INLAND REVENUE AUTHORITY OF SINGAPORE

IRAS e-Tax Guide (Draft)

GST: Customer Accounting for Prescribed Goods

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Preface

This draft guide explains the application and operational details of customer accounting for mobile phone, memory card and off-the-shelf software ("prescribed goods").

Under the current GST rules, as a GST-registered supplier, you will charge and account for GST (output tax) on your local sales of goods (unless they are exempted from GST). As a GST-registered customer, you will claim the GST paid on your local purchases and imports as input tax credit if you satisfy the input tax claim conditions.

From 1 Jan 2018, customer accounting will be implemented to better address non-compliance relating to transactions of the prescribed goods. The responsibility for accounting for output tax on the sales of the prescribed goods will shift from the GST-registered supplier to the GST-registered customer.

As a GST-registered supplier, you must apply customer accounting on your local sale of these goods made to a GST-registered customer if the GST-exclusive value of your sale exceeds $5,000. Under customer accounting, your GST-registered customer will account for the output tax on your behalf. If he satisfies the input tax claim conditions, he will also claim the corresponding input tax in his GST return.

IRAS is seeking feedback from GST-registered businesses dealing in prescribed goods on the implementation of customer accounting, so as to facilitate a smooth transition into customer accounting come 1 Jan 2018.

Electronic submission is encouraged. Your submission should include your name, the organization you represent, your email and telephone number. Please submit your written comments in relation to this draft guide per the template in Annex A by <u>2 Jun 2017</u> to:

Goods & Services Tax Division
Inland Revenue Authority of Singapore
55 Newton Road
Singapore 307987

Or email to: gstfeedback@iras.gov.sg

IRAS will provide a summary of responses to the feedback received on the draft guide by 31 Aug 2017.

In May 2017, the Ministry of Finance (MOF) will be conducting a Public Consultation on the legislative amendments for the implementation of customer accounting for the prescribed goods. You may view the public consultation document on MOF website at www.mof.gov.sg and submit your comments on the legislative amendments to MOF.

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1 Aim

1.1 This guide explains how customer accounting applies in the GST accounting for transactions in mobile phones, memory cards and off-the-shelf software ("prescribed goods").

1.2 You should read this guide if you are a GST-registered business and you purchase, import and/or sell the prescribed goods in Singapore.

2 At a glance

2.1 The sale of goods and services (excluding financial services, residential properties and investment precious metals) is a taxable supply subject to GST. In making a taxable supply of goods, you will charge and account for GST on the local sales as your output tax. You will also claim the GST paid on your local purchases and imports of goods as your input tax credit if you are able to satisfy the input tax claiming conditions.

2.2 To address non-compliance relating to prescribed goods, the Government has decided to implement customer accounting from 1 Jan 2018, by shifting the responsibility to account for output tax on the sales from the supplier to the customer. You are required to apply customer accounting on your local sale of prescribed goods made to a GST-registered customer if the value of your sale (excluding GST) exceeds $5,000. For the purpose of this guide, a local sale of prescribed goods that is subject to customer accounting will be referred to as a "relevant supply".

2.3 If you make a relevant supply, your GST-registered customer will account for the output tax on this supply on your behalf. You must issue a customer accounting tax invoice to your customer to show that you will not collect the GST chargeable on this supply and that your customer will account for it instead.

2.4 If you receive a relevant supply (i.e., you are the customer), you will account for the output GST chargeable on the purchase, on behalf of your supplier. You will also be able to claim input tax on this purchase if it is for your business use and for the making of your taxable supply.

3 Glossary

3.1 Prescribed Goods

3.1.1 Prescribed goods refer to mobile phones, memory cards and off-the-shelf software.

3.2 Mobile Phone

3.2.1 The definition of mobile phone takes its ordinary meaning. It is a device that has a function of transmitting and receiving spoken messages over a cellular network, whether or not it has any other function.

