

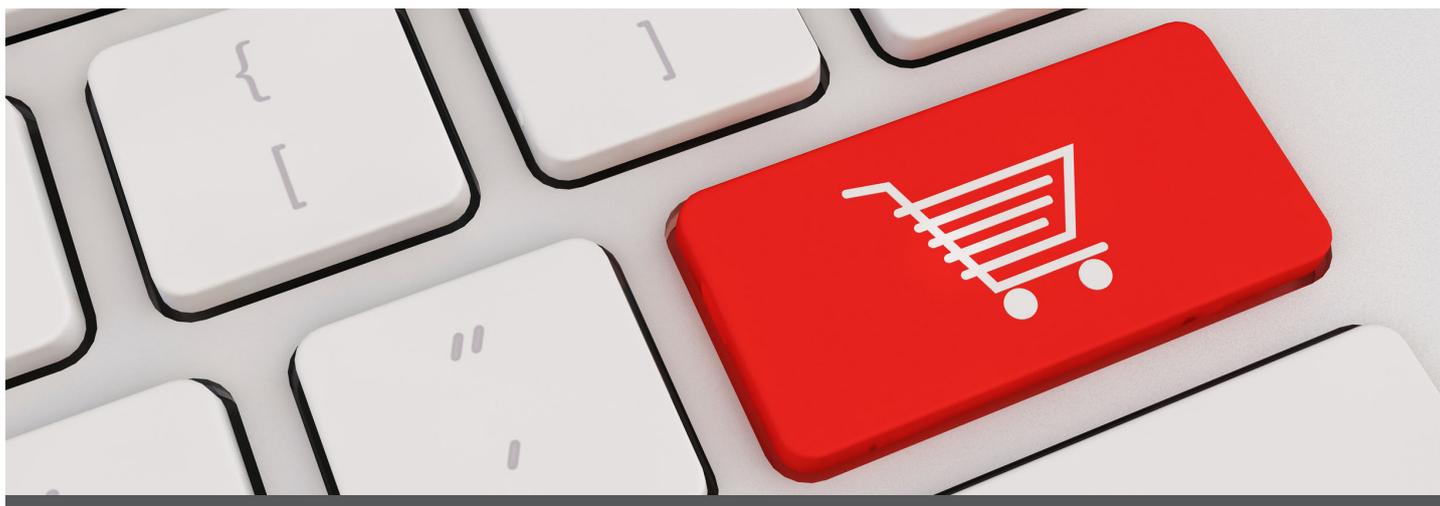
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Bulletin Highlights

- Reverse Charge on Singapore Digital Economy



Reverse Charge on Singapore Digital Economy

(Contributed by N Vimala Devi)

Currently, Singapore does not impose Goods and Services Tax (“GST”) on the importation of services into Singapore. Consumers who download software and music from overseas do not have to pay any GST on such digital purchases. Businesses which purchase services from overseas suppliers are not subject to any GST.

Similarly, import relief for goods imported via air or post is set at S\$400. This concession recognizes that the cost of compliance is likely to outweigh the revenue collected. For goods above this threshold, GST is payable on the entire value. The current applicable GST rate is at 7%.

With the increasing transactions online and cross border trade, going forward this is all going to change as announced by the Minister for Finance in the Singapore Budget 2018.

With effect from 1 Jan 2020, the Government will introduce GST on imported services on Business to Business (“B2B”) and Business to Consumer (“B2C”) through the reverse charge mechanism. This will level the playing field for the local service providers as the overseas suppliers will be accorded the same GST treatment.

Reverse charge is a collection mechanism whereby the local GST registered business acts as an agent for the overseas service providers and accounts for GST. The local business is allowed to claim the “GST incurred” as its input tax credit claim.

Reverse charge for B2B services

For GST on B2B services, the reverse charge mechanism requires the local businesses to account for GST to IRAS on the services they import. The local businesses can in turn claim the GST accounted for as its input tax, subject to the GST input tax recovery rules.

Only businesses that make exempt supplies or do not make any taxable supplies need to apply reverse charge. Reverse charge will be applicable to such businesses which are primarily banks and financial companies, mixed and residential property developers, and holding companies as these businesses are not allowed to claim their full input tax costs incurred.

On the other hand, many businesses make taxable supplies and thus would not be affected by this reverse charge mechanism. Most businesses are allowed to claim full refund of GST on the purchases incurred for their businesses, including B2B services they import, on the basis that they are making fully taxable supplies of goods and services. For these companies, the GST on imported services would be the same as their input tax claims. Hence reverse charge will not apply, to avoid unnecessary compliance burden.

Overseas Vendor Registration (“OVR”) for B2C services

The taxation of B2C imported services will take effect through an OVR model.

Overseas suppliers and electronic marketplace operators will need to be registered with IRAS. Once GST-registered, these overseas suppliers and electronic marketplace operators will collect GST for IRAS on their B2C supplies of digital services.

Specifically, overseas suppliers and electronic marketplace operators like app stores and google play which make substantial supplies of digital services to local consumers will be required to register with IRAS for GST. This applies to overseas vendors whose annual global turnover exceeds S\$1 million and whose sale of digital services to consumers in Singapore exceeds S\$100,000.

The S\$1 million global turnover is consistent with the S\$1 million GST registration threshold for suppliers in Singapore. The S\$100,000 sale of digital services minimizes the compliance burden on overseas vendors which do not make significant sales to Singapore consumers.

In conclusion, the imposition of GST on imported services is adopted by many tax jurisdictions, including Australia, New Zealand, the EU, Japan and Korea. Singapore is also following the global trend to ensure that the tax system remains fair and equitable to all.

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