Get Practical with GST

Reverse Charge and Cashflow Improvement Opportunities for GST

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2020 has been an extraordinary year of changes for businesses. The year also saw Singapore's Goods and Services Tax (GST) marking a milestone with the implementation of the reverse charge (RC) mechanism on 1 January 2020.

Then Covid-19 hit Singapore, and GST is again in the spotlight. *"*Cashflow is the lifeblood of a business. In a downturn, GST could be leveraged for its cashflow improvement opportunities to potentially alleviate business pressure and ease cashflow crunch during these challenging times,*"* shared Accredited Tax Advisor (GST) Danny Koh, Indirect Tax Partner, Deloitte & Touche LLP. He was speaking at a webinar organised by the Singapore Chartered Tax Professionals where he highlighted important issues businesses should look into in these key areas.

Reverse Charge: An Overview

Since 1 January 2020, recipients of business-to-business (B2B) imported services are responsible to account for GST on the value of the services acquired from outside Singapore under the new RC regime.

Specifically, a GST-registered person who is not entitled to full input tax credit (or belongs in a GST group that is not entitled to full input tax credit) and procures services from outside Singapore must account for GST on the value of its imported services as if it were the supplier (to the extent that these imported services fall within the scope of RC).

Persons subject to RC

It is important to note that RC does not affect GST-registered persons who are entitled to full input tax credits, or that belong to a GST group that is entitled to full input tax credits.

Businesses that could be affected by RC include, but are not limited to, partially exempt businesses (such as developers of mixed-use properties and banks), fully taxable businesses that are GST group registered with partially exempt members, and investment holding companies that derive only dividend income (as they do not make any taxable supplies).

Non-GST registered persons who procure imported services (within the scope of RC) exceeding S$1 million in a 12-month period (either under retrospective or prospective basis), and would not be entitled to full input tax credit if GST-registered, are liable for GST registration under the RC mechanism.

SCOPE OF IMPORTED SERVICES

RC is applicable to all imported services unless they are exempt, zero-rated, provided by the government of a jurisdiction outside Singapore, or directly attributable to taxable supplies (for persons subject to RC (RC Business) that are not prescribed a fixed input tax recovery rate or on special input tax recovery formula to be applied on all input tax claims).

It should be noted that when a supply of imported services has been subject to Singapore GST previously, an RC Business is not required to account for GST on the imported services to the extent that the supply has been taxed in Singapore.

TIME AND VALUE OF SUPPLY

The general time of supply rule for RC is the earlier of when an invoice in respect of the supply is issued and when payment is made. For RC Businesses that have elected to apply RC at the end of the longer period, the time of supply would be the day immediately after the last day of the longer period.

There are situations where RC Businesses must track the Basic Tax Point (that is, the time the imported services were performed). These are when the RC Business needs to determine, for example:

(i) whether an imported service that straddles GST registration date is subject to RC,
(ii) whether an imported service that straddles deregistration date is subject to RC, and
(iii) the time of supply for a supply of imported services procured from a connected party when no invoice has been issued and no payment has been received.

If there are transfer pricing (TP) adjustments to be made to a previous supply of imported services subject to RC, GST adjustments should be made on the RC transaction in the current accounting period when the TP adjustment is made, based on the earlier of when the invoice or credit note in respect of the TP adjustment was issued, and when payment in respect of the TP adjustment was made.

In terms of the value of imported supply, where an RC Business pays the overseas supplier for the imported services wholly in money, the value would be equal to the consideration paid for the services, and GST has to be accounted for on the consideration paid. If the transaction were not in money or not wholly in money, GST would be accounted for on the Open Market Value (OMV) instead.

FILING AND RECORD-KEEPING REQUIREMENTS

A new field (Box 14) has been added in the GST returns to report the value of imported services subject to RC. In addition, the value of output tax accounted for under RC should be reported as the value of output tax (Box 6 of the GST return), and the corresponding value of input tax claimable on the imported services should be reported as the value of input tax (Box 7 of the GST return).

To substantiate the RC transactions and the corresponding input tax claims made in the GST returns, businesses must ensure that documents (such as invoices issued by overseas suppliers and transactional listings for RC purchases) are properly retained.

Potential Risks Areas of Reverse Charge

Determine the requirement for GST registration

Businesses that are not currently liable for GST registration may be caught under RC rules for GST registration. It is thus crucial for non-GST registered businesses to take active steps to determine whether they are required to register under the RC regime.

Non-GST registered businesses should identify and segregate overseas vendors from vendors' listing and determine whether imported services are within the scope of RC. The value of in-scope imported services should then be aggregated to determine whether GST registration is required, subject to specific exemption rules. Depending on whether exemption applies, the relevant documentation required for exemption application or GST registration application should then be prepared accordingly.

Inter-branch and intra-GST group transactions are not disregarded

Under normal GST rules, any supply made between the head office and its branches are disregarded for GST purposes as they are considered as a single legal entity. Likewise, supplies made between members of the same GST group are disregarded for GST purposes.

For the purpose of RC, however, inter-branch and intra-GST group transactions are not disregarded. This means that RC will apply when a local branch (or local head office) procures services from its overseas head office (or overseas branch), or when a local member of a GST group procures services from its overseas member within the same GST group. Supplies between local and overseas partnership businesses with the same composition of partners will similarly not be disregarded.

Cashflow Improvement Opportunities

To alleviate business pressure and ease cashflow crunch, businesses are encouraged to review their current GST compliance set-up for potential cashflow improvement opportunities. Some of these opportunities are illustrated below.

Paying GST via instalments

Businesses facing financial hardships and are unable to make their GST payments in full can consider applying for extended instalments via the "Apply for Payment Plan" e-Service at IRAS' myTax Portal. IRAS will review each application on a case-by-case basis. In practice, IRAS may ask for the company's bank statement and projected cashflow to ascertain whether the company is genuinely having issues in paying its GST liability.

As a side note, companies may also opt for a GIRO plan for GST payment to defer payment for an additional 15 days, as GIRO deductions are on the 15th day of the month after the payment due date.

Changing the GST filing frequency

Businesses that are usually in a significant net GST refundable position may consider changing their GST filing frequency from quarterly to monthly to accelerate the receipt of GST refunds from IRAS. To illustrate, where a business is on the quarterly filing cycle, the GST incurred in January 2020 (for the period ended 31 March 2020) can only be recovered in April 2020 after the Q1 GST return is filed. However, if the business is on a monthly filing cycle, the GST incurred in January 2020 could be recovered in February 2020 after the business filed its GST return for the period ended 31 January 2020.

APPLYING FOR SPECIAL SCHEMES

Businesses that import goods of significant value into Singapore may consider applying for a suitable trade facilitation scheme (such as the Major Exporter Scheme and Import GST Deferment Scheme). These schemes allow the suspension of upfront import GST payments and help alleviate cashflow disadvantages faced by businesses when importing goods into Singapore.

APPLYING FOR GST GROUP REGISTRATION

GST group registration allows several related companies to report GST as a group instead of reporting individually, thereby reducing the GST administrative burden on these companies. As sales and purchases made between members of a GST group are disregarded for GST purposes (unless they are subject to RC), GST group registration can improve the GST cashflow of group members (since one member is not required to charge GST to another member, who subsequently recovers the GST). This is particularly useful if intra-GST group transactions are substantial.

Change is often the only constant in the tax world (in this case, the GST world). Businesses that best adapt to the changes and grab the opportunities will always be the ones that will come up on top.

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