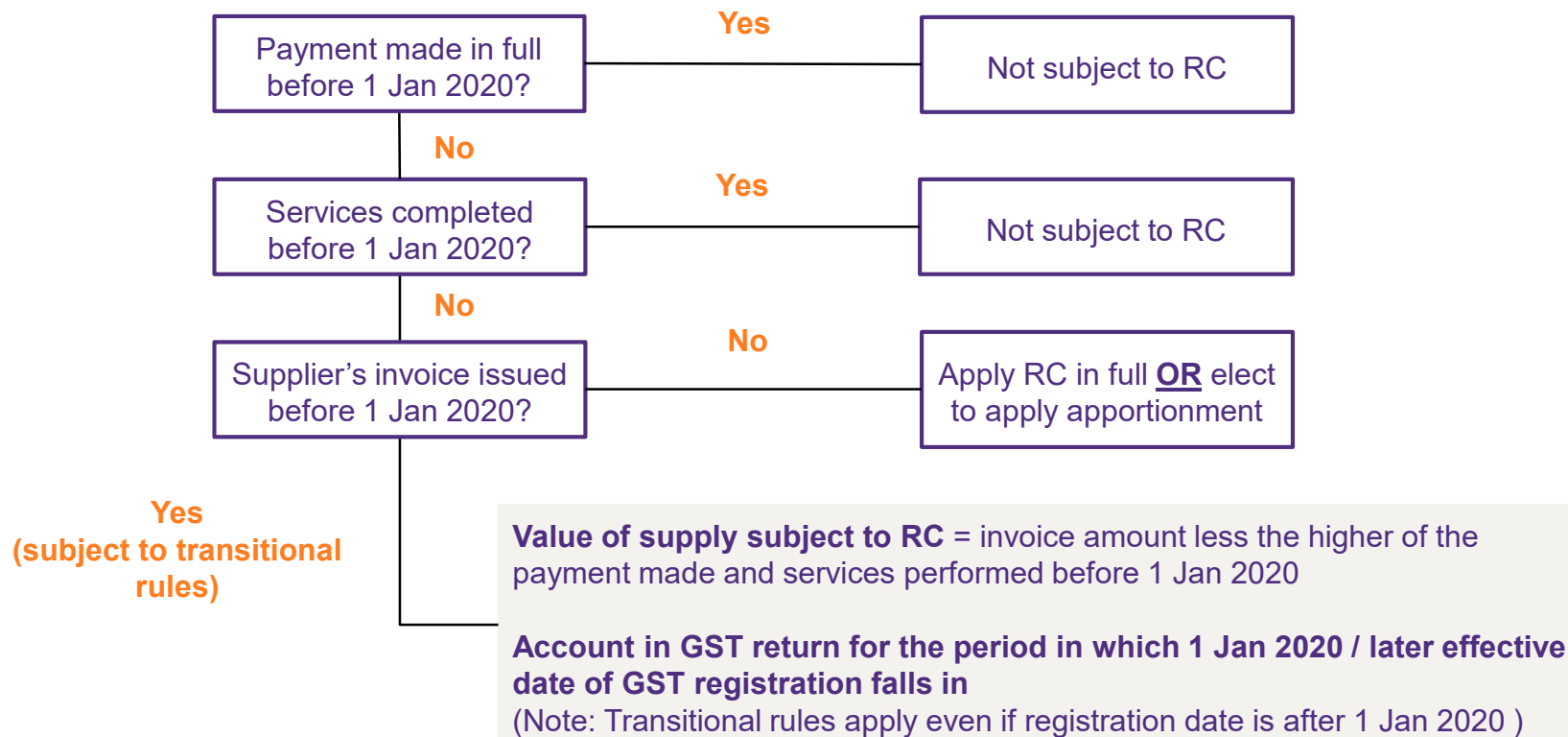
# Time to account for RC - alleviating measures

1. Businesses may account for the RC based on the posting date of the imported services in their business accounts if the method is consistently applied for all GST returns.



2. Elect to account for RC within the longer period adjustment

# Time of supply - Transitional provisions



# Time to account for RC – transitional provisions example

Nature of Services	Invoice date	Value of services ("A")	Value paid pre 01/2020 ("B")	Value completed pre 01/2020 ("C")	Value for RC (A – (higher of B & C))
Management fees (period covered 1 Jan – 31 Dec 20)	31 Dec 19	3,000,000	NIL	NIL	3,000,000
Software licence fee (period covered 1 Jul 19 – 30 June 20)	1 Jul 19	50,000	50,000	6/12 months = \$25,000	NIL
Project costs (project 50% completed at 1 Jan 20)	31 Dec 19	1,000,000	NIL	500,000	500,000
IT services (period covered 1 Oct 19 – 30 Sept 20)	30 Jun 20	6,000,000	NIL	3/12 months = 1,500,000	Opt 1 = 6,000,000 Opt 2 = 4,500,000



