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Singapore Goods and Services Tax Guide

Goods and Services Tax (GST) is similar to Valued Added Tax (VAT) in other countries and is a relatively new form of tax in Singapore. GST was implemented on 1st April 1994 in Singapore. The Singapore GST Act is modelled on the UK VAT legislation and New Zealand GST legislation. The Inland Revenue Authority of Singapore (IRAS) acts as the agent of the Singapore government and administers, assesses, collects and enforces payment of GST.

The purpose of introducing GST to Singapore is to maintain a stable tax base while reducing personal and corporate income tax. GST is an indirect tax, expressed as a percentage (currently 9%) applied to the selling price of goods and services provided by GST registered business entities in Singapore.

This guideline provides an overview of the key concepts of Singapore's GST system: definition of GST, registration requirements, benefits and drawbacks of GST registration, filing GST returns, and schemes to aid businesses.

1. Goods and Services Tax (GST)

Also known as Value Added Tax (VAT) in many other countries, GST is a consumption tax that is levied on the supply of goods and services in Singapore and the import of goods into Singapore. GST is an indirect tax, expressed as a percentage (current 9%) applied to the selling price of goods and services provided by GST registered business entities in Singapore.

GST is charged to the end consumer therefore GST normally does not become a cost to the company. Companies merely act as collecting agents on behalf of Singapore tax department (Inland Revenue Authority of Singapore, IRAS) .

The GST registered companies are required to collect GST from customers for the goods and services rendered and pay GST collected

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to IRAS. For example, if you charged SGD100 for your services to a customer in Singapore, you must invoice your customer SGD109 (SGD100 for your service plus 9% GST). This GST amount invoiced collected on behalf of IRAS from the customer must subsequently be paid to the IRAS on a quarterly basis via GST filing.

2. Criteria for GST Registration

GST is a self-assessed tax and businesses are required to continually assess the need to be registered for GST. GST registration falls into two categories: compulsory registration and voluntary registration.

(1) Compulsory registration

Registering for GST is compulsory when

(a) the turnover of the business is more than SGD1 million for the past 12 months –known as the retrospective basis; or
(b) businesses are currently making sales and can reasonably expect the turnover will exceed SGD1 million for the next 12 months – known as the prospective basis. This includes if you have signed agreements/contracts which will bring you the revenue in the next 12 months of exceed SGD1 million.

Failure to register for GST in time may result in fines. For details, please refer to section 9 of this article.

(2) Voluntary registration

Companies may apply to voluntarily register for GST if you are not liable to compulsorily register depends on your business operations when:

(a) turnover less than SGD1 million; or
(b) business mainly sells goods (out-of-scope goods and services) outside Singapore; or
(c) business mainly provides exempt finance services which are recognized as international services.

The benefit of voluntary registration for GST is that businesses can apply for a refund for input tax, especially when the goods and services provided by businesses are zero-rated goods and services (export or international services), the benifits are more significant. Once the businesses are voluntarily registered for GST, they must remain registered for at least two years and have to comply with the GST regulations, filing the GST return on time on quarterly basis and maintain all records for at least five years, even after the business has ceased and have deregistered from

GST. They may also have to comply with any additional conditions that are imposed by the IRAS.

(3) Exemption from Registration

If the businesses make only zero-rated supplies, they can apply for an exemption from registration, even if the taxable turnover exceeds the registration limits. This allows businesses to escape from the administrative requirement of GST registration and subsequent quarterly GST filing. IRAS will approve the exemption, if more than 90% of total taxable supplies are zero-rated and if the input tax is greater than output tax.

(4) De-registration

Companies can cancel GST registration when:

(a) the company stops business; or
(b) the company is sold as a whole to another person; or
(c) when the sales figures do not exceed SGD1 million.

The company must submit an application form, along with other relevant documents to IRAS within 30 days from the date of cessation.

3. Benefits and Drawbacks of GST Registration

As stated above, a business is required to register for GST when its turnover exceeds SGD1 million. In other cases, it is a decision of the business whether to register GST or not. When deciding for registration, it is worth taking into consideration the pros and cons mentioned below.

(1) Benefits

(a) Most large, established businesses are GST registered – getting your business GST registered is often a signal to customers that your business is an established business and has certain size.
(b) GST is a fairer tax system. It taxes the self-employed and wage earners only when they spend their money.
(c) GST taxes apply only on consumption. Savings and investment are not taxed. This will encourage people to save and invest in productive activities.
(d) Cost of doing business is reduced, thereby contributing to lower prices. Businesses do not suffer a tax cost due to the multi-stage credit mechanism since the real taxpayer is the end-user.

