



June 30, 2017

Inland Revenue Authority of Singapore (IRAS)

To:
WONG Sze Teen
LEONG Shi Wei

Re: GST: Overseas Vendor Registration Regime for the taxation of cross-border services and low-value goods

The following submission is in response to the consultation document released on May 9, 2017 by the IRAS- *GST: Overseas Vendor Registration Regime for the taxation of cross-border services and low-value goods*. This submission has been prepared by Asia Internet Coalition (AIC), an industry association representing some of the world's leading digital economy companies.

As Singapore prepares to take the Chair of ASEAN in 2018, many nations around the region and around the world will look to Singapore's leadership to guide the region for economic growth and stability. The Singapore Government has already stated that the focus areas for its Chair of ASEAN will be the Digital Economy and specifically E-commerce. As such, we would recommend that Singapore delay any implementation of GST on the cross-border trade in low-value goods (LVGs) as it would be the first nation to do so if it were to move ahead. The risks of this uncharted territory need further study and evaluation.

The AIC would recommend that Singapore continue to monitor this issue and seek to implement these policies as part of a harmonized regional ASEAN bloc similar to the plans that the EU has for 2021. The OECD is also calling for a measured approach to making small and medium sized businesses as tax collectors, citing that the process and compliance measures should be simplified, done online and designed to minimize burdens on small business.

The proposed ideas as set out in the consultation document are similar to those recently proposed in Australia in the Treasury Laws Amendment (GST Low Value Goods) Act 2017. While originally slated to be implemented on July 1, 2017, the Australian Government has deferred implementation until July 2018 and called for a presentation to the Productivity Commission in October 2017 to discuss the various complexities with this Bill. While many nations have taken steps to tax cross-border digital products trade (Korea, Japan, EU, South Africa for example), there has yet to be a country to implement the GST on cross-border trade for LVGs. While many nations are examining this, it is premature and needs further industry engagement to ensure that there is no disruption to the ambitions of e-commerce

in Singapore and abroad and to ensure that small businesses who trade internationally are not harmed with overly complex compliance processes.

Please find AIC's submission below in the requested format. The AIC would also be pleased to meet with the IRAS in person to discuss any or all of the responses below.

Thank you for the opportunity to share our feedback on this consulting paper.

Kind regards,

Jeff Paine
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Asia Internet Coalition (AIC)
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Template for Submission of Feedback

| No. | Questions | Feedback* |
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| Section 2 | | |
| 1 | Do you agree that the non-taxation of cross border services and low-value goods results in uneven playing field for the local businesses? | <p>No.</p> <p>Local Singapore e-commerce players can export into many international markets that maintain the GST import relief threshold offered in those international markets. If international e-commerce players are forced to register for compliance for sales into Singapore they may forgo sales into Singapore all together or look for ways to game the system to avoid the compliance duties. It is also not the case that minimum thresholds of S\$400 is considered 'high'. In the USA for example, there was a recent move to increase the import relief threshold from US\$200 to US\$800, citing benefits to the small and medium enterprises who traditionally operate in the B2C e-commerce arena.¹</p> <p>It is also important to remember that the de minimus threshold was set up to expedite process of low-value, high volume imports given that the processing costs to the Government may outweigh the tax collected on such LVGs.</p> <p>While Australia was considering lowering the threshold with the introduction of the Treasury Laws Amendment (GST Low Value Goods) Bill 2017, there is now an implementation delay due to the number of challenges expected on implementation and a general lack of understanding around the services and value that online marketplaces can deliver to SMEs. Other political leaders in Australia have called for the Bill to be scrapped completely.</p> |
| 2 | Do you agree that the non-taxation of cross border services and | No. Rarely are purchases made with the explicit purpose to avoid paying taxes. There are a number of value-add services that e-commerce players |

¹ <https://www.cbp.gov/newsroom/national-media-release/de-minimis-value-increases-800>