# Impact of reverse charge

# Impact of the RC – GST-registered business

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

<b>Deemed output</b>	<b>Net</b>	<b>Subject to RC?</b>	<b>GST@7%</b>
IT services from US	\$8,000,000		
Brand license fee from UK	\$1,200,000		
Interest expense	\$500,000		
Software license from US	\$300,000		
<b>Total</b>	<b>\$10,000,000</b>		

# Impact of the RC – GST registered business

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

Deemed output	Net	Subject to RC?	GST@7%	
IT services from US	\$8,000,000	Yes	\$560,000	
Brand license fee from UK	\$1,200,000	Yes	\$84,000	
Interest expense	\$500,000	No	NIL	
Software license from US	\$300,000	Yes	\$21,000	<b>NOTE</b> – OVR changes
<b>Total</b>	<b>\$10,000,000</b>		<b>\$665,000</b>	

# Impact of the RC – GST-registered business

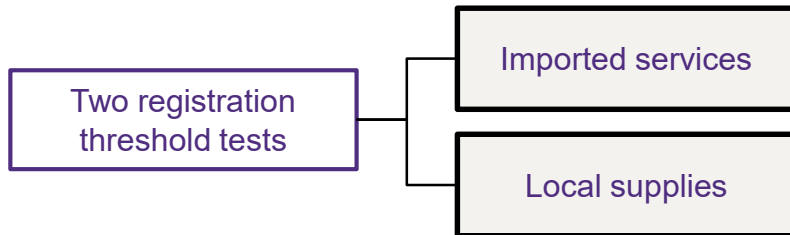
GST registered recipient receives imported services and entitled to 72% recovery of input tax

Deemed output	Net	Subject to RC?	GST@7%	Input tax	GST cost
IT services from US	\$8,000,000	Yes	\$560,000	\$403,200	\$156,800
Brand license fee from UK	\$1,200,000	Yes	\$84,000	\$60,480	\$23,520
Interest expense	\$500,000	No	NIL	NIL	NIL
Software license from US	\$300,000	Yes	\$21,000	\$15,120	\$5,880
<b>Total</b>	<b>\$10,000,000</b>		<b>\$665,000</b>	<b>\$478,800</b>	<b>\$186,200</b>
Costs if purchased locally	\$10,000,000		\$665,000	\$478,800	\$186,200

# Impact of the RC – non-GST registered business

Non-GST registered business receives imported services and would not be entitled to full input tax recovery (if registered)

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



# Impact of the RC – non-GST registered business

## Retrospective basis:

Value of imported services	Business A (SGD)	Business B (SGD)	Business C (SGD)	Business D (SGD)
Determination date (“DD”)	31/12/2018	31/12/2019	31/12/2019	31/12/2019
Calendar year to DD (actual)	2,500,000	2,500,000	2,500,000	2,500,000
Next 12 months (forecast)	1,900,000	2,100,000	Nil	Unable to forecast
Registration liability	NO	YES	<b>YES*</b>	<b>YES*</b>
Notification due date	-	30/01/2020	30/01/2020	30/01/2020
Effective date of registration	-	01/03/2020	01/03/2020	01/03/2020

\*different to standard registration regime

# Registration cont..

## Prospective basis:

Value of imported services	Business 1 (SGD)	Business 2 (SGD)	Business 3 (SGD)	Business 4 (SGD)
Determination date ("DD")	22/10/2019	31/10/2019	23/10/2019	31/03/2020
Next 12 months (forecast)	2,100,000	2,100,000	900,000	2,100,000
Registration liability	YES	YES	NO	YES
Notification due date	<b>01/11/2019</b>	31/01/2020	-	30/04/2020
Effective date of registration	01/01/2020	01/02/2020	-	01/05/2020

First registration deadline is 1 November 2019

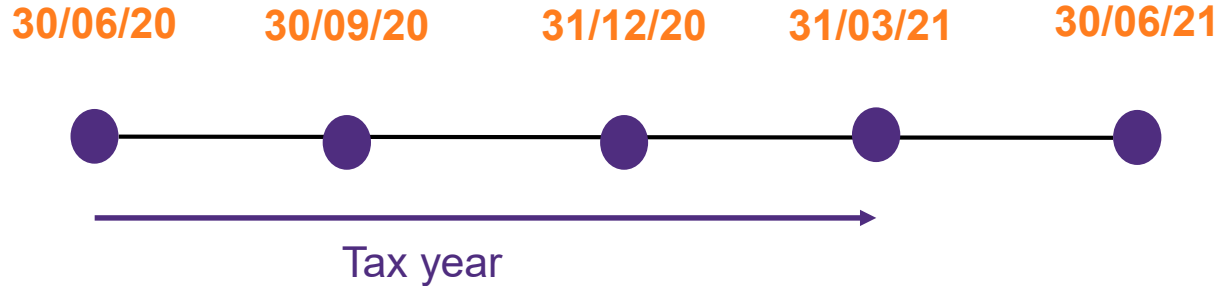
# Administrative elections and reporting requirements



