Impending GST hike – Belt-up and embrace the impact

February 2022

Implied in the Budget 2021 of the "sooner rather than later" approach, the two-point increase in Goods and Services Tax (GST) from 7 percent to 9 percent is inevitably nearing. Businesses and consumers should get ready for the impact. Even with the GST hike to 9 percent, Singapore's GST rate is still below the Asian average rate of 12 percent. Finance Minister Lawrence Wong is expected to deliver more details in his speech during the upcoming Budget 2022 on 18 February 2022.

Revisit GST for businesses

GST is levied on goods or services consumed domestically, including imports. Generally, GST-registered businesses can claim the GST expenses as input tax credits (with certain exceptions) in their GST returns. Hence, the GST hike would only result in tied up cash flow on the timing difference between the GST paid and claiming it. To alleviate cash flow, GST-registered businesses making significant inter-company transactions between related entities in Singapore could consider applying for GST group registration where the supplies made between the members of the same GST group are disregarded for GST purposes.

For GST-registered businesses substantially involved in import and export of goods could consider applying for GST schemes such as the Major Export Scheme (MES). Under this scheme, import GST is suspended upon the importation of non-dutiable goods into Singapore. Businesses that are not substantially involved in exports could consider applying for the Import GST Deferment Scheme (IGDS) to defer import GST payable for supplies made locally.

For non-GST registered businesses, the increase in GST is surely an added cost. To mitigate the impact of added business cost, non-GST registered businesses making taxable supplies in Singapore could consider voluntary GST registration even if there is no obligation to do so under the GST rules. This is worth revisiting by performing a cost-benefit analysis in the light of the upcoming hike.

Specific sectors are impacted more than others

Due to the nature of the business transactions, certain groups of GST-registered businesses such as financial institutions, charities, non-profit organisations, and property developers (residential and mixed developers) may not be able to enjoy full input tax recovery on the GST expenses incurred on purchases under the GST rules. These businesses will incur even more irrecoverable GST costs than before with the GST hike.

As GST is a self-assessed tax, IRAS relies on a system of audits and penalties to ensure GST compliance. To lessen the impact, businesses could adopt a more proactive approach by performing periodic GST health checks for early detection of GST errors that may bring about potential GST savings or avoid hefty penalties imposed by IRAS for the incorrect submission of GST returns. This can be achieved via the IRAS Voluntary Disclosure

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Programme to enjoy reduced penalties for early disclosure of errors. Alternatively, these businesses could consider applying for special input tax apportionment formula instead of relying on the formula as prescribed by IRAS if there is a basis to do so to reduce the amount of irrecoverable GST costs.

Globalisation and expanding the scope of GST

With the pandemic still looming large, more consumers turn to the convenience of online purchasing locally or from abroad. The government ensures fairness and resilience of the GST system as the digital economy grows while establishing level playing fields for our local businesses.

From 1 January 2023, Overseas Vendor Registration (OVR) regime will be expanded to include all remote services (digital and non-digital services) and low-value goods (valued up to and included the current import relief threshold of S$400) imported via air or post for Business-to-Consumer (B2C) transactions.

Non-GST registered overseas suppliers, electronic marketplace operators or redeliverers in the entire supply chain should assess their GST registration liability ahead of the change in the rule. System must be ready to capture the supplies of remote services and low-valued goods to accurately collect and remit the GST to IRAS once the businesses are effectively registered for GST in Singapore.

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