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| | low-value goods impacts on the neutrality principle? | provide such as the ease of delivery and extended product ranges that may not exist in locally based suppliers. |
| 3 | Do you agree that such cross-border supplies should be taxed? | A measured approach should be taken not to disrupt the benefits that e-commerce and marketplace platforms bring to SMEs. In addition, foreign compliance may be an issue that has many workarounds which encourages negative behaviour and still results in market distortions. The IRAS should continue to evaluate other regional plans such as the one the EU has planned for 2021 regarding cross border trade and the GST / VAT issue among EU nations. There are several complex issues with respect to compliance, marketplaces, etc. and additional time should be considered for any future interventions. The OECD also recommends a measured approach when considering issues related to VAT/GST where businesses are acting as a tax collector. ² The OECD suggest that the right balance must be struck when between safeguarding VAT/GST revenues for governments and keeping the administration costs and compliance burden for business low and manageable. |
| Section 3 | | |
| 4 | Do you agree that the proposed overseas vendor registration regime should only cover digital services? Do you foresee any problem with such an approach? | <p>Low value goods and digital goods should be treated separately given their vast differences.</p> <p>For example, many of the large third-party marketplace focus on LVGs. IE. Their sellers do not sell digital goods or services. The sellers of digital goods usually own their assets and understand the final selling price to the end-consumer.</p> <p>For tangible goods, marketplaces rarely own or hold right to the goods that are transacted on their marketplace. Issues could arise if marketplaces are taxed given that they do not hold possession or ownership of the low value goods in question.</p> |

² <http://www.oecd.org/tax/consumption/36177871.pdf>

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| | | In some cases, they usually do not know the final selling price of the goods. |
| 5 | Do you agree also to tax only B2C supplies? | <p>As per OECD guidelines, the reverse charge mechanism seems to be the preferred method for B2B transactions.</p> <p>For B2C transactions, especially for LVGs, more time is necessary to identify system and data changes to ensure that the registration and compliance regime for GST collection is needed.</p> |
| Section 4 | | |
| 6 | Do you agree that the proposed overseas vendor registration regime would be an appropriate approach to collect GST on low value goods. If not, what other collection mechanisms would you propose. | <p>The IRAS should take a realistic approach for GST collection for overseas vendors. For large vendors with significant resources this may not be an issue as they likely would have the systems and procedures in place to collect, account and remit GST.</p> <p>For smaller businesses, which make up a larger number of sellers online, the compliance and registration processes could be daunting. This in itself will create an uneven playing field between overseas vendors if larger companies have significant advantage over smaller ones.</p> <p>In the case of marketplaces, care should be taken noting that many marketplaces do not own or hold the goods that are transacted on their platforms. They are typically not set up from a systems or data collection point to collect and remit GST to any particular country. If a marketplace is forced to do this it would likely increase costs to consumers, require time to adjust systems, and create other issues between the sellers and the platform operators.</p> <p>The only appropriate regime is one that does not define a third-party marketplace as a vendor. For example, other markets having a vendor registration regime is very different regime from what Singapore is currently examining. Those regimes are applicable to sellers/vendors in the truest definition as a seller. What Singapore is evaluating is identifying marketplaces as a vendor which is incorrect for third-party marketplaces. third-party marketplaces do not own, hold or sell products.</p> <p>It is recommended that Singapore follow the US's example and maintain the relief threshold of S\$400 on</p> |