3.2.2 Examples of a prescribed mobile phone are:

- Smart phone
- Blackberry

3.2.3 The following are not examples of a prescribed mobile phone:

- Tablet
- Mobile phone accessories (e.g. cover case; battery; screen protector; charger)
- Walkie-talkie
- Telephone where the base unit is connected to a landline but the handset is not tethered to that base unit

3.3 Memory Card

3.3.1 A memory card is an electronic flash memory data storage device used for storing digital information.

3.3.2 Examples of a prescribed memory card are:

- CompactFlash
- Secure Digital "SD" card
- Memory Stick

3.3.3 The following are not examples of a prescribed memory card:

- Flash drive with integrated USB interface (e.g. thumb drive; flash drive)
- Portable external hard disk

3.4 Off-the-shelf Software

3.4.1 An off-the-shelf software is not customised and is distributed in the form of a compact disc or other similar storage medium.

3.4.2 Examples of a prescribed off-the-shelf software are:

- Standard accounting software
- Standard anti-virus software

3.4.3 The following are not examples of a prescribed off-the-shelf software:

- Customised software
- Software downloaded from the internet

3.5 <u>Relevant Supply</u>

3.5.1 A relevant supply refers to a local sale of prescribed goods that is subject to customer accounting.

4 Customer accounting for relevant supply of prescribed goods

4.1 From 1 Jan 2018, you are required to apply customer accounting on your local sale of prescribed goods made to a GST-registered customer for his business purpose if the GST-exclusive value of this sale exceeds $5,000[1] in a single invoice. The prescribed goods are:

(a) mobile phones;
(b) memory cards; and
(c) off-the-shelf software.

When making the above supply of goods to a non-GST-registered customer (e.g., an end consumer), the supply will continue to be standard-rated. If the goods are exported to an overseas customer, it will continue to be zero-rated if it satisfies the zero-rating conditions.

4.2 Customer accounting shifts the responsibility to account for GST on the sale of prescribed goods from the supplier to the customer. If you make a relevant supply, your GST-registered customer will account for the output tax on this supply on your behalf. If you receive a relevant supply, you will account for the GST chargeable on the purchase, on behalf of your supplier. You will also be able to claim input tax on this purchase if it is for your business use and the making of your taxable supply.

4.3 Customer accounting is not applicable if the supply of prescribed goods is:

(a) transferred or disposed of for no consideration; or
(b) made under the Gross Margin Scheme[2].

5 You are the GST-registered supplier making a relevant supply

5.1 For customer accounting to apply, your customer must be a GST-registered person purchasing the prescribed goods in the course of carrying on a business. You may check his registration status via the Register of GST-Registered Businesses on IRAS website at www.iras.gov.sg.

5.2 You will still need to issue a tax invoice when you make a relevant supply to your customer. Your tax invoice must contain the following details in addition to what is normally required to be prominently shown:

(a) Your customer's GST registration number; and
(b) A statement: "Sale made under customer accounting. Customer to account for GST of $X."
where $X refers to the amount of output tax due on the relevant supply for which your customer will account on your behalf.

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[1] Customer accounting will apply to the full sale value (including the first $5,000) if the GST-exclusive sale value exceeds $5,000.).
[2] Refer to IRAS website at www.iras.gov.sg for more information on the Gross Margin Scheme.

5.3 You should only collect the GST-exclusive price of the prescribed goods when you make a relevant supply. Your tax invoice should therefore not show a total price payable that includes GST for the relevant supply. If your sale includes other supplies which are standard-rated or zero-rated, you may want to consider issuing a separate tax invoice for the relevant supply to avoid confusion to your customer.