# Administrative elections

3 types of elections	Objectives	Validity period
1. Fully taxable person may elect to apply RC	Ease compliance for businesses with infrequent and irregular non-reg 33 ex supplies and businesses that belong to corporate groups with RC businesses that share the same accounting system / function	1 year
2. RC business may apply to subject all imported services to RC	To relieve the need for businesses to consider whether the imported services are within scope of RC	1 year
3. RC business may elect to apply RC at the end of longer period (N/A to banks)	To ease compliance for businesses who are unable to accurately determine whether they will be partially exempt from year to year (i.e. close to de-minimis threshold)	Up to one year, i. e. from start of current period to end of the longer period.
How to make RC election ?	Complete and maintain RC election form within one month from the end of the first accounting period in which the business wishes to enjoy the benefits of the election	

# Administrative elections - Example



1. Complete and retain the RC election form by **31 July 2020** (i.e. first GST return for tax year beginning 1 Apr 2020 to 30 June 2020)
2. Election will cover period 1 April 2020 to 31 March 2021
3. Assess value requirement to apply RC on in quarter to 30 June 2021
4. Reapply annually

# Reporting requirements

1

A business registered by virtue of the RC making only non-taxable supplies may elect to use simplified reporting (with prior approval from IRAS)

2

Point of note – Net value of reverse charge must not be taken into account as “taxable supplies” for the following purposes:

- Partial exemption calculations (residual tax calculation or reg 35 test)
- Eligibility for exemption from GST registration
- Eligibility of GST schemes (e.g. MES etc)

# Record keeping requirements

1

Overseas supplier's invoices must contain:

- ✓ Supplier's name and address
- ✓ Invoice number and date
- ✓ Description of service(s)
- ✓ The value of the supply

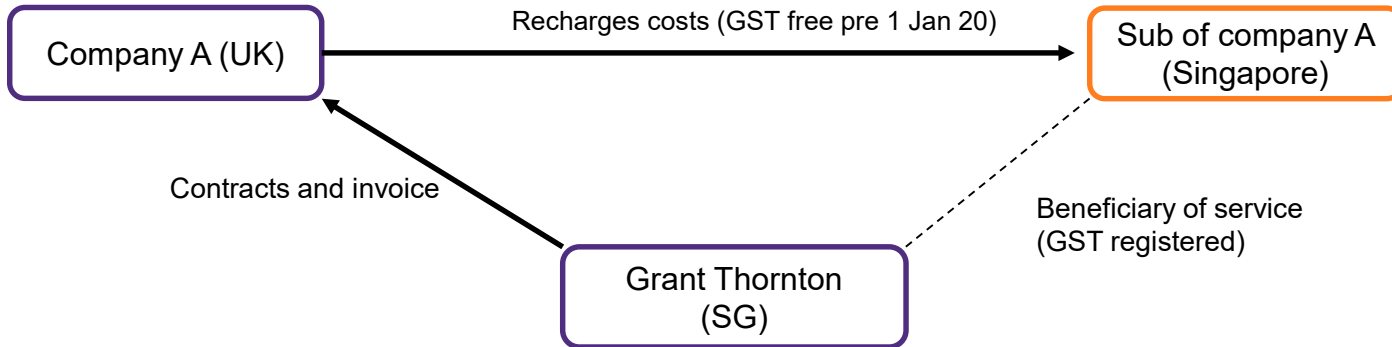
2

Supplementary records to maintain:

- ✓ Transactional listing of imported services
- ✓ Accounting system report for RC entries (audit trails / journal records etc.)
- ✓ Workings for input tax appointment
- ✓ Evidence of payment (e.g. bank statements)
- ✓ Contracts with overseas suppliers

# Amendment to “directly benefit” test

- The “directly benefit” test is found in s21(3) namely; (j), (k), (s), and (y)
- Its purposes was to mitigate the risk of “round-tripping”. Now the RC has been implemented there is no such risk
- From 1 Jan 2020, services supplied under contract with overseas persons may be ZR even if there is local benefit so long as local beneficiary is registered for GST



# Preparing for reverse charge

# What can you do to be ready?

- 1 Non-registered business need to consider the value of imported services as they may tip you over the GST registration threshold
- 2 Identify processes and transactions that would be impacted (e.g. procurement, budget holders, related party transactions with no invoicing)
- 3 Consider and map out tax logic for RC treatment on imported services
- 4 Implementation of new tax codes and accounting system configurations (automate RC entries?)

# What can you do to be ready?

- 5 Update process manuals and GST preparation workpapers
- 6 Finance and staff training
- 7 Consideration of various elections and making these elections to IRAS
- 8 Consider seeking clarification and rulings from IRAS on doubtful matters
- 9 Impact of upcoming reverse charge legislation in Malaysia?



# Thank you & Questions



**Jeremy O'Neill**

Indirect Tax Manager on secondment at  
Grant Thornton Singapore





[granthornton.sg](http://granthornton.sg)

© 2019 Grant Thornton Singapore Pte Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Singapore Pte Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication.