SHOULD YOU REGISTER YOUR BUSINESS FOR GOODS AND SERVICES TAX?

A DISCUSSION ON WHETHER IT IS BENEFICIAL FOR BUSINESSES WITH TURNOVER OF BELOW S$1 MILLION TO VOLUNTARILY REGISTER FOR GST.

About Goods and Services Tax (GST) in Singapore

Goods and Services Tax (commonly known as Value-Added Tax in other countries) is a pass-through tax by nature unlike a Sales Tax where the tax liability levied on purchases represents the final tax to the purchasers. Technically, GST paid by GST registered companies to their vendors (input tax) are not costs to them as the taxes would offset against the GST they have collected from their customers (output). Hence, a GST-registered company is effectively a tax collecting agent of the tax authority in the supply chain of products and services. It is the end consumers who have the bear the cost burden of GST.

While the principles of GST/VAT are the same in the various tax jurisdictions, there are differences in the application. For example, certain basic necessities are exempted from VAT in certain European countries. In Indonesia, a company is required to self-impose VAT on goods and services received from a foreign company.

In Singapore, GST registration is mandatory for businesses whose annual turnover exceeds S$1 mil. Businesses with annual turnover of less than S$1 mil may register for GST voluntarily. For GST registered businesses, there are many concepts and fine details of GST which business owners and their in-house finance team need to be familiar with such as differences between the various types of supplies (standard-rated supplies, zero-rated supplies, exempt supplies and out of scope supplies), expenditures specifically disallowed for GST claim, staff benefits such as gifts and medical expenses, bad debt reliefs, Major Exporter Scheme, just to name few examples.

Administratively, there are also specific requirements with respect to GST reporting and filing, price display, invoicing, foreign currency transactions and record-keeping.

Current GST rate and trend

The current GST rate in Singapore is 7%, levied on the import of goods as well as nearly all supplies of goods and services in Singapore. The only exemptions are for the sale and lease of residential properties, the import and local supply of investment precious metals and the provision of most financial services. Export of goods and international services are zero-rated.

The last revision in the GST rate for standard supplies was in July 2007 when the rate was raised from 5% to 7%. The Government has in 2011 indicated that for at least 5 years, there is no reason to raise the GST rate. However, during the 2013 National Day Rally speech when Prime Minister Lee Hsien Loong announced the slew of healthcare, housing and infrastructure initiatives, he cautioned that “all good things must be paid for”, either by raising taxes or cutting other spending so that future generations will not be laden with debts.

The Government is unlikely to raise income tax to fund the higher social spending as doing so could risk damaging Singapore’s appeal for businesses and investors. For years, Singapore has been cutting income-related taxes to move towards a more consumption–based tax system. The current GST rate of 7% is still relatively low in the region. Hence, the government is more likely to raise GST than income related taxes if it needs to raise revenue to fund the social spending.

In our opinion, the GST could potentially be raised up to 10% which is still among the lowest in the world (see comparison chart of GST/VAT rates of selected countries below). Singapore could also introduce multi-layer GST rates system where basic necessities are taxed at a lower rate or even exempted from GST.

Should you register your business for GST voluntarily?

The sole motivation why a business below S$1 mil in annual turnover may consider registration for GST is the ability to claim the GST incurred on its purchases. However, as a GST registered business, you are also required to levy GST on all your sales which may impact your price competitiveness, particularly if the GST on your invoices cannot be claimed by your customers. There are also responsibilities and other administrative issues to consider before you make the decision. It is important to note that a voluntarily GST registered business needs to remain registered for at least 2 years.

Factors to consider:

1. *Profiles of your suppliers* – What is the amount of tax saving expected? If the bulk of your business costs are from the purchases of goods and services from non-registered personnel / companies and/or foreign companies i.e. imports and international services, the quantum of your input tax that can be saved may not justify the cost of registering your business for GST.

2. *Profile of your customers* – If your customers are mostly not GST registered such as small companies with less than S$1 mil turnover, the GST on your invoice represents an effective increase in your price and you may lose price competitiveness. Conversely, if you export goods or provide services to overseas customers, your services are likely to be zero-rated i.e. GST at 0%, in which case you may benefit from GST registration because you will be able to claim the GST incurred on your local purchases.

3. *Administrative cost and burden* – As a GST collecting agent of the government, there are responsibilities that you need to fulfill :–

    a. E-file accurate GST returns and pay net GST payable to IRAS in a timely manner.
    b. Keep business and accounting records for 5 years
    c. Change of price displays and invoices
    d. Assist in GST audit

Fulfilling with these responsibilities may increase your administrative costs. The following operational areas must be addressed to get oneself ready administratively:-

1. *ERP/Accounting system* – It is strongly recommended that the ERP/Accounting system has the capability to record and report all GST input/output taxes and other sales information required for GST filing. Tracking and reporting these information manually are tedious and time consuming and can be error-prone. You may need to incur cost to replace or upgrade your existing ERP/Accounting system.

2. *Staff knowledge of GST* – Getting your system ready for GST is only the first step. The preparer of GST filings and personnel responsible for GST compliance need to be knowledgeable about the various aspects of GST and to ensure GST are properly accounted for in the system. It is advisable to re-train your responsible employees regularly so that they are up-to-date on the latest GST regulations.

3. *Price displays, tax invoices and receipts* – Any price displays, advertisements, publications or quotations in respect of goods and services made to the public must be inclusive of

GST. In addition, GST registration number is required to be printed on all tax invoices and receipts.

Useful reference - Comparison of GST/VAT rates by country as at 1 January 2013