

GOODS AND SERVICES TAX

A Guide On Zero-rating Telecommunication And Related Services Under Section 21(3)(q)



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A GUIDE ON ZERO-RATING TELECOMMUNICATION AND RELATED SERVICES UNDER SECTION 21(3)(q)

1 INTRODUCTION

- 1.1 Section 21(3) of the GST Act provides zero-rating relief on the supply of international services and Section 21(3)(q) specifies that only prescribed services comprising international telecommunication transmission can qualify for the zero-rating relief. The qualifying services are prescribed under the 5th Schedule of the GST Act (International Services Order) (henceforth referred as the 5th Schedule in this guide).
- 1.2 This guide explains the application of the zero-rating relief for telecommunication and telecommunication-related services. Annex A provides a list of the broad categories of services that are commonly provided by telecommunication service providers and the applicability of section 21(3)(q).

2 ZERO-RATING UNDER SECTION 21(3)(q)

- 2.1 For a telecommunication service to be zero-rated under section 21(3)(q), the service must fulfill 2 conditions:
- (a) Falls within paragraphs 1 to 5 of the prescribed services in the 5th Schedule
 - (b) Comprise the provision of any means of telecommunication transmitted:
 - (i) from a place outside Singapore to another place outside Singapore;
 - (ii) from a place in Singapore to a place outside Singapore; or
 - (iii) from a place outside Singapore to a place in Singapore.
(also referred to as “international transmission” in this guide)
- 2.2 If the transmission is from a place in Singapore to another place in Singapore (referred to a ‘local transmission’), the prescribed service rendered will not qualify for zero-rating under section 21(3)(q).
- 2.3 The belonging status of the customer (i.e. whether he belongs inside or outside Singapore) is not relevant in determining whether or not the prescribed telecommunication services can be zero-rated under section 21(3)(q).
- 2.4 Paragraph 6 of the 5th Schedule excludes the following types of supply from the scope of 5th Schedule:-
- (i) Sale and lease of telecommunications equipment, notwithstanding that the sale may be in connection with the international telecommunication transmission; and
 - (ii) Repair, maintenance or management services which is not in connection with the international telecommunication transmission.

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| Scenario 1 |
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| Supplier A leases telecommunication equipment to telecommunication service provider B. The lease of the equipment is not a prescribed service in 5 th Schedule. |
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- 2.4 Repair, maintenance or management services rendered in connection with the international telecommunication transmission can be considered as prescribed services in 5th Schedule only if it is ancillary to the other services in the 5th Schedule (see subsequent paragraph).

3 5TH SCHEDULE - PARAGRAPH 1

3.1 Situations in which a supply is considered to be under paragraph 1 of the 5th Schedule

- 3.1.1 Telecommunication services relating to the transmission of signs, signals, images or sounds by any nature of wire, radio, optical or other electromagnetic systems such as fibre optic cables, radio waves, satellite or copper wire are prescribed services under paragraph 1 of the 5th Schedule.
- 3.1.2 This is so whether or not such signs, signals, images or sounds are rearranged, computed or processed by any means in the course of their transmission.

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| Scenario 2 |
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| Telecommunication service provider C charges his client for the provision of satellite uplink and downlink transmission services. The provisions of such transmission services are prescribed services under paragraph 1 of the 5th Schedule. |
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3.2 Situations in which a supply is NOT considered to be under paragraph 1 of the 5th Schedule

- 3.2.1 It does not include the supply of the content in the transmission, thus the supply of the content cannot be zero-rated under section 21(3)(q). The supply of content can be zero-rated under section 21(3)(j) if the content is supplied under a contract with and directly benefits a person who belongs outside Singapore and the person is outside Singapore at the time of supply.

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| Scenario 3 |
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| Mr. D downloads a game from the Internet. He pays the service provider E \$20 for the game and \$1.50 for the time usage in downloading the game. The time usage charged by E is a prescribed service under paragraph 1 of the 5th Schedule but the supply of game is not a prescribed service under the 5th Schedule. |
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- 3.2.2 If the data is transported via physical storage medium such as tapes, micro tapes, memory card, hard disk, flash memory drive etc., such a service is not considered as a prescribed telecommunication service under paragraph 1 of the 5th Schedule.

