

Key highlights on the transitional rules on GST rate change

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In brief

In Budget 2022, the Minister announced that the Goods and Services Tax (GST) rate will increase in two steps from 7% to 8% on 1 January 2023 and from 8% to 9% on 1 January 2024.

For GST-registered businesses, they will need to plan ahead to address two rounds of costs and efforts to implement the GST rate change. Businesses will have about a 10-month lead time to prepare for the first rate change, unlike the four-month preparation period provided during the last rate change in 2007.

To prepare GST-registered businesses for the first rate change on 1 January 2023, the IRAS has published an e-Tax guide on 18 February 2022 to explain the transitional time of supply rules applicable to transactions spanning the first rate change and this include reverse charge supplies and imported services under the Overseas Vendor Registration (OVR) regime.

The same transitional rules will apply to transactions spanning the second rate change when the GST rate is increased from 8% to 9% from 1 January 2024. The IRAS will publish a separate e-Tax Guide to prepare businesses for the second rate change by April 2023.

In this edition of the Tax Bulletin, we will highlight the salient points of the transitional time of supply rules for rate change and key considerations for both GST-registered businesses when preparing for the GST rate change.

In detail

For most supplies, including imported services under the OVR regime, the time of supply will be the earlier of:

- (a) when an invoice is issued or
- (b) when a payment is received.

The above general time of supply rules also apply to imported services under reverse charge regime though businesses may also account for the reverse charge based on the earlier of the posting date of imported services in their accounts or the payment date.

Under the GST transitional rules for transactions that straddle rate change, the time of delivery of goods or performance of services ("Basic Tax Point") will have to be considered in addition to the general time of supply rules. In fact, the key factors in determining the applicable GST rate are the payment received date and the Basic Tax Point.

We provide below an illustration on how the transitional time of supply rules apply to some of the common scenarios based on the billing arrangements.

Scenario 1: Billing in arrear

a) Completion of services / full delivery of goods before 1 January 2023

- (i) Completion of performance of services / full delivery of goods before 1 January 2023;
- (ii) Invoice issued on or after 1 January 2023; and
- (iii) Full payment received on or after 1 January 2023.

As the tax invoice is issued and payment is received on/after 1 January 2023, the prevailing GST rate of 8% is applicable. Hence, businesses should account for output tax at 8% GST rate. However, business will have an option to charge GST at 7% as the completion of the services / full delivery of goods is before 1 January 2023¹.

Under this scenario, businesses will need to consider customer's request to apply GST at the lower rate of 7% vs the system constraints and administrative work to track such transactions if the system is pre-set to charge GST at 8% based on date of invoice.

b) Partial completion of services / partial delivery of goods before 1 January 2023

- (i) 60% of services performed / goods delivered before 1 January 2023;
- (ii) Invoice issued on or after 1 January 2023; and
- (iii) Full payment received on or after 1 January 2023.

The transitional rules are similar to scenario 1(a) except that business has an option to charge GST at 7% on 60% of the services performed/goods delivered before 1 January 2023.

Scenario 2: Billing in advance

a) Full payment before 1 January 2023

- (i) Invoice with 7% GST issued before 1 January 2023
- (ii) Full payment received before 1 January 2023
- (iii) Services performed /goods delivered before/after 1 January 2023

No adjustment to the 7% GST rate as full payment is received before 1 January 2023.

b) Full payment received on or after 1 January 2023

- (i) Invoice with 7% GST issued before 1 January 2023
- (ii) Full payment received on/after 1 January 2023
- (iii) Services partly performed /goods partly delivered before 1 January 2023

7% GST may apply to the value of goods delivered or the services performed before 1 January 2023 and 8% GST will apply on the value of the goods delivered or the services performed on or after 1 January 2023.

By 15 January 2023, business should:

- issuing a credit note on the value of the goods delivered or services performed on or after 1 January 2023; and
- issue a new tax invoice to reflect the 8% GST rate and the GST chargeable on the goods delivered or services performed on or after 1 January 2023.

c) Part payment received before 1 January 2023

- (i) Invoice with 7% GST issued before 1 January 2023
- (ii) 60% payment received before 1 January 2023
- (iii) 60% of services performed /goods delivered before 1 January 2023

¹ However, this election is not permitted for any business assets sold in satisfaction of a debt.

7% GST should apply to the 60% payment received/goods delivered/services performed before 1 January 2023 and 8% GST on the remaining 40%.

By 15 January 2023, business should:

- Issue a credit note for the remaining 40% of payment/goods/services
- Issue a new tax invoice to reflect the 8% GST rate and the GST chargeable on the 40%.

For scenarios 2(b) and 2(c), to avoid the hassle of having to issue a credit note and a new invoice by 15 January 2023, businesses will need to consider working with its customers to either complete the services or deliver the goods before 1 January 2023, or to ensure payment is fully received before 1 January 2023.

Imported Services and Imported Low-Value Goods

As you may be aware, reverse charge and overseas vendor GST registration rules were introduced on 1 January 2020 to tax imported services by GST registered businesses (under certain circumstances) and digital services supplied by overseas vendors to Singapore non-GST registered customers.

Our scope of tax will be expanded further to tax imported non-digital services and low-value goods with effect from 1 January 2023.

Special transitional rules will apply to these supplies. For more details of the transitional time of supply rules, please refer to the IRAS e-Tax Guide “2023 GST Rate Change: A Guide for GST-registered Businesses”

PwC's comments

As transitional rules can be complex, businesses should start early to prepare for the changes and to ensure that there are adequate additional controls to manage the GST risks arising from the transitional rules. You will note from our comments earlier that changes to the processes will likely be required to manage the transitional issues.

In addition, businesses should think about the following in preparation for a GST rate change:

- Review and make adjustments to your point of sales, invoicing, procurement and accounting systems to incorporate the new GST rate and to take into account the transitional time of supply rules;
- Update price displays (where applicable)
- Train your accounting, sale and procurement staff on the implications of a GST rate change
- Ascertain if contracts need to be reviewed to determine the party responsible for bearing the GST

Even if you are currently not GST-registered, you will still be impacted as your costs will likely increase after the GST rate hike. You should evaluate the costs and benefits of applying for a voluntary GST registration. While a voluntary GST registration offers the benefits of allowing you to recover GST on your business expenses, you should take into the compliance costs such as making changes to your systems and processes and filing of quarterly GST returns. It is equally important to consider the impact of a GST registration on the pricing of your products especially if your customers are not GST registered.

Lastly, we would also like to highlight that the cost of non-compliance with the GST rules will only increase with the rate hike and this needs to be carefully managed. A GST health check review can help to identify recurring errors (before they get larger) and opportunities for GST savings. It may also be timely to prepare for the rate hike in conjunction with a review of the impact of the implementation of reverse charge on low-value goods and remote services with effect from 1 January 2023.



Contact us

If you would like to discuss any of the issues raised, please get in touch with your usual PwC contact or any of the individuals listed below.



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