

Frequently Asked Questions - Reverse Charge

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According to the transitional rules, reverse charge will not apply if full payment has been made for the imported services, even if the services are only performed after the implementation date of 1 Jan 2020. To avoid GST, I modify my agreements with my overseas related entities to provide for advance payment for services to be provided after 1 Jan 2020. Under existing agreements, the billing cycle is on a monthly or annual basis, but I modify the agreements to pay in advance for multiple billing periods ahead. Is this arrangement acceptable to IRAS? 12

This set of Frequently Asked Questions supplements the e-Tax Guide, “GST: Taxing imported services by way of reverse charge” and should be read in conjunction with the e-Tax Guide. IRAS will update the list of Frequently Asked Questions from time to time to keep it as current and relevant to the businesses as possible.

S/N	Questions	Answers
1.	Overview of reverse charge	
1.1	How does reverse charge work?	<p>Reverse charge brings to tax Business-to-Business (B2B) supplies of imported services.</p> <p>The reverse charge mechanism requires the GST-registered recipient of the imported services to account for GST on the services as if he were the supplier. At the same time, the GST-registered recipient would be entitled to claim the GST as his input tax subject to the normal input tax recovery rules.</p>
1.2	What is the scope of imported services subject to reverse charge?	<p>Reverse charge does not apply to all imported services.</p> <p>The following services are excluded from the scope of reverse charge:</p> <ol style="list-style-type: none"> i. Services that fall within the description of exempt supplies under the Fourth Schedule to the GST Act; ii. Services that would qualify for zero-rating under section 21(3) of the GST Act had the services been made by a taxable person belonging in Singapore; iii. Services that are directly attributable to taxable supplies (note: this does not apply to partially exempt persons who are granted a fixed input tax recovery rate or a special input tax recovery formula to be applied on all input tax claims); and iv. Services provided by the government of a jurisdiction outside Singapore, if the services fall within the description of non-taxable government supplies under the Schedule to the GST (Non-Taxable Government Supplies) Order of the GST Act.
1.3	I am GST-registered in Singapore and I import services in the course of my business. How am I affected by this change?	<p>You will be subject to reverse charge from 1 Jan 2020 if you are not entitled to full input tax credit (e.g. you are a partially exempt business or a charity/ voluntary welfare organisation that receives non-business receipts such as outright donations, grants and sponsorships).</p> <p>If you are subject to reverse charge, you will be required to account for GST on your imported services, unless the services do not fall within the</p>

S/N	Questions	Answers
		scope of reverse charge (see S/N 1.2 above). At the same time, you will be entitled to claim the corresponding GST as your input tax, subject to the normal input tax recovery rules.
1.4	I am not GST-registered but I import services in the course of my business. Will I be required to register for GST if the value of my imported services exceed \$1 million in a year?	<p>You would be required to register for GST if you import services exceeding S\$1 million in a year and you would <u>not</u> be entitled to full input tax credit after becoming GST-registered.</p> <p>On the other hand, if you would be entitled to full input tax credit after becoming GST-registered, the value of your imported services will not trigger your GST registration liability.</p>
1.5	Will I be entitled to claim input tax if I account for GST on imported services?	Yes, you will be entitled to claim the GST accounted on your imported services as your input tax but this is subject to the normal input tax recovery rules.
1.6	What changes do I need to make to my accounting system to cater for reverse charge?	<p>Currently, you are not required to track your imported services for GST purposes.</p> <p>If you will be subject to reverse charge, you could modify your accounting system to keep track of your imported services from 1 Jan 2020. Modifying your accounting system to track your imported services will ease your compliance for GST reporting purposes. Imported services which are within the scope of reverse charge should be assigned a different tax code from the imported services which are outside the scope of reverse charge. Where possible, the accounting of output tax and corresponding input tax could be automated too.</p>
1.7	If we are unable to prepare for the change in time, is there a grace period or extension given?	On announcing the change in Budget 2018, businesses have been given about 22 months to prepare for the implementation of reverse charge. Once reverse charge is implemented on 1 Jan 2020, it will apply to all businesses which will be subject to reverse charge. IRAS will not grant an extension of time to any business or sector.
1.8	What resources / support will IRAS provide to help businesses cope with the change?	IRAS has published an e-Tax Guide to aid businesses in understanding the features of the reverse charge mechanism and the related registration and compliance rules. The guide will also cover the transitional rules for transactions spanning the implementation date of 1 Jan 2020. Examples will be provided in the guide to illustrate the application of the reverse charge rules.

