Executive summary

Singapore’s Minister for Finance presented Budget 2018 on 19 February 2018. With respect to the Goods and Services Tax (GST), Budget 2018 proposes an increase in the GST rate from the current 7% to 9%. This increase would take place sometime during 2021 to 2025. In addition to the rate increase, Budget 2018 also introduces the imposition of GST on imported services, effective 1 January 2020.

This Alert summarizes these proposed GST changes.

Detailed discussion

**Planned GST rate increase**

**Current rate**

GST was first implemented in Singapore, on 1 April 1994, at a low rate of 3%.

The GST rate was subsequently raised to 4% in 2003, 5% in 2004 and then 7% in 2007, where it has remained since.
Proposed rate
To support the recurrent needs from healthcare, security and other social spending, the Minister has announced that the Government plans to raise GST by two percentage points, from 7% to 9%, sometime in the period from 2021 to 2025. The exact timing of the GST increase will depend on the state of the economy, the increase in Singapore’s expenditures and the resilience of existing taxes.

The Minister also announced that the GST increase will be implemented in a progressive manner and the Government will:

- Continue to absorb GST on publicly-subsidized education and healthcare.
- Enhance the permanent GST Voucher scheme when the GST is increased, so as to provide more help to lower-income households and seniors.
- Implement an offset package for a period to help Singaporeans, especially the lower-income and middle-income households, adjust to the GST increase.

Implications

- It is not certain if the GST increase will be an immediate step-up from the current GST rate or staggered in a two-step approach.
- Although not primarily a tax on businesses, the GST increase will result in additional irrecoverable GST costs to the following groups of businesses:
  - Businesses not registered for GST, as they are not entitled to claim the GST incurred on their purchases from the Government.
  - Residential property developers or mixed developers and businesses in the financial services sector, as these businesses are partially exempt and are likely not able to claim in full the GST incurred on their purchases.
  - Charities and non-profit organizations engaged mostly in non-business activities, due also to the inability to fully recover the GST incurred on their purchases.
- As the GST increase is only expected sometime during 2021 to 2025, businesses will have sufficient time to prepare for the GST increase including addressing their accounting system and procedure changes, transitional issues and communication strategy. New supplies and purchase contracts that will straddle into 2021 and beyond should take into consideration the GST increase. The action plan should also include training the relevant staff within the organization so that they understand the impact on the business, particularly during the transition period.
- Besides Utilities-Save and service and conservancy charges rebates, from the past GST increase, the offset package is expected to include top ups to Post-Secondary Education Accounts, property tax rebates, assistance for low income families with children and assistance for pensioners.
- Notwithstanding the proposed increase in GST, the Singapore GST rate remains low by comparison with VAT and GST rates elsewhere in the world.

GST on imported services

Current
Imported services provided by an overseas supplier, which does not have an establishment in Singapore, are currently not subject to GST.

Proposed
To ensure that the Singapore tax system remains fair and resilient in a digital economy, the Minister announced that with effect from 1 January 2020, GST will be imposed on imported services.

Business-to-Business imported services will be taxed via a reverse charge mechanism. Only businesses that: (i) make exempt supplies; or (ii) do not make any taxable supplies, need to apply a reverse charge. The reverse charge mechanism requires the local business customer to account for GST to the Inland Revenue Authority of Singapore (IRAS) on the services it imports. The local business customer can in turn claim the GST accounted for as its input tax, subject to the GST input tax recovery rules.

Business-to-Consumers (B2C) imported services, on the other hand, will take effect through an Overseas Vendor Registration (OVR) mode. This requires overseas suppliers and electronic marketplace operators, which make significant supplies of digital services to local consumers to register with the IRAS for GST. OVR will apply to overseas suppliers whose annual global turnover exceeds S$1 million and whose sale of digital services to consumers in Singapore exceeds S$100,000. Once GST-registered, they will collect GST for the IRAS on their B2C supplies of digital services.
Implications

• The introduction of GST on imported services is designed to ensure a level playing field between local and overseas suppliers. It is also in-line with increased calls for international co-ordination efforts in aligning GST treatment of cross-border services and intangibles with international practice and other tax administrations.

• The proposed implementation of the reverse charge mechanism will impact certain groups of businesses, primarily financial institutions, mixed and residential property developers and holding companies. For these impacted businesses, they will need to determine how the reverse charge mechanism will impact their key business processes and implement a strategy to ensure that they are ready to meet the challenges of this new requirement, effective 1 January 2020.

• For affected businesses, it is advisable that impact assessments be undertaken addressing both purchases from overseas third party vendors and related parties to establish what the resulting financial impact could be, understand what information is needed and the steps required to meet the future compliance obligations and understand non-IT system impacts such as vendor communications, contracting and pricing.

• From a financial services sector perspective, Singapore is a well-established financial center and many financial institutions have either their global or regional headquarters located in the country. The introduction of the reverse charge mechanism will carry with it an extra GST cost, both in terms of increased compliance and an increase in irrecoverable GST incurred.

• Like many countries, the OVR will most likely take the form of a simplified GST registration where overseas suppliers and electronic marketplace operators, when registered for GST, will charge and account for GST but not be entitled to claim any GST incurred. These overseas suppliers and electronic marketplace operators will most likely file a “pay only” GST return.

• Even with the introduction of simplified GST registration for overseas suppliers and electronic marketplace operators, enforcing the GST registration could be a challenge for the IRAS since these overseas suppliers and electronic marketplace operators are all established outside Singapore.

• Currently, there is a GST exemption for the import of low value goods (where the goods are imported by air or post and the value is below S$400). The proposed OVR at this moment does not affect e-commerce for low value goods as is still under review by the Government.

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