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In this issue, we discuss the Voluntary Disclosure Program (VDP) from the Inland Revenue Authority of Singapore (IRAS) and significant, recent amendments to both the GST legislation and IRAS practice.

Voluntary Disclosure Program

The IRAS recently published an e-Tax Guide, 'IRAS Voluntary Disclosure Program (VDP)'. The VDP aims to encourage all taxpayers, including GST-registered businesses to come forward voluntarily and in a timely manner to get their tax matters right.

The VDP only applies to errors and omissions which are made due to ignorance or negligence without wilful intent to evade taxes.

Under the VDP, the IRAS will waive the penalty for omissions and errors when accurate and self-initiated disclosures are made within one year from the statutory filing date. For example, errors made in GST returns for the quarter ended 31 March 2009 will have the penalty waived if voluntarily disclosed by 30 April 2010.

For voluntary disclosures made after the one-year period, the IRAS imposes a reduced penalty of 5 percent. Errors can be disclosed by e-filing GST F7 – the GST error return.

Disclosures must be timely, accurate, complete and self-initiated to qualify for reduced or a waiver of penalties. Businesses should also cooperate fully with the IRAS to correct errors, and make arrangements to pay any additional GST imposed and penalties where applicable.

A voluntary disclosure must be made before the business receives an IRAS query, audit or investigation relating to the subject matter disclosed. For instance, if the IRAS had previously conducted an audit on purchases and input tax, the disclosure of errors on taxable supplies and output tax would generally be considered as voluntary but not those on purchases and input tax.



Penalties are waived or reduced only **once**, unless errors are different or there are reasonable grounds to consider according VDP relief again. After the VDP relief is accorded, the IRAS expects that the business should put in place sufficient controls to prevent the recurrence of similar errors or omissions.

Our views

Review your business's GST compliance diligently. Timely disclosures of errors and omissions made within a one-year period from the date of statutory filing could mean no penalty for errors, or a reduced penalty of 5 percent for errors made beyond that period. This reduced rate is considerably lower than being subject to the penalty of up to 200 percent of the tax understated or overstated for errors made without reasonable excuse or through negligence.

If you require any assistance in reviewing your business's GST compliance or in making voluntary disclosures to the IRAS, please do not hesitate to contact us.

Changes to GST Legislation and IRAS Practice

Area of changes	Details	Our views
Zero-rating of supplies (including letting on hire) of certain air or sea containers – Section 21(3)(v) of the GST Act and prescribed requirements for such air and sea containers	<p>Prior to 1 April 2007, the supply of air or sea containers which were used or to be used for the international transportation of goods was standard-rated unless the containers were exported. The letting on hire of such containers was similarly standard-rated unless it was made to a person outside Singapore and the containers were exported.</p> <p>This sub-section and its prescribed requirements were introduced with effect from 1 January 2009 to provide legislative effect to the changes announced in Budget 2007 to allow the supply (including the letting on hire) of certain air or sea containers, which are used or to be used for the international transportation of goods, to be zero-rated with effect from 1 April 2007. Remission of GST had been granted during this interim period.</p> <p>For zero-rating to apply, the air container must conform to the standards for Aircraft Unit Load Devices defined by the International Air Transport Association or any other equivalent organisation. The sea container must conform to the standards defined by the Institute of International Container Lessors, the International Organisation for Standardisation or any other equivalent organisation.</p>	<p>The relaxation of the GST treatment would certainly be welcomed by the freight forwarding industry. This would translate to less documentation as well as cash flow benefits or cost savings when the containers leased or supplied are not immediately exported. They would otherwise have been standard-rated prior to the amendments.</p>
Zero-rating of certain repair, maintenance or management services of qualifying air or sea containers – Section 21(3)(w) of the GST Act	<p>Prior to 1 April 2007, repair and management services performed in relation to air or sea containers which were used or to be used for the international transportation of goods were standard-rated. This is unless the services fell within the description of international services pursuant to section 21(3) of the GST Act.</p>	

