STATE OF THE CITY

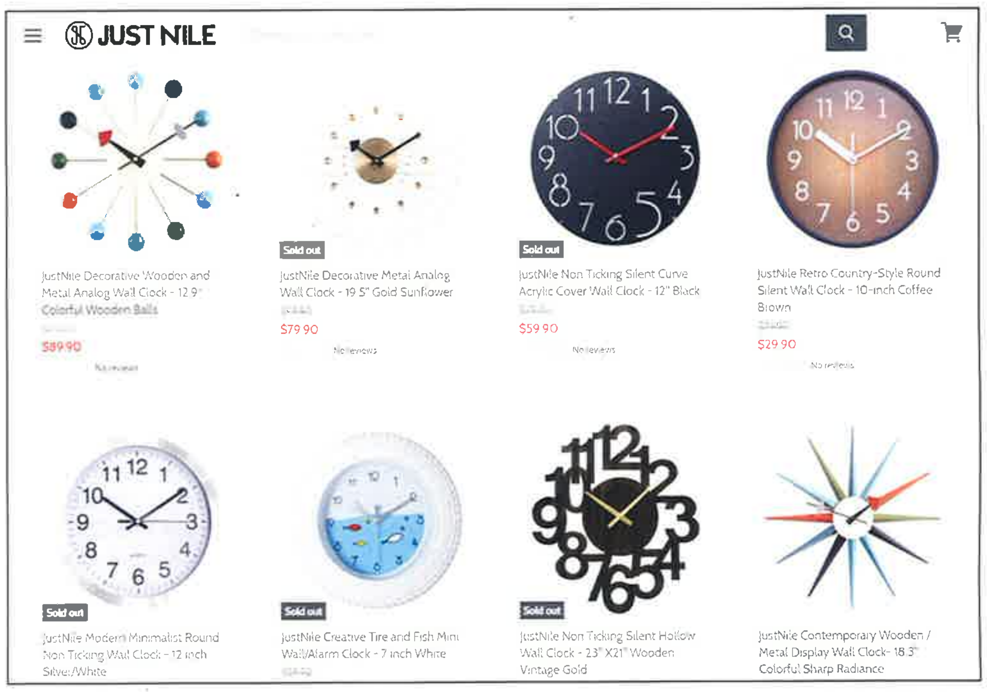
How should Singapore adapt the Goods and Services Tax for the e-commerce era?

BY **SHARANYA PILLAI**

On March 5, Catalist-listed e-commerce player **Y Ventures Group** announced that it was developing a new platform focused on cross-border purchases. Called AORA, the platform will function as a global buying concierge for Asian consumers. Y Ventures also signed a memorandum of understanding with logistics provider **Singapore Post** to explore "developing a world-class e-commerce platform with reliable last-mile delivery services".

As Y Ventures CEO Alex Low lays out his plans for AORA, he is keeping in mind the possibility that an e-commerce tax will be introduced in the future. At present, online shoppers purchasing under $400 worth of goods from overseas providers are exempt from the Goods and Services Tax. That could change in a few years. On Feb 19, the government announced it would work towards the implementation of a GST on imported services. This so-called "Netflix tax" means that local consumers will have to pay 7% GST on services such as Netflix and Spotify from 2020. And, the government is studying ways to collect GST on low-value e-commerce purchases too.

A tax on e-commerce purchases could "have a minor impact [on AORA], in terms of reducing the savings that consumers receive", Low says. But his chief concern is how the government will go about implementing the rule. "Collection, verification and enforcement would be challenging... We feel the government will have to be careful to avoid coming up with an e-commerce tax plan only to have everyone find loopholes to bypass its intention, or coming up with one with so much red tape and [that is such a] drain on resources that [it moves] us backwards as a digital nation," Low says. "The e-commerce scene in Singapore is also still nascent, and we hope any new policies will not stifle growth in the area."



As part of its e-commerce business, Y Ventures has manufactured products such as clocks, which it sells in multiple countries across various online marketplaces

Digital disruption of GST

The stakes are high — for both retailers such as Y Ventures as well as for the government — when it comes to taxation of the digital economy. According to a report by Temasek Holdings and Google, online shopping made up just 2.1% of Singapore's retail sales in 2015. That figure is expected to grow to 6.7% by 2025, valuing the local e-commerce market at US$5.4 billion ($7.1 billion). For retailers, that represents substantial revenue growth opportunity. For the government, however, it could result in a fall in revenue.

