Tax Alert

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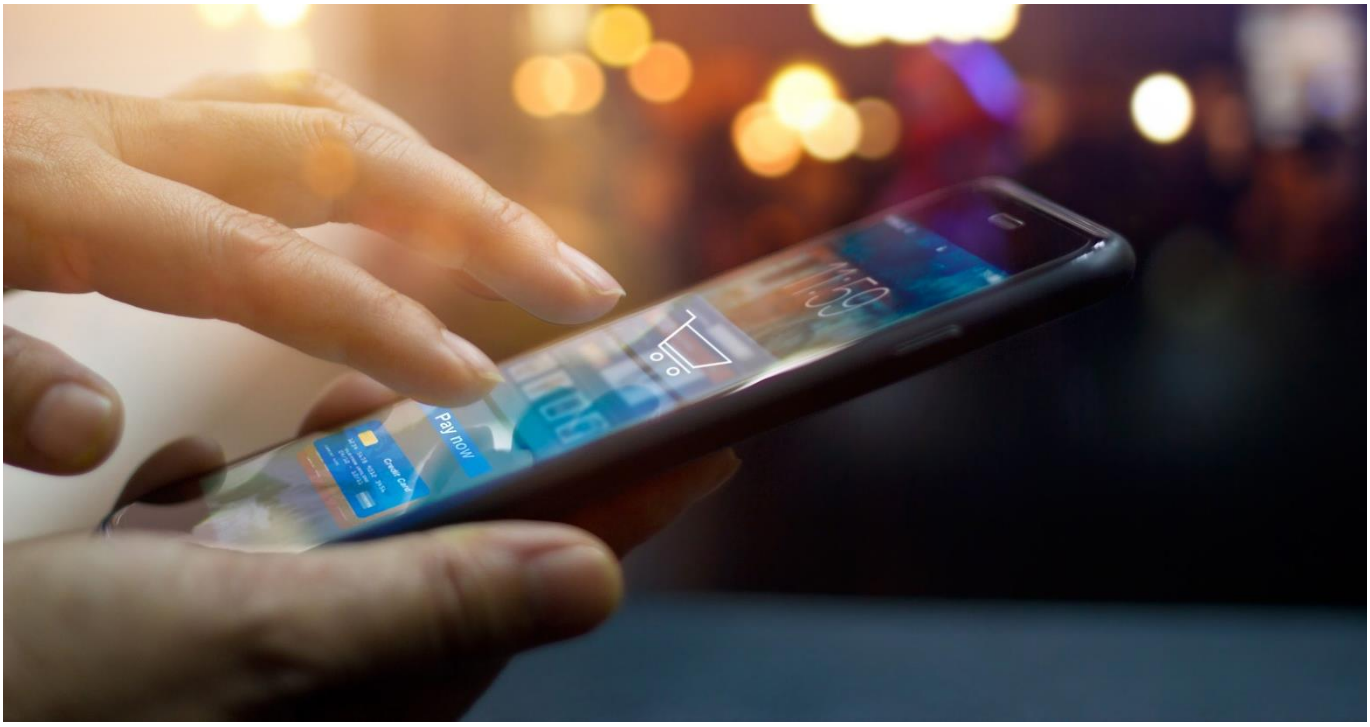
GST Changes in Budget 2021

Extension of Overseas Vendor Registration to low-value goods and non-digital services and change in zero-rating rules for media sales



GST on low-value goods and B2C non-digital services

Currently, GST import relief is granted to low-value goods (LVG) of no more than S$400 imported via air or post[1]. In addition, the overseas vendor registration (OVR) regime applies only to digital services.

From 1 Jan 2023, the OVR will be extended to include:

- Import of LVG via air or post valued no more than S$400; and
- Business-to-Consumer (B2C) imported non-digital services.

Similarly, the reverse charge (RC) regime will be extended to include import of LVG via air or post valued at no more than S$400.

What are low-value goods?

