

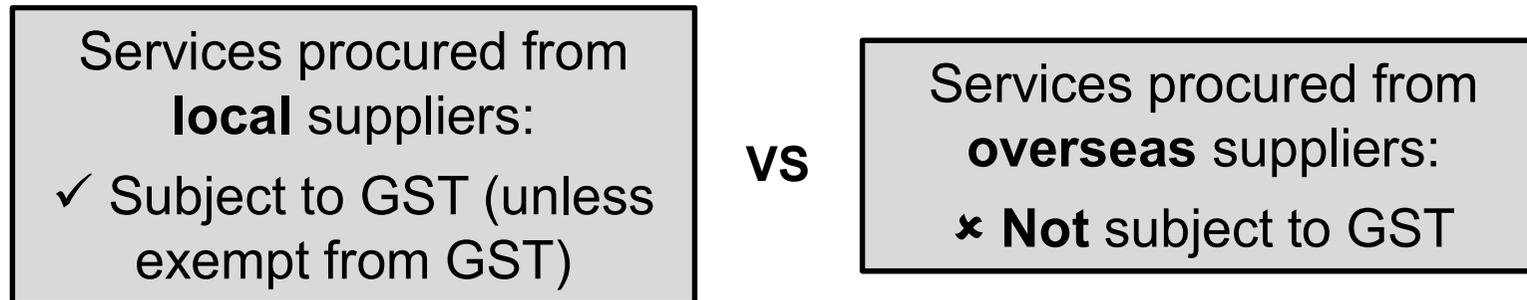
Reverse Charge



INLAND REVENUE
AUTHORITY
OF SINGAPORE

Brief recap on policy rationale

- Address current disparity in GST treatment of services consumed in Singapore



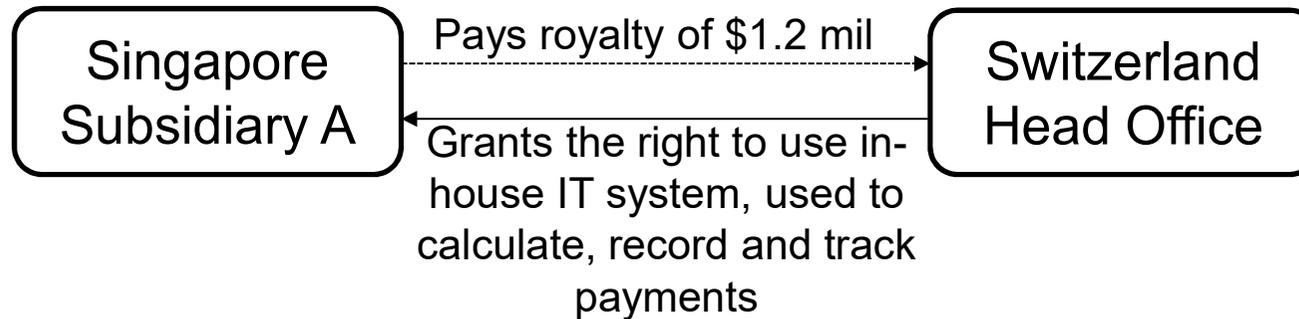
- Budget 2018 – With effect from **1 Jan 2020**, GST will be introduced on imported services
 1. **Reverse Charge (RC)** mechanism to tax services imported by GST-registered persons
 2. **Overseas Vendor Registration (OVR)** regime to tax digital services imported by non-GST registered persons (including private individuals)

How does RC work?

Under the Reverse Charge regime,

- The **recipient** of the services will account for GST on the services he imports, **as if he were the supplier**
- He may claim GST as his input tax, subject to normal input tax recovery rules

How does RC work?



Accounting of output tax

- With RC, Singapore Subsidiary A will be required to account for output tax of \$84,000 on the royalty payment (7% x \$1.2 mil)

Claiming of input tax

- GST on royalty treated as residual input tax and should be apportioned using standard formula
- Assume Singapore Subsidiary A's input tax recovery rate is 90%
 - Singapore Subsidiary A will be entitled to claim input tax of \$75,600 (90% x \$84,000)

Features of RC regime

1. Who will be subject to RC
2. Scope of imported services
3. RC elections
4. Time of supply: Account GST on imported services based on posting date
5. Inter-branch and intra-GST group transactions
6. Value of supply
7. Transitional rules for transactions straddling 1 Jan 2020
8. Adjustment for unpaid invoices
9. Registration rules

Features of RC regime (cont'd)

10. Reporting requirements
11. Record keeping requirements
12. Digital services procured from GST-registered overseas vendors
13. Amendment to DB condition

1. Who will be subject to RC

GST-registered person:

1. *Not entitled to claim input tax in full* (i.e. make exempt supplies or receive non-business receipts) OR
2. Belongs to GST group that is *not entitled to claim input tax in full* OR
3. **A fully taxable person that elects to apply RC.**

Non-GST registered person:

1. Procures services which are within the scope of RC from overseas suppliers exceeding S\$1m in a 12-month period;
AND
2. *Not entitled to claim input tax in full* if he were GST-registered (i.e. make exempt supplies or receive non-business receipts).