Sample of Tax Invoice

TAX INVOICE

ABC Pte Ltd
888 Jalan Ang Teng
Singapore 560009

GST Reg No: 209912345K

XYZ Pte Ltd
GST Reg No: 209954321M
(Customer's Address)

Date: 1/7/2018

Invoice No: F012345

Type of Supply: Cash / Credit Sale

S/No	Description	Qty	Unit Price ($)	Total ($)	Discount ($)	Total ($)
1	Camera	10	150	1500	150	1,350.00
2	Handphone #	20	300	6,000	600	5,400.00
	Total					6,750.00
	Add GST @ 7%					94.50
	Amount Due:					6,844.50
	# Sale made under customer accounting. Customer to account for GST of $378.00.					

GST Reporting

5.4 When you make a relevant supply, you are still required to report the GST-exclusive value of the prescribed goods sold in Box 1 “Total value of standard-rated supplies” of your GST return.

5.5 As you are not allowed to charge GST on a relevant supply, there is no output tax to be reported under Box 6 “Output tax due”.

6 You are a GST-registered customer receiving a relevant supply

6.1 You must provide your GST registration number to the GST-registered supplier when you purchase prescribed goods exceeding $5,000 (in GST-exclusive value) in the course of carrying on a business. If you purchase the prescribed goods for non-business purpose (e.g., hand phone for director’s personal use), you should let the supplier know, as customer accounting will not apply and he has to charge GST on the prescribed goods sold to you.

GST Reporting

6.2 When you receive a relevant supply, you are required to account for GST on behalf of your supplier. You will report the GST-exclusive price of the goods in Box 1 “Total value of standard-rated supplies” and the GST amount in Box 6 “Output tax due” of your GST return.

6.3 Since the relevant supply received is your business purchase, you will report the value of prescribed goods purchased in Box 5 “Total value of taxable purchases” of your GST return. You will also claim the GST as your input tax in Box 7 “Input tax and refunds claimed” of your GST return if you satisfy the input tax claiming conditions.

Example 1

A GST-registered supplier sells memory cards for $5,500 (excluding GST) to a GST-registered customer for the customer’s business purpose and delivers the goods in Singapore. The entries in their GST returns for this supply will be:

Supplier’s GST return	Customer’s GST return
• Box 1: $5,500 • Box 6: $0	• Box 1: $5,500 • Box 6: $385 • Box 5: $5,500 • Box 7: $385

6.4 If you are a partially exempt business, you will need to apportion your input tax and claim only the portion of input tax attributable to the making of your taxable supplies. You may wish to refer to IRAS e-Tax Guide “GST: Partial Exemption and Input Tax Recovery” for more information on input tax apportionment.

6.5 If your GST reporting is supported by an accounting software/system (off-the-shelf or customised), you are encouraged to engage your software vendor or developer early to understand if the software/system already caters for this new requirement or if tweaks are required.

7 Sales made during the transitional period

7.1 The normal time of supply rule applies when you make a relevant supply of prescribed goods. That is, the supply is treated as taking place at the earlier of the date of issue of tax invoice or receipt of consideration.

7.2 If your tax invoice is issued or the consideration is received before 1 Jan 2018, you will need to charge and account for GST (i.e., not to apply customer accounting) to the extent of the consideration shown on the tax invoice or the consideration received, even though the prescribed goods are delivered to the customer on/after 1 Jan 2018.

Example 2

A supplier sells mobile phones of $10,000 (excluding GST) to a GST-registered customer for his business use and delivers the goods on 15 Jan 2018.

The supplier received a deposit of $2,000 and the GST of $140 on 30 Dec 2017. The supplier issued a tax invoice for the deposit on 2 Jan 2018.

The customer paid the balance of $8,000 on the day of delivery. The supplier issued a tax invoice for the balance payment on 15 Jan 2018.

Prescribed accounting period 1 Oct 2017 to 31 Dec 2017

Supplier's GST return
- Box 1: $2,000
- Box 6: $140

Customer's GST return
- Box 5: $2,000
- Box 7: $140

Prescribed accounting period 1 Jan 2018 to 31 Mar 2018

Supplier's GST return
- Box 1: $8,000
- Box 6: $0

Customer's GST return
- Box 1: $8,000
- Box 6: $560
- Box 5: $8,000
- Box 7: $560

7.3 On the other hand, if the prescribed goods are delivered before 1 Jan 2018, but your tax invoice is issued and consideration is received on/after 1 Jan 2018, the entire sale will be subject to customer accounting if it is a relevant supply.