S/N	Questions	Answers
		If you have further queries about the regime, you may contact us .
2	Who is subject to reverse charge?	
2.1	I only make taxable supplies (i.e. standard-rated and zero-rated supplies). Will I be required to apply reverse charge to my imported services?	No. As you only make taxable supplies and would be entitled to full input tax credit, you will not be impacted by reverse charge.
2.2	I only make exempt supplies (e.g. supply of residential properties in Singapore). Will I be required to register for GST if the value of my imported services exceeds \$1 million in a year?	As you only make exempt supplies, you would not be entitled to full input tax credit if you were GST-registered. Hence, you are required to register for GST if the value of your imported services within the scope of reverse charge exceeds S\$1 million in a year.
2.3	I am an investment holding company that only derive dividend income and make wholly taxable supplies (e.g. management fee or zero-rated exempt supplies). Am I impacted by reverse charge?	<p>If you only derive dividend income and make wholly taxable supplies in the course or furtherance of your business, you are entitled to full input tax credit. Hence, you will not be impacted by reverse charge.</p> <p>If you are already GST-registered, you are not required to apply reverse charge to your imported services. If you are not registered, you are not required to register for GST under the reverse charge registration rules, even if you import services exceeding S\$1 million in a year.</p>
2.4	I am an investment holding company that only derive dividend income and make occasional exempt supplies. Am I required to register for GST if the value of my imported services exceeds \$1 million in a year?	Yes. As you only derive dividend income and make occasional exempt supplies, you will not be entitled to full input tax credit. Hence, you will be required to register for GST if the value of your imported services within the scope of reverse charge exceeds S\$1 million in a year.
2.5	I am an investment holding company that only derive dividend income and do not make other supplies. Am I required to register for GST if the value of my imported services exceeds S\$1 million in a year?	As you do not make any taxable supplies, you would not be entitled to full input tax credit if you were GST-registered. Hence, you are required to register for GST if the value of your imported services within the scope of reverse charge exceeds S\$1 million in a year.
2.6	I am an investment holding company that only derives exempt supplies that fall within the description in regulation 33 of the GST (General) Regulations. Am I required to register for GST if the value of my imported services exceeds S\$1 million in a year?	Regulation 33 is only applicable if you make taxable supplies. As you do not make any taxable supplies, you would not be entitled to full input tax credit if you were GST-registered. Hence, you are required to register for GST if the value of your imported services within the scope of reverse charge exceeds S\$1 million in a year.

S/N	Questions	Answers
2.7	I am currently not GST-registered. Can I choose either the “retrospective basis” or “prospective basis” to determine my GST registration liability under the reverse charge rules (<i>i.e. to determine whether the value of imported services which falls within the scope of reverse charge exceeds S\$1 million</i>)?	You should apply both the rules under the “retrospective basis” and “prospective basis” to determine your GST registration liability. If it is triggered under both basis, the earlier of the two dates would apply.
3.	Scope of reverse charge	
3.1	I import goods to Singapore in the course of my business. Am I required to apply reverse charge to my imported goods?	No. Reverse charge applies only to imported services. You are not required to apply reverse charge to imported goods.
3.2	I procure online services from overseas suppliers in the course of my business, are such services subject to reverse charge?	Yes. The online services will be subject to reverse charge, unless it falls within the exceptions under S/N 1.2 above.
3.3	My employee travels to UK on a work trip. My overseas holding company procures the overseas accommodation and air-tickets for my employee and recharges the costs to me. Will reverse charge apply in respect of the recovery of expenses by my overseas holding company?	Reverse charge will not apply in respect of the recovery of overseas accommodation and air-tickets by your overseas holding company. This is because: (i) Supply of accommodation is a supply of goods for GST purposes. It is not within the scope of reverse charge. (ii) Supply of air-tickets (international transportation) would qualify for zero-rating under section 21(3) of the GST Act had the services been made by a taxable person belonging in Singapore. Such services are excluded from the scope of reverse charge.
3.4	My employee travels overseas for work trips and seeks reimbursement for expenses incurred overseas during the work trips. The expenses are meals, laundry, and medical expenses. Does reverse charge apply to these expenses?	Meals and laundry expenses will not be subject to reverse charge, because: (i) Meals are treated as supply of goods, which fall outside the scope of reverse charge. Even if the meals are taken at a restaurant and treated as a mixed supply of goods and services, as a concession, such meals will not fall within the scope of reverse charge. (ii) Laundry services are supplied directly in connection with goods (<i>i.e. clothes</i>) outside Singapore when the services are performed. Accordingly, laundry services can qualify for zero-rating under section 21(3)(f) of the GST Act and accordingly fall outside the scope of reverse charge.