1. Who will be subject to RC (cont'd)

“Not entitled to claim input tax in full”

- Make substantial exempt supplies
 - e.g. banks, insurance companies, developers of residential or mixed-use properties, businesses that derive interest income from loans
- Carry out non-business activities
 - e.g. charities, VWOs, NPOs, hospitals, educational institutions - provide free or subsidised services
 - investment holding companies - derive dividend income

2. Scope of imported services

All imported services will be subject to RC, except:

- a) Services that fall within the description of exempt supplies under the 4th Schedule
- b) Services that would qualify for zero-rating under s21(3) had the services been made by a taxable person belonging in Singapore
- c) Services provided by the govt of a jurisdiction outside Singapore, if the services are of a nature that fall within the description of non-taxable government supplies under the Schedule to the GST (Non-Taxable Government Supplies) Order
- d) Services directly attributable to taxable supplies *(only applicable to businesses that are not prescribed a FITR/ special input tax recovery formula for all input tax claims)*

→ However, if an RC Business elects to apply RC on all imported services, the above exclusions will not apply to him.

3. RC elections

3 types of elections	Objective	Validity period
1. Fully taxable person may elect to apply RC	To ease compliance for TPs with infrequent and irregular non-reg 33 ex supplies and TPs that belong to corporate groups with RC Businesses that share the same accounting system/ function.	1 year
2. RC Business may apply to subject all imported services to RC	To ease compliance for TPs that requested for admin ease of not having to determine whether their imported services are within scope of RC	1 year
3. RC Business may elect to apply RC at the end of longer period (<i>NA to banks</i>)	To ease compliance for TPs with fluctuating exempt supplies who may be liable to apply RC in one accounting period but not so in the next accounting period	Up to 1 year, i.e. from start of current period to end of the longer period
How to make RC election?	Complete and maintain RC election form within one month from the end of the first accounting period in which TP wishes to enjoy the benefits of the election	

4. Time of supply

1. **General TOS rule (also for determining registration liability) –**

Earlier of:

- (a) When invoice in respect of the supply is **issued**; and
- (b) When payment in respect of the supply is made.

2. **Admin concession for GST-registered RC Businesses (to be applied consistently) –**

Earlier of:

- (a) When invoice in respect of the supply is **posted**; and
- (b) When payment in respect of the supply is made.

3. **Special TOS rule for RC Businesses that elect to apply RC at the end of each longer period –**

The day immediately after the last day of the longer period, i.e. first day of the accounting period in which the longer period adjustment is made

4. Time of supply (cont'd)

4. Other TOS rules which require the tracking of when the services are performed (i.e. basic tax point) –

1. Transactions between connected persons (including intra-GST group) and inter-branch transactions

- Earliest of:

- (a) When invoice in respect of the supply is issued;

- (b) When payment in respect of the supply is made;

- (c) 12 months after basic tax point (i.e. 12-month rule).

(note: this rule does not apply to continuous supply of services)

2. Transactions straddling registration (i.e. service perf before reg)

- Services performed before registration can be excluded from RC

- Time of supply = service performed date

3. Transactions straddling de-registration (i.e. services perf before de-reg)

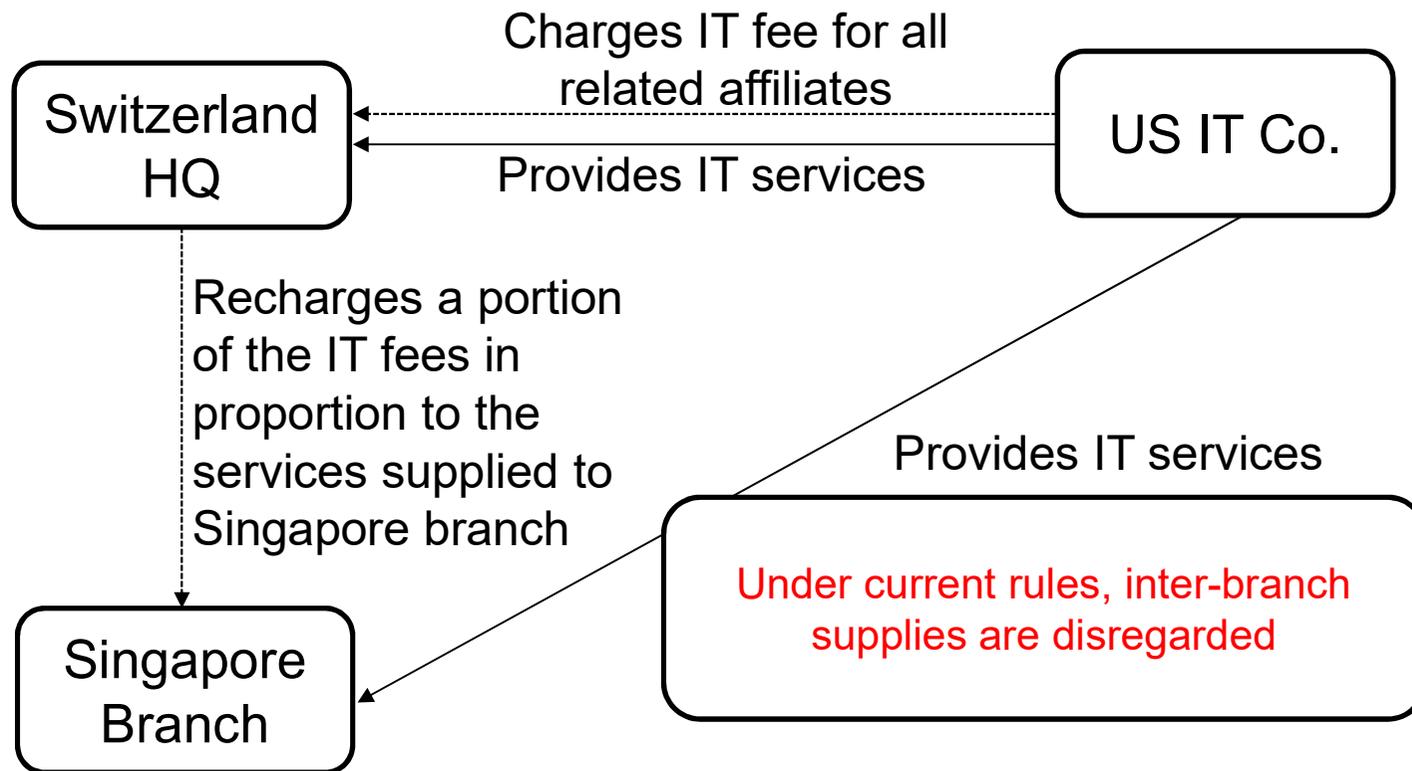
- Services performed before de-registration to be subject to RC

