



GST News

Expanding perspectives and possibilities

Updated IRAS e-Tax Guide on taxing imported services by way of Reverse Charge and Frequently Asked Questions (FAQs)

The Inland Revenue Authority of Singapore (IRAS) has released an updated [e-Tax Guide](#), together with a new set of [FAQs](#) on taxing imported services by way of Reverse Charge (RC).

With four months to the implementation date of 1 January 2020 (effective date) for RC, impacted businesses should take note of the significant changes in the updated e-Tax Guide.

In this alert, we highlight some of the key changes together with our views on the impact to businesses.

Changes to e-Tax Guide

Paragraph 4.1.5 (c)—Page 7

The revised guide changes the requirement where a business fails the De Minimis rule but makes non-regulation 33 exempt supplies. The business would still not be subject to RC should it meet all of the following requirements:

1. The business' non-regulation 33 exempt supplies do not exceed 5% of the total value of taxable and exempt supplies (i.e., pass the Regulation 35 test);
2. The business does not incur expenses that are directly attributable to the making of non-regulation 33 exempt supplies; **and**
3. The recoverable residual input tax ratio is 100%.

Deloitte Singapore's view

Impacted businesses that make non-regulation 33 exempt supplies should re-evaluate whether they would be subject to RC as all the conditions will need to be fulfilled compared with the previous version of the guide that limited the requirement to only meet one of the two previous conditions.

It is essential that businesses identify any expenses that are attributable to non-regulation 33 exempt supplies as mentioned under item 2. Non-fulfilment of the condition would mean that the business would be subject to RC.

Paragraph 7—Page 33

The revised guide changes the treatment of supplies that will be subject to RC spanning 1 Jan 2020 as below:

Revised	Previous
At least one of these events take place wholly or partially on/after 1 Jan 2020:	I. The supplier's invoice is issued before 1 Jan 2020; and
a. Issuance of invoice	II. One of these events occur on/after 1 Jan 2020:
b. Performance of services	A. Performance of services
c. Settlement of payment	B. Settlement of payment

The revised guide further elaborates the various transitional scenarios in Annex D and E.

The RC implication will be based on whether event (a.) occurs before or on/after the effective date followed by the value of event (b.) and (c.). Any payment in full before the effective date will still not be subject to RC regardless when event (a.) or (b.) occurs.

Where the supplier's invoice is issued on/after the effective date but part of the payment is made before and part on/after the effective date, the IRAS has provided a concession that the business can account for RC on the value of payment on/after the effective date. As an alternative, businesses could also decide on the value to account for RC by segregating the value of payment made or services performed on/after the effective date.

Deloitte Singapore's view

The changes made are significant as businesses would need to consider the additional requirements when dealing with transitional supplies. We understand that the change in policy by the IRAS is based on the transitional rules relevant to a change in GST rate.

Where the supplier's invoice is issued on/after the effective date, businesses should consider the cost versus benefit of identifying the value of part payment or part services performed. The identification and segregation may lead to a lower unclaimable input tax cost compared to adopting the concession provided by IRAS to account for RC based on the value of payment made on/after the effective date.

Paragraph 8.6—Page 38

Qualifying funds would be liable to register under RC registration rules if the total value of their imported services exceeds S\$1 million in a 12-month period. Qualifying funds that are GST registered will file quarterly GST returns instead of the statement of claims. The input tax claimable by the qualifying fund will still be based on the concessionary recovery rate issued by the Monetary Authority of Singapore (MAS).

Deloitte Singapore's view

The updated guide clarifies that where the qualifying fund is registered for GST by virtue of RC registration rules, it will need to file the normal GST return instead of the statement of claims. Qualifying funds should consider whether they acquire imported services that may consist of brokerage services and fund management services where the total value exceeds more than S\$1 million in a 12-month period. Furthermore, qualifying funds should consider the additional cost to be borne as the funds can only claim the portion of the input tax based on the MAS concession rate.