Area of changes	Details	Our views
<p>Act and prescribed services relating to such air and sea containers</p>	<p>This sub-section and its prescribed services were introduced with effect from 1 January 2009 to provide legislative effect to the changes announced in Budget 2007 allowing certain services comprising repair, maintenance or management of air or sea containers, which are used or to be used for the international transportation of goods, to be zero-rated with effect from 1 April 2007. Remission of GST had been granted during this interim period.</p>	
<p>Zero-rating of supply of goods to be hand-carried for export by an individual via Changi International Airport – Regulation 105A of the GST (General) Regulations (known as the ‘Hand-Carried Exports Scheme’)</p>	<p>Currently, zero-rating is allowed for sales to overseas commercial customers when goods are hand-carried out of Singapore (regardless of exit points) by a local person or the overseas commercial customer and certain documents such as a written declaration that the goods would be exported, a copy of the carrier’s transport evidence, and an extract of the carrier’s passport are maintained.</p> <p>With effect from 1 April 2009, for all export of goods hand-carried by an individual commercial customer (referred to as a carrier) on an aircraft departing from the <i>Changi International Airport only</i>, it is a requirement for the supplier to comply with the following:</p> <ol style="list-style-type: none"> i. Carrier must be at least 16 years of age ii. Supplier must take up a valid export permit for the goods to be hand-carried iii. Carrier must submit the valid export permit to a Singapore customs officer for endorsement, together with the goods and supporting invoices or receipts iv. Carrier must depart from Singapore within 12 hours from the time of endorsement v. Supplier must obtain and maintain the original export permit endorsed by the Singapore customs officer within 60 days of the date of the supply of goods <p>If for business reasons^a, you are unable to allow your hand-carried goods to be inspected by a Singapore customs officer, you may seek exemption from this scheme from the Comptroller of GST. When approved, you would be required to maintain documents such as an invoice to overseas customer, export permit, evidence of payment and extract of the carrier’s passport with the relevant details on his exit from Singapore or entry to the foreign country.</p>	<p>The tightening of the rules on the zero-rating of goods hand-carried for export would mean more procedures and documentation required by suppliers. If you face such an export scenario, you should put in place procedures complying with the new rules. Otherwise, such exports may be standard-rated in the absence of the required documents.</p>

^a For instance, where goods cannot be inspected by the Singapore Customs and this is in accordance with international practices and norms relating to that particular trade.

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<p>Acquisition of immovable property by the special purpose vehicle of a qualifying real estate investment trust (REIT) – Regulation 104A of the GST (General) Regulations</p>	<p>Currently, when a qualifying REIT (one which is listed or to be listed on the Singapore Exchange) acquires an immovable non-residential property from a GST-registered supplier, no GST is payable to the supplier. Instead, the REIT would self-account the output GST on that sale and declare the taxable supply on behalf of the seller in its GST return and claim the corresponding input GST in the same GST return.</p> <p>With effect from 1 January 2009, this treatment of self-accounting has been extended to a qualifying special purpose vehicle (SPV) of the qualifying REIT.</p> <p>The SPV must be a GST-registered entity and the trustee of the REIT has veto rights^b in relation to certain key operational issues of the SPV, such as change of business or cessation of the SPV.</p>	<p>With the increase in the complexity of Singapore REITs, it is not uncommon for REITs to own non-residential properties through SPVs. This extension is in line with the government's intention to alleviate the cash flow burden of REITs which acquire non-residential properties. This amendment dispenses with the need for REITs to pay GST to the supplier and claim it back from the IRAS through their quarterly GST returns.</p>
<p>Permitted activities in Zero-GST warehouse – Regulation 98A of the GST (General) Regulations</p>	<p>Currently, value-added operations intended to make imported goods ready for the next link in the supply chain are permitted to the extent that they do not change the characteristics of the goods, such as re-packaging and preservation of the goods.</p> <p>With effect from 24 March 2009, the permitted activities are listed as follows:</p> <ol style="list-style-type: none"> i. The breaking of bulk, grouping of packages, and sorting, grading and repacking of goods ii. The servicing and repair of motor vehicles <p>Approval from the Singapore Customs is required for any operation not listed above.</p>	<p>Legislating the activities / operations allowed in the Zero-GST warehouse provides certainty to the type of operations permitted. However, for operations not described but intended to be carried out, you would need to obtain approval from the Singapore Customs.</p>
<p>GST remission on prescribed expenses for prescribed funds managed by prescribed fund managers in Singapore</p>	<p>Prior to 22 January 2009, funds based in Singapore were unable to register for GST if they only made exempt financial supplies or receive dividend income. Therefore, such funds incurred irrecoverable GST on their expenses, such as fund management fees charged by Singapore fund managers. Even if such funds made some taxable supplies to be eligible for GST registration, they would only be entitled to claim the input GST incurred in their businesses to the extent that the</p>	<p>This is a welcome relief for Singapore-based funds previously incurring irrecoverable GST on their expenses. It should encourage more inward investment and would</p>

^b Veto rights are rights to prohibit certain things from happening. They can be provided in the memorandum and article of association, trust deed or other constitutive documents of the SPV.