- Time of supply = the day immediately before effective date of de-reg

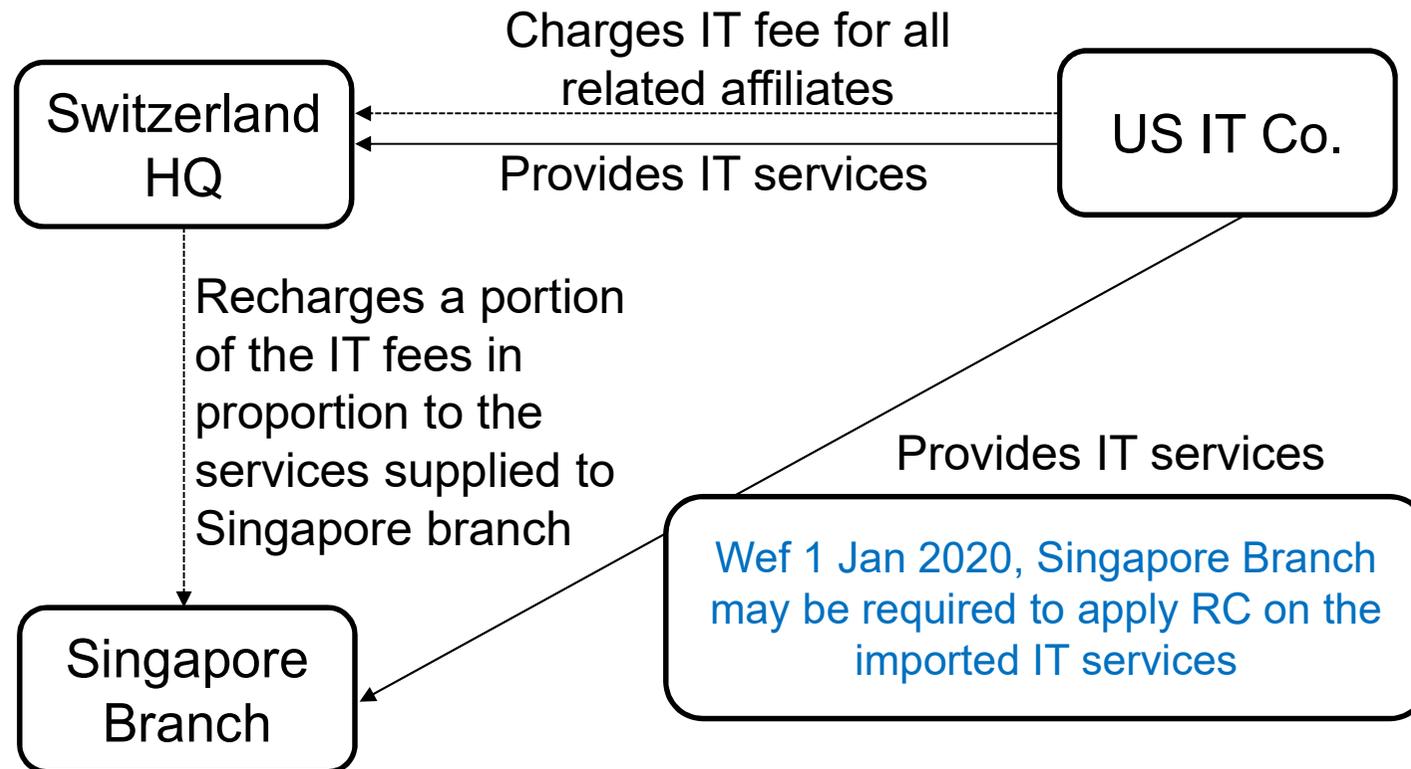
5. Inter-branch and intra-GST group transactions

- Under RC, inter-branch and intra-GST group imported services will **not** be disregarded
- RC will apply when:
 - 1) A local branch/ head office procures services from an overseas branch/ head office
 - 2) A local member of a GST group procures services from an overseas member within the same GST group
- If the transaction relates to cost allocation, any portion that relates to salary, wages and interest (including the proportionate mark-up in accordance with TP policy) can be excluded from RC