LVG refers to goods that:

- are not dutiable goods, or are dutiable goods but have been granted GST import relief by Singapore Customs under Item 32 of the Schedule to the GST (Imports Relief) Order;
- are not exempt from GST;
- are located outside Singapore at the point of sale and are to be delivered to Singapore via air or post; and
- have a value not exceeding the import relief threshold of S$400.

[1] No such import relief granted to goods imported via land or sea.

Who may be affected?
This may affect local suppliers supplying goods outside Singapore, overseas suppliers supplying LVG, the electronic marketplace and deliverers if conditions are met.

Local suppliers with goods outside Singapore
Local suppliers who directly supply LVG to non-GST registered persons will be affected. Local suppliers need to charge GST for these supplies and include them in determining their GST registration liability.

Electronic marketplace
The operator of the electronic marketplace will be regarded as the supplier if any of the following conditions are met:
- The electronic marketplace authorises the charge to the customer;
- The electronic marketplace authorises the delivery of supply to the customer;
- The electronic marketplace sets the terms and conditions under which the supply is made;
- The documentation provided to the customer identifies the supply as made by the marketplace, and not the merchant; or
- The electronic marketplace and the merchant contractually agree that the marketplace is liable for GST.

An electronic marketplace may not be regarded as the supplier only if none of the conditions above are satisfied.

The electronic marketplace operator will be required to register for GST under the OVR regime and charge and account for GST on supplies of LVG made on behalf of local and overseas suppliers to Singapore customers who are not GST-registered.

Re-deliverers
A re-deliverer will be regarded as the supplier of the LVG if:
- no electronic marketplace operator is treated as the supplier of the goods;
- the supplier of the goods does not deliver or arrange the delivery of the goods to Singapore; **and**
- the re-deliverer delivers or facilitates the delivery of the LVG to Singapore and does one or more of the following:
  - Provides or facilitates the use of an address outside of Singapore for delivery of the LVG; or
  - Purchases or facilitates the purchase of the LVG.

GST-registered businesses subject to the reverse charge
GST-registered businesses subject to the reverse charge should perform reverse charge on the purchase of LVG from local and overseas OVR vendors, regardless of whether the vendors are GST-registered.

GST registration under OVR
Retrospective basis – Non-GST registered persons will be liable for GST registration if the global turnover and B2C supplies of LVG and remote services made to Singapore non-GST registered customers has exceeded S$1 million and S$100,000 respectively in the last calendar year;

If the non-GST registered person is certain that their global turnover or value of B2C supplies of LVG and digital and non-digital services to Singapore non-GST registered customers will not exceed S$1 million and S$100,000 respectively in the next calendar year, but has exceeded this value in the last calendar year, and is able to substantiate this with documentation, they will not be liable for GST registration.

Prospective basis – Non-GST registered persons will be liable for GST registration if they reasonably expect the global turnover and services made to Singapore non-GST registered customers to exceed S$1 million and S$100,000 respectively in the next 12 months.

Determining the value of LVG
The value of LVG refers to the sales value of the goods, excluding:
- transportation and insurance costs for transporting the goods from overseas to Singapore;
- GST chargeable on the supply of LVG; and
- duties payable to Singapore Customs.

Sales in foreign currency
For the purpose of determining whether the goods sold in foreign currency fall within the S$400 LVG threshold, OVR suppliers should convert the sales value of the foreign currency-denominated supplies using an acceptable exchange rate by the IRAS at the time of supply. OVR suppliers that would like to adopt an in-house exchange rate that is based on sources other than those currently accepted may write to the IRAS for approval with the necessary information.

Scope of imported B2C non digital services

With effect from 1 Jan 2023, in addition to imported LVG, the OVR regime will be extended to tax B2C supplies of non-digital services.

Any supplier belonging outside Singapore that has a global turnover exceeding S$1 million and makes B2C supplies of digital and non-digital services (or remote services) to customers in Singapore exceeding S$100,000 in the last calendar year or the next 12 months, is required to register, charge and account for GST. Consequently, all B2C imported services, whether digital or non-digital, if supplied and received remotely, will be subject to the OVR regime.

