

Feedback to IRAS

Public Consultation on Draft GST Guide on Taxing Imported Services by way of Reverse Charge and by way of an Overseas Vendor Registrations Regime

Feedback on IRAS e-Tax Guide “GST: Taxing Imported Services by way of Reverse Charge”

No.	Paragraph / Section of draft e-Tax Guide	Comments	Proposed Alternative(s) / Clarifications
1	<p>Section 2 – At a Glance</p> <p>2.1 – Under the reverse charge mechanism....</p> <p>2.3 – For the purpose of reverse charge, inter-branch transactions.....</p>	<p>The reverse charge mechanism is costly for the financial services activities in Singapore as holding companies and regional headquarters typically perform financial activities for the Group outside of Singapore. Such companies can only recover a portion of the input GST.</p> <p>Given that Singapore is predominantly an export-oriented market (including HQs and HoldCos), this expansion of the GST base will just increase the cost of doing business in Singapore.</p>	<p>Recommend that IRAS amend paragraph 4.1.8 to be as follows:</p> <p>4.1.8 If you are a non-GST registered person who procures services from overseas suppliers, you would be liable for GST registration by virtue of the reverse charge rules if you satisfy the following conditions:</p> <p>(a) Your imported services which are within the scope of reverse charge exceed S\$1 million in a 12-month period from the same overseas supplier (under either the retrospective or prospective basis); and</p> <p>(b) You would not be entitled to full input tax credit if you were GST registered.</p> <p>Once you are liable for GST registration by virtue of the reverse charge rules, you would be an RC Business.</p>
2	<p>Section 5 – Registration and Reporting Requirements</p> <p>5.1.3 – Table item 3 – Your effective date of GST registration will be on.....</p>	<p>Quarterly reporting requirements of the GST registration is onerous and will increase overall business costs.</p>	<p>To hold annual filing requirement as that of withholding tax in order to reduce overall compliance costs particularly for smaller businesses.</p>

3	<p>Section 4 – The Reverse Charge Mechanism</p> <p>Example 6 – Scenario (b) (ii) – Supply from Foreign Business B to Local Customer C....</p>	<p>This example requires customer C to account for GST incurred when the Foreign Business B is not GST-registered in Singapore, resulting in double GST taxation for customer C.</p> <p>When Foreign Business B makes a supply of services to Local Customer C, it will very likely include the full costs charged by Local Business A as there is no reason why Foreign Business B will not pass on the GST to Local Customer C.</p>	<p>Local Customer C should not have to account for reverse charge GST if the invoice from Foreign Business B clearly list the specific charges from Local Business A to be GST-inclusive.</p>
4	<p>Annex B – Services that fall within or outside the scope of reverse charge</p> <p>Table (3) item 1 in relation to Table (2) items 8,9, & 10.</p>	<p>While Table (3) item 1 states that expenses incurred by overseas representative offices falls within the scope of reverse charges, Table (2) items 8,9 & 10 indicates that services in connection with classroom costs and trainer fees, as well as entertainment of clients outside Singapore qualify for zero-rating. This is contradictory as the place of consumption of all these services should be treated as out-of-scope.</p>	<p>1) The destination principle should apply to determine if overseas services are to be assessed as imported services. Where the place of consumption is clearly outside Singapore, notwithstanding that the payments are incurred by a Singapore entity, the GST reverse charge should not apply.</p> <p>2) Any payments in relation to the use of physical property outside Singapore and the associated services in relation to a property outside Singapore (e.g. utilities and fees in relation to property usage) should be out-of-scope.</p> <p>To assist taxpayers in meeting the above principles, IRAS should provide further clarifications to distinguish and better classify overseas expenses that falls under zero-rating, out-of-scope or reverse charge standard rating.</p>