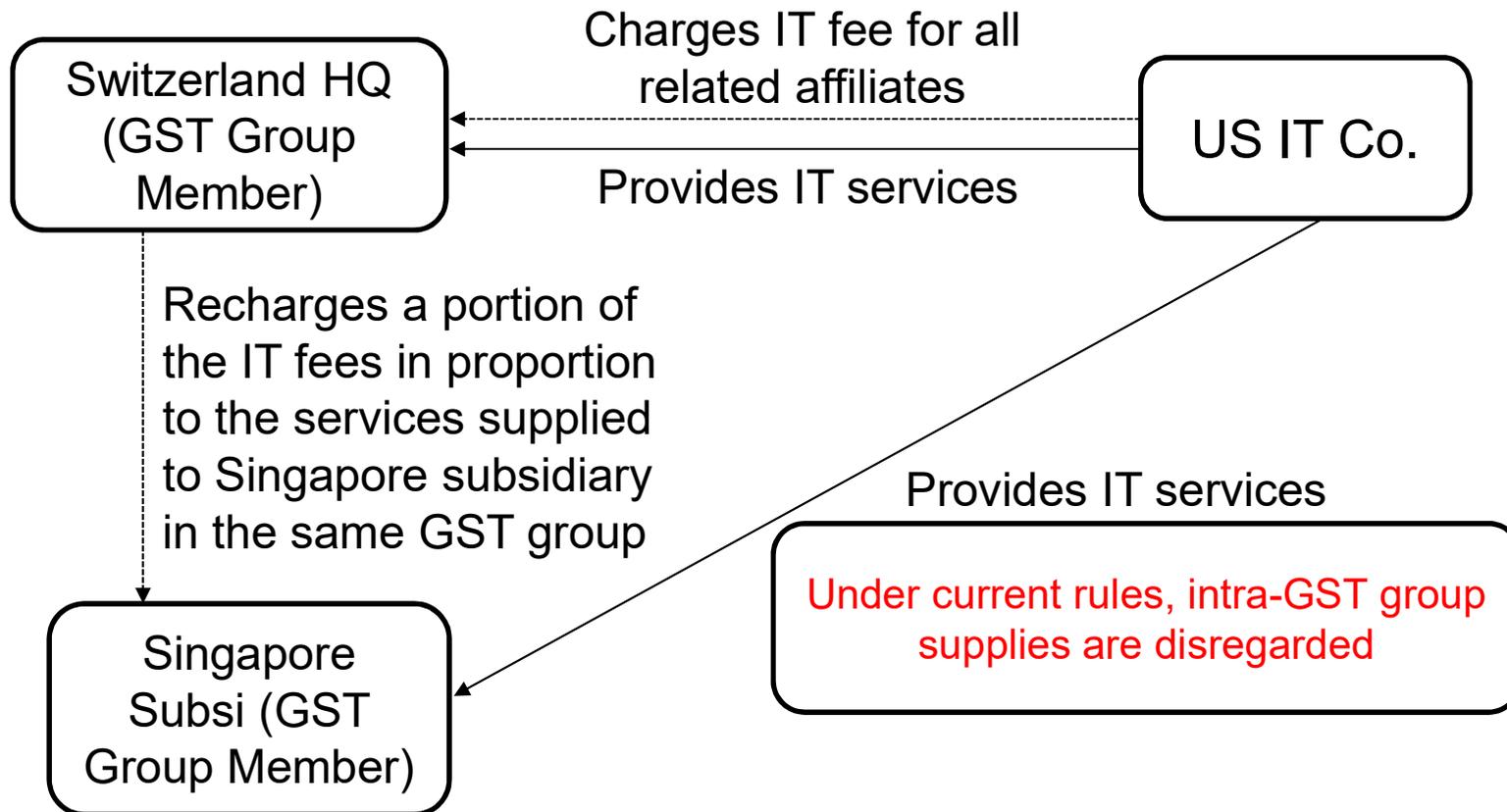
Inter-branch transaction



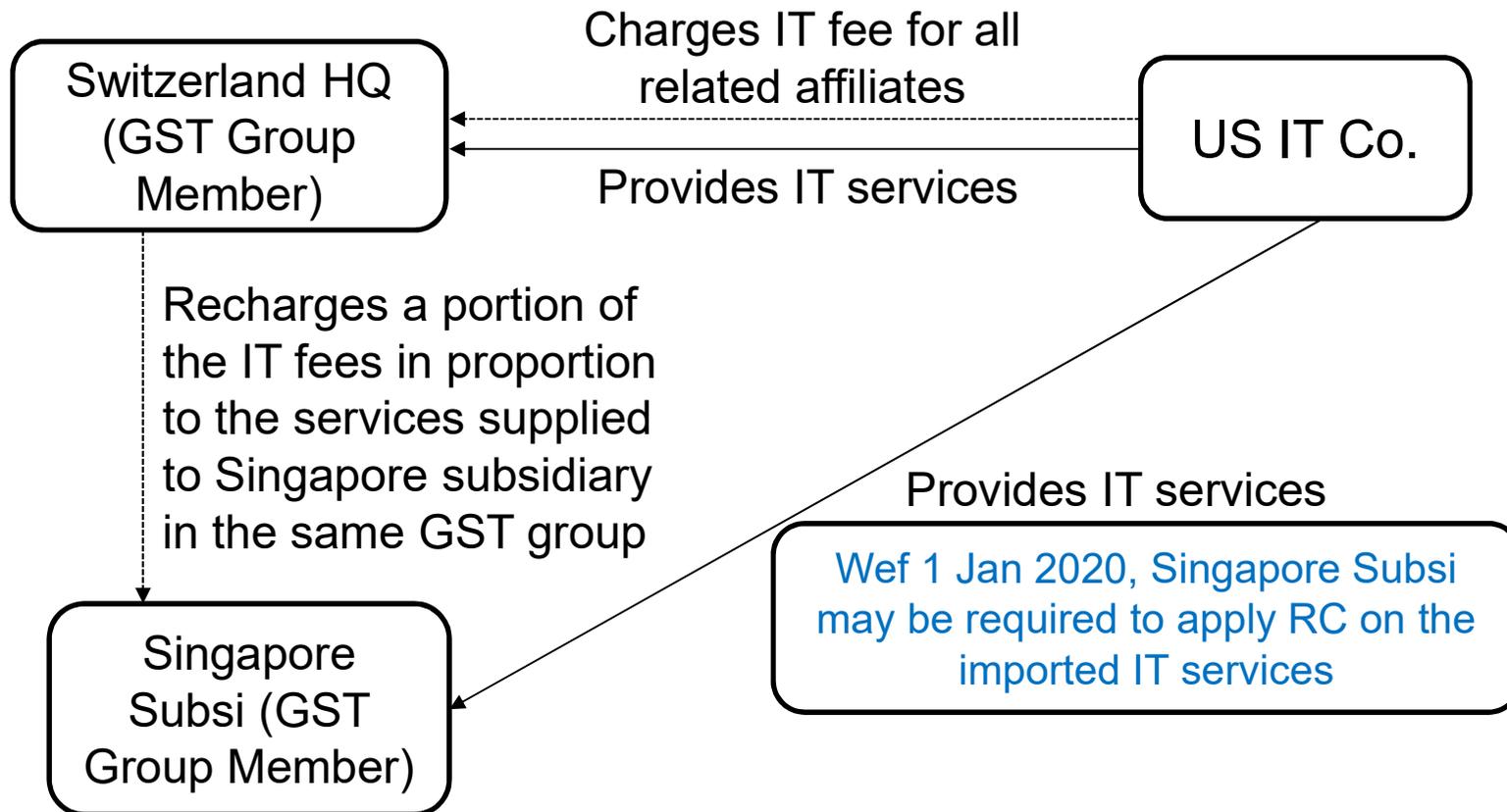
Inter-branch transaction



Intra-GST group transaction



Intra-GST group transaction

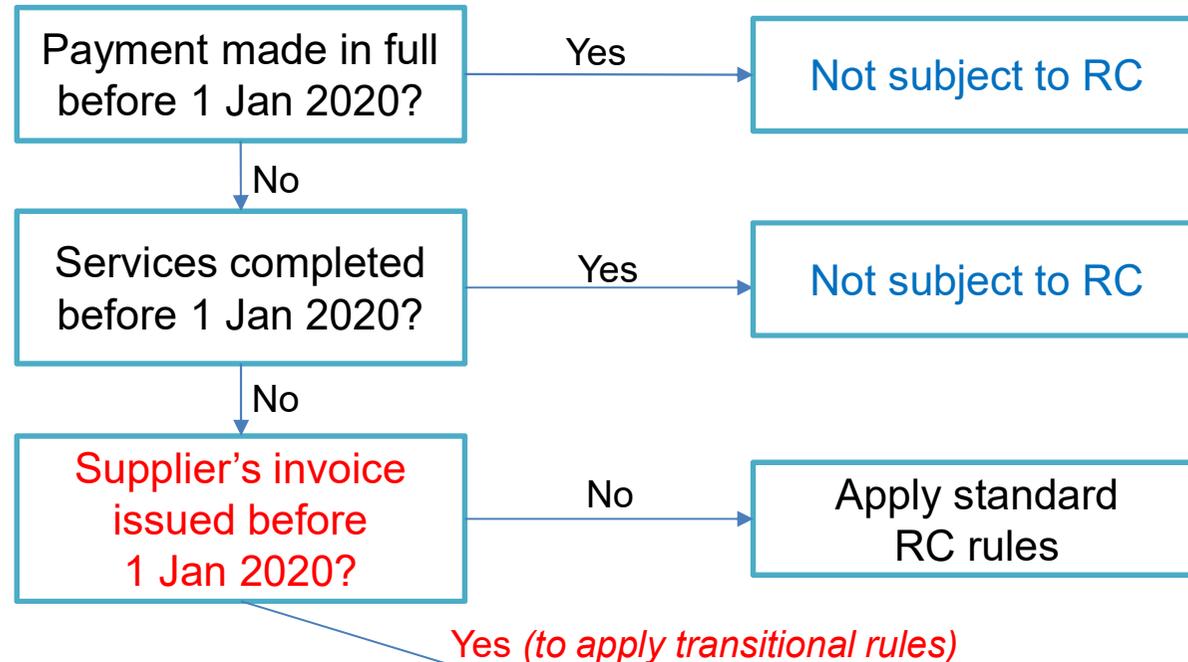


6. Value of supply

Value of supply = money consideration
GST = money consideration x 7%

Transactions between connected persons (including intra-GST group) and inter-branch transactions	If consideration < open market value: Value of supply = <u>Open market value</u>
Inter-branch and intra-GST group transactions	Value of supply = <u>Consideration (or open market value) – salary, wages, interest cost components (plus proportionate mark-up)</u>
Supply that has been taxed previously (to prevent double taxation)	Value of supply = <u>Consideration (or open market value) – value of supply that has been taxed previously</u>
Transactions subject to WHT	Value of supply = <u>Consideration paid for the services (do not add/deduct WHT amt)</u>
Transfer pricing adjustment made to RC transaction	If the TP adjustment results in a change in the consideration, to make GST adjustment accordingly
Foreign currency denominated invoices	Use same acceptable exchange rate to compute output tax and input tax

7. Transitional rules



- **Value of supply to be subject to RC** = invoice amount less the **higher** of the payment made and services performed before 1 Jan 2020
 - **Account in GST return for the period in which 1 Jan 2020 / later effective date of GST registration falls in**
- (Note: Transitional rules apply even if registration date is after 1 Jan 2020)*