Remote services

Remote services are defined as any services where, at the time of the performance of the services, there is no necessary connection between the physical location of the recipient and the place of physical performance. Such services could be digital or non-digital.

Non-digital services

Non-digital services are services that do not fall within the definition of 'digital services' that can be supplied and received remotely.

Examples of non-digital services include:

- Supply of membership by professional, academic or recreational bodies;
- Supply of professional services e.g. investment advisory, legal and consultancy services;
- Supply of educational and examination services e.g. distance learning classes, online examination to obtain professional certification;
- Supply of personal services e.g. online counselling, coaching.

Exclusion from remote services

- Services that fall within the description of exempt supplies under the Fourth Schedule to the GST Act;
- Services that qualify for zero-rating under section 21(3) of the GST Act had the services been supplied by a taxable person belonging in Singapore; and
- Services provided by the government 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 of the GST Act.
- On-the-spot services

  On-the-spot services supplied by an overseas supplier or an overseas electronic marketplace to a non-GST registered Singapore customer would fall outside the scope of the extended OVR regime. This refers to a scenario where the customer is physically present at the same location when the services are physically performed. Examples of on-the-spot services include the following:
  - Hairdressing services;
  - Physiotherapy services;
  - Physical entry to entertainment or sporting events;
  - Restaurant and catering services;
  - Land tours; and
  - Passenger transportation services.

Who may be affected?

Similar to the LVG regime, overseas suppliers supplying remote services and electronic marketplace will be required to register under the OVR if conditions are met.

GST registration under OVR

The same OVR GST registration rules described above apply.

GST-registered companies with establishments in and outside Singapore

Where a GST-registered entity has both local and overseas business / fixed establishments (e.g. head office overseas with branch in Singapore) which are part of the same GST-registered legal entity, the GST-registered Singapore branch must account for GST on all supplies of remote services made by its overseas establishments to non-GST registered customers belonging in Singapore.

Supply of media sales

Currently, the GST treatment depends on the place of circulation of the advertisement. Where the advertisement is circulated outside Singapore or at least 51% of the total circulation of the same advertisement is overseas, zero-rating applies.

From 1 January 2022, the GST treatment will be amended to the belonging status of the customer and direct beneficiary of the services.

In summary,

- If the customer belongs outside Singapore and the direct beneficiary either belongs outside Singapore or belongs in Singapore but is registered for GST, the provision of media services will be zero-rated; and
- If the customer belongs in Singapore, the provision of media services will be standard-rated.

The change is made in recognition of the growth in online advertising services and the compliance difficulties faced by businesses in determining the place of circulation of advertisements.

Our comments

With the extension of GST to imported LVG and B2C non-digital services, GST will apply to all cross-border supplies of goods and services, so long as consumption takes place in Singapore. This achieves a level playing field for Singapore suppliers.

Overseas suppliers, electronic marketplace operators and re-deliverers would have to consider their liability to register for GST on their supply of LVG and non-digital services to Singapore non-GST registered customers. Local suppliers who are currently making out-of-scope supplies of goods will be affected by the LVG regime as well when they supply goods to Singapore non-GST registered customers.

With the continuous growth in the digital economy, the announcement to tax LVG and non-digital services is expected as GST is meant to tax domestic consumption. Nonetheless, such a move poses a challenge to marketplace operators and re-deliverers as suppliers of the LVG, especially when they do not consider themselves supplying the LVG but are required to shoulder the collection responsibility on behalf of the tax authorities. Given that Singapore has implemented the Overseas Vendor Registration regime from 1 January 2020, the IRAS should be able to tap on its experience on the OVR administration and better provide helpful and much needed guidance facilitating businesses who are faced with the implementation of OVR.

As regards the revised rules for the provision of promulgation of advertisement with effect from 1 January 2022, while the rules may appear straightforward, the interpretation of "direct beneficiary" and if the current IRAS guidance is adequate to address all your transactions should be examined.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the GST changes to your business, particularly how your processes, controls and GST treatment on current transactions would be affected and the steps to take to ensure compliance.

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