GST on Remote Services and Low-value Goods

Taxing of Imported Remote Services and Low-value Goods

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As part of his Budget 2021 Statement on 16 February 2021, then-Minister for Finance Heng Swee Kiat announced that Goods and Services Tax (GST) would be levied on business-to-consumer (B2C) imported non-digital services and imported low-value goods (LVGs), by way of extending the overseas vendor registration (OVR) regime from 1 January 2023.

This move comes as Singapore seeks to ensure a level playing field for local businesses to compete effectively, where the same GST treatment applies on all goods and services consumed in Singapore, regardless of whether they were procured locally or from overseas.

The bill effecting the extension of the OVR regime was gazetted on 2 November 2021, and the Inland Revenue Authority of Singapore (IRAS) has since published two e-tax guides to provide guidance on the extended OVR regime.

Existing OVR Regime

The OVR regime has been implemented since 1 January 2020 to tax digital services supplied to non-GST registered customers in Singapore (including individuals).

Under the OVR Regime, any supplier belonging outside Singapore that has a global turnover exceeding S$1 million and makes supplies of digital services to non-GST registered customers in Singapore exceeding S$100,000 in the last calendar year (1 January to 31 December) or will do so in the next 12 months, is required to register, charge and account for GST on these supplies.

Scope of Digital Services

Based on IRAS' e-tax guide on "Taxing imported services by way of an overseas vendor registration regime", digital services are services supplied over the Internet or electronic network and the nature of which renders its supply essentially automated with minimal or no human intervention, and impossible without the use of information technology.

The scope of digital services includes supplies of digital products, subscription-based and licensed content, and support services provided via electronic means, but excludes cross-border telecommunications, advertising on intangible media circulated wholly outside Singapore, and professional services even if delivered electronically.

"Interestingly, while the above definition seems straightforward, in practice, there are challenges essentially around what constitutes minimal or no human intervention", commented Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Leader, Deloitte Singapore and Southeast Asia, in a webinar organised by the Singapore Chartered Tax Professionals. "Under the extended OVR regime, there would no longer be a need to differentiate between digital and non-digital services as all remote services would be subject to GST. However, the definitional question of minimal or no human intervention remains," he said.

Extended OVR Regime

TAXING REMOTE SERVICES

With the extension of the OVR regime from 1 January 2023, all B2C supplies of imported services, whether digital or non-digital, would be subject to GST if the services can be supplied and received remotely (referred to as "remote services").

Digital services currently subject to GST under the existing OVR regime will continue to be considered as taxable supplies as such services are consumed by the recipient without regard to where the services are physically performed. Non-digital services that do not fall within the definition of digital services but are consumed without regard to the physical location of performance would likewise be subject to GST under the extended OVR regime.

Conversely, on-the-spot services which require a service recipient to be physically present at the location to consume or enjoy the service (such as hairdressing services and passenger transport services) would be excluded from the scope of the extended OVR regime.

SCOPE OF REMOTE SERVICES

The IRAS' e-tax guide on "Taxing imported remote services by way of the overseas vendor registration regime" defines remote services as services where, at the time of the performance of the service, there is no necessary connection between the physical location of the recipient and the place of physical performance.

Based on this definition, the scope of remote services would, in addition to current digital services, include professional services (such as legal, tax and accounting services), educational services (such as distance learning classes and membership subscriptions to professional associations), personal services (such as online counselling and telemedicine services), and even financial services (such as broking and financial advice).

Consequently, with the expanded scope, a supplier of remote non-digital services must be aware of the new extended rules and be ready to account for GST on such services provided to customers in Singapore, if it is required to be GST-registered in Singapore under the extended OVR regime.

TAXING LVGS

Currently, imported LVGs (below a value of S$400) are exempted from GST. This is set to change from 1 January 2023 when the OVR regime is extended to also tax B2C supplies of LVGs.

Following the extension, an overseas supplier of LVGs imported via air or post to customers in Singapore would be required to charge and account for GST on the value of LVGs supplied to non-GST registered customers in Singapore, if it is required to be GST-registered in Singapore under the OVR regime.

SCOPE OF LVGS

Based on the IRAS' e-tax guide on "Taxing imported low-value goods by way of the overseas vendor registration regime", LVGs are goods which, at the point of sale:

- are not dutiable goods, or are dutiable goods but have been granted GST import relief by Singapore Customs under Item 32 of the Schedule to the GST (Imports Relief) Order,
- are not exempt from GST,
- are located outside Singapore at the point of sale and are to be delivered to Singapore via air or post, and
- have a value not exceeding the import relief threshold of S$400.

It should be noted that the import relief threshold of S$400 is determined based on the sales value of the goods, excluding any transportation and insurance costs for transporting the goods from overseas to Singapore, any GST chargeable on the supply of LVGs, and any duties payable to Singapore Customs.

Local Suppliers with LVGs Outside Singapore

Currently, the sales of goods warehoused outside Singapore by local suppliers to customers in Singapore are treated as outside the scope of GST. With the extension of the OVR regime, GST-registered local suppliers would be required to charge and account for 7% GST on their direct sales of LVGs to non-GST registered customers in Singapore.

On the other hand, a non-GST registered local supplier that makes direct sales of LVGs to non-GST registered customers would be required to include such supplies in its taxable turnover in determining its GST registration liability.

Electronic Marketplace Operators

Under certain conditions, a local or overseas operator of electronic marketplaces may be regarded as the supplier of remote services or LVGs made on behalf of suppliers through its marketplace.

When regarded as the supplier, an electronic marketplace operator, if GST-registered, must charge and account for GST on these supplies made to non-GST registered customers in Singapore, in addition to current taxable supplies made by it.

Redeliverers

Redeliverers typically offer ‘ship for me’ and/or ‘buy for me’ services to customers that wish to procure particular goods from overseas vendors that do not ship to Singapore.

Under certain conditions, local or overseas redeliverers may be regarded as suppliers of LVGs for which they have assisted to purchase and/or deliver to Singapore, and be required to charge GST on these supplies made to non-GST registered customers in Singapore.

Next Steps

With the impending implementation of the extended OVR regime, businesses (including electronic marketplace operators and redeliverers) should consider if they would be affected by the new OVR rules and start getting ready. Areas to look into as part of the preparation process include:

- Checking and monitoring if it is liable to register for GST under the extended OVR regime;
- Reviewing and updating existing systems and processes, including making changes to business processes in order to identify, capture and charge GST on supplies of remote services and LVGs in its GST return;
- Implementing new controls or processes to collect and track GST registration numbers of customers to ensure that GST is not charged on sale of remote services or LVGs to a GST-registered customer;
- Understanding and assessing transitional rules – transactions straddling 1 January 2023 are subject to different set of reporting rules;
- For electronic marketplace operators and redeliverers, determining if it is regarded as a supplier of remote services or LVGs under the extended OVR regime.

As 1 January 2023 draws near, it is definitely timely for businesses to start preparing now.

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