8 Common business scenarios

8.1 Sale of prescribed goods within the de minimis threshold of $5,000

8.1.1 Customer accounting is only applicable if your sale of the prescribed goods to a GST-registered customer for his business use exceeds the de minimis threshold of $5,000 in GST-exclusive value. If your sale of prescribed goods does not exceed $5,000, you cannot apply customer accounting. Instead, you should standard-rate and charge GST at the prevailing tax rate and issue the normal tax invoice to your customer for the sale. You will report this standard-rated supply in your GST return in the same manner as any other standard-rated supplies made by you.

8.2 Discounts given on your sales

8.2.1 If you offer an unconditional discount on the price of prescribed goods sold to your GST-registered customer, you should use the discounted GST-exclusive sale value to determine whether your supply exceeds the de minimis threshold of $5,000.

8.2.2 If there is contingent discount or delayed reduction in price, the pre-discount GST-exclusive value of the prescribed goods shown on the tax invoice should be used to determine whether your supply exceeds the de minimis threshold of $5,000.

8.2.3 Your supply of prescribed goods to the GST-registered customer will be subject to customer accounting if the discounted sale value in paragraph 8.2.1 or the pre-discount value shown on the tax invoice in paragraph 8.2.2 exceeds $5,000.

8.3 A single purchase order with multiple deliveries

8.3.1 You may receive from your GST-registered customer a single large purchase order for prescribed goods that requires you to make several deliveries to fulfil that order. If you issue only one tax invoice for all the deliveries made/to be made, you will use the total GST-exclusive value of the prescribed goods shown in the tax invoice to determine whether your supply exceeds the de minimis threshold of $5,000 and is therefore subject to customer accounting.

8.3.2 If your normal commercial practice is to issue one tax invoice for each delivery made, such that multiple tax invoices are issued in respect of a single large purchase order, you should determine if customer accounting applies based on the GST-exclusive value on each of the invoices. However, if you would like to apply customer accounting to all the invoices even though some/all will not exceed $5,000 individually, you can do so provided:
a) The GST-exclusive value of the prescribed goods in the single purchase order exceeds $5,000; and
b) Both you and your customer agree for customer accounting to apply in this manner.

8.4 Combined sales of prescribed and non-prescribed goods

8.4.1 When you make a sale comprising both prescribed and non-prescribed goods to a GST-registered customer, you need to determine whether the total GST-exclusive sale value of all the prescribed goods sold (whether or not they are of the same type/nature) exceeds $5,000. The sale value of non-prescribed goods should not be included in this computation. Upon exceeding the threshold, you should apply customer accounting to the sale of the prescribed goods only and not to the non-prescribed goods.

8.4.2 Accordingly, your customer must account on your behalf for the output tax on the supply of prescribed goods received from you. The sale value of the non-prescribed goods is subject to GST and you must charge and account for the output tax.

<u>Example 3</u>

A supplier sells the following goods to a GST-registered customer for his business use and delivers the goods in Singapore:

- Laptops – $10,000 (non-prescribed good)
- Mobile phones – $4,000 (prescribed good)
- Memory cards – $1,500 (prescribed good)
- Thumbdrives – $1,500 (non-prescribed good)

As the total GST-exclusive sale value of the prescribed goods is $5,500, customer accounting applies for this amount. The supplier will charge and account for output tax on the non-prescribed goods of $11,500 sold. The entries in their GST returns for this supply will be:

