



Brave New World of GST on Imported Services

Implications of Reverse Charge and Overseas Vendor Registration

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The advent of technology has transformed the way goods and services are bought and sold. Through the Internet, consumers can now purchase (almost) anything without ever leaving the comfort of their home, while businesses can easily sell to overseas customers without having to set up brick-and-mortar shops in the countries where their customers are located.

To address the new challenges brought about by the digital economy, tax authorities around the world will need to rethink and redesign the established Goods and Services Tax (GST) rules – rules that were drafted at a time when “online shopping” was unheard of and which were originally designed to cater to traditional business models.

OECD’s Guidance on the Digital Economy

Against the backdrop of booming e-commerce, the Organisation for Economic Co-operation and Development (OECD) published “[International VAT/GST Guidelines](#)” aimed at tackling the growing risks of double taxation and unintended non-taxation from the lack of international coordination on the GST front.

These essentially refer to services physically performed at a readily identifiable place, are ordinarily consumed at the time and place of performance, and which require both the supplier and recipient to be at the same time and place where the supply is physically performed. For such supplies, the place of supply should be the place of performance.

B2B SERVICES

For business-to-business (B2B) service transactions, the OECD advocates the use of “destination principle” as the basic position. The destination principle essentially says that B2B services should be taxed in the jurisdiction where the services are consumed, and not where the services are supplied.

An example of on-the-spot supplies would be hairdressing services. The haircut is physically performed at a hair salon; the service is consumed at the hair salon; the service requires both the hairstylist and customer to be at the same time and place (the hair salon). Accordingly, the place of supply should be the place of performance – the hair salon.

To reduce administrative burden and complexity for offshore suppliers, the OECD recommends using the reverse charge mechanism to tax offshore B2B services (so that offshore suppliers need not register and account for GST in all the countries that they sell into).

The second rule pertains to supplies which are not on-the-spot. For such supplies, the place of supply should typically be where the customer has its usual residence. If the supply of services is directly connected with an immovable property (such as a building), the place of supply should be where the immovable property (the building) is located.

B2C SERVICES

For business-to-consumers (B2C) service transactions, the OECD laid out two general rules to determine the place of taxation.

For offshore B2C services, the OECD encourages the use of a simplified registration and compliance regime for non-resident suppliers to register and account for GST in the consumers’ jurisdictions of taxation.

The first rule caters to on-the-spot supplies.

Current GST Rules in Singapore

Under current GST rules, services are subject to GST in Singapore if the service provider belongs in Singapore. Conversely, imported services provided by overseas suppliers which do not have an establishment in Singapore would fall outside the scope of Singapore GST (and accordingly will not be subject to GST in Singapore) even if such services are consumed in Singapore.

“Right now, if a local business or consumer purchases digital services (such as downloadable software) from a provider located overseas, no GST will be charged unless that provider is registered for GST in Singapore,” shared Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Service Line Leader, Deloitte South East Asia and Singapore, at a recent *Tax Excellence Decoded* session by the [Singapore Institute of Accredited Tax Professionals \(SIATP\)](#).

“This will change from 1 January 2020 as Singapore introduces GST on imported services.”



Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Leader, Deloitte Southeast Asia and Singapore, shared insights on reverse charge and overseas vendor registration.

Proposed GST Regimes for Singapore

The fast-growing digital economy has prompted Singapore to act quickly on issues arising from the interaction of its existing GST rules and e-commerce. From 1 January 2020, Singapore will implement a reverse charge mechanism and an overseas vendor registration regime to tax B2B imported services and B2C imported digital services respectively.

The new rules will not affect the importation of goods into Singapore. Imported goods will continue to be subject to GST in Singapore if its value exceeds S\$400.

REVERSE CHARGE

A GST-registered recipient of imported services must account for GST on the value of its imported services as if it was the supplier (unless such services are specifically excluded from the scope of reverse charge) under the proposed reverse charge mechanism. The GST-registered recipient may then claim the corresponding GST on the imported services as his input tax (subject to normal input tax recovery rules).

Reverse charge will affect GST-registered partially-exempt businesses that are not entitled to full input tax credits, GST-registered charity and voluntary welfare organisations that receive non-business receipts, and non-GST registered businesses with annual value of imported services exceeding S\$1 million in a 12-month period (which would not be entitled to full input tax credit if GST-registered).

“Directly Benefit” Condition

Currently, as an anti-avoidance measure, a supply of service must “directly benefit” a person belonging outside Singapore in order to qualify for zero-rating under certain zero-rating provisions in the GST Act.

With the implementation of reverse charge, the “directly benefit” condition under the relevant zero-rating provisions will be modified to allow zero-rating of a supply of service to the extent that such services directly benefit an overseas person or a GST-registered person in Singapore. Zero-rating would not apply if the services directly benefit any non-GST registered recipients (including private individuals) in Singapore.

Inter-Branch and Intra-GST Group Transactions

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

However, under the new reverse charge rules, inter-branch transactions and intra-GST group transactions will not be disregarded. This essentially means that reverse charge will apply when a local branch (or local head office) procures services from its overseas branch (or offshore head office), or when a local member of a GST group procures services from its offshore member within the same GST group.

It should be noted that the value of the inter-branch or intra-GST group transaction for reverse charge purposes excludes the cost components of the cost allocations (such as salary, wages and interest costs, including their proportionate mark-up), to the extent that the entity is able to identify and segregate such cost components.

OVERSEAS VENDOR REGISTRATION

Under the overseas vendor registration regime, overseas suppliers with annual global turnover exceeding S\$1 million and making supplies of digital services (including digital products, subscription-based and licensed content, as well as support services via electronic means) to customers in Singapore exceeding S\$100,000 are required to register for GST.

A local or overseas operator of electronic marketplace may also be, under certain conditions, regarded as the supplier of the services made by the suppliers through its marketplace. Accordingly, it will be required to register, charge and account for GST on supplies of digital services made on behalf of the overseas suppliers listed on its platforms to non-GST registered customers in Singapore (on top of its own taxable supplies made, if any).

In determining its GST registration liability, a local operator of an electronic marketplace has to assess its own supplies and the value of supplies made by overseas suppliers through its marketplace. On the other hand, an overseas operator has to consider its GST registration liability in Singapore based on the two-tier registration threshold (global revenue exceeding S\$1 million and supplies of digital services made to Singapore consumers exceeding S\$100,000).

To minimise the extraterritorial compliance burden, the overseas suppliers and overseas electronic marketplace operators will be registered under a pay-only regime (with simplified registration and reporting requirements). Specifically, they will be required to charge and account for GST (on supplies of digital services made to non-GST registered customers in Singapore) by preparing a periodical GST return, reporting the value of standard-rated sales and corresponding output tax, and pay the output tax to the IRAS. Local rules relating to tax-invoicing and GST-inclusive price display requirements will not be imposed.



Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax Service Line Leader, Deloitte South East Asia and Singapore, shed light on the OECD's guidance on the digital economy and Singapore's proposed GST on imported services.

Managing the Transition

From now till 1 January 2020, businesses will have time to plan in anticipation of the potential implications of the new reverse charge mechanism and the overseas vendor registration regime. Businesses will need to consider the potential impact on their current business structure, arrangement and processes.

On the technological front, businesses should set aside adequate time to put in place the necessary system enhancements to comply with the new GST rules (for example, enhancements to the enterprise resource planning system and the accounting system). On the human capital front, businesses should also provide sufficient training to all staff involved in the GST compliance process and ensure that they are updated on the new GST requirements and internal processes.

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