8. Adjustment for unpaid invoices

- RC Businesses can make an adjustment for previously accounted RC GST if payment is not made to overseas supplier within 12 months

- **Qualifying conditions:**

- i. he has accounted for and paid GST on the imported services;
- ii. due to genuine commercial reasons (e.g. dispute over the supplier's invoice), the payment to the overseas supplier has been outstanding for more than 12 months; and
- iii. the corresponding input tax claim is also reduced.

8. Adjustment for unpaid invoices (cont'd)

- **To make a claim:**
 1. Complete and maintain self-review of eligibility checklist
 2. Report net GST claim amount in Boxes 7 and 11
- **If payment is subsequently made to the supplier:**
 - Repay output tax on amount paid to supplier in Box 6
 - Claim corresponding input tax in Box 7

→ *Similar to bad debt relief claims*



9. Registration rules

Retrospective basis

Total value of imported services	Business A (S\$)	Business B (S\$)	Business C (S\$)	Business D (S\$)
Determination date ("DD")	31 Dec 2018	31 Dec 2019	31 Dec 2019	31 Dec 2019
Calendar year ending on the DD (Actual)	1.8 mil	1.8 mil	1.8 mil	1.8 mil
12 months from DD (Expected)	1.5 mil	1.5 mil	0	Unable to reasonably forecast
Registration required	No	Yes	Yes	Yes
Submit application for GST by	-	30 Jan 2020	30 Jan 2020	30 Jan 2020
Effective date of registration	-	1 Mar 2020	1 Mar 2020	1 Mar 2020

9. Registration rules (cont'd)

Prospective basis

Total value of imported services	Business E (S\$)	Business F (S\$)	Business G (S\$)	Business H (S\$)
