



The A to Z of Zero-rated Supplies

Zero-rated Supplies and the Impact of Reverse Charge

7 June 2019, Friday

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Goods and Services Tax (GST) is a tax on domestic consumption of goods and services; any supply of goods or services made in Singapore is subject to tax if made by a taxable person.

Zero-rating Relief

Zero-rating relief is available to export of goods and specific international services.

While the applicable rate of tax is zero for zero-rated supplies, they are nonetheless taxable supplies. Consequently, input tax may be claimed on zero-rated supplies. This is unlike exempt supplies which are not subject to GST and accordingly, may not claim input tax incurred for the making of exempt supplies.

Where a supply qualifies both as a zero-rated supply and an exempt supply, zero-rating would override exemption such that input tax may be claimed.

“While zero-rating is advantageous, taxpayers should note that not all services provided to overseas customers can be zero-rated,” shared Accredited Tax Advisor (Income Tax & GST) Gan Hwee Leng, Indirect Tax Partner, KPMG in Singapore, at the [Singapore Institute of Accredited Tax Professionals \(SIATP\)](#)'s *Tax Excellence Decoded* session on the zero-rating of international services.

Services can only be zero-rated if they fall within the description of international services under Section 21(3) of the GST Act. They are broadly confined to the following categories:

- Services directly in connection with land or goods outside Singapore;
- Services performed outside Singapore;
- Services are international in nature (such as international transportation and international telecommunication), and
- Intangible services rendered to an overseas person where the services are not directly in connection with any land or goods in Singapore and not benefiting a person belonging in Singapore.



Accredited Tax Advisor (Income Tax & GST) Gan Hwee Leng, Indirect Tax Partner, KPMG in Singapore, explained and shared practical insights on the zero-rating of international services.

Understanding Key Expressions Used for Zero-rating of Services

To understand zero-rating of services, it is important to first comprehend several key expressions on “belonging”, “directly in connection with”, “under a contract with” and “directly benefit” that are used in the various zero-rating sections.

“BELONGING”

The belonging concept is relevant as a supply of services is taxable if the supplier belongs in Singapore unless the services are directly in connection with land or goods located outside Singapore. In addition, suppliers may zero-rate their services (under certain zero-rating provisions) if it can be ascertained that their customers belong to a country outside Singapore.

A supplier of services is treated as belonging in Singapore if its business establishment (BE), fixed establishment (FE), or usual place of residence is in Singapore. If the supplier has BE or FE both in and outside Singapore, it will be treated as belonging in Singapore if the establishment most directly concerned with the supply is in Singapore.

Suppliers are required to determine the belonging status of their customers. In practice, this can be done through direct verification with the customers, written declaration from customers (that it has no branch, agency, office, factory warehouse or personnel in Singapore) or separate checks (such as on the ACRA website to see if the customers are registered in Singapore).

“DIRECTLY IN CONNECTION WITH”

Services that have a direct connection to land or goods situated in Singapore do not qualify for zero-rating. The question to ask is whether there is a clear and direct nexus between the supply and the land or goods situated in Singapore. To illustrate, a Singapore contractor renovating a house in Malaysia may qualify for zero-rating as the supply is directly in connection with land situated outside of Singapore.

“UNDER A CONTRACT WITH”

The existence of a contract is a question of fact and should be determinable by the Comptroller based on the commercial relationship between parties. To this end, written contracts, whether in the form of a legal contract, a service level agreement, or even email exchanges between the supplier and the customer setting out the business arrangement is encouraged and should be maintained.

“DIRECTLY BENEFIT”

To determine who directly benefits from the service, companies must begin by examining the flow of services or benefits (how the service is provided). Services would directly benefit recipients to whom the services flow in an unimpeded manner.

It is important to note that the contractual party may not always be the direct beneficiary. Many multinational corporations execute global master agreements that cover multiple subsidiaries. In such cases, the subsidiaries covered under the master agreement are generally beneficiaries, while the headquarters (which is the contractual party) may or may not be one of the beneficiaries.

Where a supply of services directly benefits both local and overseas persons, as an administrative concession, the Comptroller would allow the value of the supply to be apportioned. The portion of services that directly benefits a person in Singapore needs to be standard-rated and the remaining portion zero-rated. Apportionment can be done using a reasonable proxy, such as the market price chargeable, costs incurred, or amount of time spent.

Specific Provisions on Zero-rating of Services

PROVISIONS RELATING TO INTERNATIONAL TRANSPORTATION AND INTERNATIONAL LEASE [SECTIONS 21(3)(A), 21(3)(B), 21(3)(C) AND 21(3)(D)]

International transportation services generally qualify for zero-rating, but domestic transportation services do not. However, if the domestic transportation services are provided as part of the supply of international transportation services, such portion relating to domestic transportation services can also qualify for zero-rating.