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| | | <p>the import of LVGs. This would enable the Singapore government to benefit from the savings associated without having to process the high volume of low-value goods sold via e-commerce, typically by the larger number of small and mid-sized businesses.</p> <p>If there is no option to maintain the threshold, then it is recommended that the Traditional Model should be applied in the interim while the IRAS and industry work together to develop a comprehensive system that will enable the Government to collect taxes without distorting the international e-commerce market.</p> |
| Section 5 | | |
| 7 | Do you agree that a registration threshold of \$1m for overseas vendors is appropriate? | <p>Yes, but as stated below, there should be a different threshold for online marketplaces. Perhaps further study is needed on compliance, impact on overseas sellers with the threshold limits, and how their behaviour changes under a new regulation. Having a higher threshold is supportive of SMEs however who do not have large teams of employees to manage additional compliance burdens.</p> <p>The threshold should be applied to a vendor/supplier and NOT to an electronic marketplace who would easily surpass this limit and have limited knowledge on the transacted goods. Ultimately this would hurt small overseas vendors as the marketplace would need to adjust their systems and data collection capacity and ultimately the cost of these adjustments would be passed onto small vendors and consumers in Singapore.</p> |
| 8 | Do you agree that electronic marketplaces be required to register in certain situations instead of the overseas vendors? | <p>No. This is not reasonable given that marketplaces typically do not own, hold, sell or supply goods. Rather a marketplace simply provides a platform for these transactions to occur between buyers and sellers. Marketplaces connect customers with suppliers; they do not have legal title to the goods, does not handle the goods nor have knowledge of the flow of physical goods. In addition, marketplaces typically are not set up to support the collection of various GST or VAT taxes. In the case for Singapore, designing a new marketplace interface specifically for Singapore would be costly and would make marketplaces serving Singapore citizens and consumers uncompetitive for online buyers and sellers.</p> |

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| | | <p>Ultimately additional costs would be passed onto consumers or the marketplace may consider limiting sales into Singapore.</p> <p>Furthermore, a higher threshold should be used for online marketplaces. The margin/ revenue of online marketplaces is generally much smaller than the aggregate sales on the platforms (e.g. 10% of transaction volume) so it may be possible for a relatively small online marketplaces to become subject to the GST registration.</p> |
| 9 | <p>What factors do you consider are important when determining when an electronic marketplace should be required to register?</p> | <p>Who owns the goods? Who knows the final sales price? This should only be considered if a marketplace is a first-party marketplace whereby they hold the goods in warehouses and therefore are a seller, no different to a brick and mortar retailer on Orchard Road.</p> <p>Compliance and enforcement models need to be carefully thought out. Without an effective compliance and enforcement model, there could be market distortions between those marketplaces that comply and those who don't, creating a price advantage for non-compliant businesses.</p> <p><i>Disadvantage to Small Businesses.</i></p> <p>The considered measure would put small businesses who operate through marketplaces at a disadvantage compared to larger businesses as the GST turnover threshold is determined at the marketplace level, rather than based on the individual seller's turnover.</p> <p>As noted above, the threshold should be set higher for online marketplaces since the proposed threshold could make relatively small marketplaces to be subject to the registration. The marketplaces subject to the registration would be required to develop or purchase IT solutions to comply with the GST requirement and not all of them could afford such. This could severely damage their businesses and may lead existing online marketplaces to withdraw from Singapore market.</p> <p>Also, if Singapore plans to introduce multiple-rate GST system just like the EU, it would be very unrealistic to</p> |

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| | | make online marketplaces responsible for the GST collection since it would be too costly and burdensome to comply with the multiple-rate system. |
| 10 | Are the overseas suppliers able to identify goods that are delivered to Singapore if they are delivered through a parcel forwarding company? | No, as stated in 5.16, it would be difficult. |
| 11 | Do you foresee any issue in requiring parcel forwarding companies to register and collect GST on the low-value goods? | The parcel forwarding company may stop shipping to Singapore which would put Singapore based consumers at a disadvantage. |
| Section 6 | | |
| 12 | What other proxies do you consider would be appropriate for use in order for overseas suppliers to determine the belonging status of their customers? | Shipping address is an ideal proxy however there are still ways of gaming the system. IRAS should take time to examine the numerous ways that this can be implemented in a way that minimizes the compliance burden to small overseas foreign vendors. |
| 13 | What proxies are likely to be most accessible in practice? | This should depend on the type of business so there should be multiple proxies available. Further time should be leveraged to identify suitable proxies. |
| No. | Questions | Feedback* |
| 14 | How may overseas suppliers accurately determine the belonging status of their customers and how much evidence should suppliers be required to obtain? | <p>This may be a burden on small businesses who want to sell to consumers in Singapore. This should depend on the type of business. It will be very difficult to accurately identify the belonging status of the customers.</p> <p>The amount of evidence should be minimal and easily accessible by online means. This is part of the overall simplification process of the entire compliance and registration model that should be employed in Singapore.</p> |