(2) Drawbacks

(a) The disadvantage of GST registration is the administrative burden that comes with discharging the duties and responsibilities of GST registration.
(b) One must either study the intricacies of GST or pay an accountant to undertake this work which in some cases can be a reasonably high cost.
(c) Being GST registered effectively increases your selling price by 9%. Your customers who are not GST registered would not be able to recover the GST you charge. So, although your costs are reduced because you can recover GST, your customers might not be too pleased.
(d) GST can be a burden to lower income groups, especially during times of high inflation when the 9% tax is paid on the increasing price of daily essentials.

4. Goods and Services subject to GST

GST is charged on taxable supplies. A taxable supply is a supply of goods or services made in Singapore, other than an exempt supply. A taxable supply can either be a standard rated 9% or zero-rated supply.

Most local sales of goods and provision of local services in Singapore are standard-rated supplies.

Zero-rated supplies of goods and services are subject to 0% GST. Exports of goods and provision of international services are mainly zero-rated supplies. A GST registered entity who makes zero-rated supplies is able to claim the input tax paid on purchases.

GST is not chargeable on exempt supplies, of which there are two categories – sale and lease of residential land, and financial services. Input tax incurred in making exempt supplies is not claimable.

Out of scope supplies refers to supplies which are outside the scope of the GST Act. In general, they are:

(1) Transfer of business as a going concern
(2) Private transactions
(3) Third country sales – refers to sale of goods from a place outside Singapore to another place outside Singapore
(4) Sales made within Zero GST Warehouse

5. GST Registration Procedures

A Singapore Goods and Services registration form (GST F1) along with the necessary supporting documents must be sent to IRAS. An additional form (GST F3), giving details of all the partners must be completed, in the case of partnerships. Separate application procedures/forms are available for overseas companies, group registration and divisional registration. Overseas registrants are expected to appoint a local agent who will act on its behalf and must include a letter, along with the application form, stating the same.

The registration process takes approximately 3 weeks. Upon successful GST registration, the companies will receive a Notification of GST Registration letter. This letter will contain the GST number, the effective date when the business become GST registered business, filing frequency and filing due dates as well as any other special instructions. Companies must file your GST returns electronically.

6. Collection and Payment of GST

(1) As GST registered entities, the companies are responsible for charging GST on supply of goods and services and remitting the GST charged to IRAS.

(2) Companies can either charge GST on top of selling price or absorb the GST by treating the price as GST-inclusive.

(3) As a GST registered trader, the company must show and quote GST-inclusive prices on all prices displayed, advertised, published and quoted verbally or in writing. Failure to display GST-inclusive prices to the public is an offence and carries a penalty. However, for goods and services subject to service charge (F&B industry), prices displayed may be GST-exclusive.

(4) When billing customers, a tax invoice must be issued when the customer is a GST registered entity so that the latter can use it as a supporting document to claim input tax on the standard-rated purchases. It contains information on what is being sold and the respective GST charged and can be used to replace a normal invoice. Tax invoices must be retained for at least five years as part of the business records. Note that tax invoices are not required to be submitted along with your GST returns. In general, it is to be issued within 30 days of the time of supply. A tax invoice need not be issued for zero-rated, exempt and deemed supplies or to non-GST registered customer.

(5) When payment has been received, the company must issue a serially printed receipt to the payer if a tax invoice or simplified tax invoice has not been issued.

(6) Companies must keep records of all business transactions that affect GST declarations. Additionally, keeping of a GST account (summary of the totals of input tax and output tax for each accounting period) will facilitate the completion of GST returns.

(7) You should make your input tax claims in the accounting period according to the date of the tax invoice or import permits.

7. Filing of GST Returns

As a GST registered entity, you are required to submit a return, (GST F5) to the tax authorities based on your accounting cycle, normally on a quarterly basis. In your return, you will indicate the total value of your local sales, exports and purchases from GST registered entities, the GST collected, and GST claimed for that accounting period. GST Returns are now filed electronically. Once you have started to e-file your GST F5, your next GST return will be made available online by the end of each accounting period. You can e-file your GST F5 one day after the end of the accounting period. You must ensure that IRAS receives your return not later than one month after the end of your prescribed accounting period. If there is no tax due for the said period, you must still submit a 'nil' return. Penalties will be imposed if you file the GST return late. This is regardless of whether the net GST declared is a payable or refundable amount.