GST has long been touted as a clear-cut, no-frills means of collecting tax revenue. But this notion has been complicated by the rise of e-commerce, says Koh Soo How, Asia-Pacific indirect tax leader at PwC. "There's no agreed effective model that people have settled on. The government is taking its time to learn from other countries first," he says.

Koh says there are several options on the table. One is to get intermediaries such as SingPost to charge purchasers GST upon collection of their parcels — a system already in place for goods above the $400 threshold. But extending this system to goods below the threshold would be a major hassle for the intermediaries, Koh points out. A second option would be to get buyers to declare GST — which would be impractical in terms of ensuring compliance.

A third and perhaps more feasible means would be the vendor registration model, in which foreign vendors register locally to pay GST. Australia is currently experimenting with this model, which Singapore will be using for the implementation of GST on business-to-consumer online services. "We are probably going to see how it works in Australia, how effective it is and what we can learn from their experience. To me, that would be the most practical model, especially in the light of what Singapore has already proposed for [imported] digital services," Koh says.

Taxing e-commerce imports is not only about preventing revenue leakage, though. It is also about keeping the playing field level for online and physical retailers. Jamus Lim, associate professor of economics at ESSEC Business School, says: "You have existing physical players that are subject to GST. In contrast, those [foreign merchants] who are doing e-commerce are not subject to GST for the same goods. There is a fair argument that this is a very uneven playing field."

This feeds into the broader rationale for taxing e-commerce: safeguarding the domestic economy. Richard Mackender, indirect tax leader at Deloitte Singapore, says: "Governments in particular have become concerned over the past five years or so, that there is this unstoppable move to e-commerce. They [realise the] need to tax it effectively, to re-incentivise local businesses to stay local and not go offshore.

"If a business decides it no longer needs to be domestic and can be established in some offshore jurisdiction, with much lower controls over all sorts of things, and being able to ship in [goods] remotely, then Singapore would lose the personal income tax, corporate income tax and the employment opportunities."

The Organisation for Economic Co-operation and Development has even recommended that countries roll out an e-commerce tax as an international norm.

How long to wait?

Jeff Paine, managing director of the Asia Internet Coalition, says countries should not be in a hurry to introduce an e-commerce tax. AIC represents digital giants including Google, **Facebook** and Japanese e-commerce giant **Rakuten**.

A vendor registration model would hit small and medium-sized enterprises hardest, Paine says. If Singapore were to introduce an e-commerce tax, overseas SMEs "will be faced with the burden of registering, collecting and remitting GST to the Singapore government. As they usually have limited resources, this additional burden can be overwhelming for the ones who sell low-value goods, and they may decide that it is simply not worth it to sell into the Singapore market," he says. If other countries were to follow suit, Singapore's SMEs would likewise suffer. "Imagine if Singapore-based SMEs exported to 10 markets with 10 different tax regimes to comply with," he adds.

From Paine's perspective, the e-commerce market here is still too young for the government to get rid of the $400 threshold. "Introducing tax on imported low-value goods at this nascent stage would seriously stifle [its] potential, along with the small businesses that have been able to grow from reaching audiences and customers all over the world, and the consumers who can access goods not available in Singapore," he says. "Rather than reducing the revenue of small businesses or turning them into tax collectors, Singapore should support the growth of SMEs and ensure they can continue to contribute to local economies and trade across the region."

E-commerce players that *The Edge Singapore* approached for comment did not express strong opinions on the matter. A spokesman for Southeast Asian e-commerce platform Lazada says the company "welcomes and supports initiatives that will make it efficient and fair for Singapore consumers and merchants to shop and sell online". A spokesman for **Alibaba Group Holding**, which owns the Chinese e-commerce platform Taobao, says the company will comply with the regulations of countries in which it operates.

For his part, Low of Y Ventures appreciates the Singapore government's cautious approach. "We are confident of the government's ability to navigate this issue and come up with a solution that is fair and balanced," he says.

Meanwhile, Senior Minister of State Indranee Rajah has some advice for Singaporeans. In an interview with business radio station MoneyFM 89.3, she says the government is being careful about implementing an e-commerce tax. "We've seen some other countries where they implemented it and then had to dismantle it because it didn't work out quite well," she says. "So, keep shopping while you can." E

ASIA INTERNET COALITION

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SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

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ESSEC BUSINESS SCHOOL

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