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| Scenario 4 |
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| Company F receives audio video signals for a customer via its satellite downlink facility. F then transfers the signals received to a tape and delivers the tape to the customer. The service of receiving the signals is a prescribed service under paragraph 1 of the 5th Schedule. The delivery of the tape to the customer is not a provision of prescribed service. |
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4 5TH SCHEDULE - PARAGRAPH 2

4.1 Situations in which a supply is considered to be under paragraph 2 of the 5th Schedule

4.1.1 Telecommunication service providers may supply dedicated telecommunication services to their customers in the form of local leased circuit, line or network.

4.1.2 Only the provision of local leased circuit, line or network (hereinafter referred to “LLC”) used or to be used in connection with the international leased circuit, line or network (referred to as “ILC”) are prescribed services under paragraph 2 of the 5th Schedule on the conditions that:

- (i) The LLC and ILC are provided by the same supplier; and
- (ii) The LLC is provided as part of the provision of the ILC.

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| Scenario 5 |
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| Service provider G provides International Private Leased Circuit (IPLC) for company H which is located in Singapore so that H is able to transmit secure data to its overseas subsidiaries. The provision of the IPLC is a prescribed service under paragraph 2 of the 5th Schedule of the GST Act |
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4.2 Situations in which a supply is NOT considered to be under paragraph 2 of the 5th Schedule

4.2.1 If two different suppliers provide the LLC and ILC respectively or if the LLC provided is not part of the ILC, then the provision of the LLC would not be considered as a prescribed telecommunication service.

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| Scenario 6 |
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| Service provider I supplies only the LLC from site A in Singapore to the cable landing station in Singapore and service provider J supplies the ILC from the cable landing station in Singapore to the cable landing station overseas. Although the LLC provided by I is linked to the ILC provided by J, the provision of LLC by I will not be considered as a prescribed service. |
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4.2.2 Suppliers may provide services such as Asynchronous Transfer Mode (ATM) connection that pertain to both ILC and LLC. If the LLC is not used or to be used in connection with the ILC, then the portion of services relating to the provision of LLC has to be standard-rated.

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| Scenario 7 |
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| Company K leases both LLC and ILC from service provider L under one contract. The LLC is used to transmit data to its branch office in Singapore and the ILC is used to transmit data to its overseas subsidiary in Vietnam. Under such an arrangement, the provision of the LLC cannot be considered as part of the ILC as they are two distinct service elements, each can be independent and serve its own purpose. |
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5 5TH SCHEDULE - PARAGRAPH 3

5.1 Situations in which a supply is considered to be under paragraph 3 of the 5th Schedule

- 5.1.1 In providing the services under paragraph 1 and 2 of the 5th Schedule, it is common that the telecommunication service provider charges a once-off registration fees to grant the customer the rights to access and a monthly subscription for the rights to use the services.
- 5.1.2 The provision of the right to access (e.g. registration fee, connection fees) or use of the services (e.g. subscription fee) provided under paragraph 1 and 2 of the 5th Schedule is a prescribed service under paragraph 3 of the 5th Schedule.

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| Scenario 8 |
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| Service provider M charges monthly subscription fees of \$15 to customer N who subscribes to its auto roaming service and a usage fees of \$20 for the international calls that N made in the month of August. M can zero-rate both the subscription and usage fees as the fees are prescribed services under paragraph 3 and paragraph 1 of the 5th Schedule respectively. |
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5.2 Situations in which a supply is NOT considered to be under paragraph 3 of the 5th Schedule

Telecommunication service provider may issue a Subscriber Identity Module (SIM) card together with the subscription of a mobile plan. Even though the SIM card is necessary in enabling the user to make telephone calls, the supply of the SIM card is a supply of good and not a prescribed service under paragraph 3 of the 5th Schedule.