Area of changes	Details	Our views
	<p>input GST relates to the making of taxable supplies, which would typically be minimal. Therefore, such funds might incur substantial irrecoverable GST on their expenses.</p> <p>With effect from 22 January 2009 to 31 March 2014 (both dates inclusive), prescribed funds that meet all the qualifying conditions would be able to recover input GST incurred on prescribed expenses based on a fixed input GST recovery rate, without having to register for GST. The prescribed expenses include:</p> <ul style="list-style-type: none"> i. Management fees ii. Trustee fees iii. Fund administration fees iv. Custodian, sub-custodian and depository fees v. Registrar fees vi. Printing and distribution costs vii. Audit fees viii. Tax agent fees ix. Legal fees <p>The fixed input GST recovery rate for the period 22 January 2009 to 31 December 2009 is 93 percent, and thereafter, the rate would be determined annually by the Monetary Authority of Singapore.</p> <p>To qualify for the GST remission in the fund's current financial year, the fund must satisfy the conditions for income tax concessions as a 'Section 13C fund', 'Section 13G fund', 'Section 13R fund', a designated unit trust, or a fund under the enhanced-tier scheme, as at the last day of the fund's preceding financial year. The fund must also be managed or advised by a prescribed fund manager in Singapore, i.e. one that holds a Capital Markets Services licence for fund management or one that is exempted from holding such a licence.</p> <p>Qualifying funds are required to file a quarterly statement of claims to the IRAS based on their financial year end. Each statement of claim is due one month after the end of the respective quarters.</p>	<p>further enhance Singapore's position as an international financial centre in Asia Pacific.</p>

Area of changes	Details		Our views
The value of certain exempt supplies to be reported in GST F5 returns	The IRAS revised its e-Tax Guide entitled 'How Do I Prepare My GST Return?' on 3 April 2009 to clarify the value of the following types of exempt supplies that should be reported in GST F5 returns:		This guidance published by the IRAS offers certainty on the value of exempt supplies to be reported in the GST returns. It is important to accurately report the value of exempt supplies that your business may make, as this may affect the extent to which you can recover your input tax. In the event that such value of exempt supplies has not been reported at all or not reported correctly in your previous GST return, you may wish to consider voluntary disclosure (see the VDP discussed earlier).
	Types of exempt transactions	Value of exempt supply	
	Deposits with banks	Interest received	
	Foreign currency transactions	Fees charged for exchange of money (e.g. charged by money changer) Realised gains or losses arising from the exchange of money (if net realised loss, the absolute value)	
	Provision of loans	Gross interest	
	Provision of credit by bondholder to bond issuer, whether or not the bond was originally issued to the bondholder	Upfront discount received (if any) and coupon payments received for the purchase of bonds by the bond purchaser	
	Factoring of debts	Discount or interest charged	
	Issue/sale of shares	Gross sales proceeds from the issuance/sale of shares	
	Issue/sale of bonds	Gross sales proceeds from the issuance/sale of bonds	
	Options (including equity options, futures options, currency options, swaptions, options to enter into forward rate agreements Warrants Interest rate collars, floors and caps	Premiums charged by the issuer of the options/warrants/interest rate collar, floor and caps Gross proceeds from the sale of options/warrants/interest rate collars, floors or caps if traded	

Area of changes	Details		Our views
	Swaps (including currency swaps, interest rate swaps, equity swaps, commodity swaps), which must not involve any physical delivery of goods	Net realised gains or losses arising from the swap transactions (if net realised loss, absolute amount only)	
	Forwards, which do not provide for physical delivery of goods (e.g. forward rate contracts)	Net realised gains or losses arising from the forward contracts (if net realised loss, absolute amount only)	
	Futures contracts, which do not provide for physical delivery of goods (e.g. interest rate futures, equity index futures)	Net realised gains or losses arising from the futures contracts (if net realised loss, absolute amount only)	
	Exempt supplies arising from each of the above categories of exempt transactions are treated as distinct and separate. Hence, you should obtain the sum of the absolute values of exempt supplies from each of the above categories for reporting in Box 3 of the GST F5 return.		

Contact us

Lam Kok Shang

Executive Director

Tel: +65 6213 2596

kokshanglim@kpmg.com.sg

KPMG Tax Services

16 Raffles Quay #22-00

Hong Leong Building

Singapore 048581

Tel: +65 6213 3388

Fax: +65 6224 1345

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