

## Removal of GST administrative concession for recovery of overseas brokerage on overseas shares and exclusion of blocked expenses



The Inland Revenue Authority of Singapore (IRAS) recently announced the removal of the goods and services tax (GST) administrative concession for the recovery of overseas brokerage fees and related costs on shares traded on overseas exchanges under certain circumstances with effect from 1 April 2022<sup>1</sup>. In view of COVID-19, the GST legislation on blocked medical expenses has been amended.

In this issue, we highlight the implications of removing the GST administrative concession on affected businesses such as banks, brokers and fund managers in Singapore (Local Brokers) and share the amendment on blocked medical expenses.

### Current GST administrative concession

Due to the regulatory requirements of stock market trading in other jurisdictions, end-clients in Singapore may be required to contract with Local Brokers which then contract with overseas brokers to place the end-clients' trades on shares listed on overseas stock exchanges. The Local Brokers pay the overseas brokers' brokerage fees and related costs (overseas brokerage

costs) and onward charge the overseas brokerage costs to the end-clients in Singapore.

As an administrative concession, Local Brokers are allowed not to charge GST on the recovery of overseas brokerage from end-clients belonging in Singapore if the following criteria are satisfied:

- The shares are listed on overseas exchanges;
- The Local Broker did not incur any GST on the overseas brokerage services; and
- The Local Broker does not impose a mark-up on the recovery.

If the Local Broker charges a mark-up, it will be liable for GST only on the mark-up if the mark-up is shown separately on the tax invoice issued. Otherwise, the Local Broker would need to charge GST on both the overseas brokerage costs and the mark-up.

It is worth noting that the administrative concession is confined to shares and is not extended to other financial instruments such as exchange-traded funds (ETF) or bonds traded on overseas exchanges.

<sup>1</sup> It was earlier announced for the removal of the GST administrative concession from 1 Oct 2021 but was deferred in view of feedback from affected businesses, which expressed the need to be given more time for the implementation of this removal since it may involve an update of their systems and processes.

This administrative concession was granted in July 1996 to place GST-registered Local Brokers on equal footing with overseas brokers that do not charge GST on overseas brokerage since there is no value-added service provided by Local Brokers. Another consideration is that end-clients may not be able to contract with overseas brokers directly.

### **GST treatment upon removal of administrative concession**

The reverse charge (RC) regime, in which recipients of services account for output GST on the services they import as if they were the supplier, was implemented with effect from 1 January 2020 to ensure parity in GST treatment on services procured from local and overseas service providers. Following this, the IRAS explained that the administrative concession would no longer be required to maintain the competitiveness of the local fund management industry. Instead, the GST treatment should fall back on the contractual arrangement.

From 1 April 2022, the GST treatment of recovery of overseas brokerage costs for shares traded on overseas exchanges will depend on whether the overseas brokerage is incurred by the Local Broker as a principal or an agent.

### **Local Broker acting as an agent**

In cases where the end-client enters into a brokerage contract directly with the overseas broker, and the Local Broker merely acts as a paying agent to pay the overseas brokerage costs on the end-client's behalf, the Local Broker is not required to charge GST on the recovery

of brokerage costs from end-clients. There is no GST implication as this is a disbursement for GST purposes.

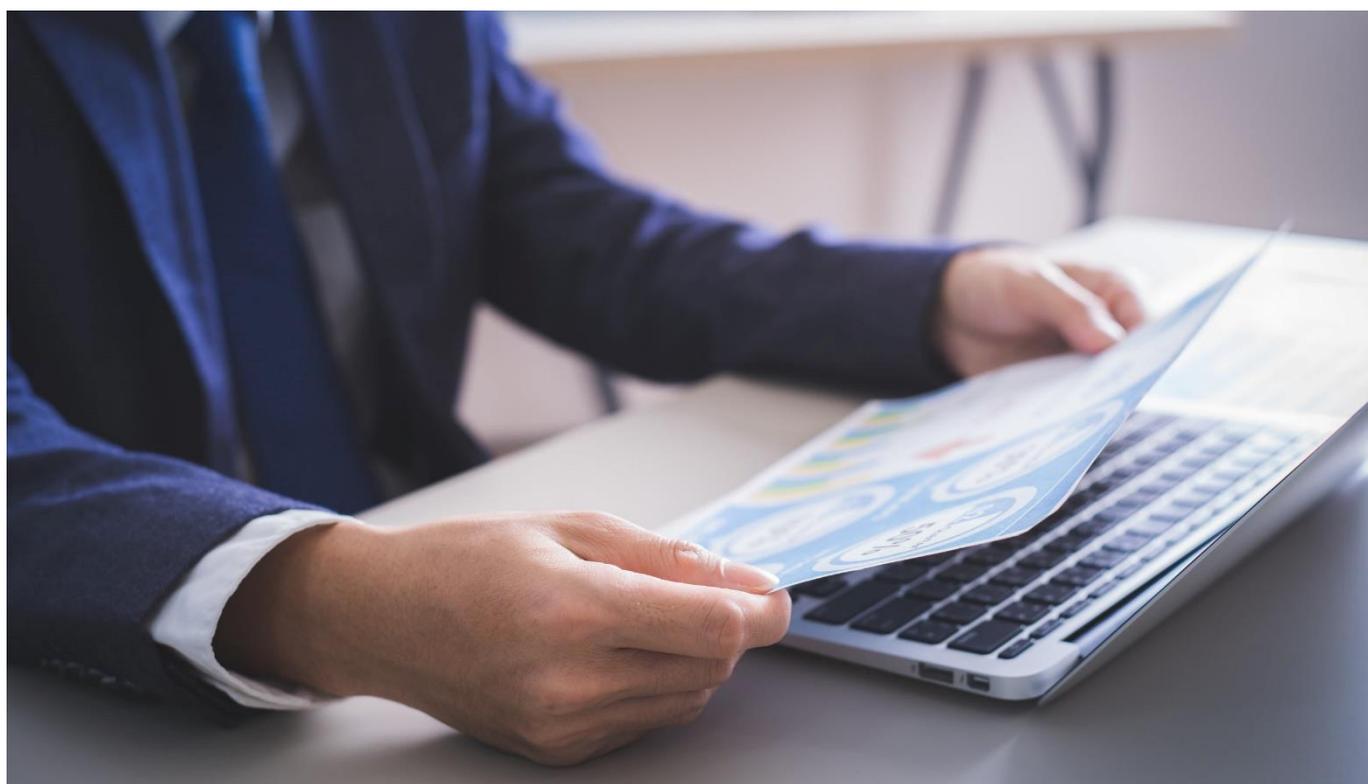
### **Local Broker acting as a principal**