Services relating to insuring and arranging for international transport are zero-rated on the basis that such services are mostly consumed overseas. Similarly, the lease or hire of any type of transport for use outside Singapore can also qualify for zero-rating (as long as the transport is not brought into Singapore throughout the period of lease).

PROVISIONS RELATING TO SERVICES DIRECTLY IN CONNECTION WITH LAND OR GOODS SITUATED OUTSIDE SINGAPORE AND WITH GOODS FOR EXPORT [SECTIONS 21(3)(E), 21(3)(F) AND 21(3)(G)]

Services supplied directly in connection with land or any improvement thereto situated outside Singapore, such as construction, alteration, repair, maintenance or demolition of any building or civil engineering work, can be treated as supplies of international services for zero-rating purposes.

Services supplied directly in connection with goods situated outside Singapore when the services are performed, and services supplied directly in connection with goods for export outside Singapore at the time services are performed, can also be treated as supplies of international services under Section 21(3)(f) and Section 21(3)(g) respectively.

Suppliers relying on Section 21(3)(g) should ensure that proper export documentation is maintained as there is a requirement for the recipient of the supply to belong in a country other than Singapore.

Sections 21(3)(e) to 21(3)(g) do not cover advertising services.



Accredited Tax Advisor (Income Tax & GST) Gan Hwee Leng, Indirect Tax Partner, KPMG in Singapore, shed light on the principles behind ascertaining the belonging status of supplier and customer.

SERVICES PERFORMED WHOLLY OUTSIDE SINGAPORE [SECTION 21(3)(I)]

Specific services in relation to cultural, artistic, sporting, educational, entertainment, exhibition or convention services (including ancillary services) which are performed wholly outside Singapore are international services for zero-rating purposes. For example, if a Singapore company organises a golfing event in Malaysia, zero-rating would apply on the basis that the sporting and entertainment services are performed wholly outside Singapore.

GENERAL PROVISION OF SERVICES [SECTION 21(3)(J)]

Section 21(3)(j) is a very broad provision.

With the exception of advertising services, goods situated inside Singapore at the time services are performed (other than goods for export) and land in Singapore, any services supplied under a contract with a person who belongs in a country outside Singapore, and which directly benefit a person who belongs in a country other than Singapore and who is outside Singapore at the time the services are performed, can be zero-rated under this section.

For example, market research services on Singapore property prices provided to a foreign client based overseas can be zero-rated under this section.

PROVISIONS RELATING TO PRESCRIBED SERVICES [SECTIONS 21(3)(K) AND 21(3)(L)]

Section 21(3)(k) covers prescribed services supplied under a contract with and directly benefit a person wholly in his business capacity and who in that capacity belongs in a country outside Singapore. The prescribed services, based on Second Schedule of GST (International Services) Order, include services of engineers, lawyers, accountants and other similar consultancy services, exhibition or convention services, and training or retraining for any business of employment.

To be zero-rated under Section 21(3)(k), the consultancy services should be provided by professionals similar to engineers, lawyers and accountants; a beauty advice on skin care would not qualify for zero-rating under this section.

Section 21(3)(l) deals with prescribed services supplied in connection with the handling of ships or aircraft, or the handling or storage of goods carried in any ship or aircraft. Generally, the ships and aircraft have to be for commercial use or "international going".

Section 21(3)(l) does not require the prescribed services to be provided to an overseas person. In other words, zero-rating can apply even if such services are provided to a local person.



Accredited Tax Advisor (Income Tax & GST) Gan Hwee Leng, Indirect Tax Partner, KPMG in Singapore, highlighted the interplay between zero-rated supplies and reverse charge.

ADVERTISING SERVICES [SECTION 21(3)(U)]

Advertising services qualify for zero-rating if the Comptroller is satisfied that the advertisement is intended to be substantially circulated outside Singapore. Such services could comprise a supply of a right to promulgate an advertisement by means of any medium of communication, or the promulgation of an advertisement by means of any medium of communication. Section 21(3)(u) excludes telecommunication services.

For an advertisement to be considered as substantially promulgated outside Singapore, the place of circulation of the advertisement is critical; this is the proxy used to determine if supply of advertising service can be zero-rated. For example, advertising services by a local newspaper are standard-rated, while advertising services promulgated through inflight entertainment services or on the Internet may qualify for zero-rating as the advertisement is intended to be consumed outside Singapore.

Contrary to popular belief, not all services provided to overseas customers can be zero-rated, and not all services need to be provided to overseas customers to be zero-rated. It is perhaps timely for businesses to review their GST treatment given how deceptively simple zero-rating of international services is.

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