Determination date ("DD")	22 Oct 2019	23 Oct 2019	23 Oct 2019	31 Mar 2020
12 months from DD (Expected)	1.8 mil	1.8 mil	1 mil	1.8 mil
Registration required	Yes	Yes	No	Yes
Submit application for GST by	1 Nov 2019	31 Jan 2020	-	30 Apr 2020
Effective date of registration	1 Jan 2020	1 Feb 2020 or earlier	-	1 May 2020 or earlier

9. Registration rules (cont'd)

Determining whether a person is “entitled to claim input tax in full if he were GST-registered”

1. To apply the tests under the De Minimis Rule using the same basis applied in determining when imported services > S\$1 mil
 - If imported services > S\$1 mil in CY ending 31 Dec 2019 on a retrospective basis, to apply the De Minimis Rule tests based on the supplies made in the same period (i.e. CY ending 31 Dec 2019).
2. Persons entitled to claim input tax although De Miminis test is not met:
 - Only makes Reg 33 exempt supplies, not Reg 34 business
 - Makes non-Reg 33 exempt supplies but passes Reg 35 test, does not incur expenses that are directly attributable to non-Reg 33 exempt supplies, residual input tax recovery ratio is 100%
 - Entitled to apply a provision in the GST legislation to claim input tax in full (e.g. Approved Refiner under s37B)

9. Registration rules (cont'd)

- De-registration conditions for GST-registered RC Business:
 - a) Taxable turnover for the next 12 months will be \leq S\$1 mil
 - b) Not under voluntary registration for $<$ two years; AND
 - c) Imported services subject to RC for the next 12 months will be \leq S\$1 mil.