Supplier's GST return	Customer's GST return
• Box 1: $17,000 (i.e. $11,500 + $5,500) • Box 6: $805 (i.e. 7% of $11,500)	• Box 1: $5,500 • Box 6: $385 (i.e. 7% of $5,500) • Box 5: $17,000 • Box 7: $1,190 (i.e. 7% of 17,000)

8.5 Returned goods

8.5.1 Your customer may return faulty goods to you and ask for a reduction in your original sale value. Typically, you may issue a credit note to your customer for the value of the returned goods. If as a result of the returned goods, the GST-exclusive sale value of the prescribed goods is reduced to $5,000 or below, you should issue a credit note to cancel the original sale made under customer accounting and re-issue a tax invoice showing the revised sale value with GST charged (i.e., without applying customer accounting). You should also collect from your customer the GST chargeable on the revised sale value.

Example 4

A supplier sells memory cards at a total GST-exclusive price of $5,500 to a GST-registered customer for business purpose and delivers the goods in Singapore. The entries in their GST returns for this supply will be:

Supplier's GST return
- Box 1: $5,500
- Box 6: $0

Customer's GST return
- Box 1: $5,500
- Box 6: $385
- Box 5: $5,500
- Box 7: $385

Two weeks later, the customer returns $600 worth of faulty memory cards. The supplier issues a credit note to cancel the original sale of $5,500 and re-issues a tax invoice showing the revised value of sale ($4,900) with GST charged ($343).

Supplier's GST return
- Box 1: -$600
  (i.e. -$5,500+$4,900)
- Box 6: $343
  (i.e. 7% of $4,900)

Customer's GST return
- Box 1: -$5,500
- Box 6: -$385
- Box 5: -$600
  (i.e.-$5,500+$4,900)
- Box 7: -$42
  (i.e. -$385+$343)

9 Correcting mistakes

9.1 As a seller, you incorrectly standard-rated a relevant supply of prescribed goods

9.1.1 You are required to remit to the Comptroller any GST wrongly charged on your relevant supply of the prescribed goods, unless you have issued a credit note to cancel the standard-rated supply, refunded to the customer the GST wrongly charged, and issued a tax invoice with the necessary details indicating that the relevant supply has been made under customer accounting.

9.1.2 It is the responsibility of the GST-registered customer to account for the output tax on your behalf for the relevant supply. If he has omitted to do so in his GST return, he should rectify the omission immediately and recover from you the GST wrongly paid. The customer will be penalised for such omission in his GST return.

9.2 As a seller, you incorrectly applied customer accounting to a sale of prescribed goods to a non-GST registered customer, or a sale of non-prescribed goods

9.2.1 You are required to account for the output tax omitted on the sale, as it should be standard-rated. If you have omitted to do so in your GST return, you should rectify the omission immediately. This is no different from the omission of output tax in your GST reporting for any standard-rated supplies. You will be liable for penalty for any incorrect submission of GST return which resulted in an under-accounting of tax.

9.3 During the first year of implementing customer accounting, IRAS is prepared not to impose penalty on businesses if their mistakes do not result in a tax loss.

10 GST Registration

10.1 Under the GST law, a person whose annual value of taxable supplies has exceeded or is expected to exceed $1 mil is liable for GST registration. If the person is already registered for GST, he cannot be de-registered if the annual value of his taxable supplies continues to exceed $1 mil.

10.2 Notwithstanding that customer accounting shifts the responsibility to account for output tax from the supplier to the customer, and the customer is treated as if he is making the relevant supply of the prescribed goods, the value of such supplies should not be counted towards the annual taxable supplies for determining whether the customer is liable to remain registered.

11 Annex A – Template for Submission of Comments

Feedback on IRAS e-Tax Guide "GST: Customer Accounting for Prescribed Goods"

No.	Paragraph / Section of draft e-Tax Guide	Comments	Proposed alternative(s)

<u>Submitted by:</u>
Name of Company/Business: ______________________
Contact Person: ______________________
Telephone Number: ______________________
Email Address: ______________________