Resource Guide

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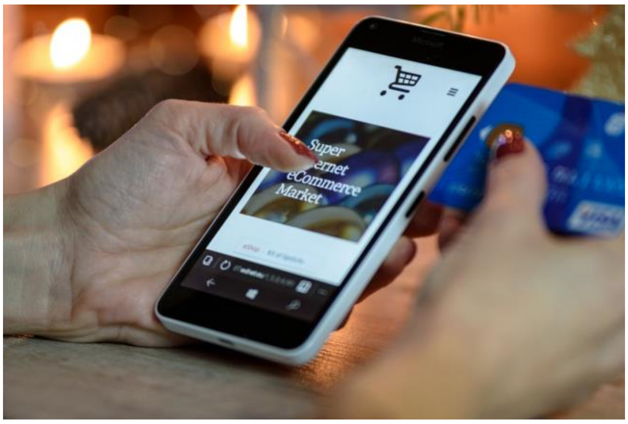
GST for eCommerce

5 January 2018



Introduction

Tax authorities around the world are increasingly levying value-added taxes (VAT) or goods and services taxes (GST) on the e-commerce sector. A host of nations have already implemented VAT or GST on foreign e-commerce sales occurring within their local jurisdictions, including Russia, Japan, South Korea, New Zealand and South Africa. The new rules are designed to level the playing field between international and domestic operators in this space, while at the same time capturing tax revenues. Going forward, Singapore is also considering what other countries are doing in this area. Online taxation is considered to be not only inevitable, but highly desirable as well, as Singapore might miss out on significant tax revenue due to the sheer volume of people buying things online from overseas.

While the fast-growing e-commerce sector could be a lucrative source of future tax revenue, there are many challenges governments around the world have to address, including the difficulty of enforcing the tax regime and collection. This resource guide looks at the VAT and GST systems in other countries; the issues and debates surrounding Singapore's intention to levy taxes on the e-commerce sector; and the potential challenges of this taxation system.

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General

VAT changes continue to hit global e-commerce providers

This article highlights that tax authorities in countries around the world continue to change value-added tax (VAT) or goods and services tax (GST) rules to try and capture revenues from the e-commerce sector. The new rules are designed to level the playing field between international and domestic operators in this space while "unlocking a gold mine of tax revenue." The indirect tax-rule changes in Australia and Taiwan, along with the European Union's continued review of indirect taxation, are said to be part of an ongoing global trend to levy VAT for supplies in the B2C e-commerce sector based on the location of consumers rather than vendors. These efforts also seek to address how to best enforce new rules and how to hold non-compliant vendors accountable. A host of nations have already implemented VAT or GST on foreign e-commerce sales occurring within their local jurisdictions, including Russia, Japan, South Korea, New Zealand and South Africa.

Hart, N. (2017, July 2017). VAT changes continue to hit global e-commerce providers. *Radius Worldwide*. Retrieved December 19, 2017, from https://www.radiusworldwide.com/blog/2017/6/vat-changes-continue-hit-global-e-commerce-providers

New tax rules to support e-commerce and online businesses

The European Commission proposes to improve the value added tax (VAT) environment for e-commerce businesses in the EU. These proposals will allow consumers and companies, in particular start-ups and SMEs, to buy and sell goods and services more easily online. By introducing an EU-wide portal for online VAT payments or the "One Stop Shop", VAT compliance expenses are expected to be significantly reduced, saving businesses across the EU €2.3 billion a year. The new rules will also ensure that VAT is paid in the Member State of the final consumer, leading to a fairer distribution of tax revenues amongst EU countries. The proposed new rules will allow companies that sell goods online to deal easily with all their EU VAT obligations in one place and simplify VAT rules for startups and micro-businesses selling online.

New tax rules to support e-commerce and online businesses. (2016, December 1). *European Commission*. Retrieved December 19, 2017, from http://europa.eu/rapid/press-release_AC-16-4289_en.htm

China launches new tax policies for cross-border e-commerce retail imports

China's State Administration of Taxation, the Ministry of Finance and the General Administration of Customs released the "Circular on Tax Policies for Cross-border E-commerce Retail Imports" on 24 March 2016. The Circular stated that commodities imported through the cross-border e-commerce retail should follow the requirements on imported goods and be levied import duties, import value-added tax (VAT) and import consumption tax. The value of imported commodities was also set to the limit of RMB 2,000 per single transaction and limit of RMB 20,000 per individual per annum.

China launches new tax policies for cross-border e-commerce retail imports. (2016, April 4). *King & Wood Mallesons*. Retrieved December 19, 2017, from http://www.kwm.com/en/cn/knowledge/insights/china-launches-new-tax-olicies-for-cross-border-e-commerce-retail-imports-20160414

Singapore

GST guide for ecommerce

This guide explains the Goods and Services Tax (GST) principles relevant to the e-commerce industry in Singapore and assists the reader in understanding how GST should be charged on electronic commerce transactions of physical goods, digitised goods and services. It states that if persons or businesses are supplying goods or services in Singapore via the Internet or any other electronic media, they are accountable for the collection of GST as in traditional commerce. This also applies notwithstanding that the transactions are effected through a third party e-commerce service provider. In general, the medium through which the transaction occurs does not alter the taxability of the transaction. All physical goods supplied over the Internet attract GST if the supplier is a GST-registered person and the supply is made in Singapore. For services or digitised goods supplied over the Internet, customers must be charged seven percent GST unless the services are zero-rated under the GST Act.

