TED: GST in eUniverse

Understand the Possible Indirect Tax Implications in this New Era

21 June 2016, Tuesday

Facilitated by:
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Introduced on 1 April 1994, the Singapore Goods and Services Tax (GST) Act was drafted at a time when the Internet was underdeveloped and online digital products were unheard of. Naturally, the country's GST rules were not designed to cater to the digital economy.

At a recent Tax Excellence Decoded session by the Singapore Institute of Accredited Tax Professionals (SIATP), Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax & Business Process Solutions Lead, Deloitte Singapore, highlighted the various disconnects between present GST rules in Singapore and the digital economy. He also discussed the Organisation for Economic Co-operation and Development (OECD)'s guidance on international GST in view of the booming digital economy.

State of Play in Singapore

Goods

Under existing rules, goods that are supplied domestically within Singapore or imported into Singapore are subject to GST. This is unless the value of the imported goods is below the low value goods (LVG) threshold of S$400.

If a resident in Singapore, Mr X, purchases a book valued at S$100 (inclusive of shipping costs) from an online book retailer, GST would apply if the online book retailer is GST-registered and the book is shipped from Singapore. However, if the book is imported into Singapore, GST would not apply as it is below S$400.

Services

Unlike goods, services are subject to GST if they are provided by a service provider belonging in Singapore. If the service provider belongs outside of Singapore, such services would be out of scope of Singapore GST even though they may be provided to Singapore consumers.

It should be noted that the Singapore GST Act provides for a reverse charge mechanism where the consumer is liable to self-account for GST (such that the responsibility to account for GST lies with the consumer instead of service provider), but it is not practically applied.

Let's take the case of Company Y, a Singapore-based business, contracting with an online cloud-based bookkeeping service provider. If the service provider belongs in Singapore and is GST-registered, the bookkeeping services would be subject to GST. However, if the service provider belongs outside of Singapore, such services would be out of scope of Singapore GST.

Similarly, if Ms Z, a Singapore resident, subscribes to an online movie-streaming service for a monthly subscription fee, GST would apply if the service provider belongs in Singapore and is GST-registered, but would not apply if the service provider belongs outside of Singapore.

Singapore's current GST rules and the digital economy

At present, GST is not paid on imports below the LVG threshold or on cross-border services. As e-commerce continues to grow in prominence, the value of imported goods and services is expected to increase. At the national level, the LVG threshold for imports and non-taxation of cross-border services may represent a loss of GST revenue for the country. At the company level, local suppliers' competitiveness vis-à-vis their overseas counterparts may be a growing concern.

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OECD's Guidance on International GST and The Digital Economy

B2B services

The OECD advocates that cross-border business-to-business (B2B) services should be taxed in the jurisdiction of consumption based on the "destination principle". To reduce administrative burden and complexity for the offshore suppliers, it is recommended that the service recipients (instead of the service provider) be liable to account for any GST due to its local tax administration under the reverse charge mechanism.

B2C services

For business-to-consumer (B2C) services, two general rules are recommended for determining the place of taxation.

The first rule caters to on-the-spot supplies, which refers to supplies that are physically performed at a readily identifiable place and that are ordinarily consumed at the same time and place where they are physically performed in the presence of both the person performing the supply and the person consuming it. For such supplies, the OECD recommends that the place of supply should be the place of performance.

The second rule caters to other supplies (which does not fall within the definition of on-the-spot supplies). For these supplies, the OECD recommends that the place of supply should be where the customer has its usual residence.

To address B2C services, the OECD recommends the implementation of a simplified registration and compliance regime to facilitate compliance for non-resident suppliers.

Key challenges relating to GST in the digital economy

Two key challenges relating to GST in the digital economy were identified in the OECD Base Erosion and Profit Shifting (BEPS) report, namely tax leakage in cross-border B2C supplies of services and import of LVG from online sales not subject to import GST. It is interesting to note that these challenges identified are rather similar to Singapore's own challenges, as discussed earlier.

The OECD recommends foreign vendor registration to deal with possible tax leakage in cross-border B2C supplies of services and intangibles. Separately, to address GST collection on the import of LVG, the OECD proposed four GST collection models, namely traditional model, purchaser collection model, vendor collection model and intermediary collection model (through intermediates such as freight agents). While the vendor collection model and intermediary collection model are generally preferred, the most appropriate model for each country may vary depending on national policy decisions and specific circumstances.

On a related note, it is noted that the LVG thresholds of most countries, including the United States and the European Union (EU) countries, are close to US$30. By comparison, Singapore's LVG threshold of S$400 (which is about US$300) is much higher than the norm.

ADOPTING OECD'S RECOMMENDATIONS?

If Singapore were to adopt the OECD's recommendations, the possible outcomes from the earlier scenarios are explored in the following paragraphs.

In the first scenario, Mr X, a resident in Singapore, purchases a book valued at S$100 (inclusive of shipping costs) and the book is imported into Singapore. Under existing rules, import GST is not applicable as the value of the book is below LVG threshold for imports. However, assuming Singapore's LVG threshold is changed to a level similar to that of the EU (which is less than S$100), import GST would apply on the full value of the book.

Participants listening attentively to Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax & Business Process Solutions Lead, Deloitte Singapore.

In the next scenario, Company Y, a Singapore-based business, contracts with an online cloud-based bookkeeping service provider. Presently, services are subject to GST if they are provided by a service provider belonging in Singapore, but not subject to GST if the service provider belongs outside of Singapore. Assuming Singapore adopts the destination principle for B2B services, the bookkeeping services would be taxed in the jurisdiction of consumption, Singapore, regardless of the belonging status of the service provider. The GST compliance burden would rest on the service provider if it belongs in Singapore, or on Company Y through the reverse charge mechanism if the service provider belongs outside of Singapore (in which case Company Y may be eligible to recover GST incurred as input tax provided input tax requirements are satisfied).

In the final scenario, Ms Z, a Singapore resident, subscribes to an online movie-streaming service for a monthly subscription fee. As this is not an on-the-spot supply, the place of supply should be where Ms Z has her usual residence – Singapore. The GST compliance burden for this B2C service should fall on the online movie-streaming service provider.

What's Next for Singapore

If Singapore were to adopt the OECD guidelines on GST in its entirety, the LVG threshold for imports would be lowered, and the destination principle would be used to determine the place of supply for services. In addition, the reverse charge mechanism and foreign vendor registration would be adopted for B2B and B2C services respectively. A simplified registration and compliance mechanism for offshore service suppliers could also be expected.

Instead of mirroring the OECD guidelines, in the facilitator's view, it is likely that Singapore would take a middle-of-the-road approach and selectively adopt sensible recommendations based on the country's specific circumstances.

For example, the Singapore tax authorities may consider the costs and benefits of lowering the existing LVG threshold for imports. The merits of a reverse charge mechanism for Singapore may be reassessed and a hybrid reverse charge mechanism for prescribed supplies or recipients only may be considered. It is also possible for the authorities to ponder over foreign vendor registration for prescribed cross-border B2C services.

The world has seen much change since GST was introduced in Singapore. To keep up with the times and especially the digital economy, it is timely for Singapore to re-evaluate its GST system. Ultimately, it is expected that the Singapore authorities would continue monitoring global developments and take a calculated and sensible approach when adopting new measures.

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