

# Rödl & Partner

## SINGAPORE NEWSFLASH

## THINKING GLOBALLY

Issue

February 2020

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## → GST on Imported and Digital Services

The Singapore GST regime was a tax on local consumption, i.e. a consumption tax levied on all services consumed in Singapore whether they are procured locally or overseas. With the evolving business environment, and to level the playing field for local and overseas suppliers, the Minister of Finance announced in the 2018 Budget that from 1 January 2020, GST will be applied on imported services based on the following regimes:

1. Reverse charge mechanism regime for Business-to-Business (“B2B”) supplies of imported services; and
2. Overseas vendor registration regime for Business-to-Consumer (“B2C”) supplies of imported digital services.

B2C supplies refers to supplies made to non-GST registered persons, including individuals and businesses that are not registered for GST. On the other hand, B2B supplies refer to supplies made to GST registered persons, including companies, partnerships, and sole-proprietors.

In this newsflash, we set out below the salient features of this new GST regime.

### B2B IMPORTED SERVICES

GST registered businesses that are either (1.) partially exempt business that is not entitled to full input tax credit; or (2.) charity or voluntary welfare organisation that receives non-business receipts, will be required to account for GST on the value of imported services as if it were the supplier, to the extent the imported services fall within the scope of reverse charge. These GST registered entities will be entitled to claim the corresponding GST as its input tax, subject to the normal input tax claiming rules.

A Reverse Charge business is:

- Taxable business that makes substantial exempt supplies such as interest from inter-company loans;
- Partially exempt businesses such as developers of mixed-use properties, banks and other financial institutions;

- Fully taxable businesses that do not make any exempt supplies but are GST group registered with partially exempt members;
- Charities and voluntary welfare organisations that receive outright grants, donations, and
- Sponsorships and provide free/subsidised services; and
- Investment-holding companies that derive dividend income.

Imported services that do not fall within the scope of the reverse charge mechanism are:

- Services that fall within the description of exempt supplies under the Fourth Schedule of the GST Act;
- Services that qualify for zero-rating under Section 21(3) of the GST Act had the services been made to them by a taxable person belonging in Singapore;
- 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; and
- Services that are directly attributable to taxable supplies.

For non-GST registered businesses, if the total value of their imported services for a 12 month period exceeds SGD1 million, such businesses may become liable for GST registration; and required to account for GST on both taxable supplies and imported services which are subject to reverse charge.

With the implementation of the reverse charge mechanism, the “directly benefit” condition in the zero-rating provision has been amended to allow zero-rating even if the services directly benefit a GST-registered person in Singapore.

For imported services that span 1 January 2020, there are transitional rule to determine whether and to what extent the transactions are subject to tax and when the tax has to be accounted for.

## B2C DIGITAL SERVICES

Overseas digital service providers and overseas electronic marketplace operators will be liable for GST registration in Singapore, i.e. Overseas Vendor Registration (“OVR”) if their annual global turnover exceeds SGD1 million; and they make B2C supplies of digital services to customers in Singapore exceeding SGD100,000. A GST registered overseas service provider will have the onus of determining if a customer is GST registered to charge GST correctly.

A GST registered business purchasing digital services from a GST registered overseas service provider under the OVR regime will need to provide its GST registration number to the provider so that GST will not be charged on business purchases of digital services.

Digital services are defined as any services supplied over the internet or other electronic network and the nature of which renders its supply essentially automated with minimal or no human intervention, and impossible without the use of information technology. These include the supplies of digital products, subscription-based media, software programs, electronic data management as well as support services to arrange or facilitate a transaction, which may not be digital in nature.

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## Imprint

Singapore News Flash, Issue February 2020

**Publisher:**  
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