KPMG

Tax Alert

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Updates on GST rate increase and related issues

In this issue, we discuss some transitional rules arising from the impending goods and services tax (GST) rate increase from 7 to 8% on 1 January 2023. We also share two updates on:

a) the deferment of the removal of the GST administrative concession on the recovery of overseas brokerage fees and related costs on shares traded on overseas exchanges;

b) the High Court's decision over an appeal by the Comptroller of GST (the Comptroller) against a GST-registered business where the Board of Review ruled in favour of the GST-registered business.

Transitional rules on GST rate increase

The GST provisions concerning the transitional rules for the increase in the GST rate were gazetted in December 2021, with the Inland Revenue Authority of Singapore (IRAS) publishing an e-Tax Guide entitled "2023 GST Rate Change: A Guide for GST-registered Businesses".

Affected businesses should take note of the following main transitional rules.

Invoices issued before 1 January 2023

For invoices issued before 1 January 2023 where GST 7% is charged on your supplies, you need to review your debtors' aging report as at 31 December 2022. Where there is a debtor as of year-end 2022 (no payment received or only part payment received) with goods having been delivered or services been performed by this date, no action is required.

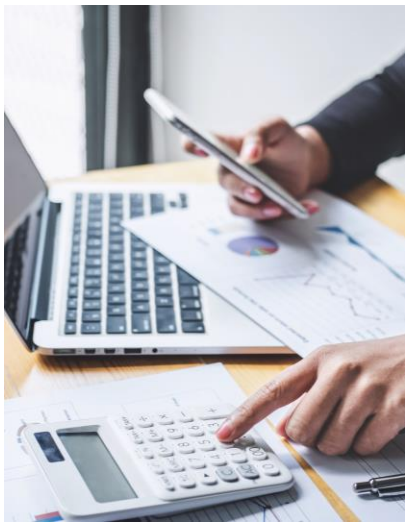
However, if this is not the case, you need to issue a credit note to cancel the earlier invoice or part of the earlier invoice and issue a new tax invoice with GST at 8% by 15 January 2023 depending on the circumstances as follows:

(a) No goods/services have been delivered/performed

You need to issue a credit note to cancel the tax invoice issued with 7% GST and issue a new tax invoice with GST at 8% by 15 January 2023 unless part payment has been received. If so, the credit note and new tax invoice will be on the remaining payment outstanding as indicated in your debtors' aging report as at 31 December 2022.

To illustrate, you issue a tax invoice on 1 November 2022 of $1,000 with 7% GST and a total invoice amount of $1,070. The entire amount remains outstanding as at 31 December 2022.

By 15 January 2023, you must issue a credit note cancelling the tax invoice issued on 1 November 2022 and issue a new tax invoice of $1,000 with 8% GST and a total invoice amount of $1,080. The additional $10 arising from the credit note and new tax invoice issued would be reported as your output tax in the prescribed accounting period ending 31 March 2023, if you are on the calendar quarter filing cycle.



(b) Part of the goods/services have been delivered/ performed

You need to issue a credit note to cancel the tax invoice issued with 7% GST and issue a new tax invoice with GST at 8% for the part of the goods/services not delivered/performed.

Where part payment has been received, you need to compare the value of outstanding payment and the part of the goods/services not delivered/performed — and issue the credit note and new tax invoice at 8% GST on the lower of payment outstanding or value of the goods/services not delivered/performed as at 31 December 2022.

To illustrate, for the same scenario above, your customer pays you $200 on 15 December 2022, and part of the goods worth $600 are delivered by 31 December 2022 with the remaining $400 worth of goods out of stock and to only be delivered in 2023. In this case, you need to issue a credit note of $400 with 7% GST (being the lower amount as compared with the outstanding payment of $870) and issue a new tax invoice of $400 with 8% GST.

Invoices issued from 1 January 2023

For invoices issued from 1 January 2023, you should charge GST at 8% for all your supplies, assuming no payment or part payment has been received.

Election to charge GST at 7%

You have a choice to elect for GST to be charged at 7% under the following scenarios:

(a) Goods delivered/services performed fully before 1 January 2023

The entire amount can be subject to GST at 7%.