6 5TH SCHEDULE - PARAGRAPH 4

6.1 Situations in which a supply is considered to be under paragraph 4 of the 5th Schedule

- 6.1.1 Businesses may seek reimbursement of the telecommunication expenses incurred on behalf of another company. Paragraph 4 of the 5th Schedule provides a concession for any person who receives the prescribed services under paragraph 1, 2 or 3 of the 5th Schedule and seeks a reimbursement of that cost from another person, to treat the reimbursement as a prescribed service.
- 6.1.2 Hence, if the GST-registered business receives a prescribed telecommunication services that was zero-rated to him and seeks a reimbursement of this expense from another person, he can continue to zero-rate the supply to that person. However, the zero-rating relief will only apply up to the extent of the cost incurred by him in obtaining the services.

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| Scenario 9 |
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| Company O and company P occupies the same office and shares the same telephone line registered in the name of O. O was billed for the international calls of \$100 incurred by P. O seeks a reimbursement of \$100 from P. O can zero-rate the reimbursement of \$100 billed to P, as the reimbursement is a prescribed service under paragraph 4 of the 5th Schedule. |
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6.2 Situations in which a supply is NOT considered to be under paragraph 4 of the 5th Schedule

6.2.1 Any additional charge imposed on the reimbursement is not for a service that he received from the original telecommunication service provider. Hence, it will be treated as a separate supply of administrative service regardless of the form and billing of the surcharge.

6.2.2 If a GST-registered supplier seeks a reimbursement of the telecommunication expenses with a surcharge and there is no separate billing for the telecommunication service expenses and the surcharge, the entire billing would not be considered as a prescribed service under paragraph 4 of the 5th Schedule.

Scenario 10

Hotel Q on-charges the international call charges to its guests. Hotel Q also imposes an additional charge relating to the international calls. Only the international call charges are prescribed services under paragraph 4 of the 5th Schedule. The additional charge is not a prescribed service. If the hotel does not differentiate the 2 types of charges in the billing, the hotel will have to standard-rate the international call charges plus the additional charges. If the hotel shows the 2 types of charges separately, the hotel can zero-rate the international call charges and standard-rate the additional charge.

7 5TH SCHEDULE - PARAGRAPH 5

7.1 Situations in which a supply is considered to be under paragraph 5 of the 5th Schedule

7.1.1 A supplier of qualifying services under paragraphs 1 to 3 of the 5th Schedule can zero rate its ancillary services under paragraph 5 of the 5th Schedule.

7.1.2 The Comptroller will consider a service to be ancillary to its principal service if the cost of the ancillary service forms a small portion of the total consideration of the whole package. As a guide, the total cost of all ancillary services (under the same contract as the principal service) of less than or equal to 5% of the total consideration is considered as small.

Scenario 11

Service provider R provides transmission services via satellite network to its customer. R also provides network monitoring services and performance report to the same customer. The cost of providing the monitoring services and report is at 3% of the total consideration charged. In this case, the monitoring service can be considered as a service ancillary to the transmission service under paragraph 5 of the 5th Schedule.

7.1.3 The Comptroller may still consider a service to be ancillary to its principal service in the event that the cost for providing the service exceeds 5% of the total consideration of the whole package if:

- (a) The service is one of the components included in the same contract for the provision of the services referred to in paragraph 1, 2 or 3 of the 5th Schedule;
- (b) The service is not separately priced;
- (c) The service is not separately provided for on its own by the same supplier; and
- (d) The customer does not have an option to subscribe to only the ancillary service.

Scenario 12

Service provider S provides transmission services via satellite network to its customer. At the same time, S needs to provide monitoring services on the transmission. The cost of providing the monitoring service is at 6% of the total package. Nevertheless, the monitoring service is part of the deliverables of the transmissions agreement and is not separately itemized and priced. Moreover, S does not provide monitoring service on its own. In this case, the monitoring service will be considered as a service ancillary to the transmission service under paragraph 5 of the 5th Schedule.

8 ADMINISTRATIVE CONCESSION

- 8.1 If the supply comprises both international and local transmission, the supplier can zero-rate only the portion of services attributable to the international transmission. The portion of services attributable to local transmission has to be standard-rated. If the supplier is unable to track the volume of international and local transmission, the entire supply has to be standard-rated.

Scenario 13

Service provider T provides internet access to its subscribers. There is international transmission when the subscribers access websites hosted in overseas servers and local transmission when the subscribers access websites hosted in local servers. However, T does not track the traffic of usage for differentiate billing, In this case, T has to standard-rate the service of providing internet access.