Paragraph 8.10—Page 40

A corporate group that consists of numerous investment holding companies that derive mainly dividend income may write in to register as a "Pay-Only GST RC Group" if the group satisfies the qualifying conditions (11 conditions in total). Benefits of registering include:

- Simplified registration process with submission of a template;
- Reduced reporting requirements. Only one consolidated GST return needs to be submitted, and only required to report imported services and corresponding output tax (no claiming of input tax); and
- Filing frequency reduced from quarterly to half-yearly (i.e., two times a year).

Deloitte Singapore's view

The introduction of a Pay-Only GST RC Group is a welcomed concession by the IRAS as it should greatly reduce the compliance cost for investment holding companies that are currently not GST registered. However, such investment holding groups should look into the qualifying conditions mentioned in the guide to ensure that all the conditions can be fulfilled before submitting any application.

Changes to Annex B—Services that fall within the scope of RC

S/N 27—Director’s fee charged by an individual director whose usual place of residence is not in Singapore

The GST treatment of imported services should be considered from the recipient’s perspective as the supplier. The directorship services will be considered as being supplied by the recipient in his business capacity and fall within the scope of reverse charge accordingly, notwithstanding that the directorship services is provided by an individual director.

Deloitte Singapore’s view

The change is line with the provision of the GST Act where the recipient is considered as the supplier for imported services. Therefore, there should not be separate RC treatments based on whether the director is employed or acting as an individual, which was the previous rationale provided.

Businesses should take into account all payments made to overseas directors that may include allowances and reimbursements. Furthermore, the value to account for GST through RC should also take into consideration any withholding tax payment.

S/N 34—Expenses incurred by an overseas representative office of a Singapore entity

RC will only apply if the expenses incurred by the representative office (and booked in Singapore entity’s accounts) relates to services provided by an overseas vendor and the services are used by the Singapore entity.

RC will not apply if the overseas representative office constitutes a business or fixed establishment of the Singapore entity outside Singapore, and the overseas representative office is the establishment that most directly uses the services procured from the overseas supplier.

Deloitte Singapore’s view

Impacted businesses with representative offices outside Singapore should consider the extent to which it is possible to

segregate or attribute expenses incurred ensuring that RC will only apply to services that are used by the Singapore entity. In practice, we have seen services that are jointly used by both the representative office and the Singapore entity. In this situation, the business should consider whether only 50% of the expenses should be subject to RC or a more reasonable attribution for the usage of the services by the Singapore entity could be determined.

Frequently Asked Questions—RC

S/N 3.4—Page 6

Where an employee travels overseas for work trips and seeks reimbursement for expenses incurred, meals and laundry expenses incurred overseas will not be subject to RC. However, certain services incurred by the employee, e.g., medical services, would be subject to RC as such services would not qualify for zero-rating even if supplied by a local supplier.

Deloitte Singapore's view

Businesses should consider how reimbursements for staff are tracked and whether any enhancements need to be made to the system or processes to capture the correct value to report RC. To ease the identification of those expenses incurred overseas that would be subject to RC, businesses should consider whether changes to the reimbursement policy are necessary, for example, where the staff would need to segregate the amount for different expenses instead of a lump sum amount.

S/N 4.1—Page 8

To the extent that the foreign indirect tax is imposed or levied by reason of the supply of services, the value of the imported services will include the foreign indirect tax paid or payable.

Deloitte Singapore's view

It is clear that the IRAS is aware that there would be cases where a double tax implication would occur where the GST will be calculated on the total value of the services including the foreign indirect tax. This is because the imported services provision in the GST Act is not based on whether the services are consumed in Singapore (i.e., consumption test). Instead, the GST treatment of imported services would depend on whether the services are taxable if provided by the recipient.

Contact

For more information on the above or any other GST/VAT matters, please contact either the listed contacts below, or any member of the [Singapore Tax & Legal team](#).

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