S/N	Questions	Answers
		<p>However, medical services are subject to reverse charge, as such services would not qualify for zero-rating even if supplied by a local supplier.</p>
3.5	<p>I am a non-profit organisation and I carry on activities which are subsidised. For input tax apportionment purposes, I claim input tax based on a provisional rate (i.e. actual recovery rate for the preceding financial year) as allowed under the e-Tax Guide, GST: Guide For Charities And Non-Profit Organisations. Would my imported services that are directly attributable to taxable supplies be within the scope of reverse charge?</p>	<p>It depends on whether you perform direct attribution for input tax claiming purposes.</p> <p><u>No direct attribution</u> If you do not perform direct attribution to taxable supplies but instead claim your GST incurred on purchases as a global pool, you will have to apply reverse charge even on imported services that are directly attributable to the making of taxable supplies. The GST on imported services will be subject to apportionment in the same way as local purchases.</p> <p><u>Direct attribution</u> However, if you perform direct attribution, you need not apply reverse charge on the imported services that are directly attributable to the making of taxable supplies*. This is so even though you use the value of taxable supplies for the preceding year instead of the value of taxable supplies of the current year to apportion your input tax.</p> <p><i>*This refers to taxable supplies made in relation to non-subsidised activities i.e., activities that are not funded by outright donations, grants and sponsorships and where market prices are charged on goods and services.</i></p>
3.6	<p>Will the services I procure from overseas supplier that is GST-registered in Singapore be subject to reverse charge?</p>	<p>It depends on whether you are procuring digital services or non-digital services.</p> <p>a) Digital services</p> <p>If you are procuring digital services from an overseas supplier who is GST-registered in Singapore under the Overseas Vendor Registration regime, you should not be charged with GST. Instead, you are required to apply reverse charge to the imported digital services. If you have been incorrectly charged with GST by the overseas supplier, you should inform the overseas supplier that you are GST-registered and seek a refund of the GST.</p> <p>b) Non-digital services</p> <p>If the GST-registered overseas supplier belongs in Singapore for the services provided (e.g. it is supplying the services through its fixed establishment in Singapore), the imported non-digital services would not be subject to reverse charge. As the place of supply is in Singapore, the GST-registered overseas</p>

S/N	Questions	Answers
		<p>supplier would have charged GST on such supplies at the prevailing standard-rate unless the supplies qualify for zero-rating relief or are exempt supplies.</p> <p>On the other hand, if the GST-registered overseas supplier belongs outside Singapore for the services provided, the imported services would be subject to reverse charge unless it falls within the exceptions under S/N 1.2 above.</p>
3.7	<p>Will the services I procure from an overseas individual (whose usual place of residence is outside Singapore) be subject to reverse charge?</p>	<p>Yes, the services would fall within the scope of reverse charge unless they fall within the exceptions under S/N 1.2 above. This is notwithstanding that the services are provided by an individual.</p> <p>You may wish to note that the GST treatment of the imported services should be considered from the recipient's perspective as the supplier. As the recipient, you are regarded as having supplied the services in the course or furtherance of a business for that supply.</p>
3.8	<p>Is interest expense paid to overseas person in relation to loan provided by the overseas person subject to reverse charge?</p>	<p>Interest from the provision of credit falls within the description of exempt supplies under the Fourth Schedule to the GST Act. Accordingly, the interest expense paid to the overseas person in relation to the loan will not be subject to reverse charge.</p>
4	Value of imported services	
4.1	<p>Should the value of imported services include the foreign indirect tax (e.g. value-added tax) charged by the overseas supplier?</p>	<p>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.</p>
4.2	<p>What is the value of imported services if it is subject to withholding tax?</p>	<p>If an imported service is subject to withholding tax, the value of supply shall be the consideration paid for the services, without any deduction of withholding tax.</p> <p>For example, if you pay withholding tax of S\$100 out of the consideration of the service of S\$1,000 and only pay the net amount of S\$900 to the supplier, you should account for reverse charge based on S\$1,000. On the other hand, if the consideration for the service is S\$1,000 but you pay an additional S\$100 of withholding tax, you should still account for reverse charge on S\$1,000.</p>
4.3	<p>My imported services are denominated in foreign currency. Can I convert it to Singapore dollars based on my in-house exchange rate?</p>	<p>You may use the in-house exchange rate to convert the value of imported services if the in-house exchange rate meet the qualifying conditions provided in our e-Tax Guide, "GST: Exchange Rates for GST Purpose".</p>