You must pay the net GST within 1 month after the end of your prescribed accounting period. Penalties will be imposed if you are late in making the GST payment. GST refunds will usually be made within 30 days from the date of receipt of the return.

8. GST Assistance Schemes for Businesses

The Singapore Government has introduced several assistance schemes relating to GST. These schemes generally help to ease the cash flow for businesses and help create a pro-business environment.

(1) Tourist Refund Scheme
Tourist Refund Scheme allows tourists who buy goods in Singapore from participating GST registered retailers to claim a refund of the GST paid if the goods are brought out of Singapore

(2) Cash Accounting Scheme
The Cash Accounting Scheme is specifically designed for small businesses whose annual sales do not exceed SGD1 million.

(3) Gross Margin Scheme
Under this scheme, the GST will be chargeable on the gross margin (the selling price – purchase price) and not on the full value of the goods.

(4) Major Exporter Scheme (MES)
According to the scheme, the businesses do not have to pay GST at the time when goods are imported. This implies that MES approved businesses can import non-dutiable goods without having to pay the tax amount to Singapore Customs.

The Hand Carried Exports Scheme is if you wish to zero-rate your supply of goods made to an overseas customer and your goods are hand-carried out of Singapore via Changi International Airport.

(6) Zero GST Warehouse Scheme
The Singapore Customs is responsible for the administration of this scheme. According to the scheme, the approved business can store the non-dutiable overseas goods in the ZG Warehouse, without having to pay GST on such goods. The GST is payable only when the goods that the business imports are removed from the warehouse for local consumption.

(7) Approved Third Party Logistics Scheme
Approved Third Party Logistics Scheme, allows you to import goods belonging to yourself or your overseas principal without paying GST upon importation.

(8) Discounted Sale Price Scheme
The Scheme allows you to charge GST on 50% of the selling price when you sell a second-hand/used vehicle.

(9) Import GST Deferment Scheme (IGDS)
This scheme allows you to pay GST on imports when your monthly GST returns are due instead of at the point of importation.

Apart from the above general scheme, there are also a range of other schemes specific to industry and you can find more information via Singapore tax department.

9. Penalties

(1) Late Registration

As stated above, when the turnover of a business reaches the threshold set by GST Act, the business should apply for GST registration and then collect and pay GST to IRAS on the goods and services it provides. In any case when a business does not register for GST when it is required to do so, there are serious consequences for such late registration:

(a) the date of registration will be backdated to the date that you were liable to be registered.

(b) it will have to account for and pay GST on your past sales starting from the effective date of registration, even if you did not collect any GST from your customers.

(c) it may face a fine of up to SGD10,000 and a penalty equal to 10% of the GST due. Prosecution action may apply.

If you submit an application for GST registration and voluntarily disclose that you are late in registration, we will generally waive the late notification fine and penalties.

(2) Late Filing and Payment of GST

All GST-registered businesses must file their GST returns and pay the GST due (if any) within one month after the end of the accounting period covered by the GST return. IRAS takes action against businesses that do not file their GST returns on time or fail to file altogether. A 'Nil' GST return must be filed even if there was no business activity during the accounting period.

Severe penalties apply when GST regulations are violated. For example:

(a) If the business fails to pay the GST amount within one month from the end of the accounting period, the amount of penalty is equal to 5% in case of late payment. The tax authority then issues a demand notice for the payment. If, after 60 days from the date of the demand note, the tax amount still remains unpaid; the business will have to bear an additional penalty of 2%. The additional penalty can in no case exceed 50%.

(b) On failure of filing the return, IRAS issues a "Notice of Assessment" with an estimated tax. The amount of penalty is 5% on the estimated tax. For late submission, IRAS imposes a penalty of SGD200 for every month of non-submission of the return. The maximum penalty in such cases is SGD10,000.

(c) If the tax or penalty has not been paid by the due date on the Demand Note, the IRAS may, without prior notice, take action to recover the overdue tax, for example:
   (i) appoint your bank, employer, tenant or lawyer as agent to pay the money to IRAS.
   (ii) issue a travel restriction order to stop you from leaving Singapore; and/or
   (iii) take legal action.

In addition to the above, IRAS may impose an additional penalty of 2% on the overdue tax for each month that the tax remains unpaid.

KAIZEN Group is equipped with experienced and highly qualified professional consultants and is therefore well positioned to provide professional advices and services in respect of the formation and registration of company, application for various business licences and permits, company compliance, tax planning, audit and accounting in China. Please call and talk to our professional consultants for details.

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