- No change to the following:
 - Exemption from GST registration rules
 - Voluntary registration rules
 - Group registration rules
 - Registration procedures

10. Reporting requirements

Boxes in GST return	To report/ include
Box 14: Value of imported services AND Box 5: Total value of taxable purchases	Value (i.e. taxable amount) of imported services subject to RC
Box 6: Output tax due	Value of output tax to be accounted for on the imported services
Box 7: Input tax and refunds claimed	Value of input tax claimable on the imported services + Value of net GST refund on unpaid imported services (if applicable)
Box 11: Value of refund for RC transaction	Value of net GST refund on unpaid imported services (if applicable)



10. Reporting requirements

- An RC Business registered by virtue of RC registration rules, and makes only exempt supplies/ no supply, may apply for admin concession to report only imported services subject to RC (i.e. boxes 1 and 14) and output tax (i.e. box 6), subject to Comptroller's approval)
- “Value of imported services” should not be taken into account as “taxable supplies” made by the RC Business, e.g.:
 - Residual input tax recovery formula (i.e. numerator and denominator's taxable supplies)
 - Eligibility of exemption from GST registration (i.e. proportion of zero-rated supplies to total supplies)
 - Eligibility for MES scheme (i.e. proportion of zero-rated supplies to total supplies)



11. Record keeping requirements

1) Overseas supplier's invoice must contain:

- Supplier's name and address;
- Invoice number and date;
- A description of the services supplied;
- Where an invoice is issued in a foreign language, the RC Business must be able to translate this information to English *on request*. In addition to the invoice, the RC Business may also provide contracts/ agreements entered into with the supplier to explain the nature of the services received; and
- The value of the supply (i.e. consideration to be paid).

2) Other records to be maintained:

- Transactional listings of reverse charge purchases;
- Accounting system records and journal entries that support the reverse charge transactions;
- Evidence of payment made to overseas suppliers (e.g. bank statement, contra entries);
- Contracts or agreements entered into with overseas suppliers; and
- Workings for input tax apportionment.



11. Record keeping requirements

3) Alternative documents to support input tax claim

If time of supply has been triggered by a payment made to the overseas supplier and RC Business has not received the overseas supplier's invoice

- RC Business may request for the Comptroller's approval to support his input tax claim with alternative documents (e.g. payment evidence, accounting entries)



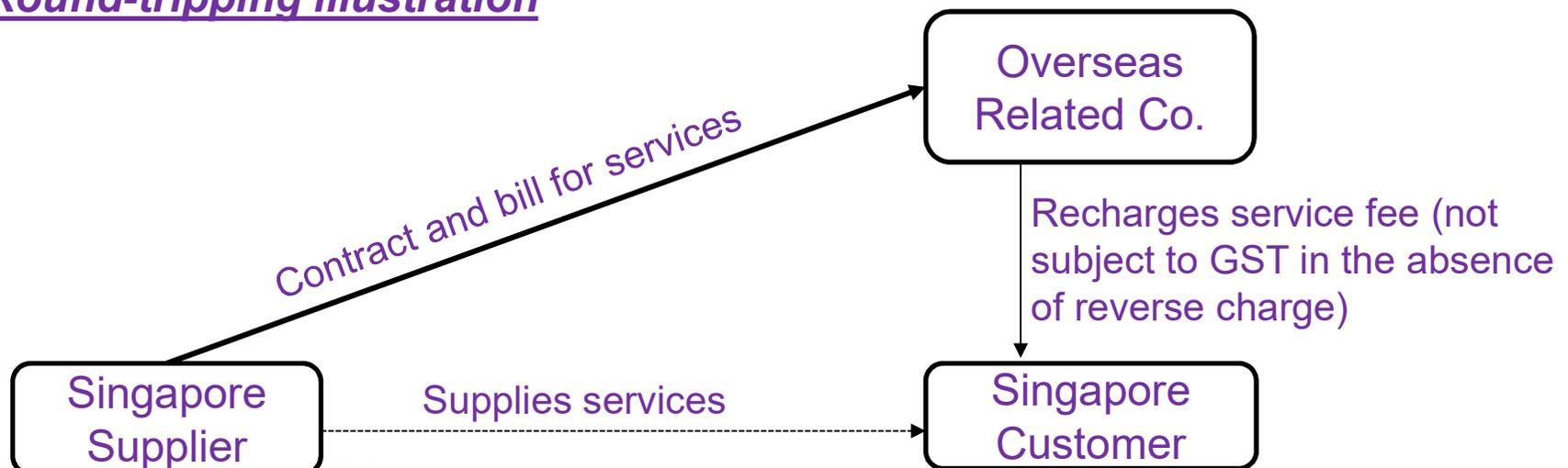
12. Digital services procured from GST-registered overseas vendors

- OVR suppliers should charge GST on supplies of digital services to non-GST registered customers in Singapore
- → RC Businesses should not be charged GST on purchases of digital services from OVR suppliers
- If RC Business is charged GST, e.g. did not represent that he is GST-registered or overseas supplier did not request for GSTN:
 - i. RC Business should obtain GST refund from OVR supplier;
 - ii. If unable to obtain GST refund, RC Business may write in to seek approval to claim under S90(1A) (subject to Comptroller's satisfaction that output tax has been duly paid by OVR supplier); and
 - iii. If digital services fall within the scope of RC, RC Business must account for GST on the value of the imported digital services. Corresponding input tax may be claimed.