S/N	Questions	Answers
		Please note that you are required to use the same exchange rate to account for the output tax and the corresponding input tax on the imported services.
4.4	Should the value of imported services include the foreign stamp duty?	The value of the imported services should exclude the foreign stamp duty.
4.5	Should I compute the GST amount of the imported services based on 7% of the consideration paid for the imported services or 7/107 of the consideration paid for the imported services?	Generally, the GST amount to be accounted for should be computed based on 7% of the consideration paid for the imported services that fall within the scope of reverse charge. For example, if you pay your overseas supplier S\$100 for the imported services, the GST to be accounted for would be 7% of S\$100, i.e. S\$7.
5	Related party transactions	
5.1	For related party transactions, am I allowed to deduct salaries, wages and interest costs from the value of my imported services?	The exclusion of salaries, wages and interest costs components (including their proportionate mark-up in accordance to transfer pricing policy) from the value of imported services is only applicable for the following categories of related party transactions: i) supplies between members of the same GST group; and ii) supplies by overseas head office/ branch to local head office/ branch (i.e. supplies between the same legal entity).
5.2	Will there be any GST implications in respect of transfer pricing adjustments on the management fees charged to me by my overseas holding company?	If the management services provided by your overseas holding company have been subject to reverse charge, the corresponding transfer pricing adjustment that give rise to the change in the value of supply would also be subject to reverse charge. The GST adjustment arising from the transfer pricing adjustment should be made in the current accounting period when the transfer pricing adjustment is made, based on the earlier of the following two events: a) when invoice/ credit note in respect of transfer pricing adjustment is issued; b) when payment in respect of the transfer pricing adjustment is made.
5.3	I am part of a GST group and I procure services from my overseas related company who belong to the same GST group. Will reverse charge apply?	Unlike normal rules, reverse charge will apply when a local member of a GST group procures services from an overseas member within the same GST group. Please note that reverse charge will also apply when a local branch or head office procure services from an overseas branch or head office.

S/N	Questions	Answers
6	Qualifying funds	
6.1	Are qualifying funds impacted by reverse charge?	Yes. Please refer to paragraph 8.6 of the e-Tax Guide, "GST: Taxing imported services by way of reverse charge" for details.
6.2	I am a qualifying fund and only make zero-rated exempt supplies in the course or furtherance of my business. Am I required to register for GST if I import services exceeding \$1 million in a year?	<p>If you only make zero-rated exempt supplies in the course or furtherance of your business, you would be entitled to full input tax credit, even if you were registered*. Hence, you are not required to register for GST even if you import services exceeding \$1 million in a year.</p> <p><i>* Qualifying funds that are GST-registered are required to apply the standard input tax recovery formula, unless they elect to apply the annual recovery rate under the GST remission.</i></p>
6.3	I am currently a qualifying fund claiming GST under the GST remission. If I am GST-registered as a result of the reverse charge registration rules, can I continue to claim input tax based on the annual recovery rate accorded under the remission?	Yes, you can apply either the annual recovery rate under the GST remission or the standard input tax recovery formula, provided that you adopt the same basis consistently.
7.	Documentation requirements	
7.1	Do I need to issue a tax invoice to myself when I account for GST on my imported services?	You do not need to issue a tax invoice to yourself.
7.2	What documentary evidence should I maintain in respect of my imported services that are subject to reverse charge?	<p>You should rely on the overseas supplier's invoice to account for output tax and to claim input tax. The overseas supplier's invoice should minimally contain the following information:</p> <ul style="list-style-type: none"> (a) Supplier's name and address; (b) Invoice number and date; (c) A description of the services supplied; (d) Where an invoice is issued in a foreign language, you must be able to translate this information to English on request. In addition to the invoice, you may also provide contracts/ agreements entered into with the supplier to explain the nature of the services received; and (e) The value of the supply (i.e. consideration to be paid). <p>Notwithstanding the above, you may request for the Comptroller's approval to support your input tax claim in respect of a reverse-charged transaction with alternative documents (e.g. payment evidence,</p>

S/N	Questions	Answers
		<p>accounting entries) in the event the following circumstances arise:</p> <p>(i) the time of supply for accounting for GST on the imported services has been triggered by the payment made to the supplier; and</p> <p>(ii) you have not received the supplier's invoice.</p>
8.	Transitional rules	
8.1	<p>According to the transitional rules, reverse charge will not apply if full payment has been made for the imported services, even if the services are only performed after the implementation date of 1 Jan 2020. To avoid GST, I modify my agreements with my overseas related entities to provide for advance payment for services to be provided after 1 Jan 2020. Under existing agreements, the billing cycle is on a monthly or annual basis, but I modify the agreements to pay in advance for multiple billing periods ahead. Is this arrangement acceptable to IRAS?</p>	<p>IRAS takes a serious view of arrangements that are carried out with tax avoidance as one of its main purposes and not for bona fide commercial reasons. This includes cases where taxpayers modify their agreements with related entities to make advance payment for services to avoid applying reverse charge on imported services provided after 1 Jan 2020. The Comptroller may apply the anti-avoidance provision in section 47 of the GST Act to counteract any tax advantages that are obtained.</p>