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## GOODS AND SERVICES TAX CHANGES

In the Budget Statement in May this year, the Government has announced that with effect from **1 January 2003**, the Goods and Services Tax (“GST”) rate will be increased from 3% to 5%. On 5 December 2002, the Deputy Prime Minister and Minister for Finance Lee Hsien Loong has further announced that the increase of the GST rate will be implemented in two steps. The GST rate will be increased from 3% to 4% on 1 January 2003, and then to 5% on 1 January 2004. Some of the guidelines introduced by the Inland Revenue Authority of Singapore (“IRAS”) are summarised below.

### General Rules

The basic rule to determine the time of supply is the earliest of three events: delivery of goods or performance of services, receipt of payment and issue of tax invoice. One exception to this rule is where the tax invoice is issued within 14 days from the date of delivery of goods or performance of services and no payment has been received, the date of invoice is taken to be the time of supply. This is known as the 14-day rule.

### Transitional Measures

The transitional measures for the two scenarios that we should follow in circumstances where the three events for determining the time of supply span across 1 January 2003 are:

#### Scenario 1 – Invoices issued before 1 January 2003

If you have received full payment or all goods have been delivered or services have been fully performed before 1 January 2003, you can charge GST at 3%.

However, if you have not received full payment or only part of the goods have been delivered or only part of the services have been performed, in accordance with the transitional rules you would need to:

- a. Issue credit note by 14 January 2003 based on the lower of:
  - i. outstanding balance; or
  - ii. part of the goods or services not supplied before 1 January 2003; and
- b. Issue a new tax invoice to charge GST at 4% for the value of taxable supply reversed out previously.



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### Scenario 2 – Invoices issued after 1 January 2003

If full payment have been received or all the goods have been delivered or services have been performed before 1 January 2003, you can choose to charge GST at 3% on the entire supply provided it must be substantiated with evidence and supporting documents, for example delivery orders.

However, if only part payment or only part of the goods have been delivered or only part of the services have been performed before 1 January 2003, you can choose to charge GST at 3% for that part payment or that part of the goods delivered or services performed. The remaining payment or goods to be delivered or services to be performed on or after 1 January 2003 would have to be charged GST at 4%.

### **Other Relevant Consideration in relation to Changes in GST Rate:**

#### a Method of Apportionment

The value of goods and services supplied before and after 1 January 2003 can be apportioned based on:

- i. open market value; or
- ii. the existing costing or pricing system in your company.

#### b Credit Notes

With reference to the transitional rules, a detailed description of the goods or services supplied previously with the corresponding invoice number, date of issue, the relevant value of supplies and its respective tax of 3% to be reversed is required.

#### c Adjustments of Contracts

For those contracts signed before 1 January 2003 to supply goods or services on or after 1 January 2003, supplier can choose to increase the consideration to include the 4% GST unless the contract has explicitly stated that any change in tax rate is excluded. In this case, GST must be computed at 4/104 on the total consideration.

### **Conclusion**

The aim of these guidelines is to ensure that there is a proper transition process taking place. There are specific rules that the company must be aware to get prepared and ready for the change in the GST rate on 1 January 2003.

<p>Important Note: The contents of this article is based on the results of our research and study as well as the IRAS's E-guide and are not intended to be comprehensive. The full text of the E-guide can be read at the IRAS website at <a href="http://www.iras.gov.sg">www.iras.gov.sg</a>. Readers are advised that the contents of this article should not be relied on or acted upon without professional advice. If you need any clarification or advice, please contact Miss Tan Min Min of CMN Management Services Pte Ltd. No liability can be accepted for any action taken as a result of reading this article without prior consultation with regard to all relevant factors.</p>
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