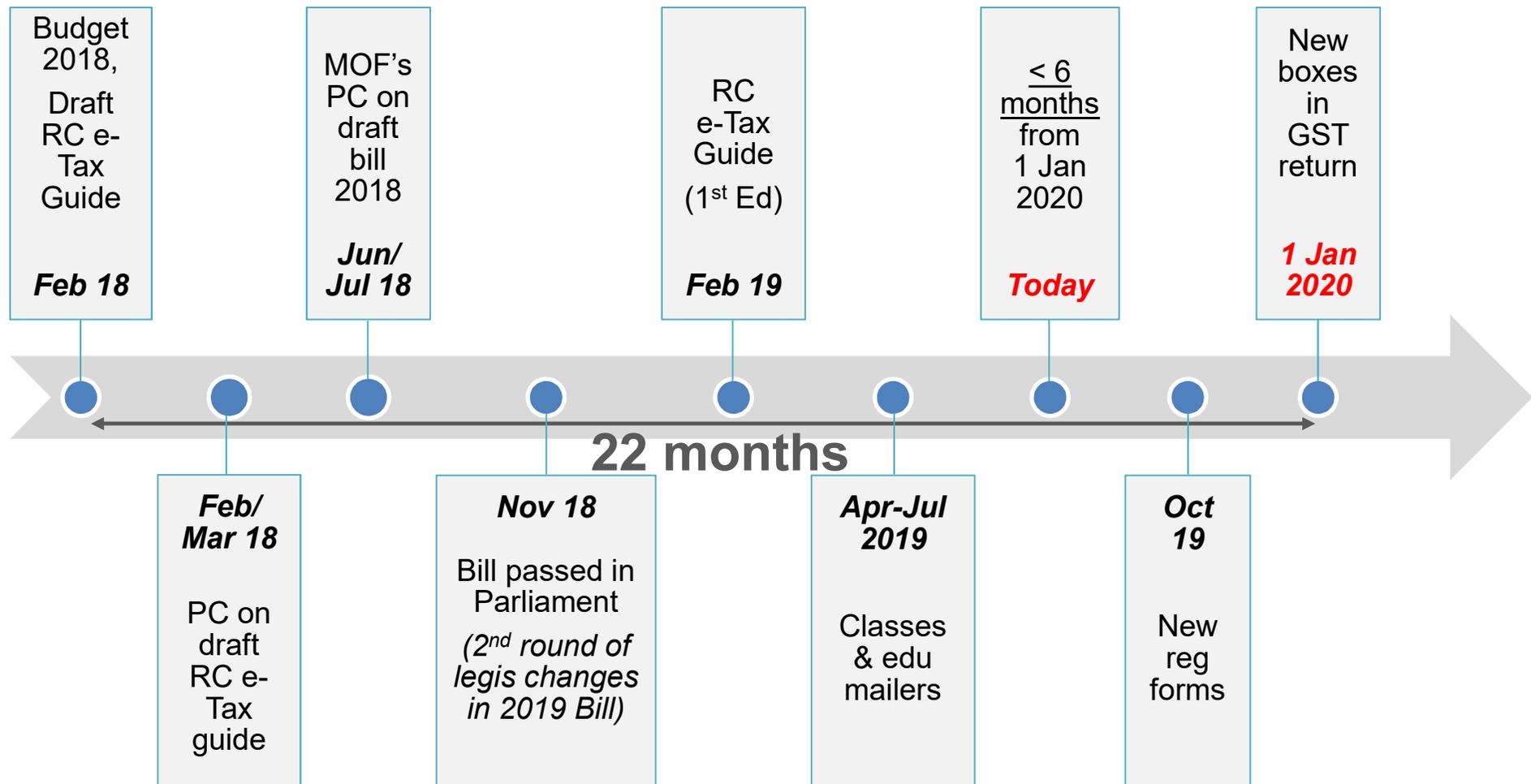
13. Amendment to “directly benefit” condition

- The “directly benefit” condition found in **s21(3)(j), (k), (s) and (y)** is necessary to prevent round-tripping. With RC, no more incentive to engage in round-tripping.
- DB condition will be amended to allow zero-rating even if the services directly benefit a GST-registered person in Singapore
- Other existing conditions in the provisions remain (e.g. services must be supplied contractually to a person belonging outside Singapore)

Round-tripping illustration



Preparing for RC – IRAS GST Division



Preparing for RC – Businesses

Non-GST registered businesses

- Start keeping track of your imported services
- Determine whether you are liable for GST registration and ensure that you register in time
 - Refer to paragraph 5.1 of RC e-Tax Guide for registration rules and deadlines for registration



Preparing for RC – Businesses

GST-registered businesses

1. Identify business processes and classes of transactions that would be impacted
 - E.g. procurement functions outside finance department, related party transactions with no invoices
2. Map out the RC treatment for the transactions (i.e. whether they fall in or outside the scope of RC)
3. Update process owners and GST team on new rules and requirements
4. Create new tax codes, make and test system changes
5. Update GST return preparation process and templates



Preparing for RC – Businesses

*If you need any clarification/approval relating to RC, you should write in to IRAS-GST Division **soon**.*

Examples

- Clarification on GST treatment of specific imported services transaction
- Approval to use proxy to compute salary, wages and interest cost components of inter-branch or intra-GST group RC transactions
- Approval to maintain alternative documents to support RC transactions (e.g. where invoices are not received from your overseas suppliers)
- Approval to only report RC imported services and corresponding output tax when you only make exempt supplies or no supply, apart from RC supplies



Thank You

The information presented in the slides aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. This information is correct as at the date of presentation. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary its position accordingly.