(b) Goods delivered/services performed partly before 1 January 2023

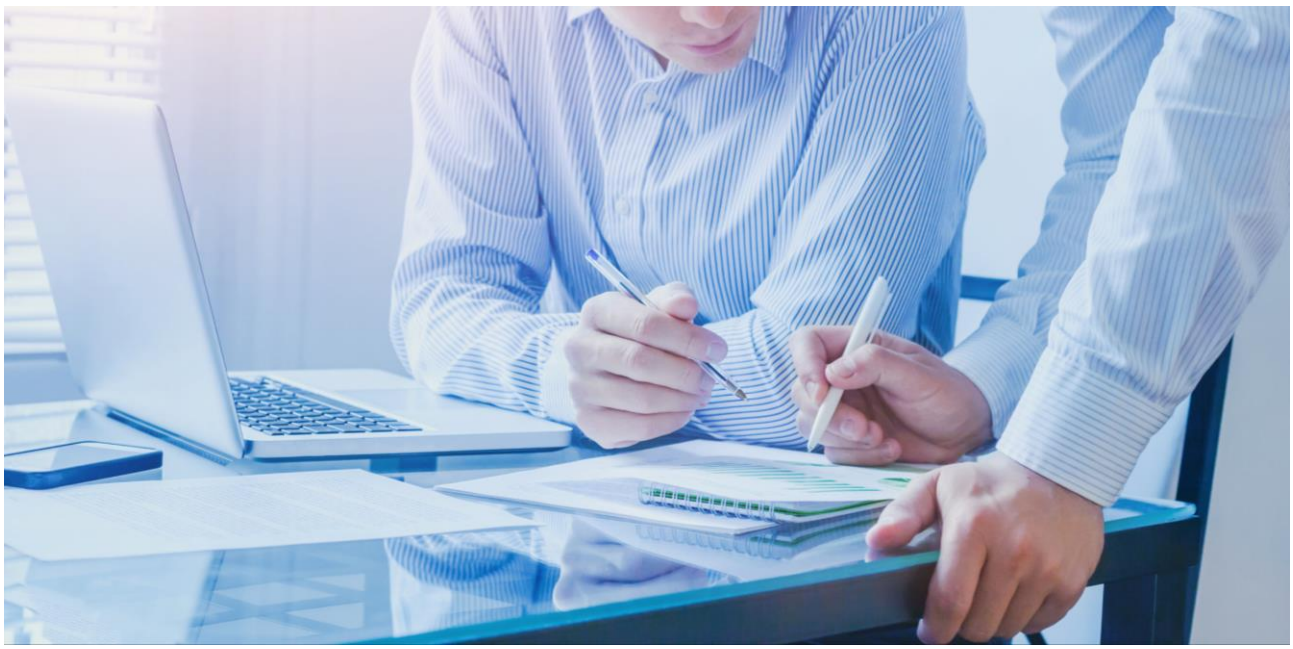
GST at 7% can apply on the value of goods delivered/services performed before 1 January 2023 while the remaining value should be subject to GST at 8%.

Advance payment before 1 January 2023

If your customers make advance payments before 1 January 2023, based on the time of supply rules, you need to account for output GST in the quarter in which the payment is received. GST at 7% should be accounted for, followed by a tax invoice within 30 days from the time of payment if your customer is registered for GST. To illustrate, if your GST-registered customer makes an advance payment of $2,140 on 15 November 2022, $140 (being 7/107 of $2,140) and a corresponding value of $2,000 should be accounted for as output tax and standard-rated supply in the quarter ended 31 December 2022.A tax invoice should be provided to your customer by 14 December 2022.

Reverse charge on imported services

The transitional rules are similarly applicable to imported services if you are required to apply reverse charge as you are stepping into the shoes of the overseas vendors by charging yourself output tax. You may be able to claim part of this GST or not at all, depending on the circumstances which you need to assess.



Our comments

Transitional rules surrounding rate change are not straightforward. You need to engage your operational teams early to identify transactions that straddle rate increase, including imported services where applicable, and communicate to your operation colleagues the applicable GST treatment. There are concessions granted by the IRAS on the payment date, election for the lower rate and practical solutions to handle these cases. Accounting systems that automate your GST treatment should be reviewed to ensure transitional rules are taken into consideration before the end of the year to ensure a smooth transition.

Deferment of the removal of the administrative concession

In Issue 21 of our Tax Alert published in October 2021, we shared that the IRAS announced the removal of the 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 (originally 1 October 2021). The IRAS has recently announced that this date is pushed back to 1 January 2023 in view of the feedback from affected parties who were unable to effect this change by April 2022. We understand from the IRAS that this extension is final.

High Court's decision on the Comptroller of GST's appeal

In Issue 24 of our Tax Alert published in November 2021, we shared the decision of the Board of Review (the Board) on a GST-registered business, GDY (Dynamac Enterprise as provided in the High Court judgment). In the case, GDY had appealed against the Comptroller's decision to deny zero-rating for export of goods hand-carried to Malaysia. The Board ruled in favour of the GST-registered business. Details can be found here.

The appeal by the Comptroller was made on the grounds that the Board has no jurisdiction to substitute its views on the applicable export evidence requirements for the Comptroller. Hence, only the Comptroller could determine the documents required to support zero-rating and not the Board. On this note, the Comptroller only allowed the list of documents provided in the latest e-Tax Guide (the Guide) which requires more documents than those provided in the Specific Directions issued by the Comptroller before the updated Guide.

The High Court dismissed the Comptroller's appeal and agreed with the Board that the e-Tax Guides provide general guidance to assist GST-registered businesses to comply with the GST requirements. They do not impose legally binding conditions.

Thus, specific directions issued by the Comptroller to the GST-registered business should override the Guide.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the GST rate increase to your business, particularly how your processes, controls and GST treatment on straddling transactions would be affected, and the steps to take to comply with the rate hike. Please let us know if your company is affected by the removal of the GST concession waiver on the recovery of brokerage fees and related expense and if you face any concerns in implementing the new rules from 1 January 2023. If you face disputes with the Comptroller, we would be pleased to provide insights and share our experience in dispute resolutions.

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