Tax Alert

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Reverse Charge on imported services

With the amendments to the GST Act in December 2018 and the publishing of the IRAS e-Tax Guide on reverse charge, reverse charge (RC) will finally be implemented from 1 January 2020.

GST on Imported Services

The policy rationale of implementing RC is to level GST treatment for all services consumed in Singapore, through:

- **Reverse charge regime** for Business-to-Business (B2B) supplies of imported services; and
- **Overseas vendor registration regime** for Business-to-Consumer (B2C) supplies of imported digital services.

B2B *refers to supplies made to GST-registered persons.* ***B2C*** *supplies refer to supplies made to non-GST registered persons, which include individuals and businesses not registered for GST.*

Are you affected?

If you are not entitled to full input tax claims as is the case with banks, insurance and reinsurance companies, mixed developers, GST-registered charities and voluntary welfare organisations that receive non-business receipts (referred to as "GST-registered persons"), RC will apply.

You will need to register for GST and apply RC even if you are not currently registered for GST, to the extent that:

- you procure services from an overseas vendor where the value of these imported services exceeds S$1 million in a 12-month period, even if this is one-off; and
- you are unable to claim GST incurred in full if you were to procure such services from a GST-registered supplier.

Both of such businesses are collectively referred to as "RC businesses".

Must RC apply on all imported services?

No – Only imported services which would be standard-rated if supplied by a local GST-registered business and for the making of exempt supplies are subject to RC.

Specifically, these services are outside the scope of RC:

i. Exempt services such as financial services

ii. International services that qualify for zero-rating

iii. 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

iv. Services that are directly attributable to taxable supplies (not applicable to RC businesses that are prescribed a fixed or special input tax recovery formula unless otherwise allowed by the IRAS i.e. banks which opt for direct tracking)

Intra-GST group and inter-branch transactions

As head offices and its branches are regarded as single legal entity, any supply made between them are disregarded for GST purposes.

However, for the purposes of RC, inter-branch or intra-GST group businesses will be regarded as separate persons.

Thus, RC will apply on the following circumstances:

i. A local branch or head office procuring services from an overseas branch or head office;

ii. A local member of a GST group procuring services from an overseas member within the same GST group.

Value of inter-branch or intra-GST group transaction

Salaries, wages and interest costs* in inter-branch and intra-GST group transactions, including proportionate mark-ups in accordance with transfer pricing policy, will be excluded from the value of transaction under RC.

**To ease compliance, the RC business can seek the Comptroller's approval to use a proxy.*

Value of Supply

If the transaction is wholly in money, e.g. S$1,000 is paid to the overseas supplier, this amount will be the consideration and value of supply. GST to be accounted for will be 7% of the value of supply i.e. $70.

If the transaction is not in money or not wholly in money, Open Market Value (OMV) will be applied. GST to be accounted for will be 7% of the OMV.

Transactions straddling implementation date of 1 January 2020

A supply of imported services would be considered as "straddling 1 Jan 2020" if one or two of the following three events occur before 1 January 2020:

- Services performed;
- Invoice issued;
- Payment made.

A transaction straddling 1 January 2020 is subject to reverse charge, to the extent that the services are performed or the payment is made on or after 1 January 2020.

What's next

It is never too early to start thinking about how RC affects your business. As a guide, you should consider these steps:

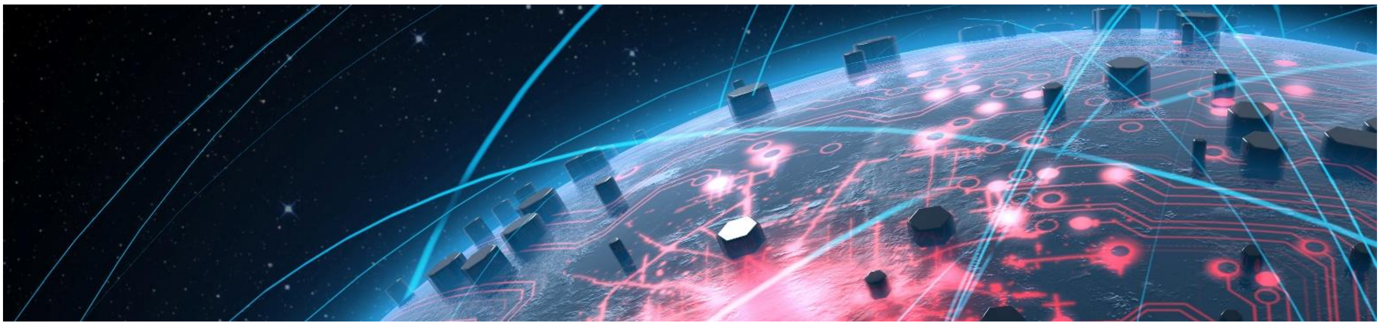
i. Identify manually or via software your overseas vendors or imported services where RC applies;

ii. Consider to automate or manually capture these imported services;

iii. Document this identification process including the reporting of imported services in the GST return;

iv. Test run this process to ensure that all imported services are captured, especially if there is more than one procurement channel;

v. Review after implementation to ensure completeness of reporting.



Automating the Process

If you have substantial imported services of which some could be outside the scope of RC, you should consider automating the process. This will require close collaboration between your IT, Tax and Finance.

Through the use of data analytics tools, you now have the opportunity to transform supply chain data into valuable insights. In order to use this to effectively streamline the process, you should consider the following steps:

i. Performance of a GST reverse charge impact assessment using user-friendly data visualisation tools to provide you with a clear overview of the impact on your business

ii. Assessment of your current ERP system setup and recommendations of best practice enhancements required to effectively manage these transactions

iii. Creation of visualisation to provide you with insight to effectively manage and report on your RC transactions on an ongoing basis

How we can help

KPMG has developed solutions that can assist with putting you proactively in control of your RC tax processes and reporting requirements.

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the RC to your business, particularly how your processes and controls would be affected and the steps you can take to ensure compliance.

Contact us

Tay Hong Beng
Head of Tax
T: +65 6213 2565
E: hongbengtay@kpmg.com.sg

Lam Kok Shang
Head of Indirect Tax
T: +65 6213 2596
E: kokshanglam@kpmg.com.sg

Gan Hwee Leng
Partner, Indirect Tax
T: +65 6213 2813
E: hweelenggan@kpmg.com.sg

KPMG
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581
T: +65 6213 3388
F: +65 6220 9419
E: tax@kpmg.com.sg

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