5	<p>Annex B – Services that fall within or outside the scope of reverse charge</p> <p>Table (3) item 4 – Director’s fee charged by an individual director whose usual place of residence is not in Singapore – falls within the scope of reverse charge.</p>	<p>Overseas-based individual directors should be assessed in the same manner as Singapore-based directors.</p>	<p>Where overseas-based individual directors do not take office as a furtherance to their trade or business, their director’s fees should be considered as out-of-scope and should not be subjected to reverse charge GST.</p>
6	<p>Annex B – Services that fall within or outside the scope of reverse charge</p> <p>Table (1) item 1 – Legal and professional service fees incurred to comply with foreign regulations and / or to conduct due diligence pertaining to transferred or new loans – Not exempted from GST</p>	<p>It is not clear which types of loans it is referring to.</p>	<p>Making of loans to a person outside Singapore is a zero-rated supply. In this case, the associated overseas fees should also be zero-rated.</p>
7	<p>Section 5.1.2 – “One-off” import of services exceeding S\$1 million</p>	<p>Non-registered businesses who incur one-off imported services exceeding \$1 million will have to register for GST and incur compliance costs associated with GST registration solely for the purpose of complying with reverse charge rules.</p> <p>Thereafter, the business will most likely apply for GST cancellation as it does not expect to make taxable supplies nor import services exceeding \$1 million.</p>	<p>IRAS should waive the requirement for GST registration for business that make “one-off” import of services exceeding \$1 million to reduce taxpayers compliance cost.</p>

		The absence of a waiver of the registration requirement for businesses that make one-off import of services defeats policy intent to reduce compliance costs for businesses.	
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Feedback on IRAS e-Tax Guide “GST: Taxing Imported Services by way of an Overseas Vendor Registration Regime”

No.	Paragraph / Section of draft e-Tax Guide	Comments	Proposed Alternative(s) / Clarifications
1	Section 2 – At a Glance 2.1 – Under the overseas vendor registration regime, suppliers belonging outside Singapore, with a global turnover of S\$1 million, making B2C.....	We seek clarifications to whether this is in line with what other countries are adopting such as Australia and EU if the requirement of registering GST for supplies of digital services to customers in Singapore exceeding \$100,000 is required as that for a Singapore company is \$1 million.	We urge the IRAS to review and reconsider setting this quantum of S\$100,000 as the guideline for GST registration for an overseas company. The \$1 million threshold is introduced to address compliance cost for Singapore businesses and based on this ground, we recommend that the same threshold is used for overseas vendor registration so that the compliance cost of an overseas service provider is contained.
2	Section 7 – GST Registration 7.1.4 – As an overseas supplier or overseas electronic marketplace operator, you are liable for GST registration.....	How do Singapore consumers know that the overseas suppliers are GST registered? How does IRAS prevent these overseas suppliers from profiteering from Singapore consumers?	We recommend that IRAS shares its plans on means to track these overseas suppliers with GST registration. How does IRAS ensures that Tax is paid by these overseas suppliers?
3	Section 5 – Scope of Digital Services	The current examples of Digital Services provided are not sufficient as a guide for tax	Suggest the amending Section 3.4 and Sections 5.3 as follows:

	<p>5.3 – These services include the supplies of the following:</p> <ul style="list-style-type: none"> Downloadable digital content..... 	<p>payers to determine which services are to be included in the list.</p>	<p>3.4 For the purposes of the overseas vendor registration regime, digital services are defined as services which are delivered over the Internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure in the absence of information technology.</p> <p>For the purpose of the OVR, digital services shall include the supplies of digital products, subscription-based and licensed content, as well as support services to arrange or facilitate, via electronic means, the provision of transactions which may not be digital in nature (<u>except for financial services that are supplied by financial institutions outside Singapore</u>).</p> <p>Supplies of digital services made by GST-registered Overseas Vendors, provided to non-GST registered customers in Singapore are subject to GST.</p>
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General Comments

Should companies be found not to adhere to the requirements, the IRAS should consider granting waiver of penalties for any errors made during the first three years of implementation of reverse charge mechanism. Taxpayers need time to adapt to the new requirements for which errors are likely to be made within these first three years of implementation.