- 8.2 As an administrative concession, the Comptroller is prepared to allow the supplier to apply a reasonable proxy to apportion the supply of services as described in paragraph 8.1 such that only the portion of services attributable to local transmission needs to be standard-rated. This concession takes effect from **1 Apr 2007**.
- 8.3 The Comptroller accepts the following proxies in apportioning the value of the services:
- (a) Prices of each portion of the services performed for the local and overseas transmission. This refers to the market price that the local supplier would have charged if the services performed for the overseas and local transmission had been supplied under separate contracts.
 - (b) Costs of making each portion of the services. This can include both direct and indirect costs incurred by the local supplier in the course of performing the services. It is up to the supplier to decide on the most appropriate cost driver(s) to be used to compute the costs of making each portion of the services performed for the local and overseas transmission.
 - (c) Amount of time taken to perform each portion of the services. This is an appropriate proxy for supplies that are dependent on the expertise of the manpower required to perform the services e.g. engineering services, information technology related services and consultancy services.

Applying Section 21(3)(q) to services that are commonly provided by telecommunication service providers

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|---|--|--------------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|---|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ¹ | |
| Voice | | | | | | | | | | | | |
| Provision of voice transmission services via telephone lines, mobile phones, fixed payphones, internet protocol | Voice Call, Island-wide Digital Walkie-talkie Service, | Activation | | | • | | | | S/R | Z/R | S/R | |
| | | Usage | • | | | | | | S/R | Z/R | S/R | |
| | | Subscription | | | • | | | | S/R | Z/R | S/R | |
| | | Termination | | | | | | • | - | - | - | Section 21(3)(q) is not applicable |
| | | Late payment | | | | | | • | - | - | - | |
| | | Software | | | | | | • | - | - | - | |
| Supply of voucher with monetary value for the purposes of making voice calls | Prepaid Calling Cards | Face Value Voucher | | | | | | • | - | - | - | Consideration is disregarded under Paragraph 7 of 3rd Schedule to the GST Act |

¹ If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|---|--|-----------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|------------------------------------|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ² | |
| Provision of messaging services | Short Message Service (SMS), Multimedia Message Service (MMS), Mobile Instant Messaging Service | Subscription | | | • | | | | S/R | Z/R | S/R | |
| | | Usage | • | | | | | | S/R | Z/R | S/R | |
| Provision of value added services commonly tied in with voice transmission services | Multi-SIM, Phone book Backup, Itemised billing, Reissued bill of statement, Change of number, Subscriber-ship transfer | One-Time | | | | | • | - | - | - | | Section 21(3)(q) is not applicable |
| Provision of wholesale voice transmission | Wholesale voice solution | Subscription | | | • | | | | S/R | Z/R | S/R | |
| Provision of connectivity to internet via mobile network | Data download (GPRS)/(3G) | Usage | • | | | | | | S/R | Z/R | S/R | |

² If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|--|--|-----------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|---------|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ³ | |
| Internet / Data | | | | | | | | | | | | |
| Provision of connectivity from one place to another | Internet Protocol Virtual Private Network (IP VPN), Dedicated Internet Protocol Transit, Asynchronous Transfer Mode (ATM), Frame relay, Domestic private leased circuit, International Private Leased Circuit, Ethernet Leased Line Service, Backhaul services | Activation | | | • | | | | S/R | Z/R | S/R | |
| | | Subscription | | | • | | | | S/R | Z/R | S/R | |
| | | Usage | | • | | | | | S/R | Z/R | S/R | |
| Provision of connectivity from one place to another on a wholesale basis | Wholesale IP VPN, Wholesale IP Transit | Subscription | | | • | | | | S/R | Z/R | S/R | |