In cases where the end-client enters into the brokerage contract with a GST-registered Local Broker, which in turn enters into the contract with the overseas brokers in its own name, the Local Broker would be regarded as the principal of the supply of brokerage services.

When the Local Broker subsequently recovers the overseas brokerage costs from the end-clients which belong in Singapore, such recovery is subject to GST since this is a reimbursement instead of disbursement for GST purposes.

GST-registered Local Brokers that claim input tax based on the standard input tax recovery rules are not required to apply RC on the overseas brokerage costs since GST is charged to the local end-clients on the recovery of brokerage costs and imported services acquired are directly attributable to the making of standard-rated supplies.

On the other hand, GST-registered Local Brokers that claim input tax based on the fixed input tax recovery rate (FITR) or special input tax recovery formula (SITRF) would need to apply RC on imported brokerage services. Local Brokers can claim a portion of the GST on overseas brokerage costs as its input tax based on the FITR or SITRF accorded. To illustrate, Local Brokers which are banks with full banking licenses are able to claim input tax at 74%<sup>2</sup> — which leads to an additional 26% irrecoverable input tax on overseas brokerage costs.



<sup>2</sup> The fixed input tax recovery rate from 1 April 2021 to 31 March 2022 is 74% for a full-licensed bank.

## Our comments

The implications of the removal of GST administrative concession from 1 April 2022 will have significant impact on Local Brokers that claim input tax based on FITR or SITRF, compared to those that claim input tax on standard input tax formula.

To ensure the correct GST treatment is adopted upon removal of this GST administrative concession, you should consider the following:

- Review the existing contractual relationship with your end-clients and establish if you are acting as a principal or an agent in the provision of brokerage services;
- Review and update the existing accounting system for both the charging of output tax on the recovery of brokerage costs from end-clients which belong in Singapore and reverse charge on imported brokerage services from overseas brokers, including tax code, GST processes, income table and reverse charge table, taking into account your input tax claim formula;
- Decide on the revised pricing of your brokerage services in view of the additional GST costs in terms of input tax not claimable if you are accorded the FITR or SITRF; and
- Notify your end-clients on the impending change in GST treatment and the new pricing, if applicable.

If you realise that — while reviewing this impending change — you have adopted the administrative concession when not all conditions are met or apply to other financial instruments apart from shares, you may wish to voluntarily disclose such errors to the IRAS.

## How we can help

The removal of this GST administrative concession by the IRAS may impact your business. Please contact us if you need assistance with establishing a contractual

relationship with your end-clients; understanding the relevant GST implications in terms of GST claims, reverse charge and other areas of your business, including modifications to your accounting and IT systems; and training your team to prepare for the impending change on 1 April 2022. If you need advice on errors made in past transactions, please contact us as well.



## Exclusion of blocked expenses

In view of COVID-19, the GST legislation on blocked medical expenses has been amended. Medical treatment expenses incurred on or after 1 October 2021 in connection with any health risk or requirement arising on account of the nature of the work required of your staff or your staff's work environment and where:

- i. the staff is required under any written law to receive that medical treatment; or
- ii. the medical treatment is related to COVID-19 and the staff is advised under any written advisory (e.g. any website or industry circular) issued by the Government or a public authority to receive that treatment

would not be blocked expenses and GST on such expenses would be claimable.

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