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Singapore Extends Goods and Services Tax to Low-Value Goods

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Since the introduction of goods and services tax on April 1, 1994, GST relief has been granted on the import of all goods—excluding intoxicating liquors and tobacco—by post or by air to a total value not exceeding S$400 ($295). This was in line with other jurisdictions that have a GST or value-added tax system, where a similar exemption was made available as the administrative costs to collect GST or VAT on such goods likely outweighed the amount of GST or VAT collected.

However, given the rise in e-commerce and cross-border transactions, there has been significant growth in the value of low-value imports where GST or VAT is not collected (if such relief or exemption is available). This results in increased revenue loss and potential competitive distortions between local and overseas suppliers.

Singapore is no exception to this growth and trend. As then Deputy Prime Minister and Minister of Finance Heng Swee Keat noted in his Budget 2021 speech, Singapore was to extend GST to LVG with effect from Jan. 1, 2023 in order to "ensure a level playing field for local businesses" so that "overseas suppliers of goods. . .will be subject to the same GST treatment as local suppliers."

Just as providing GST relief was generally in line with other jurisdictions, the extension of GST to LVG is likewise consistent with developments in other jurisdictions such as Australia, New Zealand, and the EU, which have implemented the equivalent of GST on such imported low-value goods or consignments.

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Overview of Key GST Provisions

In general, low-value goods refers to goods which, at the point of sale:

- Are not dutiable goods (or where certain waiver of duties apply);
- Are not an exempt supply;
- Are located outside Singapore's customs territory;
- Each item of the goods has an entry value that does not exceed the prescribed entry value threshold of S$400 (or such amount as the minister may prescribe in substitution); and
- Are to be delivered in Singapore's customs territory by postal service or importation by air.

The way in which GST is administered or collected for the supply of LVG will depend on the GST registration status of the customer in Singapore.

If a supply of LVG is made to a GST-registered person in Singapore who isn't entitled to full input tax credit, the GST-registered customer will need to assess reverse charge liability for the imported LVG. In other words, the obligation to charge and account for GST on the imported LVG lies with the GST-registered customer (if reverse charge is applicable) regardless of whether the supplier is overseas or local, and irrespective of such supplier's GST registration status.

If the customer isn't GST-registered, the obligation to charge and account for GST on the supply of LVG may fall on one of the following persons:

- The supplier making the direct supply of LVG to the customers;
- The electronic marketplace operator that provides the medium for the supplier to make available the supply of LVG to the customers; or

- The redeliverer, for example, a person who delivers, or arranges or assists in the delivery of, LVG into Singapore by providing, or arranging or assisting in, the use of an address outside Singapore.

The suppliers, electronic marketplace operators, and redeliverers should determine their GST-registration liability, as this affects whether they must charge and account for GST on the supply of LVG to non-GST registered customers.

Local suppliers, electronic marketplace operators, and redeliverers must register for GST if they meet the threshold for mandatory GST registration under the standard regime:

- The total value of the person's (i) taxable supplies made in Singapore, and (ii) specific taxable supplies under the Seventh Schedule of the Singapore GST Act (which includes the supply of LVG made to non-GST registered customers) has exceeded S$1 million in a calendar year (retrospective basis); or
- The total value of the person's (i) taxable supplies made in Singapore, and (ii) specific taxable supplies under the Seventh Schedule of the Singapore GST Act (which includes the supply of LVG made to non-GST registered customers) will exceed S$1 million in the next 12 months (prospective basis).

Overseas suppliers, electronic marketplace operators, and redeliverers must register for GST if they meet the threshold for mandatory GST registration under the overseas vendor registration regime:

- The person's (i) global turnover has exceeded S$1 million, and (ii) total value of Seventh Schedule supplies (which includes the supply of LVG made to non-GST registered customers) has exceeded S$100,000 in a calendar year (retrospective basis); or
- The person's (i) global turnover will exceed S$1 million, and (ii) total value of Seventh Schedule supplies (which includes the supply of LVG made to non-GST registered customers) will exceed S$100,000 in the next 12 months (prospective basis).

Planning Points

The new GST rules on LVG may affect a wide range of businesses that sell, or act as intermediaries to facilitate the sale of, goods delivered from overseas to Singapore. In particular, non-GST registered businesses, both local and overseas, should consider whether they meet the thresholds for mandatory GST registration.

With 2023 already here, businesses must be prepared to be compliant with the LVG rules. The key considerations are set out below.

Determining the GST registration status of customer. Businesses should identify whether their customers are GST-registered in Singapore, as this affects who is responsible for accounting for GST on the supply of LVG. It is crucial to implement systems to collect the GST information of the customer, such as requesting the applicable GST registration number of the customer for each sale.

Characterizing the business transaction. It is not uncommon for businesses to have various contractual and operating models for different transactions within the same entity. For example, a business may be a direct supplier for the sale of product A and an electronic marketplace operator for the sale of product B. Therefore, businesses should examine their contracts and business operations in relation to the various supplies of LVG to customers to determine if they are regarded as direct suppliers, electronic marketplace operators, or redeliverers.

This is important because under specific circumstances, an electronic marketplace operator or redeliverer will be treated as the supplier of the LVG and therefore responsible for the GST on the supply of LVG to customers, instead of the underlying supplier. In other words, the electronic marketplace operator or redeliverer (not the underlying supplier) should include the supplies of LVG made to customers through the electronic marketplace or redeliverer in computing its GST registration liability.

Determining the entry value. There are prescribed legislative provisions on how the entry value of S$400 for each good is to be computed. For example, for the purpose of the overseas vendor registration regime, the entry value generally is the LVG's selling price, excluding any transport and insurance charges, GST, customs duty, and excise duty. Businesses should establish proper internal processes to accurately determine the entry value of the goods—this will ensure that they correctly assess whether the LVG rules apply.

The entry value is, however, not the value of the supply of the LVG (i.e., import value) on which GST is to be accounted. Generally, the import value comprises the cost, insurance and freight value, any customs duties payable, commission, and other incidental charges. This means that businesses will have to contend with two different sets of values. To ease compliance, businesses may elect to use the import value of the goods to determine their entry value.

Multiple goods shipped as a single consignment. In general, the entry value threshold applies individually to each item of goods supplied. In other words, even if the goods are bundled in a single shipment, the goods are to be valued separately and treated as individual items.

As an exception, a GST-registered business may elect to apply the entry value threshold on a per-consignment basis instead, subject to prescribed conditions—for example, having full oversight of the supply and logistics chain. Businesses should consider making the election, especially if it would help to ease the administrative burden in determining the individual entry value of each item.

Transitional rules. Businesses should be aware that there are transitional rules that may affect the supply of LVG that straddle the implementation date of Jan. 1, 2023. For example, if the overseas supplier's invoice was issued before Jan. 1, 2023 and the goods are made available to the customer and payment is received on or after Jan. 1, the supply of LVG is subject to GST on the lower of the payment received or value of the goods provided.

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