³ If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|--|--|-----------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|---|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ⁴ | |
| Value added services commonly tied in with the provision of connectivity from one place to another | Network monitoring, maintaining and managing support, Customer service support contact center, Performance Report | Subscription | | | | | | • | - | - | - | Services may be classified as ancillary service under paragraph 5 of the 5 th Schedule to the GST Act (International Services Order) |
| Provision of general connectivity to domestic and business for the purpose of accessing to internet | Wire & wireless broadband, cable broadband, dial up internet service, Bandwidth-On-Demand, Increase surfing speed, | Subscription | | | • | | | | S/R | Z/R | S/R | |
| | | Usage | • | | | | | | S/R | Z/R | S/R | |
| Value added services commonly tied in with the provision of general connectivity to domestic and business for the purpose of accessing to internet | Anti-Spam scans, Anti-virus scans, Additional email storage space | Subscription | | | | | | • | - | - | - | Services may be classified as ancillary service under paragraph 5 of the 5 th Schedule to the GST Act (International Services Order) |

⁴ If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|---|---|-----------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|---------|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ⁵ | |
| Provision of push mail solution | Blackberry | Subscription | | | • | | | | S/R | Z/R | S/R | |
| | | Usage | • | | | | | | S/R | Z/R | S/R | |
| Satellite | | | | | | | | | | | | |
| Provision of analogue and digital transmission services for broadcasting purposes via satellite | Satellite Downlink & Uplink | Usage | • | | | | | | S/R | Z/R | S/R | |
| Provision of connectivity from one place to another via satellite facility | Satellite Space Segment, Very Small Aperture Terminal (VSAT) Service, Transponder Lease | Usage | | • | | | | | S/R | Z/R | S/R | |

⁵ If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|---|---|-----------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|------------------------------------|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ⁶ | |
| Content | | | | | | | | | | | | |
| Delivering of data, video or audio content to mobile handset, mobile receiver | Ring tones download, Screen saver download, Delivering audio content via Digital Multi Media Broadcasting (DMB) | One-Time | | | | | | • | - | - | - | Section 21(3)(q) is not applicable |
| | | Subscription | | | | | | • | - | - | - | |
| Provision of TV programs | IPTV, Cable TV, 3G TV | Activation | | | | | | • | - | - | - | Section 21(3)(q) is not applicable |
| | | Subscription | | | | | | • | - | - | - | |
| | | Pay per view | | | | | | • | - | - | - | |
| Provision of online gaming | Online gaming with server located outside Singapore | Subscription | | | | | | • | - | - | - | |
| | | Usage | | | | | | • | - | - | - | |

⁶ If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|--|--|-----------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|---|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ⁷ | |
| Hosting | | | | | | | | | | | | |
| Providing space and managing services for communications hardware. | Co-location, data centre | Installation | | | | | | • | - | - | - | Zero-rating may be applicable under Section 21(3)(s) (Refer to eTax Guide “GST Treatment On Web Hosting Services”) |
| | | Subscription | | | | | | • | - | - | - | |
| Provision of hosting services | Web hosting, Managed Hosting, Virtual Hosting, content hosting | Subscription | | | | | | • | - | - | - | Zero-rating may be applicable under Section 21(3)(j) (Refer to eTax Guide “GST Treatment On Web Hosting Services”) |
| Others | | | | | | | | | | | | |
| Provision of essential data network back up in the event of any major disaster | Disaster Recovery Services | Subscription | | | | | | • | - | - | - | Zero-rating may be applicable under Section 21(3)(j) |

⁷ If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.

| Types Of Services | Example | Type Of Charges | 5 TH Schedule Of The GST Act (International Services Order) | | | | | Not within Paragraph 1 to 5 of 5 th Schedule | Transmissions | | | Remarks |
|--|---------------------------------|-----------------|--|-------------|-------------|-------------|-------------|---|---------------|---------------|--------------------------------------|---------|
| | | | Paragraph 1 | Paragraph 2 | Paragraph 3 | Paragraph 4 | Paragraph 5 | | Local | International | Local and international ⁸ | |
| Provision of Internet and Wi-Fi infrastructure building services | Setting up of hotspot | One-Time | | | | | | • | - | - | - | |
| Provision of digital tracking service | Global Positioning System (GPS) | Subscription | | | | | | • | - | - | - | |

⁸ If the supplier is able to track the volume of international and local transmission or apply a reasonable proxy method (Proxy to be approved by IRAS on a case-to-case basis) to apportion the services, then the supplier can zero-rate the portion of services attributable to the international transmission.