GST guide for ecommerce. (2015, Mar 11). *Inland Revenue Authority of Singapore.* Retrieved December 19, 2017, from https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/etaxguide_GST_GST%20Guide%20for%20e-Commerce.pdf

Taxing e-commerce players a potential minefield: Experts

While the fast-growing e-commerce sector could be a lucrative source of future tax revenue, experts point out the many challenges governments around the world have to grapple with, including the difficulty of enforcing the tax regime and collection. Among other things, transactions can be difficult to track and there could be loopholes when consumers use package-forwarding services which allow them to use addresses in another country when making purchases. The very nature of e-commerce, with no physical boundaries or presence, also makes enforcing tax rules a potential minefield.

Tan, W. (2017, November 21). Taxing e-commerce players a potential minefield: Experts. *Today Online*. Retrieved December 19, 2017, from http://www.todayonline.com/singapore/taxing-e-commerce-players-potential-minefield-experts

Government looks into levying 'Netflix tax' on digital buys

This article reports that the Singapore Government is looking to collect Goods and Services Tax (GST), currently at seven percent, from digital transactions. This could mean that consumers will have to pay GST on lower-value goods and for e-services such as downloading books, music or videos. At the moment, GST is levied only if goods bought from overseas are worth more than S$400, and no GST is levied on services. The days of buying much cheaper goods online may be a thing of the past. Generally speaking, all goods imported into Singapore are subject to GST, except for non-dutiable goods imported by post and worth below S$400.

Siow, L. S. (2017, February 21). Government looks into levying 'Netflix tax' on digital buys. *The Business Times*. Retrieved December 19, 2017, from http://www.businesstimes.com.sg/government-economy/singapore-budget-2017/govt-looks-into-levying-netflix-tax-on-digital-buys

The dawn of taxation in the digital economy

This article reports that there is a growing concern for Singapore as not only is there a leakage in GST revenue, it has also created an uneven level playing field between domestic GST-registered suppliers and overseas suppliers who are not registered for GST. Countries such as Japan, Korea, Australia and New Zealand have already implemented taxation for the digital economy. In an advanced economy like Singapore, the amount of tax to be collected from the digital economy could be significant. For instance, if the entire 5.6 million Singapore population spent S$100 annually on imported digital services and low-value goods, this would result in an additional annual GST revenue of approximately S$39 million. This increase in tax revenue could also provide a potential boost for local retailers, as buyers move their spending back to the domestic economy because there is no longer as great a financial incentive to buy from overseas.

Mackender, R., & Koh, D. (2016, December 20). The dawn of taxation in the digital economy. *Deloitte Singapore*. Retrieved December 19, 2017, from https://www2.deloitte.com/sg/en/pages/tax/articles/the-dawn-of-taxation-in-the-digital-economy.html

The tricky business of imposing an eCommerce tax in Singapore

Tax experts opine that an online tax is not only inevitable, but should be highly desirable as well, as Singapore might miss out on significant tax revenue due to the sheer volume of people buying things online from overseas. Sixty percent of e-commerce sales in 2015 in Singapore is reported to be cross-border purchases. Applying GST to online services from overseas and lowering or eliminating the S$400 limit of GST exemption would likely lead to increased prices for consumers in Singapore as well. Experts however, feel that it would not dent ecommerce sales in the country, and it would not discourage new ecommerce startups from forming.

Tegos, M. (2016, March 18). The tricky business of imposing an eCommerce tax in Singapore. *Tech in Asia.* Retrieved December 19, 2017, from
https://www.techinasia.com/singapore-gst-ecommerce-digital-goods

E-commerce could be an area for Singapore to diversify tax base

Senior Minister of State (Finance and Law) Ms Indranee Rajah is quoted as saying that e-commerce is one area that would allow Singapore to further diversify its tax base. "You can imagine, 20 years from now, the way people purchase is very different and by that time, online platforms will be mainstays, so if that's not part of the tax regime, there's going to be a lot of holes there," she said. According to Ms Rajah, Singapore's tax regime was backed by the principles of diverse revenue sources and a progressive system based on income and economic growth. Her comments came after Prime Minister Lee Hsien Loong signaled in November 2017 that Singapore needed to prepare for tax increases as the Government's spending had been increasing and would rise further.

E-commerce could be an area for Singapore to diversify tax base. (2017, November 23). *Gov.Sg.* Retrieved December 19, 2017, from
https://www.gov.sg/news/content/channel-newsasia---e-commerce-could-be-an-area-for-singapore-to-diversify-tax-base

GST on your next online purchase

This article highlights that over the years, the Singapore Government has been shifting its reliance from direct tax to indirect tax and with that, GST is now the second largest contributor to the country's tax revenue, notwithstanding existing GST leakages in the digital economy. As more consumers shop online, these leakages will increase. Not imposing GST on online purchases has spared taxpayers and businesses compliance costs, which is much welcomed. However, there is a "missed opportunity" to generate additional GST revenue. Going forward, Singapore could consider what other countries are doing in this area. For instance, Norway was perhaps amongst the first to implement new rules to tax the digital economy in July 2011. Similar actions were taken by the European Union (EU), South Korea, Japan and New Zealand after that.

Kor, B. K., & Yeo, K. E. (2017). GST on your next online purchase. *Ernst & Young.* Retrieved December 19, 2017, from
http://www.ey.com/sg/en/services/tax/ey-you-and-the-taxman-issue-2-2017-gst-on-your-next-online-purchase