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| 15 | Do you agree with the proposed rules on maintaining at least two non-conflicting pieces of evidence for the purpose of establishing the belonging status of customers? | No. This requirement under consideration sounds like significant burden on SMEs and may result in suppliers not supplying into Singapore. This may restrict product availability to Singaporeans. Comparing several pieces of contradicting data is burdensome and could create overlaps with other countries regimes (e.g. phone number points to Japan but credit card to Singapore). The rules should allow businesses to select one piece of evidence. |
| 16 | If B2B supplies are excluded from the overseas vendor registration regime, will overseas suppliers be able to easily distinguish between B2C and B2B transactions using the proposed approach? | <p>Under the proposed regime, overseas suppliers will treat sales into Singapore as B2C unless a GST registration number is provided by a registered business making it a B2B transaction. There is the possibility that some errors will be made however it is just one other factor that overseas vendors will need to learn and comprehend as they continue to sell into Singapore.</p> <p>However, provided that GST registered customers provide their GST registration numbers correctly.</p> |
| Section 7 | | |
| 17 | Do you foresee any issue with the proposed quarterly filing frequency? | <p>This is an additional burden on SMEs. There are also a number of risks that the SMEs would have to bear such as foreign exchange risks. IE. If an overseas seller owes GST payable in Singapore dollars and the SG\$ appreciates significantly then there could be significant foreign exchange risks to the small business. In addition, this could be an issue if other countries were to follow suit and have similar overseas registration systems. Imagine being an overseas vendor that has to register, collect, and remit GST to 10, 20, 30 different markets? (assuming others would follow suit to Singapore's proposed regime).</p> <p>If required, we recommend it be reported no more than on a quarterly basis. The rules should allow small businesses to do it less frequently (semi-annually or annually depending on the sales volume).</p> |
| Others | | |

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| 18 | Other than the questions above, what other comments do you have on any of the proposed features of the overseas vendor registration regime? | <p>It is important that the IRAS take a measured approach when considering these types of interventions in the marketplace. E-commerce is at a nascent stage in Singapore and in Asia itself and should be given the chance to grow to its full potential. In 2018, as Singapore takes the helm as the Chair of ASEAN, there is a great opportunity to take an in-depth look at these types of issues and propose a regional multilateral approach to indirect tax consideration for digital and low value cross border trade. The opportunity ASEAN has is to consider a regional bloc GST/VAT regime that will enable e-commerce to recognize its full potential and will at the same time provide tax revenue to local authorities. Such a multilateral regime could look to larger trading blocs such as the EU which have developed a framework for implementation in 2021.</p> <p>Current GST rules are a bit complicated as to which exported services can be considered as international services and thus zero-rated. It would be helpful if the definition of international services (i.e. export of services) is simplified. Additionally we would recommend:</p> <ul style="list-style-type: none"> - There should be a reasonable period (at least one year) between the announcement of final rules to the effective date. - It would be helpful if there are multiple case studies and Q&A available on the tax authority's website to provide guidance. - The rules should allow businesses to have corrections in the current return rather than reopening old returns. - The rules should allow overseas businesses to make tax payments directly from their foreign/ non-Singapore bank account. - Compliance (filing and payment) should be enabled on-line - The use of a local representative should not be mandatory - There should be a minimum of 6 months between the publication of final laws to the effective date - Security deposits should not be mandatory |
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* Please explain or substantiate your responses